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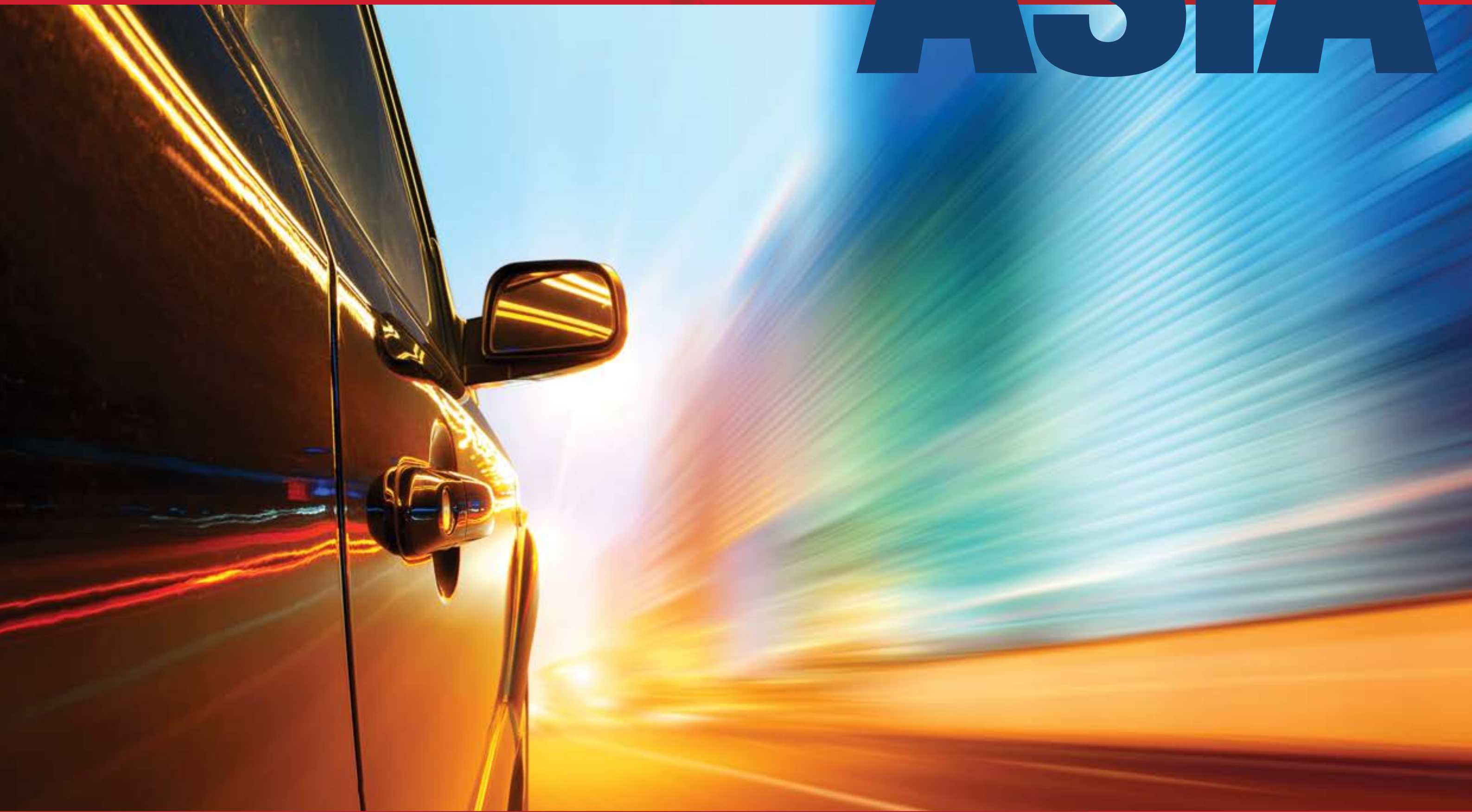


China: in the fast lane

China, the world's second largest economy, will continue to take centre stage in the global arena this year. As MNCs flock to China and Chinese companies expand, developments in the internationalisation of the renminbi will remain a key issue.

Women in Treasury

Meena Dafesh

Director of Treasury, Asia Pacific

Ingram Micro Asia Pacific

The Corporate View

Honnus Cheung

Chief Financial Officer, Asia Pacific

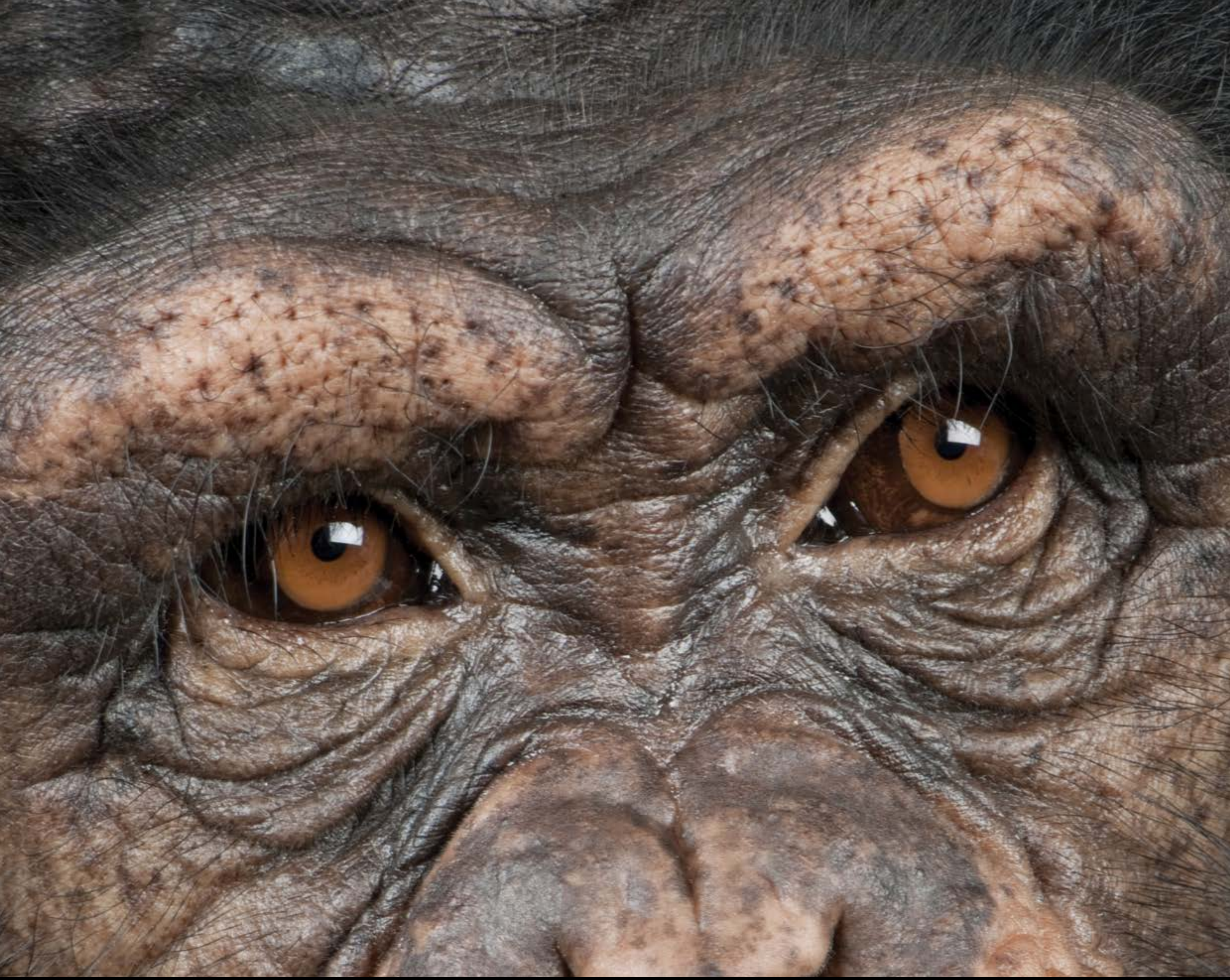
Travelzoo

Managing talent
Recruitment and retention

Bank relationships
True romance?

Creating an RFP
Best practice checklist

In the cloud
Revolutionising workflow



No monkey business

Adam Smith Awards 2013

in association with Bank of America Merrill Lynch

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Welcome to the second edition of Treasury Today Asia

We are excited to announce the launch of the Asia Pacific Regional Award for Best Practice within our Adam Smith Awards in June. Please have a look at the Awards and submit your nominations for this, along with any other categories you feel you quality for. We look forward to receiving your entries.

The Year of the Snake

The Year of the Snake will bring a number of significant changes for mainland China, this issue's country focus. All eyes will be on the country as it welcomes a new President, Xi Jinping and Premier, Li Keqiang.

Treasurers in the region are also anticipating a year of expected regulatory changes, particularly those relating to the internationalisation of the renminbi (RMB). Any perceived loosening of the rules will make their jobs easier, particularly when dealing with cross-border transactions.

As these issues develop over this year we look forward to bringing you the latest updates online at www.treasurytodayasia.com, in our monthly Treasury Plus+ Asia newsletter and in our forthcoming issues.

To receive your copy

Treasury Today Asia is a bi-monthly magazine by the publishers of Treasury Today. The magazine reflects the trends, challenges and opportunities for treasury/finance professionals in the Asia Pacific region.

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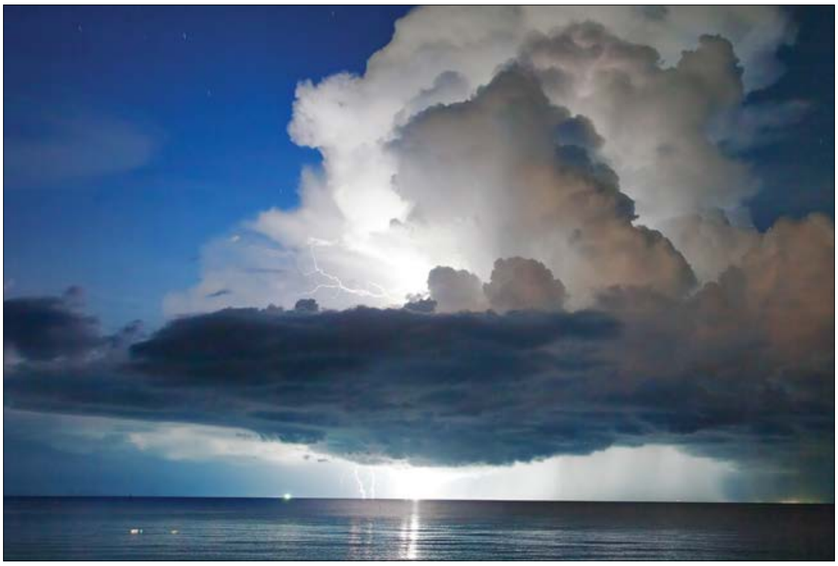
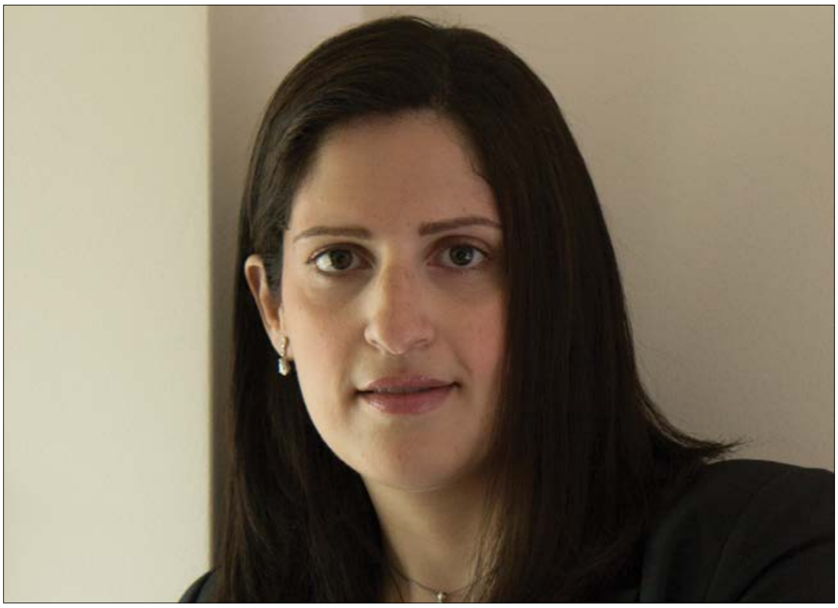
IN THIS ISSUE



Heads in the Cloud

This new IT phenomena offers virtual, on-demand network access to a shared resource pool. Are treasurers ready to jump into this virtual world for their daily treasury requirements? And what are the risks involved in sharing a public platform?



Meena Dafesh

Director of Treasury, Asia Pacific

INGRAM MICRO®
Partner Smart™

Meena Dafesh is busy integrating the treasury operations of Ingram Micro's recent two acquisitions in the Middle East and Africa. She identifies moving from managing treasury at a country level to managing a region as a career-defining moment.

China: in the fast lane

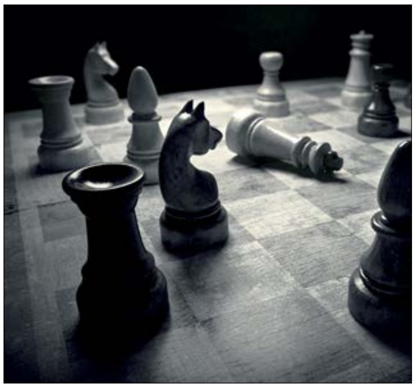
The Asian tiger, now the world's second largest economy, is increasingly a focus for MNCs. This is not an easy task, given the restrictions on renminbi (RMB) flows. Treasurers will need to keep abreast of new developments in China, especially with a new president and premier and possibly a new central bank governor.

Banking relationships – give and take

The relationship with your banking partners has often been likened to a marriage. As such, to ensure a long-lasting and happy matrimony, one must see that it is based on shared objectives, trust and respect. So what kind of relationship do you have with your banker – a marriage of convenience or a blissful partnership?

Managing talent in Asia

Sourcing and keeping talent in Asia has never been easy, especially for those with the right skills and knowledge, in addition to multi-country experiences. The different cultures and the varying levels of HR culture in companies across Asia make it a challenging task, as a one-size-fits-all retention programme just won't work.



TREASURY ESSENTIALS

Honnus Cheung
Chief Financial Officer, Asia Pacific

TRAVELZOO

When Travelzoo expanded to Asia in 2007, CFO Honnus Cheung had set up seven offices in cities across the Asia Pacific region within a 12-month period. In addition, heading an e-commerce company meant having the support of a good and robust e-banking platform to support not just the collections side but also to give visibility to the company's treasury activities in the region.

Sustainability in treasury

Embracing sustainability in day-to-day treasury activities need not be a chore. While some are quite straightforward initiatives that can be easily implemented immediately, others like paperless banking and invoicing may require some planning.

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

Immediate payments: state of play

The immediate payments snowball is gaining momentum. First rolled out in South Africa and Mexico in 2006, followed by the UK in 2008 and then Poland and Nigeria last year, countries are queuing up to be next. Singapore, Sweden and Australia plan to implement real-time payments this year. And despite the US shelving a real-time initiative this year, a consortium of Bank of America Merrill Lynch (BofA Merrill), Wells Fargo and potentially J.P. Morgan Chase has launched ClearXchange, which will jointly allow millions of their customers to transact person-to-person (P2P) payments without having to exchange account numbers.

