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Terms of endearment

Supply chain finance can help to ease the tension between buyers wanting to pay as late as possible and suppliers wanting the cash immediately. Recently there has been an increase in interest, particularly in the Asian markets. Yet challenges remain.

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Welcome to the fourth edition of Treasury Today Asia

In this issue, we explore the global approach to supply chain finance (SCF). Different markets approach the issues surrounding settlement differently, with India and China noted as leading regions with the greatest SCF market potential. The rapid growth that many Asian companies are experiencing is driving a need to establish the financial infrastructure to support it.

Our Country Focus is Indonesia. Indonesia's rapid growth is fuelled by its manufacturing and exports industries. This year has, and will continue to, see changes in the country's regulatory environment to ensure that the growth it represents filters down to its population. With a growing, yet complex, consumer market we look at the opportunities and difficulties this market represents.

Adam Smith Awards 2013

The 2013 Adam Smith Awards gala event, sponsored by Bank of America Merrill Lynch, was held in London in late June. Now in its sixth year, we were delighted to welcome more than 200 guests, including all our winners and highly commended recipients, to what is the largest corporate treasury awards programme in the world. This year saw the introduction of our Asia Pacific Regional Award for Best Practice. We were honoured to welcome to the event the Winner – Ping Chen of Pfizer and both Deepak Kini of PepsiCo India Holdings and Linda Zhang of Honeywell who were both awarded Highly Commended. We are showcasing all three case studies in this issue.

Corporate Treasury Benchmarking

1st July saw the launch of our annual Asia Pacific Benchmarking Study for 2013. We would encourage all of our corporate readers based in, or with responsibilities for, the Asia Pacific region to take part. Only those corporates participating in the study will receive a confidential report summarising the headline findings.

Women in Treasury

In this edition of Treasury Today Asia our Women in Treasury series profiles Lelaina Lim, Chief Financing Officer from Royal Sporting House. We continue to push forward our Women in Treasury initiative which speaks of the need for women to become more visible in their professional roles both within and outside of their organisations. If you are a woman working in the corporate treasury space please make sure your views are included in our Women in Treasury Study which will chart the treasury profession's path to diversity. The results of this study will be available in October and we look forward to sharing them with you all then. To learn more and to participate in the study go to **treasurytoday.com/women-in-treasury**

Terms of endearment

Growth in supply chain finance (SCF) programmes is highest in the US and Western Europe, with Eastern Europe, India and China identified as regions with the greatest SCF market potential. But SCF is only half of the story in the Asian markets. Corporates are now asking for extended programmes to cover funding of their distributors too.

Women in Treasury

Lelaina Lim
Chief Financing Officer
Royal Sporting House

According to Lelaina Lim, to work in treasury you need to be both "brave and firm". Brave because today's world throws up changes incredibly quickly; and firm because you need to do what you have to do for the company's best interests, "which is not always easy". Lim exemplifies both attributes.

Adam Smith Awards 2013

Asia Pacific Regional Award for Best Practice

Read the case studies from the winner Ping Chen, Pzifer, as well as the highly commended entries from Linda Zhang, Honeywell, and Deepak Kini, PepsiCo India Holdings.

Indonesia: making the grade

Indonesia has a large population that makes it an attractive domestic market for multinational companies (MNCs). New regulations are geared towards adding value to exports, particularly in the resources sector, to move the country away from being solely an export market based on cheap labour.

These pages contain edited versions of a few of the Treasury Insight pieces written in the last month. The full versions are posted on treasurytoday.com as they are ready. The Treasury Insights weekly email summarises the new pieces from that week plus other news relevant to treasury. You can register for this free service at treasurytoday.com

A day to celebrate

On Thursday 20th June, Treasury Today hosted the sixth annual Adam Smith Awards ceremony, sponsored by Bank of America Merrill Lynch, in Plaisterers' Hall, London. The event, which has come to be recognised by treasury professionals globally as the definitive industry benchmark, attracted more than 200 people from Asia, the Americas, the Middle East and Europe.

"This year's nominations were quite simply stunning examples of how corporate treasurers around the globe are responding to the ever-increasing challenges they face," said Angela Berry, Publisher at Treasury Today, in the keynote address. "We are absolutely delighted that an Adam Smith Award has become such a sought-after mark of achievement in corporate treasury."

In one of the ceremony's many highlights, Richard Parkinson, Managing Director at Treasury Today, presented the special Lifetime Achievement Award to Patricia Greenfield, Treasury Director at AstraZeneca. Greenfield began her treasury career at Unilever in the early 1970s. She spoke to Treasury Today of her surprise and delight: "I felt really proud and shocked – I had no idea that it was coming."

Greenfield is opting for early retirement when AstraZeneca relocates its corporate finance operation from London to the North-West of England in mid-2014. After a highly successful career, she is now looking forward to having more time on her hands to holiday in South-East Asia and indulge in her recently-acquired passion for golf.

"I'm still passionate about what I do, but with the operation moving to Manchester I decided to take the opportunity to retire early," she said. But with so much professional knowledge and expertise still to offer, will she still be keeping in close contact with her team after she leaves? "Of course," she said with a chuckle. "I'll definitely be on speed dial."

The drive to improve working capital

Europe's largest listed companies are sitting on €762 billion in excess working capital, according to research from working capital consultancy REL, a division of The Hackett Group, Inc. A similar story is playing out in the US, where the opportunity for working capital improvement at 1000 of the largest public companies rose dramatically, topping $1 trillion for the first time. What are corporates in Asia doing?

At the recent EuroFinance conference in Singapore, Audrey Deng, Head of Group Treasury, Asia Pacific at Atlas Copco, outlined the company's decision to implement a $75m supply chain finance (SCF) programme in Asia, in order to support both its suppliers and its working capital objectives.

Atlas Copco, an industrial group headquartered in Sweden with a revenue of €10.5 billion, is keenly focused on maintaining the momentum to improve working capital management and has been seeking ways to further streamline the supply chain. As Asia has become increasingly important, explained Deng, the company decided to implement a SCF programme in the region.

Atlas Copco went live with its SCF programme in November 2012. It was rolled out to 17 buying entities in China and Japan, with India currently under implementation. In China, suppliers across the country have signed up for this programme and the number is continually growing. The programme covers both domestic and overseas supplier entities. The programme supports local currency in the three markets, as well as US dollar in Japan.

The secret recipe for Yum!'s treasury proficiency

Yum! Brands, Inc. is the world's largest restaurant company in terms of restaurants, with over 39,000 restaurants in more than 125 countries and territories. Approximately 7,700 restaurants are company owned and 31,600 are franchise, joint venture (JV) owned or licensed. The three major restaurant brands are KFC, Pizza Hut and Taco Bell.

Yum! is a US-based Fortune 250 company, with revenues of $13 billion (2012). It originated as a spin-off from PepsiCo. in 1997, so it is a relatively young company but incredibly fast-growing, led by its Chinese, Russian and Indian markets.

"When we first started looking at cash flow forecasting, most of Yum!'s cash was generated and held in the US. However, today more and more cash is in the field and held internationally. Therefore, we had to re-examine how we refine our forecasting processes, tweak them for each level and consolidate them into a master forecast," says Nishat Grover, Director of Treasury, US.

Global multicurrency notional pooling

In order to facilitate better cash flow forecasting, a year ago Yum! embarked on a global multicurrency notational pooling project, which has "really helped us gather intelligence on what cash flows look like, how they vary and gave us some ability to forecast, at least in that middle level of cash, with a higher degree of precision than before," says Grover. Yum! had implemented a physical pooling structure in 2008/9, which gave it visibility over just 20% of its cash in one currency.

Although it is not possible to implement notional pooling in some markets, such as China, India, Russia, South Africa, Thailand and Korea, which are key markets for Yum!, according to Grover it is still useful to obtain balance information. "You may not be able to get your hands on the cash but you can check your balances, which is half the battle won," he explains.

Despite treasury thinking that it would only take six months to set-up a global multicurrency notional pool, after one year it is about 80% of the way through. "Most of that is because of China, where each province has its own bank and they are not all linked to the master account. So first we have to get them all linked and then report out of the master account," Grover explains.

China

China certainly has been good to Yum!. At the end of last year Yum!'s Chinese operation made up 60% of the company's total global revenue. It currently opens a new restaurant every 18 hours, which accounts for very large in-country capital expenditure. The average return on investment (ROI) for each unit is 30%. It is no wonder that its long-term growth plan includes a goal of opening at least 20,000 restaurants in China.

Cash pooling was almost unheard of ten years ago in China, so Yum! had to clearly articulate its needs to manage the cash in a centralised fashion for greater efficiency and effectiveness. Its main Chinese banking partner also clarified its business considerations and how Yum! could help its developments. Within five years Yum! set up a regional treasury centre (RTC), where it sweeps and pools its cash.

In China, the company has a lot of surplus cash; while at the same time it is looking to take advantage of opportunities opening up in the emerging markets (EMs), such as India, Africa and Russia. Therefore, one of the goals for the finance team is to bring money out of China. The company is working with the People's Bank of China (PBoC) on a cross-border cash movement structure, but Katherine Wei, Director of Treasury, China, declined to comment on the details. However, she remarked: "We believe that the internationalisation of the renminbi (RMB) will bring many basic treasury management concepts to the company and that will present us with a number of new opportunities."

The road less travelled

Trade in and out of emerging countries is much talked about, but what does it mean on the ground? Labour, business ownership, supply chain and regulation: all must be carefully considered. A trio of treasurers discuss their experiences of operating beyond their European bases.

Between 2016 and 2020, impressive trade growth is expected for the markets of Vietnam, Malaysia, Bangladesh, Japan and Singapore. Economists are also predicting that trade and capital flows between emerging markets (EMs) could jump ten-fold in the next four decades; the International Monetary Fund (IMF) says that as advanced economies currently grow by less than 2%, their emerging and developing counterparts are well ahead at almost 6%.

As the competition gathers pace, international companies are expanding their trading activities into new regions. The practical implications of supply chain management when moving into these territories, especially the EMs, were brought to light at the ACT's Annual Conference held earlier this month in Liverpool.

The shift of labour

Carl Pate is Group Finance Director of Quantum Clothing Group, a UK-headquartered supplier to retailer, Marks and Spencer. It has no exposure to sales beyond UK but owns 70% of its production with facilities in Sri Lanka, India and Cambodia, with joint ventures in China and sourcing in Vietnam, Indonesia and Bangladesh. "The reason we will place units in a particular location is due to fabric and labour availability," he states. Around 95% of Quantum's raw materials come from outside of Europe. About ten years ago it employed around 10,000 in the UK; now there are just 250 with another 8,500 overseas. "Our challenge in the Asian region is inflation which would make it more difficult to be competitive on a cost basis," he comments. China is currently facing rising inflation and the regional markets cannot help but react as wage-pressure forces businesses to consider their next move already.

Indeed, Charles Barlow, Group Treasurer of Coats, a 250-year old industrial thread and textile crafts business, says that the textile business has pretty much all shifted to EMs as companies look to find the cheapest sources of labour. More change is inevitable. In China, most of its production goes into the export market; but as the Chinese economy grows and the people become wealthier, he anticipates that the company will be able to shift more to selling local production in China rather than for export.

As in any market, an effective supply chain model is required and Diageo has established regional supply hubs in various locations. In March of this year, the company announced that it would be devolving supply chain operations down to country level, which it hoped would give annual savings of £60m after three years.

Shifting the same product around the globe via one supply chain became expensive and as the EM operations and brand portfolio expanded it decided to move operations to where the actual demand exists, rather than ship it around the world. In Asia Pacific, it uses its Singapore hub (which it has owned since 2006) to do market-specific labelling and packaging 'at the last moment', shipping goods out to each country market as needed. It is, says Williams, not only efficient from a pure stock-handling point of view but alcohol, as one of the most regulated industries in the world, often means that in the EMs duties are often payable the moment a consignment arrives in country. As Williams says, "having excess stock in the market can be an expensive way to manage a business."

Walk... Don't walk

If 82% of respondents to a treasury-specific survey said they had not adopted a certain technology and only 12% said they would consider using it somewhere down the line, it might seem that the time was not right for that technology. But that is exactly what the Treasury Today European Corporate Treasury Benchmarking Study 2012 revealed about the adoption of mobile treasury devices. The statistics are supported by anecdotal evidence gleaned from conversations with many treasurers that suggests mobile solutions are not on their radar right now.

Nick Diamond, Head of Cash and Payment Sales, Commercial Banking at Lloyds Bank, admits that although many system providers have already created mobile versions of what they do, there has been "some reluctance" within treasury to adopt these solutions despite the level of noise – at conferences in particular – that says mobile is the next big thing.

"The viewpoint is that, if you step outside the ring-fence of office security by using a mobile device, you may be compromising that security by offering more opportunity for criminals to hack into the system," says Diamond. "The fact is that all electronic technologies are open to hacking as criminals become more sophisticated. I think it is right for treasurers to take appropriate measures to protect against hacking, but I don't think it should be a reason why they do not embrace mobile."

Paul Taylor, Head of Regional Sales, Global Transaction Services (GTS), EMEA, Bank of America Merrill Lynch, agrees, stating that the authentication and validation tools on the bank's mobile channel are just as robust as that of its normal treasury offering. "There is no heightened risk or sensitivity because it is mobile, on either smartphone or tablet," he argues.

The generational shift into treasury of more a sympathetic user-base starts with consumer change and that, says Diamond, is something that today's treasurers need to consider, even if mobile treasury is not on their personal agenda.

The mobile revolution is not yet a revolution for treasurers and how it fits into changing market places and demographics of the different regions is an ongoing story. To make an impact it seems that the solution should answer a specific need that treasurers have and should not harbour distractions that detract from the usefulness of the device and it should never be seen as a means of replacing an entire existing traditional platform.

UNifying cash management

The UN has one principle when it comes to cash management: it tries to rely on the formal financial system wherever possible. It has zero balance accounting (ZBA) in three global banks, which covers approximately 65% of its needs. For the other 35%, the UN has more than 400 bank accounts distributed around the world in local and regional banks; but, as previously indicated, it doesn't place more than one month's expected expenditure in these accounts.

However, some of the countries that the UN is working in don't even have a central bank, so for those countries the UN treasury provides petty cash and cash-at-hand in the local offices. "We also support new technologies and use mobile payment companies, rechargeable e-wallets and cash remittances," said Pedro Guazo Alonso, Director of Finance at EuroFinance Miami 2013. "Although cash remittances are not attractive for us, in some cases we need to use them. In some areas, like sub-Saharan Africa and the Philippines, mobile payments has been extremely successful. Everyone has a mobile, but only a small proportion of the population has a bank account. They have jumped a whole generation, going directly from a cash-based society to mobile payments, skipping over credit and debit cards."

He outlined four lessons he learned when developing a cash management strategy:

1. Choose your bank like you are "choosing the Sherpa" to take you trekking through the Himalayas.
2. Evaluate alternative technologies and the needs of your employees and suppliers.
3. Do not be afraid to talk to authorities, because your money and the jobs you are creating are very important to them.
4. Always have a plan 'C', which stands for cash. Unexpected things can happen, so always be ready to bring cash into your operations. ■

Longer versions of these articles are available at treasurytoday.com/treasury-insights

Regional treasury centres

Where is the best place in Asia to set up a regional treasury centre and why?

Victor Penna, Head of Treasury Solutions, Transaction Banking, Standard Chartered:

There is perhaps, no such thing as a 'best' location for treasury centres in Asia as it really depends on each firm's circumstances. A key consideration for many corporates is the location of their operations – the ideal is to co-locate the treasury with other regional business operations. Other considerations include access to a wide range of banking services, a pool of experienced treasury staff, infrastructure, cost, the legal system, regulations and taxation.

Singapore and Hong Kong remain the two most popular places, with Shanghai in third place. Hong Kong and Singapore tick most of the boxes and they appeal especially to US and European corporates who are looking to set up their regional treasury centres (RTCs) in Asia. Hong Kong in part leverages off its proximity to Mainland China and a business friendly environment. Singapore has strongly marketed itself as a specialist treasury services location for several decades now, and boasts a substantial range of tax treaties and incentives via its Finance and Treasury Centre (FTC) award that is likely to keep it at the top of the pile for the foreseeable future.

Shanghai is a growing location for treasury centres. It tends to attract international firms with most of their operations in China. Others operate a dual treasury-centre model with one centre in Shanghai covering China and another in Singapore covering the rest of Asia. Some of these 'China-only' treasury centres have evolved to cover Greater China or North Asia. Over the next decade the Chinese government is expected to take further steps to make China a more competitive location for regional and global treasury centres (GTCs) in line with the objective of Shanghai becoming a major international financial centre by 2020. Malaysia and Thailand have also introduced incentives to attract treasury centres. Another emerging trend involves Asian corporates setting up their GTCs in their home markets, subject to their government relaxing some of the regulations that would otherwise make this difficult.

Gourang Shah, Head of Treasury Advisory, Treasury and Transaction Services, Asia Pacific, Citi:

The decision of where to set up a treasury centre is usually a tax-driven decision especially if that centre is also going to be a regional cash concentration location, although non-tax factors are also equally important. To facilitate efficient cash pooling and inter-company lending, treasury centres should ideally be located in low-tax jurisdictions, which offer benefits such as reduced or exempted withholding taxes on interest between treasury and other group entities.

Non-tax treasury centre location considerations include proximity to regional business management, financial costs (bank transaction fees, treasury staff salary, office rental), central bank and other regulatory reporting requirements, access to financial markets, degree of currency restrictions, availability of skilled employees, time-zone compatibility with respect to business operations under coverage, quality of physical and IT infrastructure, political stability, sophistication of banking system, and reputation of the location being a financial hub. By adding up weighted scores of the above tax and non-tax criteria, companies can identify the optimal country for treasury centre establishment.

Hong Kong and Singapore are the two most popular locations in Asia for treasury centres. Other countries considered by Citi's corporate clients are Malaysia and Thailand, both of which offer tax incentives with financial and commercial flow benefits.

Malaysia: Companies that establish a RTC in Malaysia will benefit from income tax reduction and withholding tax exemption for five years. A broad double tax treaty network and relatively low cost environment also render Malaysia a treasury centre location of choice. Compared to Singapore and Hong Kong, however, Malaysia's banking infrastructure is still at a developing phase, and there may be fewer tax and legal professionals with regional expertise.

Thailand: In 2010, the Thai government substantially improved incentives under the Regional Operating Headquarters (ROH) scheme. Foreign companies locating their ROH in Thailand can now enjoy a 15-year tax break on foreign-sourced income and tax concession on income earned in Thailand, although withholding tax on interest payment is not waived. However, Thailand shares similar issues with Malaysia on banking infrastructure and availability of tax and legal professionals, and the country also has fewer fluent English speakers than Malaysia, Singapore and Hong Kong. ■

The next question:

"What are the challenges to rolling out a commercial card programme in Asia?"

Please send your comments and responses to **qa@treasurytoday.com**

This much I know

Lelaina Lim

Chief Financing Officer

ROYAL SPORTING HOUSE

What is your career-defining moment?

The day I decided to move to Shanghai to head up the Greater China operations for International SOS (ISOS), a provider of medical emergency services. I think that was the hardest decision to make, but it made a massive impact on my career.

Which women in business most inspire you and why?

Olivia Lum, Group CEO at the water management company, Hyflux, is a remarkable woman. She grew up orphaned in Malaysia and then came to Singapore. She has achieved so much and is very successful – she won the Ernst & Young World Entrepreneur of the Year in 2011.

What is the biggest challenge you are facing just now?

Not in work, per se, but the general public's acceptance of gender diversity in the boardroom. Singapore has one of the lowest percentages of women as Board members – only making up 7.1% of listed companies' Boards in 2011.

What couldn't you manage without?

Definitely my laptop and BlackBerry – I must have connectivity. Also, daily FX rates; if I don't know what the current exchange rates are, I get very nervous. For me it is akin to missing breakfast.

What is your next major objective?

Succession planning is something that is uppermost in my mind. I am 52, and although retirement is still a way off, it is a good time to start planning for the next person to power up into my position. I would view myself as being successful if I can get someone ready for when I have to move on.

What advice would you give to other women in treasury and finance?

In treasury you need to be brave and firm: brave because today's world throws up changes incredibly quickly; firm because you need to do what you have to do for the company's best interests, which is not always easy. Finance, on the other hand, needs steady hands and back up, whether that is from your boss, banks or several key players on the team.

If there is one thing you could have done differently in your career path so far, what would that be?

Wind back the clock ten years and I might have moved into operations, which I have always found interesting. Effectively using my financial background, knowledge and ability but on the operations side.

> "In a crisis, you need to remember that cash is king."

ON THE WEB

To read all the interviews in this series go to treasurytoday.com/women-in-treasury

Celebrating 30 years in finance and accounting, Lelaina Lim has had a fascinating career, culminating in her current role as Group CFO of RSH Limited, the single largest retail company in Singapore with more than 100 shops and operating regionally in ten countries. However, immediately after she joined RSH, Lehman Brothers collapsed and the global financial crisis ensued.

In 2008-2009, RSH was in the midst of expansion into Dubai, with a commitment to open 25 shops in the newly-completed Dubai Mall. Lim proposed a multi-prong strategy to tackle operations in a new economic paradigm. "In a crisis, you need to remember that cash is king. In order to have more cash, we shortened our credit period, reduced inventory and marked down some items, to encourage people to buy even though the economic situation was quite dire," explains Lim.

RSH's shareholders went through a difficult period due to Dubai World's debt problems in 2009, which saw the banks pull back credit lines. As a result, the company tightened its expansion plans and returned to its core business strategy. "In 2009 we worked with our banks to make sure our FX exposure was limited, because currencies were fluctuating wildly and our FX exposure is quite high on a monthly basis," Lim says. The shareholders decided to change RSH from a listed company to a private one, so at the end of 2009 and in early 2010, Lim worked on delisting RSH from the Singapore Stock Exchange (SGX). This occurred in 2010, and in 2011 new shareholders came in to buy out part of the existing shareholders' equity. This deal was completed in March 2012 and RSH is now part of the Al Futtaim Group, which also owns the Robinsons Group.

Lim outlines four "hot topics" she is working on today:

1. Tax planning, which has grown in importance because of complex and ever changing cross-border tax regulations, especially in South-East Asia.
2. Intellectual property (IP) rights and ensuring that the company has IP protection for its strong brands. IP rights are "intangibles" that the company wants to protect for many years to come.
3. IT and data protection: ensuring the data is secure but also that there is a single instance of the truth. Since Lim joined, RSH has spent much more money on IT because she believes that "if you have a good set of data and analyse the data properly, then you probably can earn more money than you otherwise would."
4. Risk management and ensuring that RSH is sufficiently insured in terms of assets and material operations.

In relation to the fourth point, Lim gives the example of the 2010 Bangkok riots. RSH had a few shops in the mall where the riots took place. When the Thai government announced the riots were perpetrated by "terrorists", then the insurance companies could claim existing policies did not cover terrorist activity. "Because of Bangkok, we started to look at insurance in a very different way. I have started implementing a global insurance policy that covers us as much as possible for every foreseeable risk."

Her move to RSH followed a five-year stint in China. In 2003 Lim was headhunted to join International SOS (ISOS), a medical evacuation company, as Regional Financial Controller to head up ISOS' China business based in Shanghai. "I took the opportunity to move to China because I thought it was a now or never situation to move out of my comfort zone in Singapore." ISOS was very different from her previous financial experience in the oil and gas industry, so the learning curve was steep – coupled with the fact that her move coincided with the after-effect of the SARS epidemic. "The business was not performing well because people were afraid to go to the clinic as a result of SARS," she explains. But she decided that since she was there she had to make the most of it and ensure the company made money.

Therefore, together with the General Manager and several doctors in Shanghai, they revamped the business model and collection process, effectively managed to turn the company from a big loss-making to a profit-making company, with positive cash flow and receivable turnover reduced from 350 days down to 120 days – in just two years. "It was hard and people thought I was very harsh," says Lim. "But after two years people realised that it was a do-or-die situation. A business that doesn't collect cash can't survive." The company continued to grow up to 40% every year, which was quite common in China in the early days because of the sheer number of people needing services.

After three years, Lim was approached to create a new set-up in China for a US company called Electronic Arts (EA), a gaming company which wanted to go into online gaming in China because of the growing market potential. She joined as Financial Director to oversee government tax incentive applications, drive electronic payments (e-payments) and online wallets, and to partner with a local Chinese game company to integrate their already large membership. In 2008, Lim was contacted by a headhunter to see if she wanted to return to Singapore to join RSH as CFO. "Maybe it was fate, but at the same time my father fell ill, so I took the opportunity to come home to be with him," she says. ■

Lelaina Lim has more than 30 years of financial and accounting experience in various commercial sectors with a strong track record reinforced by regional exposure in China and the ASEAN countries. After receiving her Bachelor of Accountancy from the National University of Singapore in 1983, Lim joined Ernst & Young (E&Y) as an auditor, specialising in oil and gas. When she received her Certified Public Accountant (CPA) from the Institute of Certified Public Accountants of Singapore (ICPAS), she moved to Trans-Island Bus Services (TIBS), a public bus transport operator in Singapore. In 1989 Lim joined Oakwell Engineering, an oil and gas company, as Senior Accountant. She worked there for 11 years and moved to Finance Manager and then Regional Controller. In 2000 she joined another oil and gas company, GRP Limited, to sort out their non-performing loan (NPL) status. In 2003 Lim was headhunted to join International SOS (ISOS), a medical evacuation company, based in Shanghai. After three years, she left ISOS to become Financial Director for a US company called Electronic Arts (EA), a gaming company which wanted to go into online gaming in China. In 2008, Lim returned to Singapore to join RSH as CFO.

Terms of endearment

The problem is one as old as commerce itself: buyers want to extend their payment terms, whilst suppliers want payment sooner. Net result: mutual tension. Is supply chain finance (SCF) the perfect solution for buyer and supplier alike?

The age-old problem of buyers wanting to pay as late as possible and suppliers wanting the cash immediately seems an intractable one at best. Of course, corporate buyers could pay their suppliers in good time, but different markets have different attitudes to this issue. D&B reported a set of figures from its annual review of Asian, European and North American payment practices last year which showed that in 2011 Taiwan led the pack on due-date settlement with 69.3%. Hong Kong had a 34.5% punctuality record and China 33.1%. The European average was 37.8% with Germany way ahead on 74.7%, while Switzerland followed with 55.3% and the UK lagged way behind at 26.3%. Only Portugal was slower to pay, with a punctual payment figure of just 21.8%. The US displayed an average 51% punctuality record, while Canada's average due-date payment was 44.9% and Mexico was 59.9%.

Lelaina Lim, CFO of RSH Limited, told Treasury Today that when she first started in her role as the Shanghai-based Regional Financial Controller of International SOS (a medical evacuation company) she was faced with a receivables turnover of 350 days. She brought this down to 120 days over a two-year period but said even this was not easy. "It was hard and people thought I was very harsh, but after two years people realised that it was a do-or-die situation. A business that doesn't collect cash can't survive."

In Europe, the EC issued Directive 2011/7/EU to try to encourage a fairer play between both parties. The directive came into force on 16th March 2013 as a means of combating late payment in commercial transactions. However, the Directive does not harmonise payment periods across the region, but instead creates a statutory right to interest 30 days after the date of the invoice, unless of course another payment period has been negotiated in the contract.

A place for SCF

This is where supply chain finance (SCF) has a role to play in easing the tension. SCF has been playing an increasingly significant role in the trade finance portfolios of some banks, with major global institutions claiming an average annual growth rate of up to 40%. According to the annual industry survey of global banks and corporates by working capital solutions, advisory and technology provider, Demica, this sustained uptake will continue to the end of the decade.

Growth in SCF programmes indicated by those surveyed is highest in the US and Western Europe, particularly in the UK (with its low payment punctuality record) and Germany (with quite the opposite), with Eastern Europe, India and China (the worst of D&B's payment punctuality Asian countries) noted as leading regions with the greatest SCF market potential. Some 90% of bank respondents see SCF as a "must-have" financial product for corporate buyers and more than 75% of them see it as an "added-value" product. Respondents believe that domestic SCF programmes will lead the expansion and that the level of competition between banks will soon commoditise the offering. The adoption of cross-border SCF programmes will continue to gather pace but the greater complexity involved will enable it to retain its 'value-added' status.

Asian trade

Sanjay Dalmia, EVP Global Cash Management and CEO of Fundtech India, notes "a pick-up" of interest in SCF, particularly in the Asian markets. "But challenges remain," he adds. From the banking perspective there is a degree of separation from the actual beneficiaries of the solution. As banks work with the CFOs, it can be difficult to steer procurement managers and suppliers towards a common platform and to get them to understand the benefits of such a programme. The parties often cite perceived issues and complexities around supplier on-boarding and technical integration of systems and workflows as a reason for not doing it.

Although he agrees there may be workflow issues within certain corporates, Dalmia says this is not solely an IT issue, but also one of poor communication caused by operational silos. These silos underpin a misalignment of purpose internally between accounts payable (AP), procurement and treasury, and where respectively each is intent on holding on to cash, keeping suppliers happy and keeping on top of cash management.

The purpose of supplier finance in its various forms is to bridge the payment gap between a supplier's delivery of goods and the final settlement of its invoice by the buyer. The latter typically initiates a programme via its own bank (and so it does not impact the buyer's own balance sheet), using its own strong credit rating to secure better rates than its suppliers can on their own. The corporate may even self-fund the programme "if it is flush with liquidity", notes Dalmia, adding that this obviously has balance sheet implications and that any charges must be set "at arms length".

In terms of technology, Dalmia comments that "the tools are improving all the time, but the model of operation broadly remains the same." David Gustin, President of Global Business Intelligence, a Canada-based international trade research and advisory firm, has been following the industry closely for many years and notes that there are a lot of misconceptions about what the various forms of supplier finance are and how they work. As part of his research Gustin is currently finalising a 'vendor positioning grid' that looks at a multitude of vendors that market various working capital technology solutions to try to understand the lay of the land.

"Certainly in an effort to leverage the wider adoption of supply chain automation tools, or in believing specific under-served opportunities exist, many vendors have been adding working capital capabilities to their product suite," he notes. These solutions may not fit all purposes and Gustin notes too that large-scale buyers – multinationals – that have developed approved programmes have tackled the matter in a way that complements their own industry peculiarities and as such "they are all very different and have met with varying degrees of success".

The typical view of the supply chain, from the finance perspective, considers the funding of suppliers. This will mostly take the form of post-shipment finance but increasingly in Asia the requirement is for pre-shipment finance, says Ashutosh Kumar, Global Head of Corporate Cash and Trade at Standard Chartered. The beneficiary of post-shipment finance is the direct supplier. Pre-shipment finance will push the finance "much deeper into the supply chain", to the point of funding the upstream suppliers that supply raw materials to direct supplier, he explains.

These upstream suppliers tend to be in the small and medium-sized enterprise (SME) sector and often do not have a sufficiently strong balance sheet to secure lower-cost bank funding, or may even find that funding in their domestic market is not readily available. The arrangement of pre-shipment finance moves away from a predominantly balance sheet-based discussion towards a supply chain risk analysis, executed by the bank (because it is the one taking the financial risk) in tandem with its corporate client. This, explains Kumar, must consider many points of the relationship between buyer and supplier to determine acceptability, pricing and so on. Assessment includes factors such as the unresolved rejection rate of the goods supplied, the nature and marketability of the products being bought and the dynamics of the market itself.

The other half of the story

But SCF is "only half of the story" in the Asian markets, says Kumar. Corporate clients of the bank are now asking for extended programmes to cover funding of their distributors too. "Of late we have seen a much greater demand for distributor finance; currently every company is looking to sell more and this is a way of helping distributors to achieve more sales without having to worry about finance."

Indeed, in China, Benjamin Lam, China Trade Head, Managing Director, J.P. Morgan, noted in a recent Treasury Today Question Answered article that as domestic companies increasingly trade cross-border and international firms continue to invest in China, demand is rising for properly integrated SCF solutions that can link upstream and downstream procurement, buyers, vendors and distributors.

Distributor finance mirrors supplier finance in that the large corporate buyer becomes the supplier, using its credit status to finance the distributor's purchase of goods. It is prevalent in markets such as India, China and Korea and, notes Kumar, it is evolving in quite a few other regional markets, but in all cases cuts across a broad spectrum of industries.

There is a difference between the procurement and sales side in how risk management is handled. As a corporate moves into an Asian emerging market trading on open account terms (because letters of credit (LCs) may prove too administratively restrictive or expensive), a detailed supply chain risk analysis is essential. But this almost takes the reverse view of a pre-shipment finance risk assessment, considering factors such as the marketability of the corporate's own products, its position in the market, the relative strength of that market and the financial dependencies between the corporate as supplier and its distributors.

The role of SWIFT's BPO

Where a corporate exhibits a level of discomfort with the counterparty risk of its buyers, credit insurance would be appropriate but, says Standard Chartered's Kumar, this is not readily available in some Asian markets. This drives companies to use LCs as a risk mitigation tool but, he notes, these can be inefficient from an administrative perspective, often adding up to ten days in processing time.

This is where the International Chamber of Commerce (ICC)-approved SWIFT Bank Payment Obligation (BPO) (which became effective in July of this year) could play a major role by helping firms working in and out of the region to mitigate the counterparty risk arising from open account trading. Standard Chartered has already carried out transactions – with BP Chemicals and its client Octal – using this tool (see

AB Electrolux and Deutsche Bank – on-boarding suppliers

Case study

AB Electrolux is a global household name. It manufactures white goods for distribution in more than 150 markets, generating revenues in 2012 of $16.9 billion. In June 2011 the company asked Deutsche Bank to help set up a SCF programme for its North American business. Amongst the main aims of the project, AB Electrolux wanted to improve supplier liquidity (funded by the bank) to reduce "often costly" supply chain disturbances, said James Krikorian, North American Treasury Manager, AB Electrolux. Speaking at the recent EuroFinance Miami conference, he said the company also had a keen eye on freeing up its own working capital by extending days payable outstanding (DPO) (using the cash instead for core business growth), moving towards a standardised electronic invoicing (e-invoicing) process and harmonising payment terms for its suppliers.

In total, AB Electrolux uses 300 suppliers with which it has an annual spend of around $2.7 billion. The majority (225 businesses with a spend of $1.115 billion) are based in Europe, with seven in Asia (spending $400m), 60 in South America ($750m) and 20 in North America ($400m annual spend). AB Electrolux's more than 50 buyers are located in 25 countries, with US and Australian dollar, euro, Thai baht and Chinese renminbi as the main currencies. This structure is not set in stone and given the changing economics of global manufacturing AB Electrolux has some major plans involving some 450 targeted Asian suppliers located in eight countries in the region. The flexibility and scalability of its SCF programme will be tested, but the preparation work has ensured it has a solid base to work from.

The original project was managed by a cross-functional team within AB Electrolux covering procurement, legal, AP, IT and treasury, and followed discussions with other companies that had already implemented similar programmes. Krikorian advised anyone considering this path to start by gaining top management buy-in and to use key performance indicators (KPIs) throughout to "keep focus on the SCF programme and ultimately to reach those targets".

In practical terms, the first step for Krikorian's team was to build a comprehensive picture of flows with a view of seller and buyer locations and currencies. From here it was possible to build a business case and evaluate the inherent risks, which might include counterparty risk (whether that is the chosen bank partner or platform provider). Therefore, a set of what-if scenarios were prepared so that should the worst happen and the programme had to be wholly or partly terminated the results could be understood. The regulatory environment for each jurisdiction and the accounting treatment of the programme was also considered as part of the foundation project.

In assessing its banking partner – naturally the chosen one had to match the existing supplier and buyer locations of AB Electrolux, have the credit capacity to handle the full programme (using a syndicated structure where necessary) and not present any IT integration issues – both credit capacity and IT integrity were considered "pass or fail" criteria. However, AB Electrolux was seeking not only financial, technical and IT expertise for operations and support (including the ability to provide data extracts of AP) but also the ability of the bank to on-board and follow up on suppliers in additional countries and in local languages, especially as the Asian expansion programme was on the horizon.

Having established the partnership with Deutsche Bank, AB Electrolux was able to form a rigorous on-boarding strategy using the experience of the bank to support its decisions. Krikorian also reported that one key contact was appointed from procurement for the SCF programme and other members of the department were trained to assess and understand the effects of the programme on the suppliers, each considered for their criticality to the manufacturing process, their current payment terms, level of business and spend and current credit rating. In building out the approach for its supplier base, AB Electrolux established a number of on-boarding models, using one-to-one meetings, seminars, webinars and mailing of details regarding the mandatory change of current terms. Suppliers were then divided into one of three tiers (as Krikorian noted, "one size does not fit all") and some "low-hanging fruit" were identified as potential "quick and easy wins".

By defining a timeline for supplier negotiations and establishing the level of internal resources needed it was possible to allocate with precision "who does what and when" and to set expectations. To test its processes, AB Electrolux set up a small number of "well connected" suppliers as pilot cases to try "two or three of the preferred on-boarding strategies" and to test its file and payment transfers before evaluating and adjusting prior to full roll-out.

Treasury Today's May 2013 Corporate View with BP Petrochemicals' David Vermylen).

SWIFT promises that the BPO will give easier access to risk mitigation around pre and post-shipment finance. It allows sellers to electronically send trade documentation to their buyers and exchange the documentation data with both obligor and recipient banks. This enables them to get involved earlier facilitating payment as soon as the buyer raises the purchase order (PO), not delaying until the invoice has been approved as is the case with LCs. The four-party approach also means suppliers can use their own local bank rather than the buyers' banks (as would be the case in the traditional SCF programme), removing Know Your Customer (KYC) from the process and potentially lowering on-boarding costs.

"Asia is the centre of global trade growth and as the supply chain space evolves, more corporates will be looking towards open account and supply chain solutions," says Vinod Madhavan, Standard Chartered's Global Head, Local Corporate Products and Receivables and SCF. "Our expectation is that many corporates will now start using BPO to free up their working capital."