Speaking at financial technology company Fundtech's user event in London in February, Paul Pridmore, Director, Barclays Corporate Technology Office, took stock of how far the UK's Faster Payments service (FPS) had come since its inception almost five years ago. Now the scheme processes up to 750 million transactions worth £61 billion. He outlined the opportunities that moving to an immediate payment infrastructure brings, including facilitating regulatory change, such as the Payments Services Directive (D+1), and a new, free-to-use current account switching service, which will be launched in September 2013.

Going forwards, FPS and VocaLink will be the payment delivery mechanism for mobile payments (m-payments). FPS will also administer the central database of mobile phone numbers linked to bank account details, which is predicted to launch in 2014.

According to Pridmore further developments on the agenda are the increase in the number of settlement cycles from the current three per day and the possibility of FPS processing both real-time gross settlement (RTGS) and multi-lateral net settlement transactions. There are also plans to standardise the message format to ISO 20022 XML.

Later this year Singapore will complete the roll out of its G3 scheme, which includes single immediate payments – credit transfers (CTs) and direct debits (DDs). Batch payments – bulk CTs and DDs – are in progress and will replace the Giro instrument. Also electronic mandates (eDDAs), bank statement reports and other notification and administration messages are being developed.

Similar to the UK FPS and the Australian immediate payments initiative, VocaLink is supplying the underlying infrastructure and using ISO 20022 formats in order to provide extra information. The scheme will be operational 24/7 but banks must be open in order to receive payments. The turnaround time is 15 seconds bank-to-bank, and just five minutes to send a confirmation to the customer.

The transaction limits currently are SGD10,000 for single real-time payments, SGD25m for bulk DDs and no limit for bulk CTs. David Brown, Senior Vice President, Australian Country Manager and Asia Pacific Product Executive, Fundtech, says future phases will include foreign currency clearing between banks in Singapore and cross-border clearing with neighbouring counties.

http://treasurytoday.com/2013/02/immediate-payments-state-of-play

More RMB hedging options in Asia?

In February, China's central bank, the People's Bank of China (PBoC), appointed the Industrial and Commercial Bank of China in Singapore (ICBC Singapore) and Bank of China in Taiwan (BoC Taiwan) – as the clearing banks for renminbi (RMB), as part of a controlled internationalisation of its currency.

There are now four RMB clearing banks outside of China – Hong Kong, Macau, Taiwan and Singapore. The first two are special administrative regions of China, while Taiwan has strong historical commercial ties with the mainland.

All other financial centres, including London and New York, still have to go through BoC Hong Kong to clear RMB trades, which accounts for more than 80% of all RMB payments and receives over 50% of all letters of credit (LCs) originating with Chinese banks.

According to DBS figures, RMB deposits in Singapore hit RMB60 billion as of June 2012, which DBS Group Research Economist Nathan Chow, who is based in Hong Kong, says is now estimated at around RMB100 billion, still a far cry from Hong Kong's RMB600 billion deposits.

China was Singapore's third largest trading partner in 2012 and, excluding China and Hong Kong, Singapore currently handles the largest share of RMB payments in Asia, with ASEAN exports to China at $195.8 billion, surpassing Japan to become China's largest importing region.

China is now the top trading partner of Taiwan, and DBS estimates by early next year Taiwan's RMB liquidity pool may reach RMB140 billion.

In a report entitled 'CNH: Singapore and Taiwan style', DBS says: "as the RMB's regional influence continues to grow, the RMB clearing line will be utilised by not just Singapore but its trade partners too. This is a great opportunity for Beijing to promote the 'third party' usage of the RMB (trades not involving China), a major attribute of any international currency."

Once the clearing mechanism is set up in Singapore, there will be greater transparency in RMB funds movement and market confidence in accepting RMB for trade settlement will rise, which in turn will encourage more participation from corporation and banks, potentially increasing the range of RMB investment products, DBS highlights.

DBS's Chow says in the first two weeks of the launch of their RMB business, some banks in Taiwan offered up to 1.5% for demand deposits and 3.5% for three month time deposits, which he describes as "quite high". "You can see how eager they are to engage in the RMB business. Once they have the liquidity, they can proceed to the next stage, such as offering RMB loans," Chow told Treasury Today.

Chow says with the appointment of the two clearing banks, there will be more RMB liquidity, and consequently more investment hedging products will be developed. "So it will be more convenient for corporates and they will have more options to choose from," he adds.

http://treasurytoday.com/2013/02/more-options-now-in-hedging-rmb-exposure-in-asia#

Asian high yield bonds: out of steam?

The global corporate bond market is reaching unprecedented peaks. Companies issued $180 billion worth of debt in January 2013, up 25% year-on-year and more than any January on record, according to investment banking analytics platform, Dealogic. But some regions are taking debt issuance to even greater highs, with high yield or so-called 'junk' bonds surfacing at a rapid rate and lapped up by interest starved investors.

In particular, the Asia high yield market "started off the year with a bang", with many issuers taking advantage of the best terms offered by the bond market in years, according to Mark Austen, CEO of the Asia Securities Industry & Financial Markets Association (ASIFMA).

Dealogic data confirms the region's corporates issued $9.1 billion worth of high yield debt in January 2013 compared to $148m in 2012. In global terms, this equates to around 17% of high yield bond volume for January, the biggest slice ever recorded by the region.

The significant levels of corporate bond issuance in Asia throughout 2012, which Austen feels is "just the tip of the iceberg", has in part been driven by a shift away from banks as the bank lending model is being squeezed by Basel III standards which, he says, are starting to bite in Asia.

"Investors are looking for yield and Asian high yield offers a good return over the rest of the world with companies that have sound finances and good growth prospects," notes Austen.

This search for yield, coupled with constrained bank lending and the effects of quantitative easing pushing gilts to new lows, has in turn offered issuers good terms, which Austen believes "reinforces their desire to issue". Fears over the Eurozone debt crisis also saw a number of deals held over from late 2011 suddenly emerge in 2012, adding to the heightened volumes.

Notably the most active sector in Asia high yield, for Austen, has been amongst China's property developers, "most of whom tapped the high yield market in the first weeks of 2013". Even the Chinese real junk bonds managed to get in on the act. The market also saw a number of private equity sponsors take their companies to the market.

Funds were also raised via the PIK-toggle format (a 'payment in kind' deal with a preferred cash payment). PIK-toggles, described by Reuters commentator, Natalie Harrison, as "risky subordinated instruments", differ from the non-cash paying PIKs in that issuers aim to pay coupons in cash "providing the company has performed well and has enough money to do so". Although the non-cash variety of PIKs are more commonly seen in Europe, euro-denominated PIK-toggle offerings have emerged.

Whilst Chinese property developers have been causing a stir, corporates in the Philippines and Indonesia also raised local interest, accounting for 13% and 11% of January's activity respectively.

Austen does not think the Asian high yield market is about to run out of steam. In a world where most of the central banks continue to depress interest rates to stimulate their economies, he sees investors still seeking better yielding instruments and healthy companies continuing to offer high yielding bonds in expanding economies.

http://treasurytoday.com/2013/02/asian-high-yield-bonds-out-of-steam

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

This much I know

Meena Dafesh

Director of Treasury, Asia Pacific

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What is your career defining moment?

Early in my treasury career, I was thrown into the deep end by my boss, which forced me to work things out for myself. I spent five years building up basic treasury skills and laying the foundations of my career. My second career-defining moment was moving from managing treasury at a country level to managing a region. This was a big challenge and outside my comfort zone, not so much in terms of treasury but more in terms of working across different cultures.

Which women in business most inspire you and why?

There are some amazing women who run large corporations such as Marissa Mayer, CEO at Yahoo!, and Indra Nooyi, CEO of Pepsi Co. But I am also impressed with the "real" women I see on a daily basis. Some of the women I work with juggle work, children and home life, and also contribute to the community – these women are also inspiring.

What is the biggest challenge you are facing just now?

Integrating the treasury functions of two recent acquisitions is the biggest challenge I face today. Although I have been involved in a number of acquisitions in the past, the integration work has not been on this scale before.

What couldn't you manage without?

The people I work with, including those in the regional and global treasury functions, as well as the other business units that treasury works with. My interaction with the business determines the success of treasury, so I couldn't manage without them. In addition, I couldn't manage without the strong relationships that we have built with our key banks; they provide us with invaluable support, specifically when entering new markets.

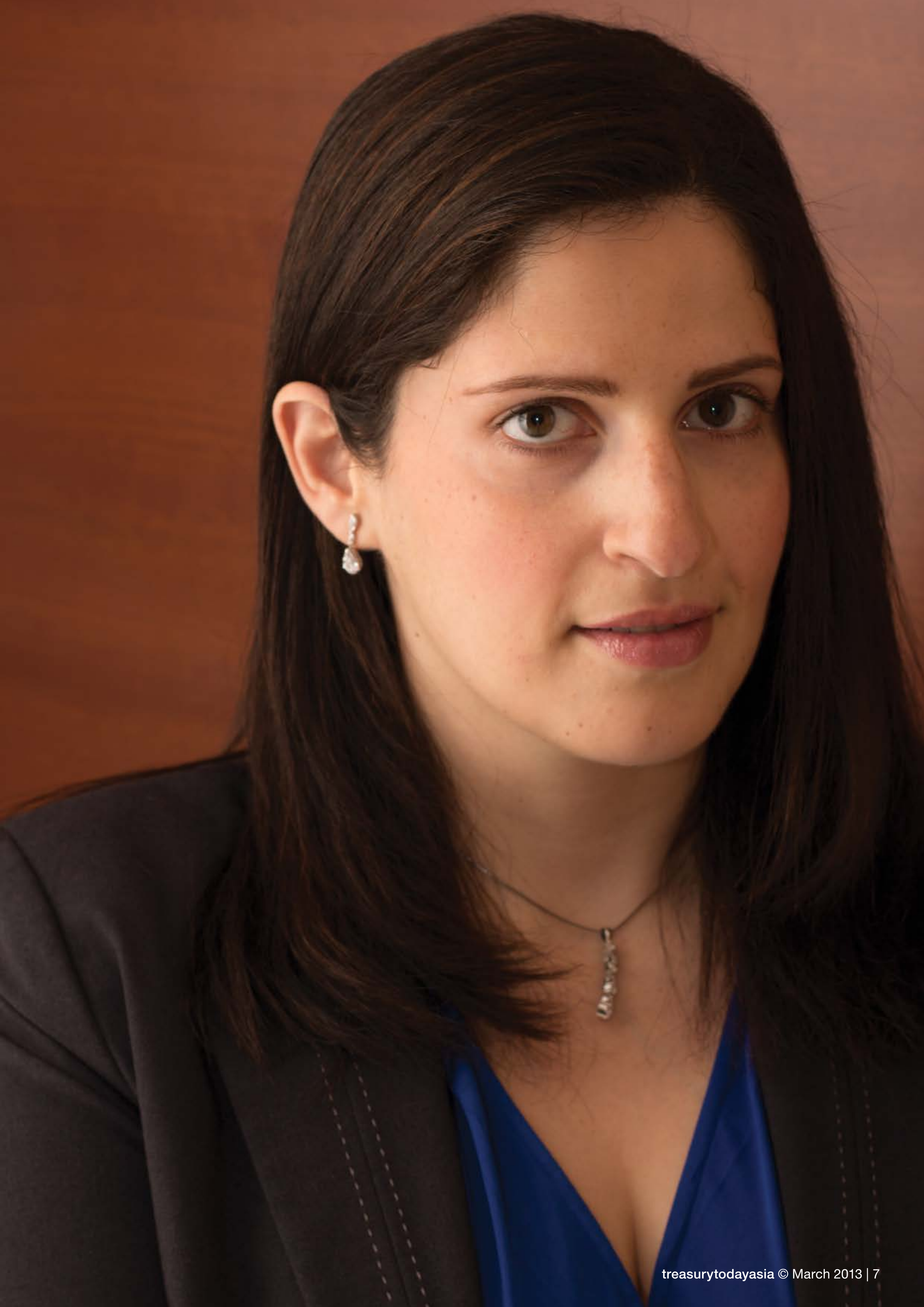
What advice would you give to other women in treasury?

I would advise planning your career from an experience perspective and not base your decisions on remuneration. If your experience is broad across all areas of treasury and you also have in-depth knowledge, then the money will follow. Too many times I have seen people specialise in one area of treasury (such as cash management or FX) because they are following the money instead of looking for the right experience.

What would you have done differently if you could?

The only thing I can think of is learning another language – Mandarin would be my first choice.

"If your experience is broad across all areas of treasury and you also have in-depth knowledge, then the money will follow."



Although her job title covers the Asia Pacific region, Meena Dafesh has recently seen her responsibilities expand to include the Middle East and Africa, following two recent acquisitions by the world's largest wholesale technology distributor Ingram Micro.

Dafesh joined Ingram Micro in 2005 as Treasury Manager for its Australian business, based in Sydney. Eighteen months later, she was promoted to a regional position in the treasury team for the Asia Pacific region, based in Singapore. She was senior manager for about four years before taking up her current position as Director of Treasury.

"When you are working in a regional office in Asia Pacific, you cover a number of countries," she notes, pointing out that dealing with different cultures can be a challenge. "I think the best thing to do is to try to be humble and realise that there is a lot to learn from the people around you. I didn't come in with an attitude that I knew everything and I was open to learning from my co-workers in these countries, who in return have been very supportive."

Dafesh faces a further challenge, as not only does she have to tackle the relatively large Asia Pacific region, she is now responsible for two geographical areas which are new to her in terms of banking and regulatory environment.

"It has been interesting to say the least, but I like a challenge," she says. "It has been a fascinating journey, discovering how Middle Eastern and African countries operate in terms of treasury and regulatory frameworks. It has certainly been a steep learning curve. I have embraced the expanded remit along with the challenges and opportunities it brings, and importantly, I have a great team to support me."

Born in the Middle East, she moved to Australia when she was very young. Dafesh entered the treasury sector through a twist of fate rather than as a planned career move. She was working in a small public accounting company as a junior accountant, doing the books for a few clients; but a few months into the job, she realised that it was not for her.

She applied for an accounting position with Hutchison Telecommunications in Sydney, hoping that accounting in a corporate environment may be far more interesting, but was offered a treasury position instead. And she has not looked back since. "I took the chance and it was the best decision I ever made. I have been in treasury for the past 13 years and I love it." She is not shy to admit that she is one of those "fortunate people who love their work".

> "The best thing to do is to try to be humble and realise that there is a lot to learn from the people around you."

So what does Dafesh like about treasury? "The diversity of the work. There are so many things happening. You are juggling a number of balls in the air at the same time, whether in cash or debt management, or negotiating with the banks, as well as talking to the business about funding needs."

And it does not stop there, especially with an expanded geographical remit. She is now busy integrating the new acquisitions' treasury activities.

Moving to Singapore to take up a regional post at Ingram Micro was the easiest thing Dafesh has done, she says. "Singapore is such an effortless place to settle in, as everything is easily accessible. The vibrancy of the city is appealing to me as I grew up in a similar environment in Sydney. The lifestyle is great," she notes.

Dafesh achieved her accountancy education in a different way to most of her counterparts. She did her first year at university as a full-time student but switched to part-time studies the following year, graduating from the University of Technology, Sydney.

"I decided to get a full-time job in accounting while I did the rest of my degree part-time. Training while on the job made sense to me because I believe that there is no point in learning without applying what I had learnt. I needed my education to be relevant, to be able to apply it and see the purpose of what I was learning. This path of development really worked well for me," she said.

So what new challenges lie ahead for her? "The next 12 months will be about integration and ensuring the treasury function continues to support the business during a time of change and opportunities," she explains. ■

Meena Dafesh is Director of Treasury, Asia Pacific at Ingram Micro Asia Pacific, a Fortune 100 company and the world's largest technology distributor. Dafesh has responsibility for the treasury function across Asia Pacific, and more recently Middle East and Africa. She has been with Ingram Micro for over seven years and is currently based in Singapore. Prior to that she held various treasury roles while based in her native Sydney. Dafesh is Certified Practising Accountant (CPA) (CPA Australia) registered and holds a Bachelor's degree in Business (Accounting and Finance) from the University of Technology, Sydney.

Trapped cash

Tapping our collective knowledge to get better information

How can corporate treasurers best tackle the issue of trapped cash, especially in China?

Camille Wenying Liao, Director, EMEA Liquidity and Investment, Citi Transaction Services (CTS):

In many cases, cash can become trapped due to tax implications, restrictions on inter-company lending and limitations in foreign currency convertibility and transfers, creating a challenge for companies looking to optimise global liquidity.

Freeing trapped cash across an organisation requires a multi-faceted approach to ensure visibility, control and optimisation, as well as maintaining optimal account/banking structure within the confines of the tax and regulatory environment.

When companies make trapped cash more accessible and usable, hence increasing its value, they are able to pursue the following opportunities:

- **Strategic:** stretch trade payables and shorten the trade receivables terms and/or with re-invoicing centres to mitigate trapped liquidity issues.
- **Local investment/acquisition:** establish business units in markets with high levels of trapped liquidity.
- **Optimisation:** balances in some restricted jurisdictions can be used to offset borrowing elsewhere – interest enhancement/optimisation products.
- **Local yield enhancement:** relevant investment instruments and liquidity management tools include domestic pooling structures, local commercial paper, treasury bills, call deposits, domestic money market funds (MMFs), time deposits and local stock exchange, among others.

With reference to the specific situation in China, there are currency control policies: all cross-border transactions in the country require supporting documentations. Chinese currency is only used domestically before renminbi (RMB) internationalisation. Traditional ways to mobilise onshore cash include:

1. Dividend payment: a company in China can repatriate dividends to its holding company once or twice a year.
2. Re-invoicing centre, leading and lagging techniques by leveraging trade flows to minimise surplus cash onshore.
3. Local optimisations via domestic RMB and foreign currency inter-company lending and cash pooling among subsidiaries onshore.

Recent RMB internationalisation and steps taken by China's government in liberalising capital flow open a window for MNCs to achieve further treasury efficiency.

1. RMB cross-border inter-company lending (one-off loans): domestic companies can lend excess cash to overseas group/sister companies, subject to the People's Bank of China (PBoC) approval.
2. Cross-border cash pooling: multinational company (MNC) groups are allowed to establish 'cross-border cash pooling' structures to link domestic cash pools with overseas cash pools, subject to approvals by the State Administration of Foreign Exchange (SAFE) (for foreign currency) or by PBoC (for RMB).
3. Offshore financing which leverages financial guarantee: a domestic entity can pledge surplus cash with a bank in China who will issue a standby letter of credit (SBLC) guarantee to an overseas bank and that bank will extend a credit facility supported

by a SBLC. A SBLC in foreign currency is subject to a quota approved by SAFE, whereas a SBLC in CNY is no longer restricted by a quota.

As most of the recent policies are still under piloting stage, corporates intending to establish cross-border liquidity structures need to work with a partner bank to prepare a joint application for regulatory approvals. Citi is a trusted advisor which maintains close dialogues with Chinese regulators to structure the most efficient solution to help clients to improve efficiency in liquidity management.

Qilong Zhao, Implementation Manager, SunGard's AvantGard, China:

China's strict rules on tax, registered capital and foreign exchange (FX) are the main reasons for trapped cash among MNCs. Currently, we do have a number of options to release the trapped cash such as dividend and cross-border lending. But in the current market climate, the temptation is to keep cash inside China because higher yield can be earned in China than in other markets.

In recent years, the Chinese government has been taking steps to loosen regulations and internationalise RMB, such as lifting restrictions on RMB settlement for overseas countries and allowing the opening of offshore bank accounts and inter-bank transfers of RMB in Hong Kong. We have enough reasons to expect that these things will become much better in the future.

John Mardle, Managing Director, Cash Perform:

As China's economy has grown rapidly over the past ten years or so the corporate sector has actually left the small business market in China behind. Why? Because the focus has been on expansion abroad and delivering world class products (not services) to consumers throughout the world. However, now is the time for China to develop its service sector and commence the long haul of enabling its smaller and medium businesses to deliver efficiencies within its own internal supply chain. This will then generate service offerings that will deliver real cash flow enhancements throughout the Chinese economy.

Let's take the auto sector as an example. Chinese manufacturers have successfully integrated themselves within the western auto sector by producing high quality, low cost, high volume cars and vans. However, the area around design, marketing and the selling of vehicles has not been developed. These areas have therefore not been integrated back into the Chinese economy.

This means that when one reviews the whole financial supply chain, cash is being lost in some lucrative areas and is not finding its way back into the Chinese economy. The key is to establish suppliers in the Chinese economy who require working capital to fund technology, design and establishment of marketing and selling dealerships/franchises who can then market Chinese products to the working and middle classes of China and therefore stimulate internal demand for cash. ■

The next question:

"How can corporates in Asia mitigate trade finance risk?"

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

Heads in the cloud

Cloud computing offers treasurers the chance to revolutionise their workflow. The more technical aspects of the job can be outsourced and a treasurer can be sure they are always running the latest software version. But as with any new technology, there are plenty of questions that should be asked when selecting a vendor.

When it comes to buzzwords in technology, 'the cloud' is a popular recent addition. But while it may be a relatively new term, the cloud is not actually a new concept. It represents computing remotely rather than locally, with vendors offering technology solutions that are managed, serviced and hosted remotely, outside the treasury organisation. A software-as-a-service (SaaS) solution is a perfect example of a cloud solution.

As with any new terminology, definition is vital. Some vendors will claim that they offer a solution that is cloud-based because some components are run remotely; or they offer an older technology using an application service provider (ASP) model and call it cloud-based. This can lead to confusion in the marketplace.

When looking at cloud-based solutions, treasurers should ensure they are investing in new technology that they can trust will be expanded upon in the future. The benefit of treasury services in the cloud is that the treasurer does not have to worry about managing the technical infrastructure. Instead, they simply order a service.

With a web-based cloud service, there is nothing to install and no implementation programme to work through. The corporate's in-house IT department is busy enough with their internal systems, so the more that can be pushed out of house to the software experts, the better it is for both the corporate's business and IT functions. If something does not work, the treasurer simply calls their supplier who will then take care of the issue. In the payments arena this is a huge value proposition for corporates.

"The cloud computing story should be interesting to treasurers because of the level of innovation that they can receive via these services," says Joerg Wiemer, CEO, Treasury Intelligence Solutions (TIS). "Every customer is always running on the newest version of the software, which is a big difference compared with the way things used to work."

Enhanced functionality for treasury

Cloud-based solutions are available for a large number of treasury functions, such as the headline areas of cash management, payments processing and working capital transactions. Today they can also go deeper into functions such as risk management, derivative trading and tracking, and accounting services for the treasury and accounting groups.

Take payments as an example. The way that the treasurer manages their payments business with a relationship bank can be simpler, faster, cheaper and at a lower risk when using remote rather than local solutions.

From a relationship perspective, the treasurer maintains the direct relationship with their bank representatives. Where the supplier becomes involved is with the technical connectivity between the treasurer's treasury management system (TMS) and/or enterprise resource planning (ERP) systems and the bank systems.

Using a cloud-based service for this makes sense for the banks as well, as the core competence of many banks generally lies outside the area of systems integration and connectivity. Rather, their core competency in the transaction space is to execute and manage payments originating in different systems. From a bank perspective, if their corporate customer approaches them with a cloud service supplier, they know that the implementation projects connecting the customer to the bank's technological infrastructure will be quick and reduce the effort on their side.

"The cloud computing story should be interesting to treasurers because of the level of innovation that they can receive via these services."

Joerg Wiemer, CEO, Treasury Intelligence Solutions (TIS)

The quality of the data that the bank receives from a cloud platform can be higher than that directly from a corporate via different accounting or ERP systems in the front end. Many suppliers will check some customer data before sending it to the bank. They can carry out format mapping of the data, for example from the SAP payment format IDoc into a bank-specific format or the Single Euro Payments Area (SEPA) ISO 20022 XML format. This means that the error rate should be significantly reduced.

"A benefit of cloud computing is that a single solution can bring you visibility through your whole treasury function and workflow," explains Phil Pettinato, Chief Technology Officer (CTO) at Reval. "This means that you can consolidate this data and get value-added business process optimisation to aid your strategic decision making. There is a push by many treasurers to move out of the local processing of data in disparate systems, which is where a single cloud-based solution comes in."

Following the 2008 global financial crisis, treasury has become much more strategic within the corporate organisation. The treasurer requires the right solutions, analytic tools and technology in order to provide that strategic level of value back to the organisation. Running on legacy TMS that was primarily designed to track cash and payments may not be the most efficient option available today. The type of sophisticated analytics that the treasurer requires include elements such as:

- Valuation.
- Risk management.
- Cash flow at risk.
- Stress testing of portfolios.
- Bank account management, where accounts are globally and how they feed back in to foreign exchange (FX) hedging and exposure management for different currencies.

Manufacturers also need to understand the procurement risk on their commodities side and exposures to fluctuating commodities prices. All of this data needs to be packaged together into information that allows the treasurer to make the right decisions. If you are trying to do this using disparate legacy systems, by the time all of the data has been organised and analysed it is already old information. On the other hand, investment in cloud-based solutions all feeds into the latest version of the software.

"Cloud solution providers can keep up with market trends and compliance changes, ensuring that all service users remain up-to-date," explains Reval's Pettinato. "For example, if a currency was to be split out from the euro, the provider can change the software accordingly, roll it out in the next maintenance release and ensure that all clients are running the new version." You can't do that in an ASP/client server environment with multiple versions in the market.

A changing landscape

The shift to cloud computing for treasury is part evolution, part revolution. On the evolutionary side, when systems that the treasury hosts in-house have fallen behind current industry best practice due to either market or regulatory changes, they become due for an upgrade.

At this point, the cost of upgrading the system, which might be several versions back from the current version, can be problematic for the budget. There are also the issues of internal IT cost and the distraction to the business function as the new version of the same solution is tested and rolled out.

As previously mentioned, if the treasurer goes for a cloud-based solution instead, they will join the single version of software that they share with the community of other users, and won't be left behind in terms of the software they are using. This is currently one of the main drivers behind the adoption of cloud computing for treasury.

"I think there is also some revolution at work with cloud computing, as web-based technology is where the focus of technological advancement is," says Reval's Pettinato. "Everyone is realising that in order to get the benefit of, for example, global access to software in a real-time perspective so that subsidiaries and central treasury can all see their exposures, hedges and cash positions, you really need to have this technology. The availability of this technology in the market place is causing this change of mindset."

For most corporates with an IT budget, when looking for a new system to invest in they are looking to new technologies. Investment in a legacy-type product is not an appealing option.

The IT support provided by cloud solution vendors is another driver for adoption among treasurers. If a problem is encountered with a payments batch, for example, this can be solved quickly on the vendor side, without the treasurer having to arrange a long project. Removing any worries on the technical side of operations leaves the treasurer free to focus on the more strategic elements of the job that add more value to the organisation. TIS's Wiemer provides an example:

"I recently spoke with a CFO who had a new treasurer joining the company. They discovered that the PC-based station the company used to execute payments had broken down on several occasions. There were problems with their salary payments and suppliers were asking about overdue payments. In turn this created rumours in the market that the company had liquidity problems. The CFO knew that this problem needed to be resolved very quickly.

"Therefore, before the new treasurer could focus on the strategic business partner role of the job, he had to clear up the existing problems. This would not happen with a cloud service, as the provider would have identified and eliminated the problem much earlier."

The global picture

Globally, North American adoption of cloud-based treasury solutions has led the way. Today, Europe and Asia are catching up quickly, with request for information (RFI) and request for proposals (RFPs) for treasury systems increasingly showing a preference for the cloud.

"I have spent some time in Asia over the past few months, in places such as Mumbai, Singapore and Shanghai, to find out more about customer requirements," says Wiemer. "What I see is that the acceptance of cloud-based services is significantly increasing in all parts of the world."

> "Cloud solution providers can keep up with market trends and compliance changes, ensuring that all service users remain up-to-date."
>
> Phil Pettinato, Chief Technology Officer (CTO), Reval

"We have many clients across the Asia Pacific region in places such as Australia, New Zealand, Hong Kong and Singapore," says Reval's Pettinato. "Companies in Asia realise that there are technology trends from outside of their region that they can benefit from, and they are focussed on accepting those technologies they can take advantage of."

For those whose business touches Europe, SEPA can be a driver for the shift to the cloud. Currently treasurers have a systems issues related to SEPA, with the need to produce the SEPA XML format in the TMS/ERP in time for the looming SEPA migration deadline of 1st February 2014.

There are two basic options available to achieve this. The first option is to bring in an external consultant to configure the system to make sure that it is SEPA-compliant. Such a project can be time consuming, but perhaps a larger problem at the moment is that it is very difficult to hire such a format specialist consultant as they are likely to be fully booked.

The second option is to outsource this to a cloud provider that can deliver a SEPA out-of-the-box service. This takes the strain for the treasurer and can ensure compliance by the time the SEPA migration end date arrives.

Data security

With any remotely hosted technology, there are important questions to ask about where the data is and how secure it is.

1. A secure data mindset

The world is trending towards cloud-based solutions, so where data specifically resides is not necessarily going to be as transparent to everyone. The most important thing is that it is maintained in a secure fashion. Evaluate the company you are contracting with and what their security services are around providing these services.

2. Treasury experience

If you are a treasurer and want to shift into the cloud, be sure that the service has a good quality of management. Quality means experience in treasury – do they really understand your needs? Look for both experiences in developing solutions that fulfil your needs, as well as in operating these solutions.

3. ISO certification

When evaluating the data security available from cloud solution providers, treasurers should also look for ISO security certifications. This is a quality seal and shows that your supplier has done their homework. Does an ERP provider certify the solutions? Are they SAP-certified? It is important to know this information before making any purchase.

A cloudy forecast

The application of cloud computing is part of a transformation that is currently occurring in the traditional treasury technology space. With an increasing focus on risk management, treasurers are looking for sophisticated software that can match their ambition. A shift to the cloud is one way to achieve this. ■

Treasury talk: cloud computing

Treasury Today recently spoke off-the-record to the Treasurer of an international beverage company headquartered in North America and the Group Treasurer of a global sportswear manufacturer headquartered in Europe, to hear their take on cloud computing.

Treasury Today: *How long have you been using treasury cloud services?*

North American Treasurer (NA): We are relatively new to this type of service, having been using it for less than a year.

European Group Treasurer (EU): It is similar for us, we've been using cloud solutions for just over one year.

TT: *Which areas of your treasury use cloud computing solutions?*

EU: Our treasury uses a cloud solution for bank account management.

NA: We use one cloud-based TMS provider for all traditional treasury areas, including front office trading and back office confirmations, cash positioning, straight through processing (STP) of payments/settlements, short-term cash forecasting, and the general ledger interface of treasury activity to our ERP system.

TT: *What benefits do you feel that you receive from using treasury cloud services?*

NA: The cloud solution allows for maximum IT infrastructure flexibility in a straight through trading, confirmation and payment solution model. In addition, unlimited licensed users allow treasury to further roll out forecasting, reporting, and the inter-company netting process to business users outside of treasury.