Whilst treasurers know that freeing up working capital is beneficial, an increasing number of large corporates are aware that doing it by extending days sales outstanding (DSO) too far can harm their suppliers – as such SCF is gaining traction. The two case studies illustrate different ways in which it can be approached. ■

Stanley Black & Decker and Citi – a centralised working capital tool

Case study

Stanley Black & Decker (SBD), a global supplier of tools, hardware, appliances and security systems for industrial and consumer use, has an inclusive approach to improving its working capital management including supplier finance. Yannick Croiger, Director of Financial Risk Management and Corporate Finance, explains that since 2007 the company's primary focus has been the implementation of the group-wide Stanley Fulfilment System (SFS), covering the central management of inventory, accounts payable (AP) and receivable (AR). The system is based on a number of common platforms including SAP, Hyperion, Navision, JDA, Red Prairie, Demand Solution, Share Point Server, Business Objects and Citi's Supplier Finance platform.

The problem with working capital, Croiger notes, is that it is cash that is locked up in operating the company from day-to-day and as such it is preferable to have as little as possible in this state; it is money that could be used for more accretive purposes. Decreasing inventory, collecting payables sooner and working out how to pay suppliers later without damaging them is the goal. "The concept is extremely easy to understand. Implementation on the other hand requires effort and discipline."

What SBD is creating (it has been an ongoing project since 2007) is a methodical, process-based approach to supplier finance and working capital that provides a "user friendly, automated and error-proof customer experience, from intent-to-purchase to shipping and billing to payment". From a group perspective it has become a "critical business process that keeps supply and demand in balance".

Kicking off a project of this nature will require senior management buy-in and it is also essential to communicate a policy on minimum terms and to enforce this policy right from the start. The centralisation of the project team at corporate level helped SBD leverage the knowledge and experience of cross-functional teams drawn from treasury, global sales and marketing, IT and accounting departments.

In practice, SBD's suppliers follow existing protocol for submitting and processing invoices but, for those within the scheme, twice a week SBD will upload payment files (which include invoice-level details based on established terms between SBD and the relevant suppliers) to Citi's web-based Supplier Finance platform. Suppliers are then notified of the due payment of their approved invoices via email. They may then log into the system and elect to discount some, all or none of these. Having done so they will typically receive funds (less the discount) on the next working day, with SBD paying Citi in full on the invoice due date, according to the agreed terms.

Entities (and thus their suppliers) within SBD that wish to join the scheme are prioritised around considerations of jurisdiction, currency and internal credit capacity as well as practical matters such as connectivity with the ERP. Croiger says it now takes between three to six months to admit a new company member. This allows the team to assess the most suitable supplier candidates, the preparation of legal documentation, any IT work and of course for the procurement team to introduce the Citi Supplier Finance concept to their suppliers.

For SBD, its efforts and actions have resulted in outperformance of its industry peers in terms of working capital reduction despite continued growth through acquisition. Croiger feels that the process may have initially "caused headwinds" but ultimately it has provided opportunities; SBD has seen a working capital reduction in the last 12 years of over $450m. However, he is adamant that the kind of discounting alternative the company has used "should be used to supplement good operating procedures, not to mask poor or lagging performance". Indeed, Croiger warns anyone considering this model to first establish rigorous operating processes, especially as it requires the business to strive for automation and the leverage of common platforms where possible. As well as ensuring the structure is as scalable as possible, he advises companies to invest time and money automating as much as possible up front, "even if the implementation takes longer".

Adam Smith Awards 2013 Asia Pacific Regional Award for Best Practice

WINNER

Ping Chen
Director, International Treasury

Pfizer

Adam Smith Awards for Best Practice and Innovation 2013

On Thursday 20th June, Treasury Today hosted the sixth annual Adam Smith Awards ceremony, sponsored by Bank of America Merrill Lynch, in London. The event, recognised by treasury professionals globally as the definitive industry benchmark, attracted more than 200 people from Asia Pacific, the Americas, the Middle East and Europe.

We were delighted to welcome Ping Chen, Director, International Treasury at Pfizer who won The Asia Pacific Award for Best Practice. In addition, Highly Commended Awards were given to Honeywell and PepSiCo India Holdings. Linda Zhang, Regional Treasury Manager of Honeywell, travelled from Shanghai to London to receive the award and Deepak Kini, PepSiCo India Holdings from North India.

Pfizer's treasury team faced considerable challenges when it came to managing cash operations across Asia. Local finance teams were responsible for managing the company's tremendous number of bank accounts across multiple banks in 15 countries where Pfizer has a presence in Asia.

Once the treasury team set out to transform Pfizer's treasury structure across the region, the following objectives were established:

- To centralise treasury operations in the region, shifting operational treasury processes to a shared service centre (SSC) model.
- To align an enterprise resource planning (ERP) migration along with the SSC migration and regional treasury model deployment.
- To optimise the use of the company's in-house bank in Dublin for foreign exchange (FX) management, liquidity and investments.

The team hoped to streamline the company's bank account structures and pooling mechanisms by moving to a single banking partner. Standardisation would be achieved through the adoption of ISO 20022 as the global payment format. Also, a single ERP system would be adopted, as would uniform business processes.

Ping Chen, Director of International Treasury, explains: "By eliminating manual processes and optimising the company's technology infrastructure, we looked to achieve greater visibility, gaining access to real-time information and developing better cash forecasting and insights into business operations."

The team began its ambitious treasury transformation, rolling out the implementation across the region. The key stakeholders of the regional treasury strategy include international treasury based in New York, the company's in-house bank (IHB) in Dublin, global SSC in Dalian, China and the financial teams in the markets. Corporate treasury oversees the regional treasury model implementation and global documentation negotiation and manages regional bank relationships.

Using a single bank platform, Pfizer gains critical visibility into cash enterprise-wide and insights into business operations. The SSC in China manages in-country bank account structure and in-country cash pooling. SSC also provides forecasts on cash flow and FX exposure. The IHB manages the regional multicurrency notional pool, and the regional liquidity is managed as part of the global liquidity management. The treasury team further established the corporate policy mandating FX transactions and in-country liquidity investments. In Asia, all of these transactions and investments are now managed through the company's IHB in Dublin, Ireland. With its end-to-end trading infrastructure, the Dublin treasury centre is responsible for executing FX and investment transactions. While most FX transactions and investments, as well as regional bank relationships, are now managed centrally, local market finance teams still support FX settlement activities where needed and manage any local bank relationships required by regulation.

The team's ambitious and successful work to date in China, Hong Kong, South Korea and Singapore has set the stage for Pfizer to roll out the transformation initiative to Japan in 2014 and the rest of Asia by 2017.

Chen concludes: "Pfizer has learned numerous lessons in the process of implementing this treasury transformation best practice. Amongst the areas that proved critical were gaining a clear understanding of regulatory requirements and operational constraints that would impact the project at the local level. This knowledge was crucial for overcoming obstacles encountered along the way."

"These lessons learned have proved instrumental in the overwhelming success of the initiative thus far and are a significant driving force in helping to meet the future objectives of this on-going programme. The size, scope and complexity of the project highlight the impressive nature of Pfizer's achievement in implementing this initiative," says Chen.

The global team effort to centralise and streamline operations in the Asia Pacific region is a best practices case study on how to execute a critically important project and underscores why Pfizer is a deserving winner of the Adam Smith Award for its impressive achievement.

Ping Chen is a Director, International Treasury at Pfizer. She manages capital structure planning, financing, liquidity, financial risk and cash management for Pfizer's subsidiaries in Asia. Chen has worked in the banking industry providing financial services to multinational corporate clients. She holds a Bachelor of Science (BSc) degree from Beijing University of Aeronautics and Astronautics and an Master of Business Administration (MBA) from New York University.

HIGHLY COMMENDED

Asia Pacific Regional Award for Best Practice

Honeywell

Linda Zhang, Regional Treasury Manager
Shanghai, People's Republic of China

In the Asia Pacific region, Honeywell's revenue is in excess of $6 billion and the company employs close to 34,000 employees 14 countries across the region. China is one of its most important markets and it has invested over $1 billion across all businesses and have set up subsidiaries and joint ventures (JVs) in over 20 cities across China.

Linda Zhang, Regional Treasury Manager explains: "Supporting such growth requires a significant amount of liquidity and we wanted to adopt the most effective and efficient means of funding such growth."

There are essentially three ways Honeywell can fund growth in China:

External financing. Honeywell can theoretically raise funds through local bank financing in China although the domestic 'Panda' bond market is closed to foreign companies. Listing on the local Chinese exchange, while theoretically possible after a company has been in existence for a period of time, is usually not chosen by foreign multinational companies (MNCs) for strategic reasons. This is because MNCs typically want to list in their country of incorporation to facilitate the engagement of analysts, encourage higher investor familiarity with the firm and not have to deal with the complexity of another listing disclosure and reporting requirements and the need to raise funds in its functional currency. Alternatively, a company can raise funds through the issuance of 'Dim Sum' bonds in Hong Kong, or even bond issuance back in the US.

Internal financing (including cross-border inter-company loans into China). Funding through inter-company loans may also be an alternative having the advantage of utilising internal cash. Such funding needs to be structured on the 'arm's length' principle. This will lead to tax leakages in the form of corporate income tax arising from interest income. Such cross-border loans will need to have State Administration of Foreign Exchange's (SAFE) approval and the borrower will need to have a sufficient funding gap (the difference between total investment and registered capital, as required under Ministry of Commerce of the People's Republic of China's (MOFCOM) regulation). Furthermore, if such inter-company lending were to be from a Chinese subsidiary, the domestic inter-company loan will have to be structured in the form of an 'entrustment loan' (direct inter-company lending is not allowed in China) and there will be further 'leakages' in the form of business tax and agency fees paid to the bank as part of 'entrustment' loan arrangements.

Dividends from subsidiaries. Declaration of dividend is another option but the cross-border payment of such dividend will be subject to US tax. While the harnessing of internal funds through such a mechanism is feasible, it adds to the cost of funding. Income to US holding company is subject to high US corporate income tax. Dividend payments that do not involve cross-border payments will not attract US corporate income tax.

With the above three funding options available, Honeywell's task was to assess the most optimal funding solution so as to preserve the greatest operational flexibility, at the lowest cost and in the most efficient structure possible. The existing legal structure of Honeywell's more than 40 legal entities in China was re-assessed. In the course of this assessment, the company confirmed its understanding of Honeywell (China) Co. Ltd.'s official registration and certification as an 'investing company', and proceeded then to study if a more efficient shareholding structure could be assembled under this umbrella, so as to obtain the most optimal funding structure.

Seven new projects within the past two years, which have had the investment company as the investor, with total investment close to $400m (with an equity contribution of approximately $70m), have been executed. The funding requirements were completely met from onshore funds, without any tax and or interest leakages. This has resulted in savings of approximately millions of US dollars in tax and financing costs.

Zhang concludes: "Through this project, the Honeywell treasury team has earned the respect and become a trusted business partner for the Chinese business. Not resting on its laurels, the team has since continued to keep abreast of China's rapidly changing regulatory landscape, seeking and identifying opportunities of adopting these changes to support Honeywell's global growth strategy."

Honeywell

Honeywell (www.honeywell.com) is a Fortune 100 diversified technology and manufacturing leader, serving customers worldwide with aerospace products and services; control technologies for buildings, homes and industry; turbochargers; and performance materials. Based in Morris Township, N.J., Honeywell's shares are traded on the New York, London, and Chicago Stock Exchanges.

HIGHLY COMMENDED

Asia Pacific Regional Award for Best Practice

PepsiCo India Holdings

Deepak Kini, Region Reporting and Shared Services Director
Haryana, India

India is expected to continue to be on the growth curve with most forecasts pegging GDP growths between 7-8% over the next five years. PepsiCo India Holdings Private Limited (PepsiCo) has grown into one of the largest and fastest growing food and beverage businesses in India.

PepsiCo worked with Citi on a re-engineering project which facilitated end-to-end seamless automation of receivables processing in a scalable and sustainable manner. Over the past 18 months, PepsiCo has realised benefits in terms of liquidity management, cash flow planning and transaction reporting in India, a market of high strategic importance for the company. PepsiCo senior management is benefiting from risk mitigation and improved compliance too. Significant administrative cost savings have also been realised, which has facilitated the reduction of 6,650 man hours once the accounting of all electronic transfers was centralised and then moved from a manual upload process to a host-to-host structure. Treasury has improved cash forecasting and fund planning, resulting in a reduction of bank charges by $120k.

Sales and marketing have seen the turnaround on deliveries reduce and working relationships with over 3,000 distributors have also been enhanced as a result of faster turnaround times and automated real-time alerts via email and SMS for payments. Migration of all non-core activities was moved to the shared services centre (SSC) to automate cash management processes and reduce the manual risks.

As Deepak Kini, Region Reporting and Shared Services Director states, "this solution had to be designed to address challenges specific to India, such as a predominantly paper-based economy, complex regulatory environment varying across states, vast geographical spread and cultural diversity."

Implemented in a timeline of only one and a half years, the solution allowed PepsiCo to re-engineer its workflow processes, while also dramatically cutting costs. An innovator in introducing host-to-host functionality in India, the migration has resulted in the simplification of operations, standardisation of processes across the country and automation of the collection process.

The re-engineering strategy adopted by PepsiCo was an endeavour to improve treasury functions, working capital management and drive efficiencies in the business. This involved continually rethinking, automating or outsourcing numerous end-to-end steps from initiation of payment by the final consumer to reconciliation of the transaction in its global records.

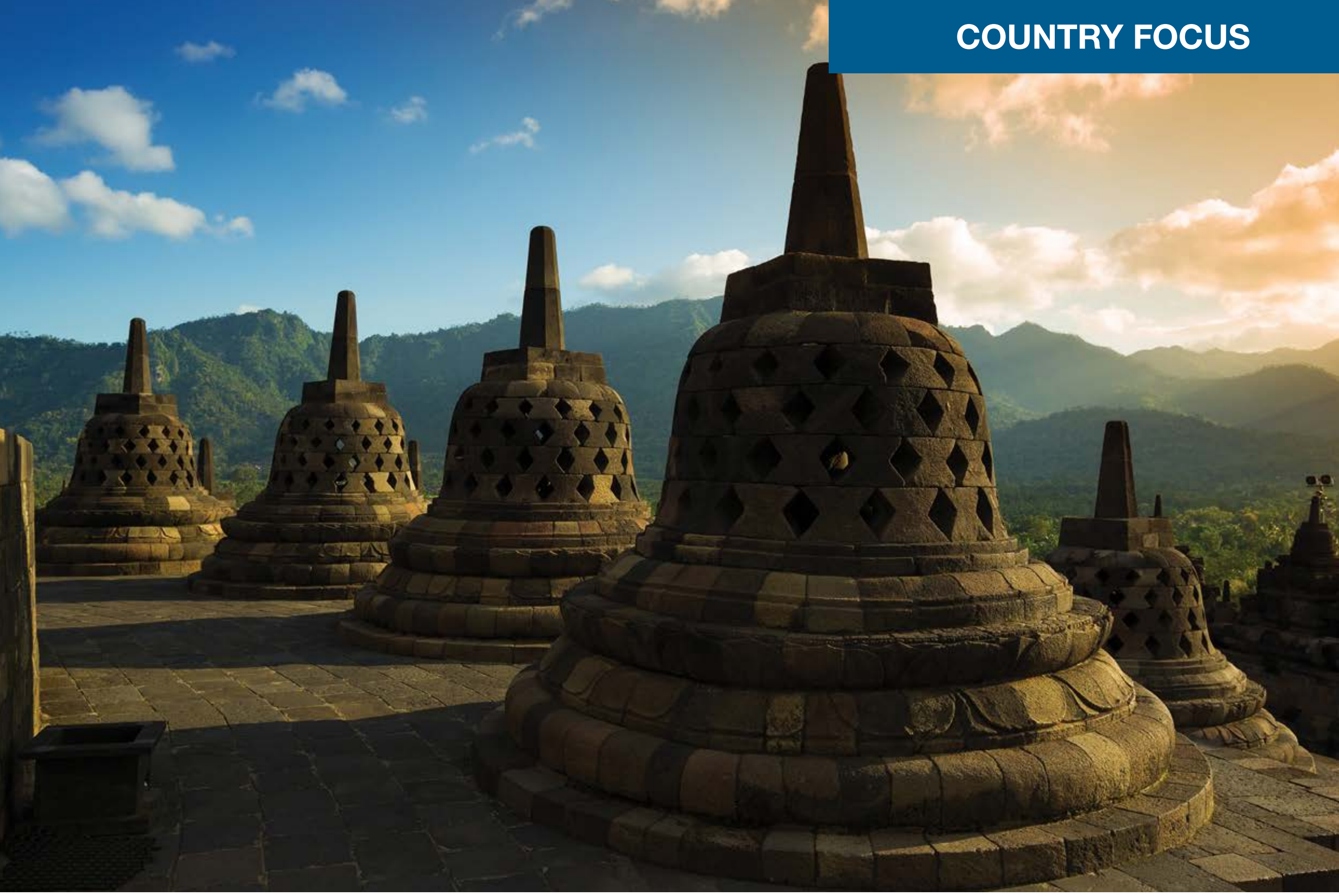
As Kini describes: "We first moved the accounting centrally to PepsiCo's SSC by requesting Citi to send the MIS only to the SSC. These transactions used to be accounted for manually at the SSC and the bank reconciliation was also manual. We then started getting files from Citi which used to get uploaded. To improve the process further, we moved the accounting of the transaction to a host-to-host structure. Within 60 minutes of the funds hitting PepsiCo's account with Citi, the accounting entry in SAP is automatically passed and the goods can be shipped directly to the distributors."

Bank reconciliation is now automated and since the accounting happens through an automatic bank feed, there are no open items in the reconciliation for all e-collect transactions. Citi designed the system architecture and data workflow where data travels in a secure environment between Citi and PepsiCo. An e-collect system with automatic remitter identification for the PepsiCo sales and finance team enables automatic reconciliation in SAP and the sending of confirmations of credit via SMS or email to dealers and distributors

Kini concludes: "The host-to-host migration has resulted in the simplification of operations, standardisation of processes across the country and across the beverages and foods businesses and automation of the collection process."

PEPSICO

PepsiCo is a global food and beverage leader with net revenues of more than $65 billion and a product portfolio that includes 22 brands that generate more than $1 billion each in annual retail sales. Our main businesses – Quaker, Tropicana, Gatorade, Frito-Lay and Pepsi-Cola – make hundreds of enjoyable foods and beverages.



Indonesia: making the grade

With its credit rating upgraded to investment grade and an enviable GDP growth rate of around 6%, Indonesia is attracting interest from MNCs. In addition, its growing domestic purchasing power is helping the country overcome historical infrastructural challenges.

In April, Indonesia's President, Susilo Bambang Yudhoyono, urged multinational corporations (MNCs) in the country's natural resources sector to engage in "genuine partnership and cooperation". Speaking at a Reuters event in Singapore, he said many MNCs around the world "take too much and do not leave behind enough for the people of those countries".

Indonesia is a major exporter of copper, nickel, gold and other commodities such as palm oil, oil and gas. The government has implemented a range of policies to encourage companies to invest more in downstream businesses and to add value to products before they are exported. At the same time, it is looking to expand the country's manufacturing base.