EU: Yes it is similar from our perspective, the ability to run one global standard platform is key.

TT: *Do you have any concerns about using treasury cloud services?*

EU: Confidentiality would be our biggest concern.

NA: Yes, security concerns will always exist. We try to mitigate this risk with several layers of authentication and other methods of protection. The cloud service eliminates the concern of a long-term commitment versus the previous server installed investment model. Given the flurry of consolidation in the industry that we have seen of late, we weigh these concerns against the ability to maintain flexibility to participate in future technology improvements.

TT: *Are there other treasury functions in your department that you would like to move to the cloud in the future?*

NA: We would like to see additional back office paper for bank signatories, bank account documentation and bank invoice volumes and fees migrated to an all-in-one cloud service.

Adam Smith Awards 2013

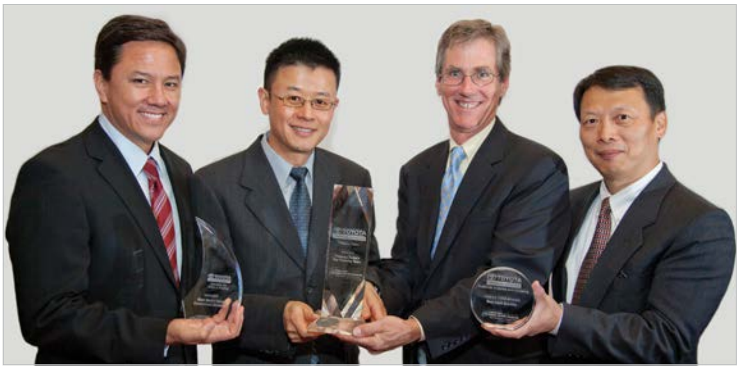
in association with Bank of America Merrill Lynch

The Industry Awards

"Winning Treasury Today's Top Treasury Team Award in 2012 was a fantastic achievement for Toyota Financial Services and it was an honour to receive recognition for the work we have been doing. Treasury is sometimes seen as a 'black box' and we were able to use the Award to show not only our Toyota colleagues but also our external investors the value of what we do. It also lead to us being asked to make a number of industry presentations which was great for the public profile of Toyota Financial Services while internally the Adam Smith Award has boosted morale within the team.

2013 is shaping up to be another tough year and we'll be back again to try and win more accolades but the competition will be tough. The Adam Smith Awards shine a spotlight on those treasuries that have had the foresight – and courage – to implement best practice processes and solutions. If you have done something interesting in the last year I encourage you to join us in entering. The more of us that enter the more we can learn from each other and recognise the enormous value that treasury brings to the business."

Wei Shi
Vice President, Head of Treasury and Finance
Toyota Financial Services



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Award categories

- Treasury Today's Top Treasury Team 2013
- 'First Class' Bank Relationship Management
- Best Cash/Liquidity Management Solution
- Best Short-Term Investment Strategy
- Best Working Capital Management/Financial Supply Chain/AP/AR Solution
- Best Card Solution
- Best Financing Solution
- Best Risk Management Solution
- Best Process Re-engineering Solution
- Best MME/SME Treasury Solution
- One to Watch
- Best in Class Benchmarking

As well as our established Award categories, we have added three new categories for 2013:

- Best Foreign Exchange Solution
- Asia Pacific Regional Award for Best Practice
- Treasury Today Woman of the Year

China: in the fast lane

China, the world's second largest economy, has become a magnet for MNCs. However, MNCs are constantly battling with balancing their treasury activities with their businesses in both China and globally – facing obstacles by the country's limits on the overseas trading of the renminbi (RMB). We also talk to China's Lenovo on its experience in going global.

According to a Chinese proverb, in every crisis there is an opportunity. As economies worldwide continue to struggle following the global financial crisis, China itself has become the opportunity.

Reuters has estimated that in January this year exports from China grew 25% from a year earlier – higher than Reuters' forecast of 17%. A trade surplus of $29.2 billion was higher than market expectations of $22 billion. New lending by banks in the country totalled $172 billion, more than double the amount recorded in December 2012.

HSBC's services purchasing managers index (PMI) for China hit 54 points in January, up from 51.7 in December. Nearly a third of the firms the bank surveyed said they expected business to expand in the coming year. HSBC calculates that the services sector contributes 46% to China's GDP and is now equal to that of the manufacturing industry.

Official PMI figures from China's National Bureau of Statistics recorded a modest increase in non-manufacturing PMI of 0.1% in January, compared with the previous month. Broken down into specific industries, the figures found the construction industry PMI was 61.6% (a decline of 0.3% on December) and that the services PMI was 54.9%, up by 0.2%. Within that figure, retail trade, air and water transport remained above 60%, while declines were recorded in the hotel services, ecological protection, environmental management and public facilities administration, real estate and residential services industries. The manufacturing PMI for January was 50.4%, down by 0.2% on the previous month but above the 50% threshold that indicates growth.

Commentators have warned that statistics for January have been skewed by the reduction in working days for January last year because of the Lunar New Year holidays. But compared to developed nations, China still presents a strong economic picture.

In its Global Economic Prospects report, published in January, the World Bank noted that developing countries had recorded among their slowest economic growth rates of the past decade during 2012, partly because of the euro zone uncertainty. However, as the institution's President, Jim Yong Kim pointed out, developing countries have remained "remarkably resilient" during a global economic recovery that remains fragile and uncertain.

China's economy slowed to an estimated 7.9% in 2012 from 9.3% in 2011, its weakest rate since 1999, says the World Bank. Exports from the region contracted by 8% in the three months to September and caused industrial production growth to slow to 3-4% in 2Q12. Global growth during the same period, says the World Bank grew 2.3% and is expected to remain broadly unchanged at 2.4% in 2013. China's growth will accelerate to 8.4% in 2013 before stabilising at about 8% in 2014 and 2015 as the economy re-orients toward domestic demand and services, the report says.

According to the World Bank, in 2011 China's GDP was $7.318 trillion, generated by a population of 1.344 billion. The future of the country is promising, particularly with regard to development indicators. For example, the country outpaces its East Asia and Pacific (developing) neighbours in terms of life expectancy (73) and primary school enrolment (111% – which takes into account over or under-aged students). Between 1996 and 2004, the percentage of the population living on the national poverty line was reduced from 6% to 2.8%. (India, another engine of economic growth in the developing world, has 29.8% poverty levels and lower life expectancy, but matches China in terms of school enrolment.)

While China is closely watched, it is often misunderstood. In January, Qu Hongbin and Julia Wang, Economists at HSBC in Hong Kong, published a paper tackling what they termed as 'two myths' of the Chinese economy. "Myth one: China is export-reliant. Wrong. Conventional trade statistics overstate the economy's exports dependence. Myth two: China is losing export competitiveness. Wrong again. China is still gaining global market share," says the report.

The HSBC economists argue that China often acts only as the final assembler of parts and components made elsewhere. Citing the OECD's Trade in Value database, they write that exports contribute 18% to China's GDP, once exports with no domestic value added are stripped out of the figures. China's economy is far less reliant on exports than it appears at first glance, says HSBC.

The resilience of China's export market is attributed to two factors: low cost producers continue to benefit from economies of scale and quality differentiation; and China is becoming more competitive in higher value-added goods.

"Global demand will likely remain weak for a few more years and dampen export growth in the short term," says the report. "But beyond the current downturn, China has the potential to continue expanding its share of global exports given that it has 20% of the global labour force but still accounts for just 10% of global exports. This potential should be unlocked, as industrialisation and urbanisation in China's inland provinces picks up. As more inland cities become linked to the world market, they should further China's market share gains in global trade."

While international trade has slowed since 2008, the report's authors state that Chinese producers are gaining a bigger share of global exports than in the past and are positioning to gain even more market share when global trade eventually recovers. The same goes for China's economy: "China's current share of global exports at 10% is only half the level of its share of global labour force. The recent urbanisation push will help the economy unlock this potential. With transport and logistics in place, inland cities will replace coastal areas as China's new export engines. The positive spill-over from production to consumption will boost imports too," says the report.

China's rapid urbanisation is another factor often misinterpreted. So-called 'ghost cities' are cited as evidence that China's economy is over-heating and will collapse. However, commentators such as Stephen Roach, a Professor at Yale and a former Chairman of Morgan Stanley Asia, points out that in urbanising, China cannot afford to wait to build its new cities and instead aligns investment and construction with future needs.

A McKinsey study into China's urbanisation, published in February 2009, predicted that the country's urban population could hit one billion by 2030. "In 20 years, China's cities will have added 350m people more than the entire population of the US today. By 2025, China will have 221 cities with one million-plus inhabitants, compared with 35 cities of this size in Europe today and 23 cities with more than five million. For companies in China and around the world, the scale of China's urbanisation promises substantial new markets and investment opportunities," says McKinsey.

While China's economy slowed in 2012, it did not collapse, points out Stuart Parks, Head of Asian Equities at UK-based independent investment manager Invesco Perpetual. China's economy, he says, is rebalancing and the composition of growth is arguably becoming much more sustainable.

"Exports are contributing less to overall growth in the Chinese economy, although there are signs that these, along with infrastructure spending, picked up towards the end of the year. The new administration is unlikely to see the need to make wholesale changes," he says.

There are a number of measures that need to be moved forward, in China, says Parks, including capital account reforms and the introduction of a market-driven banking system to support privately owned small and medium-sized enterprises (SMEs). "If reform measures are not pushed through, the long-term growth of the economy will be impeded in our view. There may also be an increase in inflationary pressures, such as we have seen in India, if supply-side bottlenecks are not addressed."

Regulation

Although economic reform seems a recent phenomenon in China, it dates back to December 1978 when the first steps to opening up the country to foreign investment were made. Underpinning reform are myriad regulations governing the financial markets and business environment. For multinational companies (MNCs) that are attracted to the opportunities that China represents, knowledge of the regulatory environment is crucial.

"The regulatory environment can be complicated for treasurers of multinationals operating in China to navigate," says Percy Batliwalla, Head of Asia Pacific Sales, Global Transaction Services, Bank of America Merrill Lynch (BofA Merrill). "The central bank and government reporting requirements have a significant impact on treasury management activity, which is often different from frameworks in home markets. On-the-ground expertise and local market, regulatory and policy knowledge is vital for treasurers at MNCs in China."

The speed of change in China, particularly in relation to regulations, can take many corporates by surprise, says Sonia Rossetti, Head of Product Management, West at Standard Chartered Transaction Banking. "What is today a fact, can change overnight." Batliwalla identifies "three pillars" of the regulatory framework in China:

1. **China Banking Regulatory Commission** (CBRC), which is authorised by the PRC State Council to regulate the banking sector in China (excluding the special administrative regions of Hong Kong and Macau). It is also responsible for administration of the supervisory boards of the major state-owned banking institutions and other functions delegated by the State Council.
2. **The People's Bank of China** (PBOC), China's central bank, with responsibilities for formulating and implementing monetary policy, issuing renminbi (RMB) and administering its circulation and managing the state treasury. It also maintains normal operation of the payment and settlement system, guides and organises anti-money laundering (AML) work of the financial sector, and monitors relevant fund flows, conducts financial statistics, surveys, analysis and forecasts.
3. **State Administration of Foreign Exchange** (SAFE), which is responsible for drafting relevant laws, regulations and departmental rules on foreign exchange (FX) administration. SAFE oversees the statistics and monitoring of the balance of payments and the external credit and debt, releasing relevant information according to regulations and undertaking related work concerning the monitoring of cross-border capital flows. It also supervises and manages the FX market of the state and undertakes operations and management of FX reserves, gold reserves and other FX assets of the state.

Entering the Chinese market can look more complex than it is in reality, says Rossetti. "The Chinese authorities allow things to happen in a very controlled environment because they want to ensure their financial model is sustained. Many of the measures that are taken in the country are first piloted with a small number of multinational companies and banks and once they are proven, they are very quickly rolled out."

Recent reforms are enabling multinational companies operating in China to move their surplus cash outside of the country, approval of which is done on a case-by-case basis, says Yigen Pei, China Head for Citi Transaction Services. "This is a very important move and a positive step for MNCs as they look to move surplus cash outside of China."

RMB internationalisation

The internationalisation of China's currency, the RMB, is the big story for MNCs. In global trade terms, the RMB has risen from 30th to 15th in just 18 months, according to figures from financial messaging co-operative SWIFT. The moves to support internationalisation, such as relaxation of cross-border lending laws, are enabling corporate treasurers to free up cash that was previously trapped in the country.

Pei highlights that the RMB is not yet an international currency – only about 1% of the currency is held outside China. “However, cross-border lending in RMB is currently in pilot with a few companies. Once the Chinese regulators are confident that such a structure works, they will roll it out and we will see more RMB going offshore,” he says.

Despite it being early days, the internationalisation of the RMB has been a key focus for multinational companies, says Rossetti. “As China’s regulators continue to develop the regulations around the currency, multinational companies are looking to build structures that will enable them to move cash in and out of the country. The People’s Bank of China (PBoC) is piloting with a number of banks on plain vanilla processes such as pooling and netting for in-country and cross-border transactions.”

The pilot programme to allow RMB cross-border settlement began in July 2009 and has since been extended to regions and cities across China. Before the pilot scheme was launched the RMB was not permitted for cross-border transfer. No RMB conversion was allowed in the offshore market and no cross-border financing took place in the currency. The pilot scheme made it feasible for companies to invoice in RMB for cross-border trade of goods and services. RMB can be used for cross-border settlement and for a wide range of activities including generic payments and receivables, letters of credit, import and export collection and letters of guarantee.

RMB conversion in the offshore market is now allowed but is subject to an FX limit provided by the appointed clearing agent. Short-term cross-border financing of up to 30 days is also now permitted.

In January this year, Citi announced the completion of its first cross-border lending transaction in RMB on behalf of a European food company. The transaction was structured to optimise the company’s treasury activities by leveraging its China operation’s surplus cash. The lending to its group treasury centre in Singapore is a critical step to expand and include RMB into the company’s treasury management currency basket, says Citi.

Pei says the step creates a new treasury solution that enables corporates to connect China with their regional and global treasury centres, and achieve greater efficiency in their global fund usage and allocation. “This will also signify important progress of RMB internationalisation by establishing a bigger role for the currency in multinationals’ treasury management globally.”

Standard Chartered has also been active in this area. In November last year it became the first foreign bank to gain approval for a RMB3.3 billion loan quota on behalf of a US global manufacturing and technology company. In addition to ensuring that the submitted application met the various key requirements (satisfactory cross-border lending rate, tax requirements and ability to monitor the utilisation of the quota) set out by PBoC, Standard Chartered is responsible for proposing the most efficient cross-border lending structure to support its client’s business goals. The quota is expected to support the MNC’s Chinese office’s ability to lend RMB to its overseas parent or other related companies which can in turn settle RMB denominated invoices.

George Nast, Global Product Head of Transaction Banking, Standard Chartered, says the programme brings greater efficiencies and control to Shanghai-based treasury centres where corporations can negotiate for better lending frequency and rates that match their actual needs.

Cash management

The internationalisation of the RMB, along with simplification of payments processing and account structures, are significant factors for corporates treasuries in China, says Pei. “It will take time for these changes to come into effect, but they will ultimately help multinationals to speed up structures such as shared service centres (SSCs) to optimise their payments activities. Cross-border pooling and netting in foreign currency, which also has recently been allowed, will help corporates to optimise treasury and cash management.”