In June, the Indonesian government announced a new tax of 20% on mineral exports of unprocessed metals. The Financial Times reported that companies without plans to build processing facilities onshore would be banned from exporting.

"Indonesia realises it has a large population that makes it an attractive domestic market for MNCs," says Andy Dyer, Head of Transaction Banking Sales in Asia Pacific, Europe and Americas at ANZ Banking Group. "It doesn't just want to be an export market based on cheap labour. Recent regulations are geared towards adding value to exports, particularly in the resources sector.

"Regulations have been designed to make it more difficult for the extractive industries to export without adding value. You could argue this might put some companies off entering the market, but the country has very strong fundamentals in terms of demographics and resources."

In January, ratings agency Moody upgraded Indonesia's rating from a 'speculative' grade to investment grade. Moody's move followed that of Fitch, which upgraded the country in December 2012.

With an enviable GDP growth rate of around 6%, Indonesia is attracting interest from MNCs and increasing levels of foreign direct investment (FDI). At the start of the year Indonesia's Investment Co-ordinating Board (BKPM) reported record levels of FDI for the country. In 2012 IDR206 trillion ($20 billion) in foreign funds flowed into the country and the BKPM predicts a total of IDR270 trillion ($27 billion) will be invested in 2013.

FDI accounts for around 70% of the total direct investments in the country of IDR376 trillion ($38 billion). The BKPM oversees investments, granting business permits to overseas and domestic companies. During the past month the BKPM has received 400 requests for permits per day, compared to the usual 150.

Corporate attraction

The chairman of the BKPM, M. Chatib Basri, told a press conference that prevailing global economic uncertainties were benefitting Indonesia, as the situation causes investors to turn to emerging economies. "Brazil is growing by only 0.6%, India has problems with inflation and China is slowing down. If you were an investor looking to invest in emerging economies, where else to invest but here?" he told the Jakarta Post.

The mining sector accounts for the largest share of FDI at 17.3%. Observers believe this will increase as the government's commitment not to export raw minerals, but to add value via mineral processing, bears fruit.

There have been some high profile investments in Indonesia during the past six months. French cosmetics giant L'Oréal has opened its largest factory globally at the Jababeka Industrial Estate in West Java. A phased investment of €100m will establish the factory as a production hub for South-East Asia. The company said the factory is a response to increased market demand in Indonesia and the Association of South-East Asian Nations (ASEAN) countries; 30% of production will be for the domestic market, with the remainder destined for South-East Asia.

Toyota also has invested in a new production facility in West Java via Toyota Motor Manufacturing Indonesia, a majority owned venture with local distributor PT Astra International. The plant has an initial output capacity of 70,000 units per year produced by 1100 workers.

These moves indicate that the interest in Indonesia is not based solely on natural resources; the country has another important resource – people. It is the fourth most populous country in the world with more than 250 million people, many of whom are young. In fact, 42.2% of the population is aged between 25 and 54 years. One quarter of the population is under 14 years old. More Indonesians are moving into the middle classes and consumerism is on the increase.

Domestic purchasing power

In a quarterly report published in April, global consultancy McKinsey says 90 million Indonesians will join the 'consumer class' by 2030 – more than in any emerging country apart from China and India. McKinsey estimates that this migration into the middle class will be worth an additional $1 trillion in annual spending. "Already, Indonesia's consumer spending, at 61% of GDP (2010), is closer to levels in developed economies than to the corresponding figures for neighbouring, largely export-driven nations such as Malaysia and Thailand," states the report.

"As the percentage of the country's population living in urban areas grows from roughly 53% of Indonesia's residents today to 71% in 2030, spending should grow in categories such as financial services, leisure, travel, and apparel." This spending already has begun to grow among the country's city dwellers.

"Indonesia always has been seen as a market with a lot of potential, although it only started fulfilling its potential in the past five years," says ANZ's Dyer. This change came, he adds, when Indonesia became a major country of interest for investors and MNCs as a production base, as well as a consumer base. This has been fuelled by the commodities boom and also regular GDP growth rates of 6-7%.

"You could term what we are seeing as a second renaissance of investment in Indonesia," says Manfred Schmoelz, Head of Transaction Services, Asia Pacific at The Royal Bank of Scotland (RBS). "When China and India were closed to international investment during the 1980s and early 1990s, multinationals made substantial investments in Indonesia. Once India and China opened up, some of that investment flow was diverted. But with a more politically stable environment, Indonesia's economy is growing and currency and interest rate regimes have improved. Therefore, investment is picking up again."

Riko Tasmaya, Treasury and Trade Services Head in Indonesia for Citi, says the country is well positioned to attract FDI as 60% of the economy is driven by domestic demand. "Growing consumer purchasing power is the engine of the 6.2% GDP growth in the country. Among the emerging and growth economies, Indonesia accounts for 39% of combined GDP growth; this is predicted to rise to 58% by 2025. By then, we believe Indonesia will be one of the top ten world economies."

Indonesia is the strongest of the ASEAN countries and plays a critical role in supporting the overall economic growth of that group, says Tasmaya. "Much of the growth in Indonesia is due to the high proportion of young people in the country and their high levels of productivity."

All of these points, he says, make Indonesia a very attractive country for FDI; the majority of investment is coming from Singapore, South Korea, Japan and the US. "These investors will find tremendous opportunities related to natural resources, consumer purchasing powers and a growing manufacturing base as the government tries to encourage the growth of more value-added exports," says Tasmaya.

Challenges

McKinsey's quarterly points out that Indonesia's consumer market is very complex, scattered over more than 17,000 islands where tastes and preferences vary. Indonesia's distribution infrastructure is fragmented geographically and small retail stores predominate in many consumer categories.

This presents challenges for corporates, particularly when it comes to collections.

Tasmaya explains: "While Indonesia spans a vast area and is comprised of thousands of islands, less than 50% of the population is bankable. For this reason, cash use is very high and collections are a key challenge for corporates. Solutions need to offer timely and secure collections with automatic reconciliation capabilities. Global banks such as Citi are investing heavily in the technology to support such capabilities." Many corporates are partnering with global banks that can provide an end-to-end proposition that covers integrated collections, advanced liquidity management and payments support on one technology platform, he says.

Schmoelz also cites Indonesia's geography as a challenge for corporates looking to expand operations in the country. "One of the key issues in Indonesia is its geography; the country is made up of 17,000 islands that are spread across a distance the size of Europe. A great deal of infrastructure investment – in roads, rail and ports – is required to help move resources around."

The Indonesian government is encouraging infrastructure development. In May 2011, the government announced its 'Master Plan for the Acceleration and Expansion of Indonesia's Economic Development', a long-term, nationwide development plan running up to 2025, which could be worth up to IDR4000 trillion ($402 billion). Of this total, 70% is expected to be financed by the private sector including state-owned enterprises (SOEs) and a public-private partnership (PPP) scheme.

In the past few years, the government eased regulations to make the infrastructure sector more investor-friendly, such as amending the law on PPPs and passing a new Land Acquisition Law, which allows the government to obtain civilian land for public works projects. The World Bank's International Finance Corporation (IFC) reports that the Indonesian government's infrastructure plans include constructing power plants that will supply 20,000 megawatts of electricity during the next decade and 1095 kilometres of new toll roads to move goods faster across the vast archipelago. The IFC estimates the cost of these investments as $150 billion during the next five years. However, the government can finance only 30% of the cost; the rest will come from the private sector.

Among recent infrastructure deals is a $4.8 billion investment by China Railway Group, won in March 2010, to build and operate a coal railway. The Financial Times reports that Indonesia is the world's largest exporter of thermal coal, 15% of which goes to China. More recent projects include the construction of a $5.2 billion integrated railway network in Sulawesi; the construction of a monorail system for Jakarta; and the expansion of a terminal at Soekamo-Hatta International Airport. The government has introduced a nationwide freight transport programme to improve the movement of goods through the country's vast waterways. As part of this programme, PT Pelabuhan Indonesia, the state-owned sea terminal operator, will construct Lamong Bay Terminal in Surabaya, East Java, with a planned inauguration in 2014.

In addition to a lack of physical infrastructure, Tasmaya says other challenges in Indonesia arise due to bureaucracy and corruption. "Good progress has been made on all of these fronts, although some concerns remain for investors, one of them with regard to labour reforms," he says. "The government is on track to ensure that it doesn't miss out on what it sees as a golden age in terms of its young population. Alongside investments in infrastructure and manufacturing, the government is investing in human capital, ensuring education is of a high enough quality to support economic growth. Attention also has been paid to innovation, with increases in the government R&D budget."

At the same Reuters event earlier this year, President Yudhoyono conceded that corruption was more difficult to eradicate than he had thought, but he denied suggestions that it had risen in his eight and a half years in office. "It's not getting any worse, it's actually improving – but I am still not satisfied. I am frustrated, I am angry and I am annoyed," he said.

Widespread perceptions of corruption and broad regional disparities in health point to ongoing challenges for policymakers seeking sustainable, broad-based prosperity, according to a Gallup study of Indonesia. Published in May, the report, 'Indonesia's Economic Emergence', found that 88% of Indonesians thought corruption was widespread in public sector, with 82% believing it is also widespread in business.

Gallup points out that systemic corruption is considered by economists as a hindrance to economic development. One of the most common forms, bribery of government officials, raises average transaction costs and tends to hurt the poor, who are typically less able to pay and less likely to have political connections on which to draw. "The result is that deeply entrenched patterns of income inequality become even more difficult to overcome," says the report. "This is another of Indonesia's major challenges to broad-based economic development." At present the household income of the country's richest 20% of people is four times that of the average income of the remaining 80%.

Gallup's report concludes that recent trends in Indonesia, including the improving economic outlook and rising satisfaction with healthcare and education among its people, suggest the country is improving its competitive position by empowering more of its citizens to drive economic development. However, it warns that ongoing corruption and extreme income inequality continue to undermine Indonesia's economic potential by increasing the risks for investors, foreign and domestic.

Banking developments

For the time being at least, Indonesia is proving attractive to a large number of MNCs. The needs for these multinationals entering Indonesia, says Vinod Madhavan, Global Head, Local Corporate Products and Receivables and Supply Chain Finance (SCF) at Standard Chartered Bank, are the same as for those entering any emerging economy. "Companies are looking for cash management and working capital solutions. They require support from financial institutions that can understand their needs, have a strong local presence and therefore understanding of the market," he says.

Indonesia is one of the more mature markets in the region when it comes to accounts receivable (AR)/accounts payable (AP) management, he says. "There is a wide network of ATMs under the banner of ATM Bersama, which are interlinked between most banks. Corporates can manage their consumer-to-business (C2B) receivables (such as utility payments) through the ATM network, as there is a capacity for consumers to pay bills via ATMs. This has eased some of the problems with collections in such a widespread country." Collections efficiency and AR reconciliation are real "pain points" for corporates, he adds.

There are four main pillars to RBS's work in Indonesia, says Rob Carmichael, Head of MNC Coverage, Indonesia, RBS. "These pillars are trade, cash, debt and hedging. One of the landmark transactions we did this year was to help arrange Indonesia and South-East Asia's largest bond transaction for PT Pertamina, one of the world's largest producers and exporters of liquefied natural gas (LNG)."

The PT Pertamina deal raised $3.25 billion in a US dollar-denominated bond sale. Conducted in May this year, it was the most valuable bond issuance from Indonesia to date, highlighting a growing trend of local Indonesian corporations tapping into the bond market. Pertamina received overwhelming interest for international investors, with offerings over-subscribing the initial target by 4.4 times. A total of $14.4 billion in orders from 667 international investors was booked. The offering was divided into two tranches with ten-year and 30-year tenors. Pertamina appointed Barclays Capital, RBS and Citigroup as the lead arrangers, with Bahana Securities, Danareksa Sekuritas and Mandiri Sekuritas acting as co-managers.

Carmichael says RBS also works with MNCs on currency hedging, and gives advice on how to repatriate dividend payments. SCF is a growing area; but whereas in Europe it can be focused on helping suppliers in financial difficulties, in Indonesia it is more to do with driving working capital efficiency, he says.

ANZ's Dyer says the significant commodities exports from Indonesia generate interesting opportunities for structured trade finance and short-term trade products. "Our clients are looking to mitigate buyer risk and also be able to provide funding against stock and production assets, particularly in the case of palm oil."

Standard Chartered is "very bullish", says Madhavan, on trade innovations such as the Bank Payment Obligation (BPO). An alternative means of settlement in international trade, the BPO provides the benefits of a letter of credit (LC) in an automated environment. Importantly for banks, it offers the possibility of intermediation earlier in the supply chain by offering risk mitigation and financing services.

A BPO is an irrevocable undertaking given by one bank to another bank that payment will be made on a specified date after a specified event (such as delivery of goods) has taken place. The specified event is evidenced by a match report that is generated by SWIFT's Trade Services Utility (TSU) or any equivalent transaction matching application.

The International Chamber of Commerce (ICC) cites a number of BPO benefits including:

- Mitigating risks in international trade for buyers and sellers.
- Speed, reliability and convenience.
- Reduced costs and improved accuracy.
- Improved risk management.
- Assurance of payment.
- Access to flexible financing options.
- Securing the supply chain.

"The BPO delivers operational efficiency to corporates while also mitigating payments risk," says Madhavan. "We are seeing a good interest in this instrument in Asia. There is a regulatory mandate in Indonesia that requires the use of LCs with commodity transactions and we think the industry will take up the BPO to meet these requirements and to improve operational efficiency at the same time."

Regional influence

While multinationals are entering the Indonesian market, there is a growing trend for Indonesian companies to "step out into the wider region", says Madhavan. "Indonesia plays an important role in ASEAN, given the size of its market and also its proximity to Singapore and to Australia."

The ASEAN was formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand to promote political and economic co-operation and regional stability. Brunei joined in 1984, Vietnam in 1995, Laos and Myanmar in 1997 and Cambodia was the most recent addition in 1999. Indonesia's GDP is almost double that of its closest competitor in ASEAN, Thailand.

Says Madhavan: "Domestic Indonesian companies are moving out into the region via Singapore; like the multinationals, they are looking for financial institutions that have a strong presence in the markets in which they are expanding. For example, there is strong export growth between Indonesia and Africa. Standard Chartered has a strong presence in Asia, Middle East and Africa, and can see many of these flows and help both sides of transactions."

Dyer says Indonesia is a relatively open market for cash. Multinationals can sweep dollars offshore, although they cannot put local currency funds into cash pooling systems. "Given Indonesia's relatively high interest rates, there is a lot of interest in domestic cash concentration. Many MNCs are happy to use their profits to invest locally because Indonesia is still very much in growth mode."

There are some challenges, he adds, as the rupiah is a volatile currency and foreign currency reserves are relatively low versus some other Asian markets. "The taxation system is also perceived by many multinationals to be a high burden," he says.

Many MNCs entering the Indonesian market have set up shared service centres (SSCs) in Singapore, for example, says Citi's Tasmaya. According to the 'Asia Pacific Treasury Management Barometer 2013', a study carried out by Bank of America Merrill Lynch (BofA Merrill) and SunGard, 72% of corporates in the region have set up a regional treasury or SSC, the majority of them in Singapore. Of the treasurers surveyed in Indonesia, 52% said cash concentration will be a key focus during the next 12 months and 70% will be focusing on cash visibility as well.

"The depth and diversity of the Asia Pacific market has long served as both an opportunity and challenge for treasury professionals with regional responsibilities," Paul Simpson, Global Head of Global Transaction Services (GTS) at Bank of America Merrill Lynch, stated in the report.

"On one hand, Hong Kong and Singapore have developed as hubs that are highly supportive of centralised operations and complex treasury structures. On the other, the region's emerging markets, characterised by regulatory change, currency restrictions and systemic risks, provide a constant change to adapt to and leverage. Nowhere else in the world does a treasurer need to manage this level of contrast than in Asia Pacific." ■

Chinese AAA-rated MMFs: an ideal solution

As cash pools grow in China, treasurers are looking for secure, highly liquid investment solutions in line with corporate policy. The CIFM RMB Money Market Fund[1], pioneered by JPMAM, goes one step further.

In China, a country still relatively restricted in terms of cross-border money flows, multinational corporations (MNCs) seeking a short-term, more secure home for their excess cash have few options open to them. The traditional response has been to play safe and opt for bank deposits; however, their yields and tenors are regulated by the country's central bank, People's Bank of China (PBoC), making them less flexible than international bank deposits.

For a treasurer seeking more security, liquidity and optimal returns on their cash, there is a means of gaining packaged access into the underlying fixed income markets in China, which generally are much higher-yielding than regulated deposits. And there is one solution that has considerably more provenance than any other in China.

The China International Fund Management (CIFM) RMB Money Market Fund (CIFM RMB MMF), pioneered by J.P. Morgan Asset Management (JPMAM) through its joint venture company, CIFM, was the first – and is the largest[2] – AAA-rated fund in China[3] and has become one of the most popular investment choices for treasurers in China.

In the beginning…

The history of MMFs in China stretches back to 2004 when the China Securities Regulatory Commission (CSRC) first published MMF guidelines. In the same year, CIFM was created as a joint venture between JPMAM, itself the largest institutional AAA-rated MMF provider globally (with more than USD 503 billion under management as of 31st March 2013[4]) and the non-bank financial institution, Shanghai International Trust Co. Ltd (SITCO). The CIFM RMB MMF was launched in May 2005, leveraging on the product and investment expertise of JPMAM. JPMAM continues to be in direct communication with CIFM in regards to the investment process for this fund.

The CSRC guidelines are much broader than what we see in the existing international setting, comments Travis Spence, Head of Global Liquidity, Asia Pacific for JPMAM. The weighted average maturity guideline, for example, is 180 days in China, which is three times longer than typically allowed in the international context at 60 days. Having the appearance more of a short bond fund than a MMF, Spence says JPMAM saw the strategic opportunity to create a AAA-rated fund which would not only be more consistent with the guidelines understood and accepted by its global clients operating in China, but also better serve the needs of rapidly expanding local corporates who share the same investment objectives for their excess operating and reserve cash.

The rating is an additional level of comfort for treasurers, which is also often a requirement of investment policies. "We worked with the rating agencies to develop a rating structure for AAA MMFs in China," Spence explains. The CIFM RMB MMF's rating is provided by both Fitch and Moody's local unit, which is a joint venture with CCXI, the first nationwide domestic credit rating agency created with the approval of the PBoC.

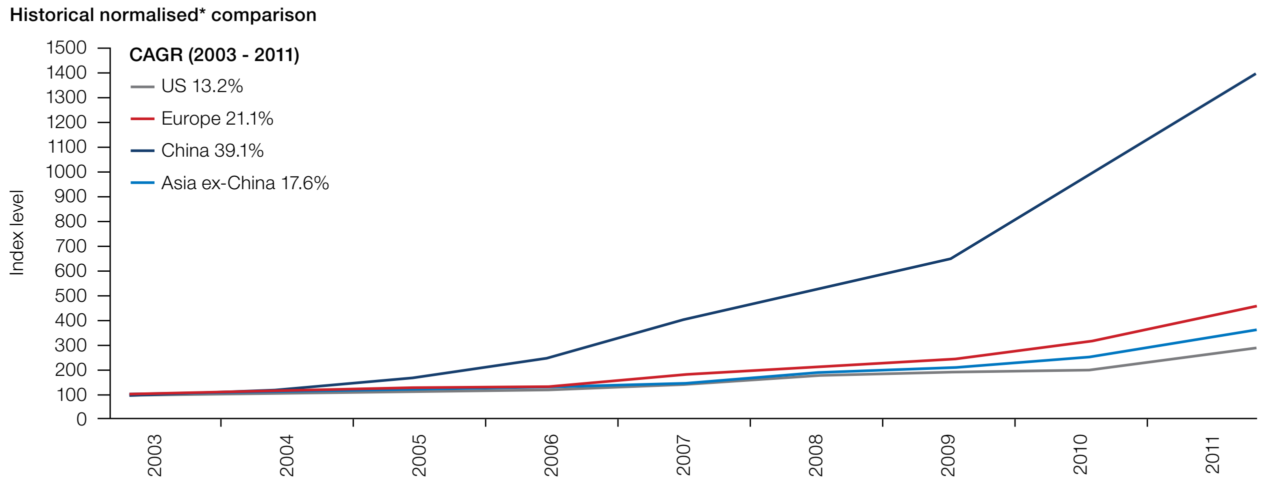
Cash balances are growing faster in China than other developed markets and this has fuelled a quest for better alternatives.

The publication of CSRC's guidelines was a timely intervention and, as a pioneer in this space, the CIFM RMB MMF was proactively designed to fit neatly into most global investment policies while satisfying the burgeoning needs for better diversification, liquidity and yield optimisation. The CIFM RMB MMF's T+1 liquidity gives it more flexibility than regulated call deposits, while typically out-performing the rates prescribed by PBoC.

As the concept becomes more familiar, increasing numbers of both local and MNCs are choosing to invest in MMFs in China. The CIFM RMB MMF's assets under management have grown steadily to RMB 31.8 billion (USD 5.2 billion), Spence adds, this is up 78% from one year ago and nearly triple from two years ago with more than 300 institutional accounts in the fund, giving it a highly stable client base[5].

The launch of the RMB fund was part of a long-term strategy in Asia to serve JPMAM's global clients and develop new local currency solutions for domestic institutional investors, notes Spence. Since then JPMAM has developed its footprint in Asia with the addition of AAA-rated MMFs in Japanese yen (JPY) in 2007, Singapore dollar (SGD) in 2007 and Australian dollar (AUD) in 2010.

Chart 1: Cash in Asia is growing even faster than other regions[6]



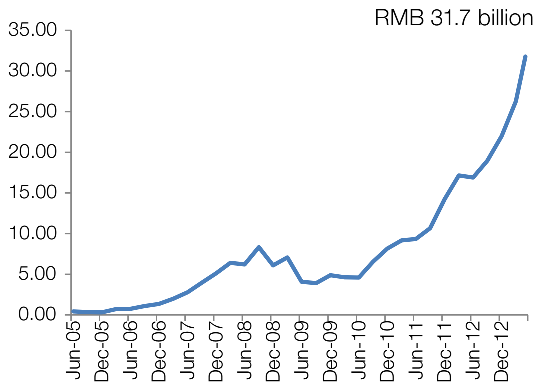
Source: Bloomberg

Taking it to the region

In taking this trail-blazing approach, JPMAM becomes the only provider with a consistent MMF strategy across the region, added to which it brings the benefits of its wider global investment experience. Despite its ongoing series of 'firsts' in this space, Spence feels JPMAM is still at an early stage of development of its regional solutions. This is not false modesty, he explains, but "part of our long-term strategy to build a complete platform of short-term solutions across key markets in Asia, and grow with the markets." It has, he opines, "certainly been a very successful beginning. However, it is important that we continue to innovate in the largest markets like China and Japan, which is why we launched our second MMF in Japan in October 2012, the JPY Government Liquidity Fund, which became the first ever T+0 institutional MMF in the domestic market limited to government risk in the underlying portfolio."

Indeed, in May 2013, total assets under management (AUM) for JPMAM's Asian local currency MMFs exceeded $12.4 billion[8], along the way securing its status as the largest institutional MMF provider in Japan[9] (and only AAA MMF), the largest AAA MMF in China and the largest and only AAA-rated MMF in Singapore dollars[10].

Chart 2: CIFM RMB MMF size since inception (RMB billion)[7]



Source: CIFM internal reporting, as at 31st May 2013

The CIFM RMB MMF was the fastest-growing MMF of the Asian platform for JPMAM during 2012, rising by about RMB 7.8 billion and by over RMB 9.7 billion (USD 1.6 billion) in 2013 YTD[11]. "What we are experiencing is corporate demand driving growth of short-term fixed income markets in Asia, represented by the MMFs we manage," comments Spence. "This will continue to allow us to create new and innovative solutions for our clients."

What the treasurer wants

Treasurers generically look for five key attributes when evaluating new investment products, explains Spence:

1. Security of principal.
2. Liquidity, without hidden costs or penalties.
3. Diversification.
4. Transparency, with easy to understand structures.
5. Relative yield.

"The CIFM RMB MMF in China is successful because it hits all of these attributes and it is consistent with global treasury policies," he states, adding that even the push for yield, which is typically the last in the list of demands, is satisfied. "The unique thing about China is that the regulations are still demanding: bank deposits, for example, are controlled by both tenor and yield. However, there is a deep and growing fixed income market that operates based on market yields."

But the fixed income markets are not the easiest for a treasurer to gain direct access to, comments Spence. MMFs – especially the AAA-rated fund, which invests in the highest rated instruments available onshore (primarily treasury bills and other government-backed instruments, and repos) – provide a neatly packaged solution for those seeking to access the fixed income markets to achieve both diversification and higher yields than traditional bank deposits. For example, during May 2013, the seven-day repo market (the deepest most liquid market in China) provided yields averaging 4.8%, whereas a regulated seven-day PBoC deposit offered 1.35%[12].

Besides improved yield, there is an additional advantage for treasurers. Dividends from mutual funds in general, which would include MMF's are tax-exempt. With corporate tax in China up to 25%, this is potentially a material difference to other taxable investment options, including deposits and direct securities[15].

In this context, if the prospect of MMFs in China sounds too good to be true, Spence refers back to the generally broader guidelines issued by CSRC. Of the 69 MMFs[17] in the market today, most follow the broader set of guidelines. Investment practices, he notes, will therefore naturally differ from one fund to another and he urges investors to fully understand the investment processes and risks of the funds they are considering, as well as the experience of the manager, adding that due diligence has always been an important part of investment decisions.

The guidelines of the CIFM RMB MMF creates a unique appeal to prudent corporate and institutional investors in China. Indeed, with the demand in China increasing for alternative investment solutions beyond using simple bank deposits, the CIFM RMB MMF is seen by Spence as "a great first step" for companies to take.

Common Market Yields in China PBoC Deposit Rates[13] (as of 31st May 2013)	Rates
Current	0.35
One-day call	0.80
Contract savings	1.15
Seven-day call	1.35
Three month	2.60
Six month	2.80
One year	3.00
Yield Comparison[14] (as of 31st May 2013)	**Rates**
O/N repo	4.60
Seven-day repo	4.78
3M PBoC bill	2.93
CIFM RMB MMF (seven-day average)	3.21
CIFM RMB MMF (30-day average)	3.07

The next big trends in China

JPMAM's experience suggests that trapped cash will still exist, despite new programmes from the Chinese government designed to liberalise cross-border capital flows. For example, pilot schemes around RMB and foreign currency movements are underway, under the guidance of China's State Administration of Foreign Exchange (SAFE), in consultation with PBoC. For now, these pilots are deliberately limited in their reach (around five banks and thirteen corporates).

While the pilots will offer some companies more flexibility in managing excess cash balances in China, Spence notes that there are also companies that are intentionally holding back annual dividends for future growth. "For many companies, there is much more potential to grow inside China than outside," he notes, adding that local cash in the meantime could earn an average of 3-4% in China as opposed to "near-zero" in developed markets, with the opportunity also for currency appreciation.

As these reserve cash pools grow, treasurers are increasingly looking to segment cash in China, as many already do globally. More intensive cash flow forecasting processes will deliver more balanced decisions between the need for liquidity versus longer investment horizons. Currently the options available further out on the curve are "very limited – almost non-existent", says Spence. So, as companies in China consider what to do with their cash reserves, he says discretionary investment portfolios, or separate accounts, are becoming "very interesting".

CIFM, using the same investment process as the RMB MMF and in conjunction with JPMAM, launched the first short-term fixed income separate account in June 2012[17]. Such solutions will play an increasingly important part of its solutions mix going forward. Companies will normally maintain diversification limits in individual mutual funds, thus restricting how much can be placed in a single MMF. The "almost unlimited" scale and diversification that can be achieved in a separate account will thus provide the ideal vehicle for the corporate treasurer with cash reserves that have a longer investment horizon.

Despite the obvious success of the CIFM RMB MMF, surprisingly it is only in the last 18 months that a small band of competitors has seen fit to enter the market. Whilst there are some natural barriers to entry, the most obvious being foreign fund managers' requirement to operate through a joint venture (one of the reasons why JPMAM partnered with SITCO to create CIFM), Spence admits that he anticipated competitors would appear "much earlier on".

Regardless of the how and when other players make their entrance, Spence welcomes these incursions into what has become JPMAM's own high ground. "It will help to grow the overall market and provide some alternatives," he comments. But then he can perhaps afford the easy acceptance of competition: with an eight-year track record in the market, it gives JPMAM a distinct advantage in terms of market knowledge and scale within its funds. "I think that is going to continue to differentiate JPMAM and CIFM for years to come."

MMFs – A brief guide

Money market funds (MMFs) are short-term debt securities, forming a part of the fixed income market. There is no central exchange or trading floor and trades are executed via the dealer market only, which is to say transactions are made through the dealer's own account; money markets rarely offer direct access for investors and so mutual funds tend to be the way in. Instruments traded are numerous but the main ones typically used in the international setting are treasury bills, certificates of deposit (CDs), commercial paper (CP), Eurodollar deposits, asset-backed securities and repurchase agreements (repos). MMFs tend to be rather conservative in their approach and therefore relatively low-yielding, but they are highly liquid, making them attractive to treasurers seeking a home for their excess cash.

[1]The CIFM RMB Money Market Fund (the "Fund") is a fund managed by China International Fund Management Co. Ltd. which is a joint venture between Shanghai International Trust Co. Ltd and J.P. Morgan Asset Management (UK) Ltd. This Fund is not being offered through J.P. Morgan Funds (Asia) Limited. The information contained herein is for informational purposes. Shares of the Fund may be offered and sold only in China to: (i) individuals who are Chinese citizens and residents; (ii) institutions legally organised in China and permitted by Chinese law and regulation to invest in open-end investment funds; and (iii) entities with "Qualified Foreign Institutional Investor" status in China.

[2]Source: Wind data, as at 31st March 2013.

[3]Source: China Cheng Xin International Rating Co. Ltd. (CCXI), with technical assistance provided by Moody's Investors Service, Inc. Moody's), assigned a MMF national scale rating of Aaa to the CIFM RMB MMF. This level of credit quality qualifies for the highest fund rating on a national scale basis.

[4]Source: iMoneyNet, selected AUM for the Asset Management (JPMAM PCS, PB) division of J.P. Morgan Chase & Co. and CIFM internal report, all data as at 31st March 2013.

[5]Source: Wind data and CIFM internal reporting as at 31st May 2011, 31st May 2012 and 31st May 2013.

*[6]Source: Bloomberg, as of 15th December 2013. Analysis done by looking at the cash and cash equivalents of the top 100 listed companies in each country/ region for each respective fiscal year Asia includes China, Japan, Singapore, Hong Kong, Taiwan, Korea, India and Australia. *Rebased to index level of 100.*

[7]Source: CIFM internal reporting, as at 31st May 2013.

[8]Source: JPMAM internal reporting including selected AUM for the Asset Management (JPMAM PCS, PB) division of J.P. Morgan Chase & Co. and CIFM internal report, data as at 31st May 2013.

[9]Source: JPMorgan and The Investment Trusts Association, Japan (JITA), as of 31st May 2013.

[10]Source: Bloomberg as at 31st May 2013.

[11]Source: Wind data and CIFM internal reporting, as at 1st January 2012, 31st December 2012, 1st January 2013 and 31st May 2013.

[12]Source: Bloomberg and PBoC website as at 31st May 2013.

[13]Source: Bloomberg and PBoC website as at 31st May 2013.

[14]Source: Bloomberg and PBoC website as at 31st May 2013.

[15]Investors are advised to take, in advance, all necessary legal, regulatory and tax advice on the consequences of an investment.

[16]Source: Wind data as of 31st March 2013.

[17]Source: JPMAM internal reporting and CIFM internal reporting, data as at 31st May 2013.

China International Fund Management Co., Ltd. ("CIFM") is the Management Company of CIFM RMB Money Market Fund and CIFM separately managed account. The Management Company will provide investment management, administration, registrar and marketing functions to the CIFM RMB Money Market Fund and CIFM separately managed account.

Shifting global dynamics

It is not just China and India that represent opportunities in the East – South-East Asian markets are growing exponentially and are hungry for foreign investment. While these markets may not yet be a large part of an MNC's P&L, they certainly will be in the future.

Significant changes in the relative size of the world's economies will take place during the next 50 years, according to the Organisation for Economic Co-operation and Development (OECD). In its November 2012 economic policy paper, 'Looking to 2060: Long-term global growth prospects', the OECD predicted that fast growth in China and India will soon make their combined gross domestic product (GDP) surpass that of the G7 economies and exceed that of the entire current OECD membership by 2060.

Growth in non-OECD countries will continue to outpace the OECD average during the period, although the difference will narrow over coming decades. From more than 7% per year over the past decade, non-OECD growth will decline to around 5% in the 2020s and to about half that by the 2050s, according to the report. Until 2020, China will have the highest growth rate among the countries included in the study, but will then be surpassed by both India and Indonesia. This partly reflects a more rapid decline in the working-age population, and consequently in labour force participation, in China rather than in India and Indonesia.

In the more immediate future, the OECD's 'Interim Assessment' of the global economic outlook, published in March, confirms that growth of emerging economies remains much faster than that of advanced countries on average (albeit with significant differences across countries). The report predicts a return to "moderate growth" in the US during the first quarter of 2013, while a "meaningful recovery" is likely to take longer in Europe.

"Given the substantial share of the world economy now accounted for by emerging economies, they will again drive growth at the global level this year," says the report. "Annualised growth in China is expected to continue to be well above 8% in the first half of 2013."

The United Nation's (UN) assessment of the global economy for the coming year is rather more downbeat than that of the

OECD. Its 'World Economic Situation and Prospects 2013', published in December last year, highlights that economies in developing Asia "weakened considerably during 2012" as the region's growth engines – China and India – shifted into lower gear. "While a significant deceleration in exports has been a key factor behind the slowdown, both economies also face a number of structural challenges that hamper growth," states the report. "Given persistent inflationary pressures and large fiscal deficits, the scope for policy stimulus in India and other South Asian countries is limited."

China and many East Asian economies, in contrast, possess much greater space for counter-cyclical policy. In the UN's outlook, average growth in East Asia is forecast to pick up slightly to 6.2% in 2013, from the estimated 5.8% in 2012. GDP growth in South Asia is expected to average 5% in 2013, up from 4.4% in 2012, led by a moderate recovery of India's economy.

While there may be differences in the details, it would be difficult to argue with the idea that developing – or emerging – economies are where the growth is. The moribund economic climates of many of the Eurozone countries, along with those of the UK and the US, do not present attractive platforms on which corporations can grow.

Data collected from purchasing managers across the Eurozone during March 2013 indicate a deepening of the downturn in the currency union, according to Markit's Purchasing Managers' Index (PMI) published in April. Output and new orders fell at stronger rates, driving further job losses. PMIs fell in almost all countries, with a modest decline in Germany, accompanied by steep downturns in France, Spain and Italy.

East Asia evolves

The austerity-hit developed economies stand in stark contrast to the vibrant and dynamic countries of the world's Eastern hemisphere, which is characterised by younger populations and growth-friendly economic policies. In the past few years, the idea that the East was a region from which to source cheap labour, has given way to a realisation that it is also a region of other opportunities, with burgeoning consumer markets and in some cases very significant infrastructure projects under way.

"Asia is becoming the global engine of economic growth, a position further highlighted since the global financial crisis," says Sameer Sawhney, Global Head of Transaction Banking, ANZ. "This growth is sustainable and an increasing number of Western corporations are looking to Asia as a key growth market for their businesses."

For example, San Francisco-based GAP, one of the largest clothes retailers in the US, began an aggressive expansion into China in 2011 as part of a global strategy. The company plans to have around 45 outlets in China by the end of this year as it seeks to reduce its dependence on North America, where consumer confidence is volatile.

Diane S. Reyes, Global Head of Payments and Cash Management at HSBC, says the bank is "bullish" about China's outlook; the country has been a key contributor to world economic growth and that looks set to continue with more than 7% GDP growth for 2013. "Firms that want to grow in the global economy should be involved in China and using the renminbi (RMB)," she says. "Currently, more than 10% of China's international trade is settled in RMB, and by 2015 we expect that over one third of all international trade transactions with China will be denominated in RMB."

As a very big consumer-oriented market, there are "tremendous" opportunities in China for retail companies to expand, but they need to understand the market and its settlement conditions, and potential complexities that vary city by city.

Reyes says the pace and scale of urbanisation in China is extraordinary. "This trend therefore provides significant opportunities for companies involved in infrastructure development as China continues to invest heavily in housing, transportation, telecommunications and other infrastructure projects to enable people to move into cities."

In September 2012 China's economic planning authority, the National Development and Reform Commission, announced approvals for 60 infrastructure projects worth a total of $150 billion. The projects include highways, ports and airport runways. Financial news service Bloomberg reported a surge in the share price of infrastructure companies around the world following the announcement, with Japanese and US companies recording significant jumps.

China is not the only country that is going for infrastructure growth as governments throughout the region instigate large-scale projects. The Indonesian government, for example, has announced plans to float tenders for several medium-to-large infrastructure projects worth $7.6 billion in 2013. The move, aimed at boosting economic growth, will cover projects such as toll roads and dams, construction of which is expected to begin by 3Q13. In Vietnam, the government has announced a large project to build a high capacity electrical transmission line for 437kms across a number of provinces and through to Ho Chi Minh City in the south. It aims to ensure electricity supply to the southern areas of the country by 2014-2015, as well as power grid connectivity across Vietnam, Laos and Cambodia by 2015.

Beyond China

It is not just China and India that represent opportunities in the East. In a 2011 report, 'The Time for Regional Expansion is Now', Accenture identified South-East Asia as an emerging prime business destination in Asia. Brunei, Cambodia, Laos, Indonesia, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam offer multinationals new markets in which to pursue growth, the report says. After India and China, South-East Asia is regarded as the third pillar of Asia as a whole.

Accenture says the region is perceived to be a long-term destination that will remain on the periphery of an Asian strategic agenda for a majority of businesses outside the region, but at the centre of expansion plans for native businesses seeking growth closer to home.