He believes the priorities of multinationals operating in China have changed; a decade ago when companies were first moving into the country they wanted to ensure they had multi-bank capabilities and efficient processes. Operations were largely decentralised. Today, says Pei, corporates are looking to centralise processing and treasury management, which has been driven by the financial crisis. “Companies need to know what their future cash flows are and are looking to better use their internal working capital.”

When macroeconomics, demographics and demand dynamics are considered, the business ambitions of MNCs operating in China must be supported by efficient cash and liquidity management structures, says Batliwalla. MNCs in China have become more proactive in their approach to cash and liquidity management. “Increasingly, they are identifying the establishment of a streamlined banking structure, with a consequent reduction of costs, through improved use of effective payment and receipt methods, as a treasury priority. Accurate and timely reporting of communication of cash flows, which enable enhanced returns on cash balances, are also in the front of mind for MNC treasurers in China. Unsurprisingly, MNCs we talk with have also earmarked liquidity, improved controls, cash visibility, lowered financing costs and moving idle cash for regional and global deployments as major treasury management priorities.”

Technology is also an evolving focus. An increasing number of corporates are launching interfaces with ERP systems for payments, reconciliation and accounting efficiency. Similarly, electronic banking systems that provide high levels of security and technical support and streamlined account structures with simplified bank account management are becoming more common in China treasury spaces.

Batliwalla says MNCs in China are embracing a centralised treasury management model. “This is likely to continue and in greater numbers, MNCs are establishing payment factories, SSCs, centres of excellence and even global business service centres to centralise daily flows and achieve operational efficiency.” Furthermore, many MNCs are looking to improve returns from normal cash investment and FX deals under the proper risk controls, he adds. “More sophisticated treasuries in China are leveraging consultancy services from global partner banks to offer detailed information of local regulation, on the China macro picture and the larger domestic market.”

Citi’s Pei says multinationals now view China as a very important market and want to ensure their treasury

Chinese corporates go global – Lenovo Group　　　Case study

lenovo

Lenovo Group Ltd is a Chinese multinational computer hardware and electronics company with operations in more than 60 countries worldwide. In 2005, the company acquired IBM's personal computer business. Group Treasurer, Damian Glendinning talks to Treasury Today about his treasury operations.

What were the challenges following the transformation from being a Chinese company into a multinational?

The challenges mostly related to the business outside China, where everything had to be built from zero, as Lenovo did not have any operations outside the country before the acquisition of IBM's PC business. The treasury operations inside China were operating smoothly and as efficiently as was possible within the regulatory environment – so there was no reason to change anything or interfere with them.

How does Lenovo integrate its Chinese treasury operations with its global operations?

For the time being, the two are still relatively separate. This is due in large part to the regulatory environment in China, which makes it difficult to use the cash we generate there to fund the business outside China, where our profit and cash generation record has not been as strong over the years. Having said that, all treasury is part of the same team, and we are able to vary payment terms on inter-company transactions to balance cash availability and needs, within limits.

Is the regulatory environment becoming easier (eg freeing up surplus cash in China)?

The regulatory environment is definitely becoming easier. The internationalisation of the RMB is going faster than any of us expected, and a lot of things are now becoming possible which could have only been dreamed of a few years ago, such as cross-border RMB pooling. However, this is still an evolutionary process: a lot of the changes are still in the experimental phase, and there is still tension between the desire (and need) for a more open system, and the – very good – reasons for which the controls and regulations were established in the first place. So not all the pieces are in place for a fully open system, and there will still be some time and some experimentation before the regulations are totally user friendly.

What advice would you give to treasurers of MNCs seeking to do more business in China?

The main advice to treasurers of MNCs doing business in China is not to expect business to be done the way it is in their home country. The regulations have shaped just about every aspect of how cash and treasury is managed in China, and the fact has to be accepted and acknowledged. It is important to hire good Chinese staff – and to listen to them. They have experience of the system and how it works. At the same time, it is important to be open to the changes, and to move to take advantage of them. However, many new regulations and processes are initially introduced as an experiment, so do not expect full certainty on day one – it is important to be able to live with a degree of uncertainty.

What are the current challenges for your treasury operations and how do you plan to overcome those challenges?

There are always many challenges in all operations. Frankly, China is not the area of our operations that causes me the most concern. To an extent there is a problem, it is keeping track of all the changes, and knowing what is the best time to implement them. But it is a good problem to have.

operations in the country are efficient and are connected with regional or global pools to the greatest extent possible. "This will depend in part on the market and further deregulation. China is still undergoing structural changes and companies will have to adapt to the specifics and changing dynamics such as a rebalance between export and domestic consumption, digitalisation and increasingly sophisticated consumers."

As the market evolves, says Batliwalla, corporates are addressing working capital efficiency challenges. For example, some have taken steps to shorten AR terms while at the same time, prolonging AP terms, incurring minimal or zero costs. Additionally, MNCs are mitigating their AR risk more actively or looking to remove some of the ARs off balance sheet, for which banks are developing more complex AR financing products. He says there has been a clear improvement across the industry in document flows and funding flow management, driven by a willingness by MNCs to leverage solutions and systems by banks to greater effect.

To maximise trade activities and operations, MNCs in China have gravitated towards supply chain programmes offered by local and international banks. "Although not a novel concept in China, supply chain finance (SCF) programmes have become more entrenched as MNCs take a more involved role in the working capital cycle of suppliers and vendors, and look to further enhance their relationships domestically. More recently, as MNCs look to take advantage of liberalisation policies regarding cross-border trade flows, many are turning to banks to provide solutions to manage cross-border settlement and other funds flows." ■

Give and take

Open communication and an agreed level of honesty are crucial to a harmonious relationship. Many corporates and banks are sitting down for heart-to-heart discussions around what they need to get out of the partnership in order to take it to the next level of mutual benefit.

A banking relationship can be likened to a marriage: it is a long-lasting commitment, built on shared objectives, trust and respect; usually involves an extended selection process, or courtship; and both parties need to benefit in order for it to last. "And in both cases you should have a full prenuptial agreement in place," quips a Senior Treasury Manager from a large consultancy firm, who asked not to be named.

Corporate treasurers normally fall into two categories with regards to how they engage with their banks. There are those who have viewed banks solely as vendors of products and services, a 'marriage of convenience' in essence. Price is the sole driver in the relationship and they commonly play banks against each other in order to get the lowest fees possible. These corporates keep their business operations close to their chests and their banks very much on the outside.

The second type is comprised of those corporate treasurers who have taken a more holistic and forward-looking view of their businesses and relationships. These treasurers want to promote open and honest information sharing with their banks, and bring their relationship banks deep into their organisation. In addition, they are well aware that there needs to be a 'win-win' element to the relationship and that banks need to turn a profit too.

"In good times, those corporates that took a 'vendor approach' to their banks arguably had the upper hand," says Carole Berndt, Head of Global Transaction Services EMEA, Bank of America Merrill Lynch (BofA Merrill). "However, in tough times it's the corporate treasurers who invested in the relationship that have the advantage. Their banking partnerships have brought more to their organisation by providing information, resources and consulting services, such as help with euro crisis planning and Single Euro Payments Area (SEPA) readiness."

Berndt believes that if previously the split was 60/40 in favour of the banks-as-vendors model, since the onset of the economic crisis the relationship model has become the prevailing one.

This conversion has largely been driven because banks are now directly connecting corporate working capital credit facilities to cash management transactional business.

This is a knock-on effect of Basel III and return on capital pressures, which are forcing banks to review certain business areas. They find cash management a particularly attractive business because it is transactional and fee-generating. Therefore it stands to reason that if a bank is providing much-needed credit to a corporate, then they will also want a share of the corporate's cash management business.

And credit is considered 'much-needed' by many corporates. Refinancing/ensuring availability of long-term funding and credit lines is treasurers' top concern, according to the PricewaterhouseCoopers (PwC) Treasury Survey 2012; therefore when a corporate is choosing a new cash management bank, it often picks one that is part of its credit relationship in order to give some business back.

Many corporates are now taking a keen interest in how they can deliver bank relationship information. In order to guide their decisions, today's "savvier" treasurers are pulling together a much more detailed picture of their wallet, believes Steve Dwyre, Managing Director Global Corporates, Lloyds. "The most productive discussions we have happen when we perform account planning with a client, mapping out their entire banking wallet, where they spend their money and where financial institutions make money."

Treasury consultancy Zanders also works with clients to map out their wallets, for example Royal FrieslandCampina, with striking results. The 'wallet sizing' model developed jointly included all the company's worldwide banking partners and helped it to extend its €1 billion general purpose syndicated credit facility in the last quarter of 2011. FrieslandCampina used the model to prepare itself for one-on-one negotiations with its syndicated banking partners and resulted in its facility being extended out to August 2015 at substantially lowered margins.

However, as many are finding out, if the wallet is not proportioned out fairly, then this can lead to a difficult conversation when a corporate comes to renegotiate its credit lines, as the bank may decide to place its credit elsewhere.

The bank/corporate relationship is complex but if both sides can hit the right balance, it can prove to be a powerful stabilising and strengthening force in the current turbulent market.

A how-to manual for a strong relationship

It is worth noting that some banking relationships last longer than many marriages. One Assistant Treasurer from a large global food company reported that its banking relationships have been fairly stable over a number of years. "For example, our cash management providers have been unchanged (except for mergers) for more than 25 years," he says. "Our top lenders have been the same since 2001."

The company has a large banking group of more than 25 banks. "We see value in having a lot of relationships because it reduces the hole to fill if a bank drops out (in the case of a merger) or changes strategy," he explains. "A downside to a large bank group is keeping them all happy from a fee perspective and the time it takes to meet with such a large number of banks."

According to a June 2011 Financial Director Bank Survey, the majority of corporate clients that have maintained a stable relationship for at least five years (73%) are significantly less likely to switch banks. Asked why they did not intend to change banks, 54% explained that their loyalty was a result of general satisfaction with their banks, but there was also a sizeable number (51%) who cited the difficulties of switching as their reason to stay put. Almost one in five (19%) felt that switching banks would complicate transactions, while 13% thought the cost of switching was too high.

If breaking up is hard to do, what steps can treasurers and banks take to get the best out of their relationships? Dr. Mark Goulston, founder of CouplesCompany.com, argues that the foundation of a lasting partnership – although he means marriage, this can be applied in a corporate/bank relationship context – rests on six building blocks that form the acronym CREATE:

1. Chemistry.
2. Respect.
3. Enjoyment.
4. Acceptance.
5. Trust.
6. Empathy.

Chemistry

Chemistry is all about how well suited counterparts are in terms of business goals and approach. "Fit is a key element for a good banking client relationship," explains Lloyds' Dwyre.

In order to truly understand how well they fit together, corporates need to be open about their total wallet, business operating model and where the opportunities are. In return a bank also has to be clear as to what business lines are important to it and where it is operationally committed, as well as what it can and can't do well.

In the turmoil caused by the economic crisis, many banks retrenched to home markets and have focused on just one or two core competencies. Honesty as to where the business is concentrated is much appreciated by corporates. For example, if a corporate is splitting its business between Europe and the US, a bank may decide to only bid for the US cash management business. Most corporates will not see this as a sign of weakness but an acknowledgement of where the bank's strengths lie. Being honest and straightforward fortifies the relationship.

Respect

Respect is demonstrated by how well a party listens to the other. Dwyre agrees that the quality of a relationship directly correlates to the richness of dialogue. "In a marriage, if you are not talking then things aren't going to go well. A good quality relationship allows for the two parties to connect, identify what's really vital and work through it together," he says.

For a treasurer it is essential to have a bank that understands the corporate, its business processes, drivers and operations. Importantly, this includes listening to what it needs. "Corporates say that the best banks are the ones that really make an effort to understand what their business is and to be proactive in offering advice," according to David Kelin, Partner at Zanders UK LLP.

Enjoyment

Enjoyment is all about the people and very often it is key bankers that really cement the relationship – those people that go the extra mile and show the same level of commitment in a client's business as the corporate itself. Corporates want to have a hotline to one person at the bank that can make things happen when something goes wrong – and most admit that they would pay extra for this immediate responsiveness.

If those key people leave, then that could potentially pose a problem for the relationship. The consultancy's Assistant Treasurer says: "Stability of personnel is important. As they begin to understand your needs, it is crucial that the team remains in place to continue to provide suitable ideas over an extended period."

Acceptance

Acceptance is about feeling welcomed as you are, as opposed to having to prove yourself. It is essential to get to the place where both corporate and bank are able to speak openly and frankly (within the parameters of the business). Sharing information avoids misunderstanding, as things are not left unsaid or implied.

"Through that frank exchange of information, which only happens when you trust each other and this comes back to partnership and relationship, you can then broker an agreement or understanding of where value exists for both parties and what mutual support is needed to make it work," says BofA Merrill's Berndt.

Trust

Trust is a dominant theme in any relationship. It takes seconds to destroy trust and years to rebuild it.

With the current climate in mind, treasurers are placing more emphasis on the reputation and overall positioning of their banking partners. "Corporates want to see a credible strategy, a strong balance sheet and commitment from their banks," says Dwyre. "They need trust in the individuals they're dealing with but also the bank as an institution, particularly in this market environment – corporates want to be sure that their banking partner is here to stay."

It is trust that gets a relationship through the rocky patches. "The true test of a relationship is if one stands by the other when the going gets tough," says Berndt. "There are times when we have to make tough decisions around client selection and support. And without exception when we reached the brink of a critical decision, the tenure, transparency and depth of relationship are the biggest factors as to whether or not we are able to commit to the transaction."

Empathy

Empathy is about understanding, attention and care. When corporates put business out to tender, some ask that a relationship bank be brought into the tender process, even if the bank isn't known for that specific task. In this sense, the bank is not excluded from the process but given the opportunity not to tender.

From a relationship point of view, it is important that a bank is shown what a company is doing in its tender process and also gives it a chance if it has recently expanded its offerings. "For example, if a traditional cash management bank creates a debt capital markets team and wants to lead a bond deal, when normally we wouldn't have seen them in that role," explains the food company's Assistant Treasurer. "Banks may not like to be pigeon-holed for certain services, but our return model is based on banks earning fees in some areas and leaving fees to other banks in other areas."

The spark: innovation

What is omitted from the CREATE model is innovation, which is vital for a lasting and durable relationship. A happy marriage is not just about the boring, everyday routine, but also continual change, development and spontaneity in the relationship.

In the corporate world, treasurers probably look more for proactiveness in their relationship banking partners than spontaneity per se. As treasurers are busy doing their day-to-day work, they would like their relationship banks to think ahead and proffer advice for future challenge, or in the case of a sudden event, to respond swiftly to help them through the crisis. For example, when the Arab Spring uprisings spread to Egypt, Citi reacted by setting up a response team to bridge the gap between in-country teams and overseas parent companies. From a technological perspective, the bank linked all the local systems, so that the team could see any transactions that were delayed or stuck due to infrastructural changes on the ground, which allowed the bank to give informed responses crucial to its clients' business.

A corporate with a strong banking relationship in place can take advantage of such bank-led innovations, as well as working together with the bank to develop new initiatives. For the Assistant Treasurer at the food company, "innovative ideas that reflect our needs and understand our situation" is the single most important factor for him when deciding on core relationships.