"We believe businesses that position themselves now for growth in South-East Asia will be rewarded by finding themselves in the middle of a new 'centre of gravity' within future high-growth markets," says the report. "South-East Asia has the clear potential to become an alternate hub to China within the Asian region. It offers new opportunities for international companies and can act as a launch pad for local businesses seeking to become regional or global leaders."

Businesses that are gravitating towards expansion into South-East Asia should focus on four key imperatives:

1. Adopt a regional mindset.
2. Develop strong partnerships.
3. Adapt from the core.
4. Move with agility.

Because of its sheer scale China dwarfs every other country in the region, says Sawhney. But from a strategy point of view, other markets of interest include Indonesia, the Philippines, India and Vietnam. "These markets are growing exponentially and have stable political and regulatory environments and are hungry for foreign investment."

Domestic markets in the East are becoming more vibrant; India has a population of 1.3 billion and Indonesia has 230 million people. "We are moving away from the term 'emerging market' to one of 'growth market'," says Sawhney. "While these markets may not yet be a big part of a company's P&L, they will be in the future. In Vietnam, for example, 65% of the population are under the age of 20."

Challenges

Expanding into Eastern markets is not without its challenges, of course. "Asia today is very much like Europe of the 1980s and 1990s – it has many different markets, economies, currencies and taxation regimes," says Richard Jaggard, Managing Director and Head of Transaction Banking Europe, Standard Chartered. "Corporate treasurers' first challenge is how to manage such complexity – many have gone down the regional treasury route, others are managing Asia from their European or US headquarters. As their scale of business grows in Asia, treasurers realise they have to put more high quality resources into the region in order to manage the increased complexities and risks that come with commercial growth."

Corporates want to use the structures they have developed in the West and blend them into Asia, says Jaggard. For example, they are looking to 'bolt on' Asian operations to the liquidity structures they have developed in Europe. This will enable them to centralise cash from the region – some are doing this via a regional treasury centre (RTC), others are looking to integrate into a global structure. For non-mobile liquidity, corporates are focused on in-country efficiency via approaches such as yield enhancement based on aggregated positions within the region.

ANZ's Sawhney says there are changes afoot in Eastern markets that make them very interesting for corporate treasurers. "In the past Asia was a factory for the world with uni-directional flow to the West, as companies sourced from Asia. There was no significant currency risk as the majority of transactions were in US dollar or euro. Now, however, there is increasingly a two-way flow as companies look to supply to Asian markets. Funding flow and allocating capital are becoming key differentiators."

RMB strategies

Corporations looking to do business in the East will at some stage have to develop a strategy for China's currency. "The internationalisation of the RMB is posing issues for corporate treasurers to work through in terms of managing investments and cash," says Sawhney. "To date there are still only three fully convertible Asian currencies – the Hong Kong dollar, Singapore dollar and Japanese yen. The biggest growing markets in the East – China and India – do not have open currencies."

HSBC's Reyes says the Chinese regulators are looking to ease currency inflows so corporates can raise RMB funding in Hong Kong or another market, and use that to fund projects in China. This will help corporates to limit their foreign exchange (FX) exposures. "A challenge when dealing with the RMB is whether to go onshore, with accounts in China, or offshore in Hong Kong, for example," she says.

Jaggard says a significant challenge for corporations doing business in China is what to do with the cash they generate there. "During the past few months the Peoples' Bank of China (PBoC) has taken a few more steps in its RMB liberalisation programme, such as the ability to make short-term foreign currency loans. This will help."

In April, Australia became the third country, after the US and Japan, to seal a currency deal with China. It means the Australian dollar can be converted directly into RMB. China is Australia's main trading partner, with exports and imports totalling A$120 billion in the last financial year.

A survey of 500 small and medium-sized enterprises (SMEs) in Australia, conducted by HSBC, found that 40% of companies importing from or exporting to China intend to settle transactions in RMB during the coming year. The currency deal between Australia and China will reduce costs, as firms will no longer have to convert via the US dollar. According to the survey, 31% of SMEs plan to use both US dollar and RMB, and 13% intend to exclusively use the Chinese currency. "Given China represents over 20% of our current trade and is expected to grow by 8.5% per annum to 2020, the RMB's role within Australian trade will inevitably rise," said HSBC Bank Australia Head of Business Banking, Paul Edgar, in a statement. "It is clear from the survey that Australian SMEs are getting ahead of the curve."

Treasury strategies

Growth rates in the faster growing economies are very attractive, but treasurers realise they need to develop efficient infrastructure that will support growth, says Jaggard. "Centralisation through the development of skills centres, such as RTCs, provides the opportunity to identify and manage financial risk, while shared service centres (SSCs) focused on accounting and payments provide processing efficiency gains as well as quality in information management. Both are important parts of building scalable platforms for growth regionally, and increasingly globally," he says.

Most of the multinational companies (MNCs) now operating in the East realise that it is not possible to run a global treasury to cover everything centrally out of one market, says Sawhney. "There is a huge amount of activity with companies opening RTCs to take advantage of the depth of the markets in terms of liquidity, currency and interest rates. There is also significant advantage in being in the same time zone.

"Asia is awash with liquidity and represents a big opportunity to run medium to long-term money at attractive prices", he adds. Companies realise they can fund business from the liquidity pools in the regions where they are growing.

Sawhney cautions companies entering Eastern markets to ensure they understand the relevant regulatory and cultural environments. "The pace of change is so rapid in the region that what might have been best two years ago is no longer the case. I believe that this is why regional banks are gaining in importance – partnering with a local bank in each country is too unwieldy, so working with regional banks that have a strong footprint across countries is key." ■

Finding funding

Although Asia is perceived to be a region awash with capital, the cost of bank financing is quite high. As a result, corporates and SMEs are exploring alternative sources of funding, from venture capitalists, private equity and angel investments through to trade finance and bond markets.

Khalid Quadir is a Bangladesh entrepreneur who was educated in the West and worked on Wall Street. He helped set up Grameenphone, Bangladesh's largest mobile phone operator, which partnered with the well-known microfinance organisation, Grameen Bank. His latest venture is about providing Bangladesh companies with an alternative means of financing to help grow their businesses.

Quadir estimates that there are approximately 50 private commercial banks in Bangladesh. Large global banks like Citi and HSBC also have a presence, but he says the cost of bank financing is quite high – anywhere from 16% to 18%. "If you are a strong performing company growing between 15% and 20% a year, it is possible to operate at such a high financing cost, but in some ways you are working for the bank," he says.

While most companies in Bangladesh rely on funds provided by friends and family, Quadir says there is only so far they can get using this form of financing. In a bid to provide Bangladesh companies with an alternative, Quadir in partnership with Patrik Brummer, the founder and chairman of Brummer & Partners (the largest hedge fund group in the Nordic region), set up Bangladesh's first private equity fund – the $88m Frontier Fund. It will make long-term investments in privately-owned family firms in Bangladesh that are looking to expand. Its equity investments range between $5m and $15m and target company's in the country's export, retail, manufacturing, agriculture, health, education, IT and services sectors.

Family-owned companies in Bangladesh were initially reluctant to relinquish equity to an outsider, but Quadir says a new generation of Asian entrepreneurs are becoming more open to alternative forms of financing.

Awash with capital

The picture that Quadir paints of companies in Bangladesh suggests somewhat of a dichotomy when it comes to funding growth in Asia. The commonly-held perception is that Asia is awash with capital from outside investors, banks and other financing vehicles – and there is certainly some truth in that. According to EuroFinance's Treasury Verdict Asia 2013, more than 70% of Asian treasurers reported that longer-term funding was not a major issue and they did not foresee any problems accessing it in future.

"Asian companies have access to myriad sources of capital," says an Account Officer with The CID Group, which is Taiwan's largest venture capital (VC) firm. In addition to traditional bank loans, he says it is important to not overlook the 'gray market' and 'black market' loans. Although the cost of 'gray' loans can be as high as 10% a month, according to some reports, the Account Officer says these loans are trending up and serve a critical role for many local entrepreneurs. "Also, many entrepreneurs are funded by their family and friends," he continues. "For factories and corporate suppliers, these tend to be the most utilised avenues of capital."

> "There are two faces of Asia. There is all the exuberance of high growth rates but who in Asia is benefiting from that?"
>
> Steven Beck, Asian Development Bank (ADB)

VC and angel investment is also growing in Asia. For small and medium-sized enterprises (SMEs) with intellectual property (IP), the Account Officer says there is ample opportunity to raise venture investment. Tom Russell, co-founder of SeedAsia, one of the first Asian-based crowd-funding platforms to offer international investment opportunities in Chinese and South-East Asian technology start-ups, says is not too difficult for Chinese start-ups to obtain financing as there are a lot of VCs and private equity (PE) firms. Crowd-funding platforms like SeedAsia are relatively new to Asia though, and Russell says there are some cultural barriers to overcome. He says if they tried to introduce the platform five years ago, it probably wouldn't have taken off. "But thanks to the global financial crisis, people now want to have more say in what they do with their money and don't want to rely solely on banks," he says.

The Asian dichotomy

But the funding picture starts to look a little less rosy for smaller companies that are not creditworthy, have no IP or other kinds of assets. Obtaining bank financing is hard for many entrepreneurs, says the Account Officer at The CID Group, as banks are used to lending against real estate assets. "For software or technology companies, it can be hard to get a loan. And if you are an Asian entrepreneur without connections, IP or real estate assets to securitise debt, they are often forced to grow organically."

Outside of Singapore, Hong Kong and possibly Japan, unsecured lending is relatively scarce (most loans tend to be secured) and smaller companies tend to be rather constrained in their ability to borrow from banks, says John Chen, Treasury Director Asia Pacific at Honeywell. "These companies typically do not have access to the debt markets either." The most common form of funding, says Chen, is through compression of collection and extension of payment terms. But as Asian businessmen are not necessarily open to disclosing their sources of funding, gaining an accurate assessment of their sources can be difficult.

Plugging the trade finance gap

"There are two faces of Asia," says Steven Beck, Head of Trade Finance, Private Sector Operations Department, Asian Development Bank (ADB). "There is all the exuberance of high growth rates, but who in Asia is benefiting from that? Then there is the other face of Asia that has yet to reap the benefits – countries such as Bangladesh and Cambodia, which are very different from coastal cities in China and parts of India." Beck says there is a clear link between the provision of trade finance, economic growth and jobs. But ADB's trade finance survey of 147 banks and more than 500 companies in 4Q12 found that banks rejected a substantial percentage of requests to finance imports and exports. This meant that $1.6 trillion of demand for global trade finance was unmet, according to the ADB, with $425 billion not realised in developing Asia.

The ADB's Trade Finance Programme (TFP) supports trade by assuming risk in 18 developing markets in Asia. Last year alone, Beck says it provided $4 billion in financing and more than 75% of its portfolio supported transactions involving SMEs. "If we didn't support a lot of these transactions they probably wouldn't end up getting done," says Beck, "and as a result, there would be a lost opportunity to create more economic growth and jobs. This is the bread and butter of the global economy but it is often overlooked." Beck says the banks have finite amounts of capital, which means they tend to focus more on core markets and clients, and typically that is not developing countries outside of the BRICs (Brazil, Russia, India and China).

Another factor aggravating trade finance support is more stringent capital requirements under Basel III. Banks surveyed by the ADB indicated that they would reduce support to trade finance by approximately 13% if Basel III was fully implemented. Since the survey was concluded, the Basel Committee announced more lenient liquidity requirements, but it is still expected to have a negative impact.

Standard Chartered Global Research estimates that Basel III and European bank deleveraging will have a profound impact on the Asia ex-Japan (AXJ) corporate financing landscape. It predicts a $66 billion equity shortfall for the AJX banking system over the next five years, with India's banking sector being the most capital-constrained. Over the next five years, it says there will be a cumulative financing gap for Asian corporates of around $340 billion.

The rise of Asia's bond markets

As bank lending decreases, the hope is that local bond markets will help plug the corporate financing gap. In light of Basel III and European bank deleveraging, Standard Chartered estimates that there will be a tripling in size of the AXJ corporate bond market to more than $10 trillion by 2017 from just $ 3.3 trillion today – a compounded annual growth rate (CAGR) of 21%. "Basel III has meant generally that lending has come down from the banks, so a lot of borrowers have turned to the bond market," says Henrik Raber, Global Head of Debt Capital Markets at Standard Chartered. "Companies want to diversify their funding base, and the opportunities are quite attractive in terms of locking in longer-dated fixed funding."

According to the ADB's Asian Bond Monitor for 1Q13, emerging East Asian bond issuance expanded 12.1% year-on-year to $6.7 trillion at the end of March 2013, driven by double-digit growth in corporate bonds (19.5% year-on-year). Indonesia had the fastest growing corporate bond market in the region during the first quarter, expanding 27% year-on-year to $20 billion, followed by the People's Republic of China (PRC), which had the region's largest corporate bond market at $1.1 trillion, up 25% year-on-year. "Asian economies are growing fast and investors are interested in having exposure to currencies in the region – it is not seen as risky anymore," says Thiam Hee Ng, Senior Economist with the ADB's Office of Regional Economic Integration.

As a result of quantitative easing, the rise in US dollar liquidity is also spurring higher levels of US-dollar bond issuance by Asian companies. "Chinese companies are issuing US dollar bonds, even though their revenues are not in dollars, and then swapping the proceeds back into renminbi (RMB)," says Ng. By 2030, Standard Chartered forecasts the Asian bond markets could be larger than the US.

Asian bond markets are far from homogenous however, and different regulatory environments in each market means issuance is far from straightforward. "While Singapore, Hong Kong and the dim sum bond markets are akin to eurobond markets, if you move into Thai baht, foreign issuers need to get permission to apply," Raber explains. Issuing bonds that can be marketed to investors regionally is also difficult, says Ng, as there is no unified regional bond market.

Financing the supply chain

For SMEs that need a steady stream of financing in order to grow, issuing bonds may be too costly and time-consuming. Another option that is gaining ground in Asia is financing linked to trade flows between buyers and suppliers.

Since 2010, Sheung Li Fung Ltd., a Chinese garment manufacturer, has supplied Perry Ellis, a US international clothing company, using GT Nexus's electronic trading platform. The platform automates the exchange of trade documents and information between suppliers in Asia and large buyers in the West. It also supports a range of financing options for suppliers. One option, which Sheung Li Fung uses, is the Coface Early Payment Programme, which provides payment protection services that reduce the risk of non-payment.

With the recent introduction of the International Finance Corporation's (IFC) Global Trade Supplier Finance (GTSF) programme, which is integrated with the GT Nexus platform, Sheung Li Fung used the online financing service for two recent transactions with Perry Ellis. "The online financing service is much faster and easier when compared to factoring services with local banks," says Kelly Lee, Accounting Manager, Sheung Li Fung. She is now able to get capital within one week after approval from the buyer and no paperwork is needed for the application. "Our ambition at GT Nexus is to democratise access to capital by connecting everyone in a cloud-based network," explains Kurt Cavano, Chief Strategy Officer. "By bringing the buyer and supplier together, we can leverage the buyer's good credit so the supplier can get immediate access to capital."

Cavano says the financing GT Nexus provides is much cheaper than what companies could obtain normally. "More than 10,000 SMEs worldwide use our platform, 70% of which are in Asia," he says, "and a third of them are taking financial services." RTS Financial, a commercial financing company in Kansas City Indianapolis, uses the GT Nexus platform to provide financing for companies in countries such as Vietnam, Bangladesh and China. "We have many clients in Asia that have traditional banking relationships because, even if they have bank financing, there is a limit to how much they can obtain," says Justin Goheen, Director of Business Development at RTS Financial. "In some cases, we replace traditional forms of bank financing. As long as the invoice and the receivables are good, we can provide financing."

> "For software or technology companies it can be hard to get a loan. If you are an Asian entrepreneur without connections, IP, and real estate assets to securitise debt, you are often forced to grow organically."
>
> Account Officer, The CID Group

In those countries where there is more competition and options for non-bank financing, Eugene Buckley, Vice President and General Manager Asia Pacific at PrimeRevenue, a web-based supply chain financing (SCF) platform, says companies are having to look at the best possible financing structures to keep pace with the competition. "There needs to be a greater understanding of the importance of supply chains," he says. "Often companies in these markets are scraping together expensive sources of capital, but by participating in SCF programmes companies can obtain financing at rates they could only dream of if they were to go to their bank."

SCF, however, is still a relatively new concept in Asia. "Most SCF programmed in the past were initiated by companies in the US or Europe that buy from companies in Asia," explains Chetan Talwar, Head of Corporate Trade Advisory and Solution Delivery, Asia Pacific, J.P. Morgan Treasury Services.

Atlas Copco, an industrial group, recently rolled out a SCF programmes to strategic suppliers in three Asian markets: China, India and Japan. "We have many production companies in China (more than 15), as well as India and some in Japan," says Audrey Deng, Head of Group Treasury, Asia Pacific at Atlas Copco. "They are very important to us and some of our suppliers can benefit from our scale and credit strength. Even if there are some existing funding channels from banks, SCF gives them more immediate access to funds."

Atlas Copco uses its credit strength to help long-standing suppliers gain access to more affordable financing. "We don't want money stuck in working capital," says Deng. "More and more treasurers are becoming interested in this."

J.P. Morgan's Talwar says a SCF programme is linked to sales and is a much cheaper source of liquidity, but it can take time to get off the ground. He says a typical programme can be up and running in 12 months, and in certain jurisdictions suppliers may not sign up immediately. "It is not something that is applicable to all industries," he says. "You need to have strong buyer/supplier relationships." ■

Keep on trucking

Magnus Velander
Head of Treasury Asia, Group Treasury

SCANIA

Magnus Velander is Head of Treasury Asia in Group Treasury at Scania CV AB. He joined Scania's cash management department directly after studying finance at university. Based at head office just outside Stockholm, Sweden, he oversaw the company's pooling structures and specific projects relating to cash management. In 2010 Velander was promoted to his current position and relocated to Hong Kong where the regional treasury centre (RTC) for Asia Pacific is based. He currently oversees a broad range of operations, including funding and working capital management, as well as "ad hoc questions that are finance-related" in a region with 17 Scania subsidiaries.

Scania is one of the world's leading manufacturers of trucks and buses for heavy transport applications, and of industrial and marine engines. Service-related products account for a growing proportion of the company's operations, assuring Scania customers of cost-effective transport solutions and maximum uptime. Scania also offers financial services. The company operates in about 100 countries and employs around 38,600 people, of these some 16,000 work with sales and services in Scania's own subsidiaries worldwide. About 12,400 people work at production units in seven countries and regional product centres in six emerging markets (EMs).

Research and development (R&D) activities are concentrated in Sweden, while production takes place in Europe and South America, with facilities for global interchange of both components and complete vehicles. Scania's central purchasing department in Södertälje, Sweden is supplemented by local procurement offices in Poland, the Czech Republic, the US, China and Russia. In 2012, net sales totalled SEK79.6 billion ($11.9 billion) and net income amounted to SEK6.6 billion ($990m).

Scania's largest markets today are Europe and Latin America, with Asia in third place. However, its Asian operations have begun to expand in recent years and hold great promise for the future. The growth potential and challenging complexity of the region is what spurred Magnus Velander to leave his parka behind in Sweden and join the company's regional treasury centre (RTC) in Hong Kong.

The company has "delivery centres" in a number of Asian countries, such as Korea, Malaysia and Taiwan, as well as one recently opened in India. "We don't call them factories – a factory builds a truck or a bus. The factories in Latin America or Europe dismantle the vehicle and ship it to South Korea, for example, where it is reassembled in the delivery centre," explains Velander.

In terms of operational flows, the Asian subsidiaries buy goods from Scania's factories in Europe (Sweden, France, Poland and the Netherlands) and Latin America (Argentina and Brazil). In many cases the subsidiaries then export to other countries in the region – for example, through its subsidiary in Singapore Scania may export to Vietnam. From a treasury perspective, this added complexity is something that Velander keeps a watch over, tracking any impact it might have on the group.

Treasury structure

Scania's treasury operations in Asia cover numerous markets where the company's delivery centres are located, including Kazakhstan, India, Singapore, Malaysia, Thailand, China, South Korea, Japan, Taiwan and Australia. Its Asia Pacific RTC looks after funding, cash management and working capital, and also steering treasury-related projects. It works together with two other RTCs, one in Brazil and the other in Luxembourg, as well as the group treasury headquarters in Sweden. Luxembourg's RTC acts as an in-house bank (IHB) and covers most of the funding requirements for Europe, Africa and parts of Latin America, but not Asia – this is done out of the Hong Kong office.

The RTC was set up in 1999, before Velander joined the Asia Pacific treasury team. The company chose Hong Kong over Singapore, another popular RTC location site, mainly because Hong Kong is a better location geographically for Scania's business in the region – Beijing, Singapore, Kuala Lumpur, Seoul and Bangkok are all reachable by plane in less than four hours.

Hence, when Velander arrived in Hong Kong in 2010 the treasury structure was already in place, but the team continues to modify it accordingly as and when the company enters new markets. For example, since he joined, a new subsidiary has been established in India and the company is in the process of setting up a cash pooling structure in Australia. Currently the Hong Kong office has one person running the in-house bank (IHB), covering the funding issues of subsidiaries in the region.

Scania is divided into three functional units: production, or locations where the company produces its goods; sales and service, which are local companies that sell the product and are responsible for the aftercare business, servicing products, etc; and financial services, which are local companies that provide customer financing. Many customers buy a fleet of trucks at a time, so Scania's finance companies help to fund its end customers.

Treasury provides Scania's finance companies with funding, which then pass on the funding to the end customers. To do this, treasury employs a central funding portfolio in Sweden to raise capital used in the group.

The RTCs have looked at raising money locally through instruments such as income bonds, but to date this has not made sense from a cost perspective. Scania has access to very cheap funding when it funds itself centrally. However, as the business grows, local fundraising might become a more viable option in the future.

Asian challenges

Many countries in the Asia region are heavily regulated and the regulations change fairly quickly, which means that it can be possible to do something one day and not the next. This is something that keeps treasury busy because it is responsible for keeping abreast of regulatory changes and finding the best solutions for each country.

There are some countries that have fewer regulations and are much easier to operate in, such as Hong Kong, Singapore and Japan. However, other countries – for example China, Korea, Taiwan and India – are much more difficult to navigate. "We can provide internal funding in most countries," says Velander, "but some are trickier than others due to currency restrictions, for example."

China is the cause of many treasurers' headaches. As a fairly new company in China, established in 2008, Scania is investing most of its excess cash back into its in-country operations, so it does not have to deal with repatriation challenges. Funding has been achieved mainly through equity injections but also working capital credit lines. "This is through external credit lines from local banks because we are not able to fully fund our Chinese subsidiary internally due to regulations," he explains.

In India, Scania uses external commercial borrowing (ECB), which are internal funds that can be used as long as the company adheres to certain rules. Scania's India subsidiary is still a fairly new company, registered in 2010, and so the parent company is investing in the Indian operations.

The company has also recently established a finance company in Malaysia and will soon set one up in Taiwan as well. "The domestic regulatory environments create implications as to how to fund these newly-established finance companies. This alone keeps us quite busy."

In order to understand each country's regulatory environment, Velander says his first port of call is the company's relationship banks. He receives direction from its accountants and consultancy firms such as Ernst & Young (E&Y). He also speaks with a country's central bank representatives. "When regulations change, the implications for my company are not always clear. Sometimes it helps to approach the central bank in order to get 100% correct information as to how this will affect the company," he explains.

When regulations change in a positive way, as is currently happening with the greater opening up of China, they can present opportunities for treasury improvement. For example, since 1st January 2013 Scania started invoicing its China-based subsidiary in local currency, renminbi (RMB), something that was not possible even a few years ago. Previously the subsidiary, which buys trucks and buses from Scania's European factories, was invoiced in US dollars.

Effects of the financial crisis

When Lehman Brothers crashed in September 2008, Scania's business suffered due to the ensuing market conditions. Despite 2008 being a good year as a whole, 2009 was the hardest year in a long time for the company. Established over 120 years ago, Scania is a company focused on profitability and hasn't had negative figures for more than seven decades. Although it generated profits in 2009, the company suffered drops in both margins and revenues, mainly because the majority of its business is Europe-based.

Unfortunately, Scania's business model was dependent on the banking system providing credit to its customers, as it doesn't have finance companies in every location where its products are sold and can't provide funding to 100% of its customers. "When the financial system crashed, we had a systematic problem – our customers weren't able to buy trucks because they couldn't access credit."

The global market has recovered somewhat since then, but many countries are still at very low economic levels – especially southern Europe. Asia, on the other hand, hasn't experienced long-term drops; there have been short downturns but it reverts within a few months.

Scania treasury keeps a close eye on the financial positions of subsidiaries in order to have a daily overview of the group's cash flow position and understand what funds it can dispose of or not. The past few years have seen treasury also focus on working capital, improving efficiency in both accounts receivable (AR) and payable (AP), as well as keeping the group's balance sheet healthy.

Since the onset of the crisis, Velander has perceived a greater acceptance of treasury within the Scania group due to its ability to provide the essential information needed in tough economic times. "People are also more open to treasury's involvement in other departments and subsidiaries. I wouldn't say that the treasury's role has expanded, but it has used the opportunity to work closer with other business units, which I view as positive and will create value for the group." He tries to view treasury not solely as a control function, but more as a service provider within the group. "We are responsible for controlling, but we also provide business services to the organisation."

Infrastructure

Scania treasury uses a SunGard treasury management system (TMS) called AvantGard Quantum. As there are many subsidiaries, the group also has many systems – for example the production unit uses the Oracle enterprise resource planning (ERP) system. The systems used by the finance companies vary country-to-country, depending on size.

The central service organisation has been working to rationalise the company's systems and has managed to get most of the subsidiaries using one system, excluding the finance companies.

Velander travels around the region to visit each subsidiary, but also relies on telephone and email to communicate on a regular basis. Each company produces a cash position report on a monthly basis and Velander receives daily account information to ascertain available funds. Treasury receives balance information in MT 940 format directly into the Quantum system, which then creates a report on all companies and their positions by the closing date.

Scania works with more than ten large international banks, many of them used on a global basis. These banks are committed centrally to the company, which ensures close ties. Scania treasury tries to limit what it does with other banks outside the core banking group, but in some countries it is forced to use a local bank for tax payments, for example. In these countries, the company will use an international bank for everything possible and will only use a local bank for what it needs to do under specific regulations.

The company recently set up its first cash pooling structure in Asia (in Australia) because transaction volumes had reached a level where the company would be able to realise process efficiencies through cash pooling. "We have a cash pool in almost every country in Europe, so we are used to working with cash pools there," says Velander. "We don't have the same experience in Asia because we haven't had the volumes or the complexity before – but now we have reached a level where a cash pool creates efficiencies for the group." Scania's Australian subsidiaries record the largest revenues in the region, but it's not the most complex market.

The Hong Kong office is setting up the cash pool, but once it's in place it will be supported by the headquarters in Sweden and directly connected to the TMS. "The TMS works as the brain for the group, connected to the cash pools. Each company inputs its daily future cash flows into the TMS, the brain works out the daily positions and then calculates how to handle the cash pools the next day," explains Velander.

The future

With substantial growth in Asia, Velander's main focus is establishing a financial infrastructure that can cope with the group's future growth. He is currently working on four treasury projects, including regional pooling structures and supply chain finance (SCF).

His main objective is to gain full control – or as much control as possible – over funds in the region. "Pooling is one way to have greater control but it is not possible to create cash pools in all countries. Therefore, I am exploring different ways of achieving much greater visibility over our cash positions and also defining the types of risk we face in each country."

Velander is optimistic about the company's growth prospects in a number of countries. "Business volumes have picked up in the region and certain countries look quite promising for the future as well, so there is a lot of investment going into Asia. The region is interesting to work in because many countries are developing very quickly, so there is a lot of positive energy about the future – it is a privilege to work here." ■

Net benefits

Netting is often cited as a cash management technique that can allow treasurers to create efficiencies and make cost savings. But the term 'netting' can be applied to a variety of different tactics.

The process of netting can be used in various areas of cash management. In its most basic term it is usually a way of offsetting cash amounts in a way that results in benefits for the corporate, such as reduced transaction costs. However, the scale of the benefit can differ significantly depending upon the type of netting that the corporate is involved with. Many forms of netting cover areas of the banking relationships that the corporate holds, while perhaps the most beneficial form of netting focuses on inter-company transactions.

Payables and receivables

Netting accounts payable (AP) and receivable (AR) could be considered the most basic form of netting. A corporate has obligations to a bank, where it may have a derivative instrument, loan or deposit, and is expecting an immediate payment back from an investment with that bank. At the same time, the corporate may have a foreign exchange (FX) contract with the same bank through purchasing some foreign currency, and needs to pay the bank for that foreign currency. Here the corporate can potentially net these two sums off. This means that rather than waiting to receive its investment back and then paying the FX cost back to the bank, an agreement with the bank can allow the corporate to merely settle the net amount.

This is usually done by arrangement with the bank, to make sure that it is expecting either a net settlement or payment, based on the size of the flows either way. Typically there will be a master agreement in place between the two parties that establishes the right to net.

While this process is technically quite simple, there are many challenges. If the corporate has a $2 billion loan coming back, for example, and also has a sizeable settlement to pay to the bank (such as a large FX deal), the bank may be somewhat wary to net those two off. It is important to ensure that the settlement is done in a timely fashion so that neither party is exposed to daylight exposure, which is an intraday exposure when an account is in an overdraft position at any time during the business day.

Balance netting

Balance netting with relationship banks is sometimes referred to as pooling. For example, the corporate may have a balance in euros in France, an overdraft in Italy and a credit balance in the UK. By arrangement with the relationship bank, it is possible to pool the balance of all of these accounts and then net them off. The corporate ends up with a netted cash position, or a netted pool of accounts, in a particular geographic area. Through the arrangement, the corporate would pay or accrue interest on these accounts, on a netted basis, based on the balance.

Most companies in Europe engage in some element of balance netting. One popular practice is to pool euro accounts, where permissible. These can be offset to ensure that the corporate does not have to physically sweep cash into certain concentration accounts. Using the earlier scenario of accounts in France, Italy and the UK, rather than actually physically shifting all cash to one central account to be balanced out, banks can offer corporates the right to net out and have a pool structure. This can save a lot of money on payments that shift cash around different geographies.

FX netting

Corporates often have the right to offset FX settlement amounts. In one simple example, if the corporate has bought Canadian dollars from Bank A and has sold Canadian dollars to Bank B, these can often be netted off. The corporate may have an agreement where it can net off cross-bank settlement flows, leaving the treasurer to pay only the net to the bank they owe. If Bank B is paying the corporate €100m for Canadian dollars and at the same time the corporate owes €120m to Bank A, then Bank A would receive €100m from Bank B, leaving the corporate to pay €20m to Bank A.

This tactic avoids multiple flows of large currency amounts. The corporate can net them all off and allow the banks to settle between themselves based on the obligations they have to those banks.

FX netting is becoming more common, particularly around continuous linked settlement (CLS). The whole point of CLS is to avoid daylight exposure, by netting exposures out.

Multilateral netting

Multilateral netting is perhaps the most interesting form of netting available to corporates. It is a form of netting that is usually done on an inter-company basis where subsidiaries have inter-company payables and receivables. For example, Subsidiary A may buy some elements of the production from Subsidiary B. Subsidiary B may itself be buying some elements that it needs from Subsidiary C, and so on. These inter-company payables and receivables are typically settled on a monthly basis.

Multilateral netting allows the treasurer to set up a process where all subsidiaries go into a central repository and log all of their payables and/or receivables. Every subsidiary that is expecting to receive something from another subsidiary goes into the netting session and puts in the amount they are expecting to receive, the currency and which subsidiary it is from. The same is true for subsidiaries that go in to the netting session to declare what they are expecting to pay.

If an organisation has many inter-company settlements, a netting solution will allow it to enter all of these into a central location and then net them out. In a simple example, Subsidiary A needs to buy $10m to pay to Subsidiary B. Subsidiary B needs to buy Canadian dollars and use its US dollars to pay Subsidiary C. In a netting centre, the company can net the two off and the US dollar amount can disappear. It may be left with a euro/Canadian dollar exposure, for example. The end result is that the corporate does not have hundreds of payments in foreign currencies happening between subsidiaries. Instead, there is a limited number of transactions that central treasury has to undertake in foreign currency.

> Multilateral netting allows the treasurer to set up a process where all subsidiaries go into a central repository and log all of their payables and/or receivables.

In this case, if Subsidiary A were to pay Subsidiary B without a netting solution, it would have to go to the bank to request the $10m, while its base currency may be euros. In effect, they are doing an FX transaction. Unlike central treasury, subsidiaries are rarely experts in FX and will typically get both a poor rate from the bank and a poor spread on that rate. If a corporate buys and sells foreign currency it will pay a buy/sell spread. For example, if Company A is buying sterling from the US, they may find it at around 1.50. If conversely Company A is selling, it may be around 1.52 for a small FX deal. That spread of $0.02 for every transaction carried out can soon mount up across an organisation.

If the corporate has 600 invoices going between subsidiaries and they are all settled by an FX deal that the subsidiary did with the bank, there will be a lot of spread on currency rates and poor rates on the FX deal as the subsidiaries do not have the same banking relationship as central treasury does.

Netting allows the treasurer to go to the subsidiaries and net down this process, resulting in a consolidated netted position. The central treasury then goes to the bank and carries out the translation of that position into the different currencies. The end result means that, in the case of Subsidiary A based in Europe, it will be told what it needs to pay or should receive in euros. Each subsidiary only has one account, which is in their most suitable currency. A Canadian subsidiary may have payables and receivables in euros, Mexican pesos, Norwegian kroner, for example, but this does not matter. It will only receive one single amount in Canadian dollars. Multilateral netting simplifies the entire process down for every subsidiary, in that each will only pay or receive one amount in their base currency. All of the company invoices will be settled on a netted basis by the central treasury group.

Challenges

One of the main challenges in implementing a multilateral netting programme is that it is an education process for the subsidiaries which group treasury has to lead. People do not like being overburdened with having to present too much information if they do not understand the reason for this. Multilateral netting is one area in treasury where there is a very tangible return on investment (ROI) for implementation. It is simple to calculate the value saved based on the netting down of all of the spreads.

In terms of setting up a netting process, a corporate will typically start by going to its treasury management system (TMS) or enterprise resource planning (ERP) system. If it is a payables netting session, it will export all of the payables that it is expecting for the month. These are then uploaded to a netting solution at a certain date every month. There are typically four dates in a netting session:

1. Presentment date – when the payment invoices are input into the netting solution.
2. Cut-off date – at this point the reconciliation is done. Before this time, each subsidiary will double check that its appropriate payables and receivables correspond with what its partner subsidiaries have claimed. This dispute process happens between the presentment date and the cut-off date.
3. FX settlement date – when the central treasury settles the FX on behalf of all of the subsidiaries.
4. Settlement date – when the subsidiaries either receive or pay their money.

The first two dates here are the most important in the process. When implementing a multilateral netting process, the treasurer needs to educate the subsidiaries on how to get the inter-company payables and receivables reconciled into the netting centre. By pulling some reports the treasurer can demonstrate exactly what they are expecting to receive from the subsidiary and how the dispute process should function.

Being able to pull out accurate information by a certain date is the main challenge of setting up a multilateral netting process. Without a netting centre, a corporate will typically have standard terms of trade. The company's payable terms may be six to eight weeks in terms of invoices, but internally the treasurer may decide to go to a four-week settlement, always on a particular date. This gives the treasurer control over the internal settlement process. Rather than being on floating terms, everything goes into the netting session on a monthly basis. A netting centre brings more discipline to this process, and allows the treasury to get a better FX rate, less spread and better risk management around currency exposure.

Benefits

The benefits of multilateral netting mean it deserves consideration by all corporates. If an organisation does a lot of inter-company business, there is no reason why it should not be doing multilateral netting today. The process itself is all about cash flows. Each subsidiary in the netting centre knows when it is going to get paid for any inter-company invoices it has issued. Subsidiaries may have to pay their invoices earlier, but they know exactly which day they will receive cash on the invoices that they are expecting. This brings stability to the timing of cash flows within the organisation.

The netting off of transaction costs means that instead of having around 800 inter-company transactions between subsidiaries, treasury can reduce this considerably. Now each subsidiary just has one payment or receipt. If it costs $10 to make a payment, and the number of payments can be reduced from 800 down to 60, this is obviously a considerable saving for the organisation.

Another benefit of multilateral netting comes from the concentration of payments and receipts. The central treasury can control this process, meaning it can choose to have one bank to do its FX with. Treasurers can reduce the number of banks that they are exposed to from a settlement perspective. Savings are also available on the FX spread. The greater the number and size of transactions the corporate puts through, the greater the potential for cost savings.

Things are also very much simplified from the subsidiary perspective. They no longer have to decide which currencies they need to buy, instead paying and receiving in a single currency. This offers a potential head count cost reduction for the company, as there is no longer a requirement for staff to understand all payments in different currencies. The added discipline of running a netting centre means that internal payments are all received on time. It also gives the treasurer a good forecast capability over internal receivables, allowing them to know what is coming in and when.

> If an organisation does a lot of inter-company business, there is no reason why it should not be doing multilateral netting today. The process itself is all about cash flows. Each subsidiary in the netting centre knows when it is going to get paid for any inter-company invoices it has issued. Subsidiaries may have to pay their invoices earlier, but they know exactly which day they will receive cash.

An ancillary benefit of multilateral netting is found in hedging. When the treasurer is looking for dates to hedge their FX exposures to, if they have a multilateral netting solution they will know that it is typically the 20th of every month that their netting happens, for example. Therefore they know the specific date that they are exposed to. This allows treasury to hedge very efficiently and effectively as it reduces timing gaps in their hedging programme.

There are also benefits in terms of trade. As already mentioned, multilateral netting provides a forecastable and accurate set of cash flows in and out of the business. This means that terms of trade could be considerably shorter, as they are not spread out over a time period. All parties involved in a trade know that an invoice received by a certain date will be settled by the relevant date.