Interestingly, the shift to a more relationship-focused model is also driving co-operation between banks. "In response to a major client, we are now working with one of our competitor banks to architect a solution unique to that client," says BofA Merrill's Berndt. "This is only possible when a corporate treasurer is open with its banking partners, by engaging and bringing us into what is happening in his business. He is effectively getting more from the two banks working together to solve the problem, than he would were he to deal with us individually. Plus he will obtain a solution that is game-changing for his business." ■

Corporate Treasurer Survey: Bank Relationship Management 2012

- 44% of corporate treasurers polled believe that both parties profit equally from their primary banking relationships. Only 12% thought that banks were the sole beneficiaries, whereas another 36% thought that the banks gained more out of the relationship.
- 65% believe that there is room for improvement regarding the current fees and earnings credit rate; only 17% are happy with the current arrangement, whereas 18% didn't know.
- When negotiating with banks, 10% said that their banks didn't budge, while 48% said the bank gave them everything they asked for. More than one in five treasurers said that they had never tried negotiating with their bank.
- 41% wished they had more time to proactively manage their banking relationships.

Source: The Montauk Group

Conquering talent challenges in Asia

Across Asia, with its diverse cultures, market growth and priorities, the successful recruitment and retention of talented and appropriately experienced treasury professionals continues to be a priority and a challenge.

Scarce treasury talent with the right specific treasury skills and knowledge in addition to multi-country experience is an issue for organisations operating in the East, says Marie-Astrid Dubois, Assistant Treasurer, EMEA and Asia at Honeywell. “While highly qualified professionals can be found in financial centres such as Singapore and Hong Kong and some relief is provided by returning students or migrations from Western countries to Asian countries, the talent pool is proving too small for the large corporations and domestic firms to fish from.”

An unique landscape

The disparity across the various countries that make up the Asian continent exacerbates this challenge. This fragmentation of culture and conflicting stages of development across the Asian landscape can have a negative impact on employee engagement – for existing staff and talent that a company is trying to attract. The skills and requirements of individuals from different countries is difficult to discern, says Joseph Lee, Treasury Director, Asia Pacific Japan and Africa at Hewlett-Packard (HP), so it’s important not to rely on a one-size-fits-all retention programme in Asia. “In Singapore, for example, it would be easier to retain staff with a programme that allows them to work at home, as a work/life balance is a priority in this country. Emerging economies like Indonesia, on the other hand, are likely to have staff attracted by high pay scales than any other incentive.”

A generic approach to talent management in the region could therefore prove rather futile. What is effective for a company based or headquartered in Asia would likely be considerably different to a Western-based multinational. So attracting and retaining talent may need a different approach, according to Sharon Miles, Director at Spencer Stuart, and treasury talent is no different. "The risks, challenges and opportunities in global markets and Asia in particular, over recent years mean that corporates and their boards are revising and analysing their treasury agenda and their hiring strategies. They are determining what the most appropriate solution for their own circumstances is – particularly one that is effective across all jurisdictions in the region."

Another obvious trend and challenge when it comes to hiring and retaining talent is the fierce competition between multinational companies (MNCs) and domestic firms. Fishing from the same pool of resources, MNCs and local organisations are striving to make their available roles and company more attractive and high potential candidates are in the advantageous position of choosing a suitable role after weighing up the pros and cons of each offer. The MNCs will likely win out in this battle, according to Lee, as they are capable of offering roles based on individual skills, plus the ability to cross various breadths of functions is much higher for career-minded staff within a multinational firm. "If we look at the graduate recruitment exercises that typically occur in many countries across Asia, MNCs have a higher success rate at recruiting the top 10% of graduating cohort from prestigious schools than domestic firms."

"That is testament to the lure of an MNC over a domestic company. Domestic companies usually compete for the next level in the resource pool and this is proving quite a challenge for these firms looking to attract the best talent."

Adding to the concern of these local corporates is the increasing inclination for MNCs to hire from the region itself, rather than bring expat talent into Asia (Dubois' entire Asian team is recruited locally for example). Furthermore, from the perspective of ambitious talent facing this choice, experience gained in a global corporation can prove invaluable when interested in climbing the career ladder, says Miles. "While talent is always a high priority, extremely high value is placed on experience and especially experience gained in blue chip environments."

Yet local Asian businesses have not given up the fight, and those with a regional focus are increasingly identifying both internal and external talent, as well as becoming more sophisticated in how they assess and develop their talent. This drive and activity may go some way to explaining such a high staff turnover within Asia: loyalty is lost as talent look for the best way to further themselves professionally.

Management strategies

Whatever the decision, employees need to see that the organisation they migrate to, and stay with, has a transparent plan in place that allows them to develop as individuals with the potential to fill important roles within the organisation. Many organisations have programmes that are part of their recruitment and retention agenda; however, how effective each initiative is depends, not only on the sophistication of the company, but also on the corporate's ability to understand how to draw talent out. During times of crisis – such as the current economic uncertainty – these schemes can come under pressure, says Miles. "Nevertheless, the challenge remains to provide high potential and talented executives with both the breadth and depth of experience in their development, balancing the need for progress and advancement with gaining sufficient depth and traction to consolidate their experiences along the way.

"Companies who do this well do so during all stages of the cycle, consistently through the boom and the down times – monitoring, assessing, tracking, rotating, developing talent and understanding what local talent values and needs and promoting from within."

However, with candidates typically subjected to a very rigid initial hiring process in order for the company to identify talent, it may be sometimes difficult to determine the success of the talent programme itself. Nevertheless, it is the consistent and continuing efforts from management level that will allow the candidate the best chance of fulfilling their potential, according to Lee, who speaks of his experience with British American Tobacco. Lee held the position of Regional Treasury Manager, Asia Pacific from 2001-08 and Shell Treasury Manager Downstream East from 2008-12. "Senior management, along with HR, would identify high potential individuals and plan next roles for shortlisted persons as part of their development. This short to medium-term plan allows the individuals to understand how they will be progressed within the organisation and what they need to do to get to the next level. This stage is actually very critical – the ability to assess each individual's contribution and ensure management follow-through of the development plan," says Lee.

Elsewhere, Honeywell employs recruitment and talent programmes in all of its subsidiaries globally, and Dubois acknowledges that the retention issue is more visible in emerging countries than in the Western world. "We are very involved in talent discussions and evaluations, high potential training and retention programmes. I would also stress the notion of regional or sub-regional teams to create critical talent mass. Sharing best practises, discussing issues to create a knowledge pool and feeling part of a team makes a huge difference."

A global perspective, the necessary depth of experience and sufficient exposure across the full breadth of the treasury portfolio are all essential in moulding a fully rounded treasurer with the necessary leadership credentials that are crucial when considered as part of a succession programme. But, according to Miles, "the trend to consolidate and control the treasury function from the corporate centre, driven from both a risk management and an efficiency point of view, challenges the ability to develop treasury talent and capability within the broader organisation and across the region. Opportunities to gain the necessary experience can often only be available within the corporate centre or by moving to another organisation."

Strengthening the pipeline

Nevertheless, forward thinking companies that employ a management strategy well have a reasonable concept of what talent looks like and will be anxious to establish clear and visible leadership responsibility across the business to facilitate succession planning. Organisations are becoming more sophisticated in how they assess and develop the talent, and are introducing more disciplined structures, processes and systems to manage their talent.

With localisation targets ever popular, rotational programmes are very much de rigueur as high potential employees are groomed for future executive positions – minimising the requirement to hire expatriates. An advocate of local recruitment herself, Dubois puts a lot of effort into cross-regional training for her staff, encourages talent discussions at the regional level and provides maximum exposure for the high potentials (so called 'high touch'), enabling regular contact between the employee concerned and C-level executives. "Also of huge importance is a close working relationship with HR, which helps me focus and adjust talent strategies accordingly. We then organise performance assessments twice a year that allow us to properly track progress and adapt training. Competitive compensation also helps with retention, of course."

Yet it can be difficult to retain talent if, after years of investment and development, the senior roles are not opening up or decisions are taken to recruit externally. Sometimes the only way for frustrated talent to make the transition into a core treasury position is to leave the organisation altogether.

There is no simple solution to ensuring smooth succession, says Miles. "It takes time, attention and commitment to a culture that continuously fosters and delivers talent development, mobility and promotion. Understanding what the talent in Asia needs and values is important."

But there are occasions when these roles do open up, and when they do, it's imperative that a qualified candidate is willing and able to fill that position. In this succession planning, management involvement and commitment to the process is one key success factor, according to HP's Lee. "The identification of high potential candidates, coaching, mentoring activities all involve management time and effort. It cannot be delegated downwards or left to the HR function to manage."

"When we identify candidates who will be taking over the role of the current employees in a certain number of years, it is sometimes questionable as to whether the chosen candidates will be trained sufficiently for the role when the time comes. This would take a huge amount of commitment that not all companies are always ready for," he adds.

Ultimately, gaining appropriate exposure and experience across the strategic, operational and leadership dimensions is key to ensuring there is a pipeline of well-rounded, experienced talent in the business, says Miles. "For treasury executives this includes understanding the business well and gaining sufficient exposure across the treasury portfolio and the various instruments, networks, relationships and transactions is important.

"Successfully leveraging experience from within the global business where this is available, to develop local talent, needs to be tempered with an appreciation of what is important for the local talent pool."

Team spirit

But not every high potential case is a success. Some may not live up to the standards initially set for them and others may possibly decide to opt out of the talent programme altogether. Meanwhile, there are staff members who are quietly working away delivering value for shareholders: these employees also have development requirements, according to Lee. "Although high potential candidates will have more opportunities than their peers for career programmes offered by their company on account of the limited resources available, the development and aspirational needs of employees who are not identified as high potential within the company should not be neglected. They contribute to shareholder value as well."

Lee cites a very effective scheme that was employed in one of the companies he worked for. This company segregated the staff into three buckets: the lowest bucket (10% of all employees) that the top line wanted to manage out; the top bucket (10%) which was considered to be high potential; and the bulk core bucket that would hold 80% of employees. "The bulk core bucket contains people that contribute value at their individual levels. We call them the achievers – these people achieve the results for the company but are not identified in the high potential silo," says Lee.

> The trend to consolidate and control the treasury function from the corporate centre, driven from both a risk management and an efficiency point of view, challenges the ability to develop treasury talent and capability within the broader organisation and across the region."
>
> Sharon Miles, Director at Spencer Stuart

Although HR and senior management do not look at these 'achievers' as closely as they would the top 10%, it is up to management nonetheless to provide training and motivation such that these core business contributors feel that they are involved in development strategies and are important in achieving the company goals. In fact, some of these mid-level employees actually turn out to be high potential talent when encouraged appropriately. Says Lee: "It is therefore very important that management continue to develop these people so that they can realise their potential. Likewise, the employees that are not in the top talent bracket must ensure that they continuously review their career plans and aspirations. They should then make themselves and their requirements visible to the managers."

Every team has a mix of talents and it is important to ensure that every employee feels that they have an essential role to play in order to distinguish their company as a winning team, agrees Honeywell's Dubois. "I try to develop each and every member of staff to their full potential so that everyone feels that they contribute towards the value of the team. I want everyone to be proud of what they have achieved. I do not believe in concentrating on one special 'talent' – everyone has his or her part to play.

"Yet competition for talent is there and we need to be mindful of that – especially with the current economic climate as a backdrop. But the important thing is to understand the people you have on your team, have a genuine interest in their development and what they want and encourage them to bring the most they can."

While investment in talent for the future is vital, success is invariably dependent on the entire team. Focusing solely on a few high potentials and neglecting your asset base of capable, loyal, committed and reliable people may prove a costly strategy in the longer term, advises Spencer Stuart's Miles.

"As the Asian economies continue to grow and the associated demand for experience and skill increases, companies that do not pay attention to developing and supporting their people will find this will come at a cost," she concludes. ■

THE CORPORATE VIEW

Honnus Cheung
Chief Financial Officer, Asia Pacific

TRAVELZOO®

With more than 20 years of finance experience in the high-tech and interactive media industry, Honnus Cheung is currently Chief Financial Officer (CFO) for Travelzoo Asia Pacific. Prior to joining Travelzoo in 2007, Cheung worked for Yahoo! Asia Pacific for nine years as Regional Finance Director. During this time, she was heavily involved in setting up the company's Asia office and gained much M&A including strategic investment in Alibaba Group, acquisition of Kimo Taiwan and integration experience. Cheung has also worked for American Standard Group and PricewaterhouseCoopers. Cheung is a full member of CPA Australia and HKICPA and holds an MBA from Northwestern University (Kellogg School of Management and Hong Kong University of Science and Technology) and a Bachelor's degree in Commerce from the University of Queensland, Australia.

Travelzoo Asia Pacific is an independently owned licensee of Travelzoo Inc. (NASDAQ: TZOO), a global Internet media company and a trusted publisher of travel and entertainment deals. With more than 25m subscribers in Asia Pacific, North America and Europe, and 25 offices worldwide, Travelzoo® publishes deals from more than 2,000 travel and entertainment companies. Travelzoo Deal Experts review offers to find the best deals and confirm their true value.

When Travelzoo expanded to Asia in 2007, the company recognised the growth in the region and this inspired and motivated its CFO for the Asia Pacific landscape, Honnus Cheung, to set up operations rapidly – a task she had already undertaken as Finance Director for Asia at Yahoo. Within a 12 month period, Cheung and her Travelzoo team had established seven offices in cities across the Asia Pacific region: Hong Kong, Beijing, Shanghai, Taipei, Tokyo, Singapore and Sydney. In order to serve this broad landscape effectively, some degree of local flavour was required, according to Cheung. "We have different versions of our product for each location we serve in Asia Pacific. Each location has its own production team and its own editorial team in place in order to bring relevant deals to the local market."

Travelzoo's revenue stream is divided into two parts: the first is the company's media business, which consists of the weekly Top 20 publication and Newsflash for which there are weekly revenue statistics. The second is the 'Local Deals' business, which provides voucher transaction opportunities for the online company's 25m subscribers globally and 3.5m in Asia Pacific alone. In launching this group buying product in 2011, Travelzoo joined Groupon in working with merchants to offer discounted deals over the Internet in the region. But while e-deals providers such as Groupon focus on product and price on a daily basis, Travelzoo focuses on the experience and quality, insists Cheung.

Originally starting out as a travel media company, Travelzoo slowly but steadily established a subscriber base of mainly white collar workers and business executives. When this elite audience was in place, however, the company realised that they could expand their offerings. "Two to three years ago, when we had our subscriber base established, we realised that when we sell a high value product such as a travel package worth $500-3000, our subscribers are likely to participate perhaps three or four times a year. So we decided to offer more deals, using the same stringent selection process as before but introducing experiences at spas and restaurants that can be frequented more regularly," she says.

On a weekly basis, Cheung and her team now discuss and negotiate with the various travel agencies, airlines, hotels, restaurants and spas to create deals that they feel match the expectations of their subscribers. The company distributes the Top 20 email newsletter to their subscribers every Wednesday morning and Local Deals throughout the month.

A financial union

For any company embarking on expansion to a new region, one of the first things that they will have to consider is starting the RFP (request for proposal) process. In Cheung's case, she was acutely aware that in order to successfully set up operations in five countries over a very short space of time, she needed to choose a bank that had an existing bank structure and presence in Asia Pacific. Says Cheung: "HSBC and Citi are two banks that would come to mind straight away as useful in this scenario, but I had actually used HSBC before and knew their capabilities well so it helped to sway my decision."

An important attribute of any banking partner's offering is the quality of their e-banking platform. For a CFO of an e-commerce firm looking for control and visibility across their treasury activities for the regional headquarters, this facet is imperative. HSBC's e-banking platform HSBCnet has proved both stable and robust enough for Travelzoo's financial requirements, according to Cheung, with a mobile banking application that allows her to effectively monitor finances while on the road. Yet, despite the widespread presence HSBC has across the Asia Pacific region, there are still countries that tend to rely more heavily on their domestic banks – most notably Japan. This has not fazed Cheung. "We still have the capability to connect with those countries that prefer to deal with their local banks – that is all part of our service. This is why it is important to lean on local banks in some regions, especially for the collections side of the business," she says. On a daily basis, Cheung's finance team sends an MT940 message (through SWIFT) to connect to each local bank concerned and then route this information back to the company's HSBCnet system.

Right sourcing rather than outsourcing

But banking services is not the only area in which the local landscape can be useful. When the company encounters intricate issues such as tax where each country will have different rules and regulations, Travelzoo has found it very beneficial to draw on the local outsource expertise. Not always an appealing option for corporates – especially in the case of well-established companies where the initial steps would be costly and cumbersome – Cheung agrees that outsourcing needs to be considered only under the right circumstances. "For any company considering outsourcing, the process needs to be already managed to a sufficient standard. If a process is standardised, it is a lot easier for a provider to manage your process as you both know where the benchmarks stand. If an outsourcing provider can match this standard then I am happy to let them do it." Setting this 'range' of standards also assists Cheung and her team when it comes to deciding which activities are required to remain in-house – some may need more of a margin of human judgement. While payables and accounting are examples of functions that are relatively easy to outsource, it's almost impossible to outsource the entire treasury function as it is unlikely that one company would have the magnitude of knowledge required for the regions covered by Travelzoo, says Cheung. "For example, if I receive Thai Baht (THB); whether I should exchange the currency today, tomorrow or at some date in the future is not going to be known by an outsourcing provider," she says, adding, "core decisions of the company such as these need to be made in-house where the business needs are best acknowledged. This is why it may not be easy to outsource the financial planning and analysis (FP&A) processes either."

Recruitment reality

A healthy attitude to outsourcing naturally has some impact on the human resources retained by Travelzoo, a relatively lean ship compared to perhaps a longer established company. When setting up operations in Asia Pacific with Yahoo!, Cheung oversaw 80 finance team members and did not utilise the service of outsource providers to a large extent, she believes that this decision essentially depends on the amount of product lines that the company has. "For Travelzoo, we currently only have two or three product lines so it is relatively easy to shape the process and establish standard operating procedures," she says.

Yet fishing in the talent pool is necessary at times, especially in such a vibrant industry with such high potential for growth, but Cheung warns that the e-commerce industry is a demanding one, requiring quick learners who will understand the dynamic business model and the pace of product development. The training process in Travelzoo involves consistent 'on the job' training and formal quarterly training, including soft skills training, team building and regional functional meetings. The company also accommodate inter-country talent exchange as part of their programme; this includes sending high-potential staff to the UK for training. Yet the recruitment market can be challenging across the Asia Pacific landscape, according to Cheung. "In China, the talent landscape is very competitive – as long as you want to hire someone with a good accounting background that can speak English. Hong Kong is a little less competitive than China but still fairly competitive in comparison to Japan and Australia."

In order to make a specific job or industry more attractive to potential choice employees, Cheung recommends that competing multinationals need to be prepared to gear their vacancies – or at least certain features of the roles – towards these young professionals, such as creating an open and fun organisational culture in the workplace and outlining a clear guideline of what promotional opportunities can be expected. Says Cheung: "Graduates are not only interested in the monetary gain, they are also researching the career opportunities they have with a company; they are seeking an exciting vibrant firm that allows them to grow and develop their skillset for the future." E-vision.

That said, Cheung believes that a good thing about e-commerce is that there is no generation gap issue – the main focus of the team is to be innovative and visionary, regardless of age. Coming from a manufacturing background (American Standard), Cheung has respect for the brick and mortar industry and acknowledges it's criticality across the globe, but thrives on the unpredictability of the on-line trade. "The product development in e-commerce is so quick; you never know what is going to happen next. I like this uncertainty, this challenge and flexibility," she says.

But of course there are dangers in this fast moving environment: a need to keep abreast of market trends (the global explosion of the iPhone, Android) and awareness of events on almost a daily basis. With manufacturing, a company will be able to plan what it will be producing five years down the road to a certain extent, but the ambiguity of future ideas/products is actually the main challenge for finance people in Travelzoo, says Cheung. "You need to establish what the treasury process will be and what the finance risk will be when you launch this product. But everything is happening so rapidly on the web and the internet can bring with it its own issues such as internet fraud and the need for optimum online security," she says.

Flexible planning

In the current volatile economic environment, many CFOs are, on the one hand, still using an annual budget to come up with a framework for three or five year plans but more rely on monthly or quarterly rolling forecasts in the light of an uncertain future. Cheung believes that having certain benchmarks and goals are healthy for a company to aspire towards in their FP&A. Taking the bottom up and top down approach (assessing account market involvement and settlement, and the competitor landscape) on a yearly basis gives Cheung and her finance team a more accurate financial planning as they actively reach out in order to understand more about the market and products before they conclude the budget with the operation management. "Based on these criteria, in addition to the GDP rate (affecting top line), CPI rate, and the interest rate (affecting costs) etc, we will ask the local team on the ground to discuss with their own finance team and submit the budget from their side," says Cheung. Based on these reports, and after several rounds of negotiations, presentations, the regional finance team will then come up with a realistic budget for the following year. At this point, regional HQ will also have some indication of potential milestones planned for the coming year (or three or five years). But Cheung is also aware that there are many unexpected events ie Japan's tsunami that may affect this well-planned calculation and force the company to resort to a rolling forecast. "We need to be flexible enough to re-evaluate our finances in the event of the unplanned as well as assessing the evolving competitor landscape at regular points in time. We need to be dynamic in our FP&A processes as we are in the internet account business – this year a product may work but it may not next year."

This means also being aware of the subscriber audience media. While one year, Travelzoo's subscribers may use more desktop hardware, next year they may rely more on social networking sites on a mobile – like Japan and China are doing. "We look at this from two sides," says Cheung, "one side is whether our product development can cope with the change of the flavour of the consumer; another facet is whether our budget processes can be changed quickly enough to reflect the reality of the latest landscape. Nonetheless, we need to adhere to the milestone budget – and stay as close to it as possible. It's a kind of indicator that we need to try to meet in order to optimise the business."

A global view

The dynamics of the global powers have witnessed a subtle but significant shift of power to the East as the volatile environment in the Western world – including the ongoing European sovereign debt crisis – continues to worsen. Travelzoo's subscribers still have confidence about the growth and stability of the Asia Pacific region, according to Cheung. Their audience is still very much willing to spend and the segment profile that the company targets also ensures the ongoing profitability of the e-commerce business. "One of the sectors that have been really affected by the global financial crisis has been investment bankers – such as layoffs and forced temporary leave – and this is the kind of market segment that we target. For the most part though, these executives will have accumulated a certain amount of funds over the years and may actually be taking this opportunity to go on an extended holiday, for example, as long as they feel confident that after a few months they will find another job." In this respect, Cheung feels that it has been beneficial to be in the travel/entertainment industry serving the more highbrow consumer as Travelzoo has enjoyed a small but steady growth in the wake of the crisis. Not only do her wealthy consumers suddenly have more time on their hands, but they are also more aware of the cost of their fine dining and quality living. Working on a reduced salary, the voucher model now comes into its own, said Cheung.

Yet proving her worth in such a vigorous and esteemed role, Cheung had not been content to rest on the profit laurels of the business and remains vigilant apropos the risk management and control of the company accounts. "Leveraging on the existing banking platform for the treasury function, I have centralised pooling of all my funding in one bank for real-time visibility, she said, adding, "I am currently looking into centralising the many different kinds of currency we use in Asia Pacific – thinking of ways that will assist the management of the various currency fluctuations and allow my team to optimise the idle cash for investment."

Despite the demands of the role, however, Cheung does get some opportunity to enjoy quality living herself, and believes that the best thing about availing of a Travelzoo deal is the all-round value for money. "Recently I tried a Travelzoo deal that I bought for the equivalent of $600. For this, I stayed three nights in beautiful quarters in the renowned Banyan Tree hotel where extras included high tea, free drinks and 30% off spa facilities. The service I received far exceeded the price I paid – this is a concrete example of what Travelzoo has to offer." ■

Building a sustainable treasury function

It might require change, but embedding sustainability into the day-to-day running of the treasury department doesn't have to be a chore. So keep an open mind and embrace the possibilities.

For some functions within the corporate entity, embracing sustainability is quite straightforward, or at least there are obvious initiatives to implement. IT can focus on low-hanging fruit, such as energy efficiency and the product development team could look at using recyclable materials, or building 'eco' versions of existing concepts.

But just having the treasury team recycle their plastic water bottles or work on energy efficient computers isn't going to cut it in this day and age, especially since sustainability goes much deeper than just being environmentally friendly – it's about mining for valuable information too. What this means is that treasurers must take a long hard look at their operations and policies to identify areas that could become more sustainable.

Fortunately, Treasury Today has done a lot of the groundwork for you. By speaking to award-winning treasurers and sustainability experts from across the globe, we have outlined key areas where treasurers can really begin to drive change. Unsurprisingly, the first of these is by getting rid of paper.

Saving trees, shedding costs

Still printing documents like its 1999? Well, the vast majority of office workers are, according to a survey released in December last year by Nitro, a company that delivers products to help people work smarter with digital documents. In fact, the survey results reveal that a mere 1% of us always – without fail – review documents electronically, rather than on paper. Like their legal counterparts, many treasurers are all too familiar with a paper-intensive workflow.

"When you're operating in a company that has hundreds of bank accounts and thousands of customers, paper is most definitely the enemy of efficiency," says the Treasury Manager of a manufacturing company, who wished to remain anonymous. "Getting rid of paper and going 'green' in the process has to be the way forward for treasury functions of any size. And it's not just about the impact on the planet, or the bottom line improvements. Think about the quality of your employees' work life. Do they really want to spend their days photocopying, filing and manually reconciling?"

A relatively early-mover in the space, Kellogg began a company-wide 'Go Green' initiative in 2005. The aim was to reduce the company's impact on the environment and the communities surrounding its operational centres. As part of these efforts, the company's treasury function identified an excellent opportunity to reduce the amount of paper flowing in and out of the department on a daily basis.

Almost 10,000 pieces of paper being handled each month and the equivalent of one full-time employee was dealing solely with manual reconciliation of receivables. With assistance from J.P. Morgan, the company underwent an electronic transformation.

✓ Paper reduction: a checklist for treasurers

- ❒ **Make the most of your bank's online offering.** Logging into your bank's online platform to view bank accounts will surely be much quicker than digging out the relevant file. It also provides added security controls and keeps an easily accessible record of reviewing and approval processes.
- ❒ **Embrace e-invoicing.** In addition to the cost benefits that have been so widely reported, e-invoicing leads to greater consistency and standardisation, which in turn helps to reduce organisational complexity.
- ❒ **Say goodbye to cheques.** Using electronic payments instruments improves visibility, reduces the risk of fraud and can significantly reduce costs. Consider wire payments, cards programmes and mobile solutions. Where customers persist in paying you by cheque, discount incentives for signing up to direct debit may be useful.
- ❒ **Consider electronic bank account management (eBAM).** Do away with paper-intensive account opening and maintenance procedures to really improve efficiency and control.
- ❒ **Set up digital treasury workspaces.** Whether in a secure cloud environment, or protected on your work server, archive reports and other documentation electronically. The search functionalities this provides can prove invaluable.
- ❒ **Printer etiquette.** If you or your team really do have to print, make sure it's double-sided and on recycled paper. Any non-confidential documents should be put in a recycling bin after use and a sustainable confidential document destruction programme implemented.

Best practice solutions were rolled out to allow the company to view a significant amount of its bank statements online. For receivables reconciliation, customer remittance information was also moved online. Not only did this electronic solution get rid of paper, it also made automated reconciliation far more achievable, and reduced the company's days sales outstanding (DSO).

In addition, Fifth Third Bank implemented an electronic remote cheque capture and deposit system for Kellogg. This meant that the company no longer had to use an armoured vehicle to transport cheques, thereby reducing cost and risk, as well as its carbon footprint. All this suggests that going paperless is the most obvious and wide-reaching way of embedding sustainability right at the heart of the treasury function.

The next link in the chain

Moving on from paperless treasury, the next area of sustainability investigation is supplier management. While the physical supply chain and the company's choice of suppliers may not fall squarely into the treasurer's camp, the bond between the physical and financial chains does make it their business. Even more so where the company is actively financing suppliers through supply chain finance (SCF) programmes, for example. What is more, having responsible suppliers can improve relationships and also reduce risk in both physical and financial supply chains.

Increasingly, companies are using matrices and questionnaires to measure the sustainability of their suppliers. Philips is a best practice leader in this space with a programme that stretches far beyond merely assessment to help suppliers to become more sustainable. The company's Supplier Sustainability Involvement Programme is built on five core pillars, see table below.

During stage one, the supplier sustainability declaration is made based on an assessment of suppliers across five key checkpoints: labour; health and safety; environment; management systems; and ethics. There are also general considerations such as the suppliers' compliance with laws and regulations. Suppliers can self-assess their compliance using an online Excel-based questionnaire on the company's website.

Business is only awarded to the suppliers that live up to the company's high expectations, but Philips also works with suppliers that need to improve their sustainability, as it sees this as a joint responsibility. Some companies do not have quite such rigorous supply chain standards in place, and many large food and beverage chains have been accused by the global press of simply chasing 'ecolabels' to bolster consumer sentiment. Nevertheless, it is widely accepted today that supply chain sustainability is not just the right thing to do from a PR and corporate social responsibility (CSR) point of view, but also from a company viability standpoint.

A step beyond

Aside from supplier assessment, there are a handful of other tools and techniques that come under the heading of supply chain sustainability. Supplier finance is one of these – by providing suppliers with access to credit at a lower cost than they would typically be used to and not squeezing them on payment terms, buyers are taking a responsible attitude towards supplier management. Ultimately, this builds a more robust and sustainable supply chain.

Elsewhere, reverse logistics is an interesting angle to consider. Sometimes referred to as the reverse supply chain, this is an often neglected part of the working capital management process – and sustainability initiatives. In a nutshell, it involves the flow of goods from the point of consumption back to the point of origin. While this may sound like the domain of logistics managers, there are good reasons for treasury to get involved, not least the fact that an inefficient reverse supply chain process can end up costing companies anywhere between two to four times the amount paid for the original item.

And just the transport alone of these returned goods has a far from inconsequential impact on the company's carbon footprint, but centralised 'take-back' processing plants can assist. Sometimes though, it makes better financial and environmental sense to simply replace a faulty product without asking for it to be sent back – the end consumer can recycle it locally where appropriate. Nevertheless, it should be noted that in the EU, disposal of the waste of electrical and electronic equipment (WEEE) is now the producer's responsibility, not the consumer, under the European WEEE directive.

Employees on the frontline

If a treasury function is determined to set about demonstrating best practice in sustainability, then it is only right that it upholds high standards in all aspects of the day-to-day running of the department. Naturally, this should include employee welfare. This is not just about corporate social responsibility and making sure you are operating an ethical, diverse workplace, but also engaging employees to make sustainability a reality.

A few practical ideas to improve the treasury department's sustainability credentials by engaging employees might include:

- Setting performance targets that include reducing the amount of printed documents in the department.
- Arranging flexible working, to reduce commuting where appropriate.
- Increased use of video conferencing rather than physical travel.
- Incentives for walking, cycling or taking public transport to work.

1. Create commitment	2. Build understanding	3. Monitor identified risk suppliers	4. Manage risk	5. Work with stakeholders
• Supplier sustainability declaration. • Regulated substances list.	• Training and capability building.	• Philips risk assessment. • Electronic Industry Citizenship Coalition audit tool.	• Follow up. • Consequence management. • Repeat audit cycle every three years.	• Transparency. • Constructive dialogue.