The benefits to the dispute process are similar to this, as the multilateral netting process sets up a system that records disputes within the organisation efficiently and effectively. The netting centre becomes the repository for dispute management. The treasurer can then use that to make sure that AP and AR balance. ■

Operating margin

Operating margin is a measurement of what proportion of a company's revenue is left over, before taxes and other indirect costs (such as rent, bonus, interest, etc) after paying for variable costs of production such as wages, raw materials, etc. A good operating margin is needed for a company to be able to pay for its fixed costs, for example interest on debt. A higher operating margin means that the company has less financial risk.

Operating margin, sometimes referred to as operating profit margin, is used for measuring a business's pricing strategy and operating efficiency. It should not be confused with net profit margin, as it does not take into account cash expenses, such as interest payments or tax, for example. Instead, operating margin is the proportion of a company's revenue that remains after the costs associated with operating the business have been deducted. These include payments such as wages, raw materials, etc. A good operating margin is required to cover other costs, such as interest payments on company debt.

Operating margin provides a measure of profit (before interest and taxes) on each dollar of revenue. For example, if a company has an operating margin of 16%, it makes a profit of $0.16 for every dollar of sales.

How is it calculated?

Operating profit margin is expressed as a percentage of total revenue. It is calculated as follows:

$$\text{Operating margin} = \text{Operating profit} / \text{net sales} \times 100\%$$

- **Operating profit.** Also referred to as operating income or EBIT (earnings before interest and taxes).
- **Net sales.** Net sales is the amount of sales generated after the deduction of any returns or discounts – may also be referred to as net operating revenue.

Example

Income statement for company ABC	
Net sales/revenue	¥2,000,000
Cost of goods sold	¥1,000,000
Labour costs	¥600,000
Administration expenses	¥100,000
Operating profit	¥300,000

$$\text{Operating margin} = 300{,}000 / 2{,}000{,}000 \times 100\% = 15\%$$

The calculation can give an indication of the effectiveness of a company's pricing strategy, particularly when measured over a period of time, or in comparison to competitors. For the operating margin to improve, there must be an increase in the difference between the price at which goods are sold and the operating cost. This increase in difference may be due to factors such as improved competitiveness in the company's pricing strategy, improved operational efficiency and lower cost of raw materials.

Points to consider

Generally, the higher a company's profit margin, the better the return it will be able to provide its shareholders. Operating margin can be a useful way to determine the potential a company has to improve its profits by expanding its margins. Conversely, operating margin can provide an indication of how much profits may be threatened by price competition. It should be noted, however, that the excessive expanding of margins, particularly if this is achieved through price increases to the consumer, may dent profits by damaging the company's competitiveness.

As with most financial metrics, operating margin is best compared in conjunction with other financial ratios and measures. It is also best to stick to comparisons between companies within certain industry sectors as benchmark margins may vary between different industries. ■

Point of View

David Blair, Managing Director of Acarate, shares with Treasury Today Asia his reflections on the corporate perspective across the Asia Pacific region.

Reflections from Singapore

More than 440 treasurers gathered at the Singapore EuroFinance conference in late spring to take the pulse of their profession at the centre of the most economically lively region on the planet – it made for an exciting three days. One of the advantages of chairing the conference is hearing all of the presentations and receiving immense feedback from treasurers during the breaks.

One thing I felt was that we may be getting to an inflection point in post-global financial crisis (GFC) recovery. I am not launching into economic prognostications here. Rather I felt we may finally be moving beyond the fear, uncertainty and doubt (aka FUD) that has set the tone since the crisis.

On the first day, Frederic Neumann, Co-Head of Asia Economic Research and Managing Director, HSBC, Hong Kong, set set the macroeconomic scene with verve. In summary, the party will go on for another couple of years as the Federal Reserve will not take away the punch bowl until output regains the 10% it lost and unemployment drops.

On day three, the China focus day, Richard Dobbs, Director, McKinsey Global Institute, shared a vision of relentless urbanisation driving long-term growth focused on second and third tier cities. This macro trend will require huge amounts of steel and concrete, which in turn will require vast amounts of capital. As global investment as a % of global GDP is down 5% since 'normal' levels last seen in the 1970s, leaving a $20 trillion shortfall, we can expect massive amounts of capital to be invested in both the developed world's return to normal investment levels and the developing world's urbanisation. This basic idea was set out in McKinsey Global Institute's December 2010 report entitled 'Farewell to Cheap Capital?' It seems to be contradicted by Bain's 2012 report entitled 'A World Awash in Money' and even by Frederic's earlier optimism, yet Richard and I agree that this is more a matter of time horizons than of fundamental disagreement. Incidentally, it is exciting to see, reflecting Richard's observations on the developing world leap-frogging developed countries' evolution, how Asian treasurers are moving fast to build 21st century treasuries, achieving in months what took Western multinational companies (MNCs) years to put in place.

This parallels the developing world leap-frogging many stages in telecommunications – skipping fixed line for mobile, bypassing telex and fax and going straight for the pervasive internet. In a very favourable development for all treasurers, this is starting to be reflected in payment infrastructure. In China, China National Automated Payment System 2 (CNAPS2) has brought ISO 20022 MX XML to Asia ahead of Europe's SEPA programme. More impressively, People's Bank of China's (PBoC) Electronic Commercial Draft System (ECDS) has already reached 50% market share and will soon eliminate paper bank acceptance drafts (BADs) and corporate acceptance drafts (CADs), which are notorious for fraud. This means China has a solid digital platform for supply chain financing (SCF) probably a decade ahead of any Western country. In India, the Reserve Bank of India (RBI) set up the National Payments Corporation of India, which has implemented a 21st century payment infrastructure within the past five years – an incredibly rapid rollout.

These technologies bolster Asia's resilience in the face of global macro uncertainty. Just as technology is bringing corruption busting transparency to Nigeria and Punjab, that mind-set is echoed in the determination of Asian corporates to build robust treasury platforms to support their ambitious business plans.

> "It is almost as if we have been going through Kübler-Ross' five stages of grief over the loss of pre-GFC bliss."

So how does this square with the mood on the floor?

It seems to me that treasurers still recognise the uncertainties around them. The world is changing in very fundamental ways as the developing world inexorably balances global GDP. This rebalancing is ineluctable, and actually merely a reversion to the historical norm, yet its consequences are far from clear.

It is still not clear whether the rules of economics (and maths) have really changed or whether government intervention post-crisis has merely created a big wrinkle on the fabric of apparent reality. Either way, this uncertainty makes long-term planning and risk management even more difficult than it was before.

It is almost as if we have been going through Kübler-Ross' five stages of grief over the loss of pre-GFC bliss. We first denied the crisis by thinking it would be over soon. Then who could deny a tinge of anger at whatever perpetrators you happen to latch on to? Then, bargaining along the lines of if we diversify our deposits and funding we will be okay. Treasurers are not exactly depressed, but there was a sense of inertia and a fixation on GFC itself that could be likened to a depression within the profession.

My sense is that we are now reaching acceptance. We are not going to get clear answers – and/or we now realise that what we thought was clear before was just illusion. We have no timeline for a return to normal. We don't even know what normal is any more. What is new is that we accept this, even if we may not embrace it. We accept this new reality (or reminder), and we are getting on with life and all the projects we had in the pipeline that we were delaying because of post-crisis uncertainties.

In recent years, the GFC weighed on most of the content of the conference. Formal presentations revolved around the crisis. Economists discussed the cause and effect. Projects focused on its consequences:

- How to manage counterparty credit risk.
- How to ensure access to funding.
- Liquidity management to reduce the need for funding.
- Piling up cash, and so on.

From what I heard off-stage and during the breaks, the informal discussions were in the same vein. The GFC dominated and underpinned our thoughts. This year, I detect a change in focus. I think we are exiting our GFC fixation. We won't forget the GFC – it is still with us in many ways – and one has only to think of the regulatory changes we face. Yet at the same time, the GFC is moving from centre stage.

This year we heard about some very ambitious projects on stage. Off-stage I felt the mood shifting to a more forward-facing focus.

Economists were delving into macro trends, hopefully not just because the GFC has them stumped. There were treasurers talking about how to grow sales, enhancing supply chains rather than defending them, building lean and smart treasuries to handle market opportunities, and returning excess cash to shareholders, even Apple.

Off-stage I felt a similar shift, even if people are still talking about liquidity management, their rationale is to support growth rather than to defend against liquidity squeezes and debt shortfalls. The GFC has changed our world but it no longer dominates it – it has moved from centre stage to important background.

This is a healthy and welcome development. As the saying goes, what doesn't kill you makes you stronger. Those of us still standing have reinforced our operations against any new 'swans' the GFC highlighted. If there are any black swans out there, we cannot prepare for them because they are by definition unexpected. We have to accept that we do not know what is coming, and move on with supporting our businesses.

It is also a breath of fresh air and I am excited to see how we will progress in adopting all the new techniques and technologies that have been maturing in the background, under the shadow of the GFC.

We are privileged to live in interesting times. ■

David Blair was formerly Vice President Treasury at Huawei and Group Treasurer of Nokia. He also has previous experience with ABB, PriceWaterhouse and Cargill. With his extensive experience of managing global and diverse treasury teams, as well as playing a leading role in e-commerce standard development and in professional associations, Blair has counselled corporations and banks as well as governments.

Clients located all over the world rely on the advice and expertise of Acarate to help improve corporate treasury performance. Acarate offers consultancy on all aspects of treasury from policy and practice to cash, risk and liquidity and technology management. The Company also provide leadership and team coaching as well as treasury training to make your organisation stronger and better performance oriented.

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2013 Asia Pacific Study is now live...

Why participate?

The studies focus on a wide range of issues from bank relations, counterparty risk, credit and cash, liquidity and working capital management to supply chain and technology. We now include a specific section on the key performance indicators (KPIs) being deployed and, where stated, the actual metrics companies are achieving. This data is providing yet further insight into the corporate treasury arena with many corporates adopting such measures.

Wolfgang Ratheiser, Global Engineering Finance Director at Johnson Controls, articulates the case perfectly. "For benchmarking, it is important that you anticipate where you will stand and what trends are in the market," he says. "You need to continually ask yourself, are we leading this trend? Are we falling behind? And what kind of corrective actions are we taking in order to stay ahead?"

"We now tend to review our days inventory outstanding (DIO), days payable outstanding (DPO) and days sales outstanding (DSO) on a monthly basis," says Priyanke Perera, Head of Group Treasury at Brandix in Sri Lanka. "But that is not all. We go beyond that, particularly when it comes to tracking how early or how late our suppliers provide inputs to manufacture a garment (on-time tracking) based on the dynamic production plan we have to support our buyers. This is a great indicator for the company's working capital management."

"Given the importance of cash pooling to the business, minimum cash holding serves as a key performance indicator," says Tan Lee Thong, General Manager, Group Finance at International SOS in Singapore.

What's being measured and what's new?

This year we have introduced a number of new measures, including an entirely new section enabling you to rank the banks.

When it comes to best practice, our benchmarking studies offer a unique opportunity to set your treasury's standards against the best in the field. We ask about the KPIs you are using to measure performance. This year, we look to explore the actual measures/ratios against such KPIs.

If you participate in the studies, you will receive a confidential report which summarises the headline findings. In addition, if you complete the section on KPIs, we will benchmark your KPIs against the study universe.

The findings and individual benchmarking results are exclusively available to participating corporates.

"The treasury employs a variety of KPIs to ensure benchmarking efficiency. These include transaction costs, refinancing risk, covenant ratios and FX hedging amongst others," says Daniele Vecchi, Group Treasurer at Majid Al Futtaim in Dubai.

"The main focus of our benchmarking processes are related to maintaining relationships with our banks. In essence this means: how we choose the banks; how we manage our FX exposures; and how we manage our finance costs," says Kamal Goyal, CFO at Alumco in the United Arab Emirates (UAE).

Some of the reasons companies have given in the past for participating in benchmarking:

"Identifying problem areas in our organisation."

"Identifying other industries that have similar processes and what they are doing."

"Identify organisations that are leaders in areas that concern us."

"Helps to build processes and metrics for us to use."

"Helps to determine which areas to focus, once data is collected leading to productivity gains."

"Used to target future performance/organisation performance."

"Helping us identify where we can reduce cost."

"Encouraging us to implement new and improved business practices."

We hope you will take the time to become involved in the benchmarking programme by participating in the Asia Pacific Study which is now live. To participate please go to **treasurytoday.com/benchmarking/participate**

Manish Kapoor

Head of Airtel Centre of Excellence (ACE)
Cash and Banking Operations

Treasury Today spoke to Airtel's Manish Kapoor recently about benchmarking.

Why is benchmarking important to you, your treasury department and your company overall?

Benchmarking is a process which helps us to compare our business processes and performance metrics to best practices from other industries. The measurement dimensions of industry benchmarking are time, cost and quality.

The process of best practice benchmarking helps us to identify the best firms in our industry, or in another industry where similar processes exist, and then compare the result and processes of those to one's own results and processes. This helps us to learn how well the targets perform and, more importantly, the business processes, which also help us to be more successful within the industry.

How do you use the benchmarking results?

Benchmarking helps us to measure the performance using a specific indicator such as productivity, cost and cycle time, which also help in determining or identifying the defects resulting in a metric of performance. This is then compared to others within the industry to match the industry standards.

The benchmarking process is used in the company by management or operations to evaluate various aspects of their processes in relation to best practice companies' processes, which is usually within a peer group defined for the purposes of comparison. This then allows or assists the organisation to develop plans on how to make improvements or adapt specific best practices to increase performance.

Please give us an example?

Bharti Airtel decided to define a benchmark, by overhauling and revamping its entire payment model – no mean feat for a company that is one of the biggest in its industry. With the establishment of ACE Cash and Banking Operations (a shared services centre (SSC)), we were able to achieve:

- More than 97% accuracy in fund forecasting.
- Releasing the working capital of $30m.
- Increasing payments on time by 82%.
- Reduction in customer query by 83%.

All these metrics are to the highest standards in the industry.

Are there any other ways benchmarking can contribute to an organisation?

There is no single benchmarking process that has been universally adopted which could help us to know how it can contribute to an organisation. Nevertheless, the wide appeal and acceptance of benchmarking has led to continuous evaluation and improvement for our organisation.

Benchmarking helps and encourages an organisation to be open to new methods, processes, ideas and practices to improve effectiveness, efficiency and performance. The benchmarking study results offer valuable data that can motivate thought-provoking discussions with key stakeholders (internal or external). The results provide answers to the following key questions:

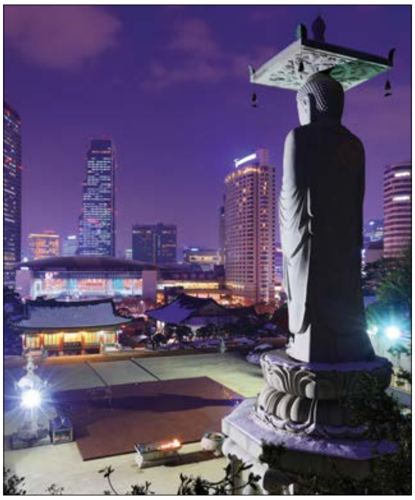
- What are the opportunities we should work or focus on?
- How well are we performing in comparison to other companies or organisations?
- What are the best practices followed by other companies?

Lastly, we asked Kapoor to list the reasons why corporates should participate in the benchmarking studies.

The process of benchmarking facilitates companies to identify themselves as a best firm in their industry, or in any other industry where similar processes exist, and then compare the result.

Secondly, it helps to learn how well the targets are performed and, more importantly, the business processes which help them to be more successful within the industry.

It also helps to measure the day-to-day performance using a specific indicator such as productivity gains, cost reduction, cycle time and standardisation across processes. All of these areas help in determining or identifying the gaps/defects impacting organisational goals.



INSIGHT AND ANALYSIS

Currency trends

Asian currencies have weakened following the Federal Open Market Committee (FOMC) meeting, and there are expectations of greater headwinds for regional currencies stemming from slower growth in China. Meanwhile on the other side of the globe, it took a state currency intervention to raise the Brazil real from a four-year low. Volatility is still the 'mot du jour' in the FX markets.

COUNTRY FOCUS

South Korea

With an economy ranked 15th in the world by nominal GDP, South Korea is one of the G20 major economies. The country's economy, which is heavily dependent on international trade, is expected to grow by 2.6% this year. However, like other emerging markets, South Korea is now concerned about the possibility of the Federal Reserve's planned withdrawal of stimulus triggering sudden capital outflows that could cause a liquidity crisis.

ASIA PRACTICE

The importance of employee morale

Low morale in the workplace can lead to poor co-operation, low productivity and increased turnover – and ultimately hinder a business from reaching its goals. It is important to be aware of the signs. What are the root causes of low employee morale and what steps can treasury take to ensure a level of employee satisfaction?

We always speak to a number of industry figures for background research on our articles. Among them this month:

Steven Beck, Head of Trade Finance, Private Sector Operations Department, Asian Development Bank (ADB); **David Blair**, Managing Director, Acarate; **Eugene Buckley**, Vice President and General Manager Asia Pacific, PrimeRevenue; **Rob Carmichael**, Head of MNC Coverage, Indonesia, The Royal Bank of Scotland (RBS); **Kurt Cavano**, Chief Strategy Officer, GT Nexus; **John Chen**, Treasury Director Asia Pacific at Honeywell; **Audrey Deng**, Head of Group Treasury, Asia Pacific, Atlas Copco; **Andy Dyer**, Head of Transaction Banking Sales in Asia Pacific, Europe and Americas at ANZ Banking Group; **Justin Goheen**, Director of Business Development, RTS Financial; **Thiam Hee Ng**, Senior Economist, ADB; **Richard Jaggard**, Managing Director and Head of Transaction Banking Europe, Standard Chartered; **Lenore Kantor**, Senior Director, Head of Marketing and Communications, FXall; **Matt Lawrence**, Financial Market Sales, Corporates, Lloyds; **Kelly Lee**, Accounting Manager, Sheung Li Fung; **Lelaina Lim**, Chief Financing Officer, RSH Limited; **Vinod Madhavan**, Global Head, Local Corporate Products and Receivables and Supply Chain Finance (SCF), Standard Chartered Bank; **Justin Meadows**, Managing Director, MyTreasury; **Victor Penna**, Head of Treasury Solutions, Transaction Banking, Standard Chartered Bank; **Khalid Quadir**, Founder, Grameenphone; **Henrik Raber**, Global Head of Debt Capital Markets, Standard Chartered Bank; **Diane Reyes**, Global Head of Payments and Cash Management, HSBC; **Tom Russell**, Co-Founder, SeedAsia; **Sameer Sawhney**, Global Head of Transaction Banking, ANZ; **Peter Schädelbauer**, Group Treasurer and Managing Director of Lindner Finanz; **Gourang Shah**, Head of Treasury Advisory, Treasury and Transaction Services, Asia Pacific, Citi; **Manfred Schmoelz**, Head of Transaction Services, Asia Pacific, RBS; **Chetan Talwar**, Head of Corporate Trade Advisory and Solution Delivery, Asia Pacific, J.P. Morgan (JPM) Treasury Services; **Riko Tasmaya**, Treasury and Trade Services Head in Indonesia, Citi; **Magnus Velander**, Head of Treasury Asia, Group Treasury, Scania CV AB.