Source: Philips Supplier Sustainability Involvement Programme

You may also want to set achievable targets for recycling within the department, as easy-wins can help to drive employee engagement. There are also new technologies that companies can leverage to assist, such as CloudApps SuMo (short for sustainability momentum). SuMo is in many ways a modern equivalent of the 'star chart'. It combines social networking, gaming and sustainability, to help employees connect with sustainability goals and aims, whether departmental or enterprise-wide. Treasury managers should not underestimate the power of such engagement when it comes to employee satisfaction and retention.

Investing in the future

Sustainable investment is another area of focus for sustainability-aware treasurers. It's a topic that we'll be covering in the next article in this six-part series, but it certainly deserves a mention here.

Inevitably, companies won't invest in sustainable instruments purely out of good will; the main incentive will be performance – but this does not negate the fact that sustainable investing can help to ensure that future commitments are not compromised by meeting short-term goals. There are a number of institutions that offer sustainable investment services for corporates, so speak to your bank or asset manager to find out more. Alternatively, you could follow the example of carbon-neutral Google and invest directly in green energy projects. The tech giant committed $915m to renewable energy projects in 2011.

There is another side to sustainable investment to consider as well – investing in the company, as opposed to the markets. Honeywell's corporate finance team, for example, recently undertook a project to raise $8m in cash and $4.5m in net after-tax benefits to save an ageing production facility that was facing imminent closure – as it specialised in producing substances such as CFC refrigerants, which are being eliminated globally. Not only was the plant saved, but the local community also got to keep a valuable employer.

Reporting for duty

Finally, we come to the treasurer's role in sustainability reporting – and how sustainability initiatives can provide valuable information and insight.

According to Alan McGill, a Partner in PwC's Sustainability and Climate Change practice: "non-financial sustainability information can help an organisation to have a far better understanding of what might put their business at risk, such as resource scarcity. It also helps to assess the ability of your supply chain to deliver the goods you require, so that you can continue to manufacture." In other words, the critical driver for companies to have sustainability information available is the ability to continue to deliver the financial returns that they have historically.

There are various sustainability reporting frameworks that exist in the marketplace, says McGill. "The most widely used and globally accepted is the Global Reporting Initiative (GRI), which provides companies with a solid idea of what kind of information they can report, what disclosures would be required and so on. At the same time, there are some global standards that do exist, and the most widely referred to of these is the Greenhouse Gas Protocol for carbon reporting."

Arguably what's going to happen, as it did with financial reporting, says McGill, "is that over the next five to ten years, we will see a maturing of the measurements and the standards for reporting non-financial sustainability information. This will be part of the broader move in corporate reporting towards what is called 'integrated reporting'. Historically, most corporate reporting has had a single issue focus around the financial performance of the business, but there is a lot more information that can support companies. So, reporting needs to become more reflective of that – particularly around the impact the business is having from an economic, social, environmental and financial perspective."

Paving the way

In the future, this means that the finance department and key actors within that world, such as the CFO and treasurer will become far more engaged in the provision of information – both financial and non-financial. "The fact that the information has tonnes of carbon, or metres cubed at the end of it, is irrelevant. Companies need to start thinking about these measures as the equivalent of different currency symbols, so instead of a dollar, pound or euro sign at the beginning, you have CO2 at the end of it, for example."

And it's true. Sustainability can have many tangible benefits, but one of the biggest barriers to it is totally intangible: mind-set. Is it time to change your way of thinking? ■

Reporting requirements: a global snapshot

In the UK, the coalition government is introducing mandatory carbon reporting for listed organisations this year. There is also a requirement in the UK on directors, when preparing their annual reports and accounts, to consider and report on the material social and environmental issues that the concern the company.

Outside of the UK, there are legal requirements for sustainability reporting in countries such as Sweden and Denmark. And in France, Grenelle 2 requires French companies to include a variety of social and environmental factors as part of their annual reporting.

Certain stock exchanges, such as Hong Kong, India, Brazil and South Africa, also have listing requirements around social and environmental issues that need to be reported. In South Africa, there is a government code called King 3 (named after Mervyn King who led the review into government reporting) which is entitled 'Integrated Reporting'. It requires companies listed on the Johannesburg Stock Exchange to include all the social, environmental and economic aspects of their business, alongside financial performance.

But critically, adds McGill, integrated reporting "isn't about asking companies just to report more information – which would put huge reporting burdens on companies. It's about putting out better information. So it's redefining corporate reporting as we know it."

Creating and issuing an RFP

When the time is right to introduce or replace a key part of your treasury technology, or to establish a major new banking relationship, the selection process can be daunting. Unless you know exactly what is required, issuing a request for proposal (RFP) may provide some valuable direction. What does it involve?

Requirements definition

Most treasury technology projects can be broken down into three parts: review, selection and implementation. In this article we look at the first two constituents.

The requirements definition is the foundation stone of the project and its solidity will inform the success or otherwise of subsequent project phases. However, it should be understood that a degree of flexibility on the part of both client and vendor is desirable as to the means of arrival at the final destination because as the project progresses new ideas are often revealed.

A caveat on the corporate side to this call for flexibility is that it is not best practice to change core processes just because the chosen system cannot accommodate your needs. By the same token, customising the solution from the outset to meet your process requirements can also store up future trouble (customising is not to be confused with configuring; the latter will almost certainly be required to enable a solution to meet the specific needs of the business).

Teamwork

The value of undertaking a requirements definition cannot be overstated, but it may not be possible, or even desirable, to execute it in isolation. Depending on the nature of the project, it may call upon input from other functions within the business (including various finance and business units, procurement, internal audit and IT) to highlight some of their specific technical requirements.

This will be necessary when the systems of these functions (such as accounts or credit control) already (or will) interface directly with the proposed treasury solution and give an indication as to how the new system affects other technologies up and downstream. If there are other functions that have any input, get it written down at this point as it will stop problems later on. It is essential at this stage to cover all bases, thinking carefully who should be involved in the consultation process, who will be impacted by the project and who could or should benefit from the outcome.

Project manage

The consultation process, though hugely beneficial in the long term, will run the risk of developing so-called 'scope creep' (continuously adding to it) unless from the outset there is a coherent and simple project definition, a means of deflecting unnecessary diversions and of taking firm and intelligent decisions. Scope creep can add substantially to the final cost. For this reason, the backing of a project sponsor (in the form of an executive with higher status than anyone else involved with the project) and a strong project manager (PM) are essential.

However, scope creep should not be confused with the controlled and planned modification of the project in the light of acquiring more detailed understanding of the capabilities of the technology. This can add new benefits that had not been previously thought of – but even here the change process must be managed. If an internal project manager is chosen, it may be beneficial to have them dedicated to that role for the duration. Factoring in the resources needed therefore becomes part of the process.

Consider your initial options

Deciding which vendors to approach will involve some background research. Using publications such as Treasury Today, talking to other treasurers and having preliminary discussions with vendors at conferences and exhibitions will all provide valuable initial insight. It may even be prudent to send out your basic requirements definition to a wider panel of vendors, in the form of a request for information RFI (RFI). An RFI is a high-level call for product information that can at least put you in the right ballpark regarding which vendors have suitable offerings.

Having created a long list of potential systems (and this may include half a dozen or more) building an RFP can provide structure to the selection process, enabling you to focus only on the most appropriate offerings.

Building an RFP

The aim of an RFP is to garner in-depth and specific responses from a small group of vendors and tease out the differences between their systems which, on the surface, may all seem much the same. It may even form the basis of a contract between client and vendor, although many vendors would naturally baulk at this suggestion, especially if their responses have not been written with the requisite legal precision (it may be useful to ask how the vendor's RFP responses are reviewed and authorised internally).

It is vital from the treasurer's point of view to ensure that the RFP conveys precisely and clearly what is required, according to the circumstances underlying the project. A complex treasury will probably generate a larger RFP document and this should be broken down into manageable sections for the benefit of the vendor and for your own team when it comes to assessing the results.

Indeed, just as it is possible to fail to explain your needs clearly or to provide too little information for the vendors to be able to respond in depth, it is also possible to over-burden suppliers with information. Providing an in-depth view of the group's entire business operations may not be required if it is only relevant to the project to offer a view of the structure of treasury and where it sits within that operation. There is, however, no known research on the correlation between size of RFP and success of implementation.

A major part of building the RFP concerns functionality. This is where the work that went into creating the requirements definition comes into play. The requirements definition states what you want; all you have to do with the RFP is to ask the supplier if they can do it. But whilst some responses may call for a simple 'yes' or 'no' answer, some may need more in-depth explanations of how certain functions are supported and processed and how the software relates to the way in which your treasury operates (including its connectivity with third parties, such as banks).

In addition to pure functionality, a key objective for a technology project is to configure sets of functionalities into workflows that fulfil the project's business process objectives. This is where 'how' questions can help, as the buyer needs to understand how effectively the system solution can automate a specific treasury.

The client may take this opportunity to make clear its position on certain contractual conditions such as payment being explicitly linked to tangible deliverables. Whilst being business-like is essential, it is important not to appear unreasonable – an adversarial RFP will yield little in the way of success.

Be aware that open questions may be necessary to unearth how a supplier intends to meet some complex, potentially deal-breaking issues, but too many open questions will push the analysis phase into overdrive, making it difficult to draw accurate and fair comparisons between respondents.

This means the questions set out in the RFP have to be considered – and tested – carefully, to see if they are understandable, unambiguous and likely to yield the type of answers that you seek. You are, after all, asking for more than just a cut-and-paste response from the supplier.

When asking about the implementation process it is necessary not just to pose questions but also to state a host of facts. The list may include points relating to the intended timescale, how many users, locations, functionality required in each location and how satellite units are structured within the company, the existing system configuration (listing current systems and what needs to be integrated) and any manual interventions.

It may be appropriate to provide a proposed technical integration plan for the new platform. Certainly any integration and reporting requirements should be defined in sufficient detail to avoid ambiguity, to enable vendors to have a sufficient understanding of the implementation scope to propose the implementation effort accurately.

In seeking a vendor's thoughts on these matters it is necessary to secure from it a raft of reciprocal information such as how it intends to piece together an implementation team (size and structure and who will be involved, for example) what it proposes in terms of ongoing support (technical and staff training) and maintenance (with details and sample copies of SLAs and so on). In essence, you need to embrace the whole service of the product in one document.

It may be that treasury knows what it wants but does not know how to achieve it; the level of detail in the RFP can be used to provide vendors with the opportunity to deliver a creative response, mindful that it is not good form for companies to use it as a free consultancy service. It is also worth noting that unless the RFP conveys precisely what is required, the pricing is likely to be skewed; certainly beware of adding elements merely out of curiosity or as a demonstration of your depth of knowledge (it does happen) as these will push the cost up.

Whilst some aspects of treasury may be commercially sensitive, it should be borne in mind that conveying sufficient detail for a vendor to be able to provide the most appropriate response is beneficial to all parties, both in terms of getting the best solution and in getting the job done in the most efficient manner.

It is important to realise that RFPs that are the product of multiple departments are prone to duplicate or even triplicate questions. Care should be taken to remove any such instances from the final document as they can reflect poorly on the buyer's professionalism. Of course, this caveat does not apply to carefully constructed functional verifications, designed to check the vendors' responses for consistency.

When it comes to distributing the RFP, by all means send it to all those vendors that closely meet your requirements, but always bear in mind that the more vendors the RPF is sent to, the more analysis you will have to do when the responses come back. Typically a shortlist of three or four will be called upon to respond. It is not unheard of for vendors to not respond.

Making a judgement

The information you receive back will have to be compared on an equal footing. However, before scoring responses, it is common practice to 'weight' each section and component according to the relative value the team places on it. This ensures that the overall score reflects those values, and that the outcome is not unduly influenced by an aspect that is of lesser importance.

Where a treasury management system (TMS) implementation is undertaken, the project should be seen as an opportunity to re-engineer inefficient and outdated processes. This possibility often only becomes clear after initial selection has been completed and once a particular TMS's capabilities are better understood. Although it will involve changing and perhaps expanding the project to some degree, it should not be seen in the same negative light as scope creep. Such changes will, however, need proper control and management. This possibility should ideally be covered in a contingency allowance in the initial project plan.

Ultimately, if the RFP is treated as a functional document with a serious purpose, and the information contained within is sufficiently detailed, it should be beneficial to both the client and the vendor. ■

√ Checklist of RFP processes

Before starting on a major project, secure the support of a senior executive sponsor.

- ❒ Appoint a strong project manager. Consider a third party for the role.
- ❒ If an internal appointment, ensure they can remain objective. Consider having them dedicated to the role for the duration.
- ❒ Factor in all resources likely to be required.
- ❒ Think carefully about which functions and individual within the group should be involved in the consultation process.
- ❒ Document any agreements with them in advance.
- ❒ Ensure you clearly understand and have documented what your main issues are, why you are doing this and what you expect to achieve.
- ❒ Refer to this document often.
- ❒ Be flexible regarding your plans and add a contingency allowance (for cost and time) for project expansion, as awareness of the chosen system increases.
- ❒ Do not confuse beneficial project additions with unwanted scope creep.
- ❒ Don't change anything in the project plan without managing and documenting it first.
- ❒ Always establish a requirements definition.
- ❒ Undertake preliminary research (using Treasury Today resources, conferences, vendor websites and discussion with peer-group).
- ❒ Consider issuing a RFI.
- ❒ When building an RFP, always ask if it conveys precisely and clearly what it is you require.
- ❒ Ensure questions are clear, understandable and have been tested and proven as such.
- ❒ Do not ask unnecessary or unreasonable questions.
- ❒ Some questions may be approached from different angles to test consistency of response.
- ❒ Beware of simply repeating questions (most likely if the RFP is the product of multiple departments).
- ❒ Proper coordination is required to maintain professionalism at all times.
- ❒ Ask open questions where detail is necessary and closed questions where a simple yes or no is sufficient. Remember that open questions are more difficult to compare.
- ❒ Lay out the RFP clearly, in logical order and with sufficient room for a full response.
- ❒ Complex requirements should be broken down into logical, manageable sections.
- ❒ It is in your interest to provide sufficient information to enable the vendor to give the fullest answer possible.
- ❒ Do not over-burden the supplier with unnecessary background information.
- ❒ Weight each question according to your own values.
- ❒ Agree upon weightings before sending the RFP to suppliers.
- ❒ Clear your mind of any bias for or against suppliers.
- ❒ Don't send it to too many vendors: it makes analysis difficult.
- ❒ Read all responses carefully.
- ❒ Look for added-value in vendor responses, eg raising new but useful points.
- ❒ Learn to distinguish between fact and sales talk.
- ❒ Resist the temptation to adjust weightings to get the answer you want.

Market capitalisation

A measure of the total value of a company's outstanding shares according to the stock market, market capitalisation is often referred to simply as 'market cap' or 'capitalised value'.

Market capitalisation is used by investors to classify companies as large, mid or small-cap. The terms micro and nano-cap are also sometimes applied. These categories are frequently used as investment criteria, particularly when trying to maintain diversification in a portfolio of assets. As with most investor ratios, market cap is often used in conjunction with other measures – such as book value – to help analyse a company's overall value to the shareholder.

How is it calculated?

The following formula is used to calculate market capitalisation:

Market capitalisation = price per share x number of shares outstanding or issued

The price per share of a company and the number of outstanding shares can usually be found either from newspapers or the internet. The audited accounts will always give the outstanding or issued share capital. A company's market cap should always be quoted in the currency unit in which the shares are priced.

Example

Company ABC's shares are quoted at ¥12.46 each. The company has 3,500,000 shares outstanding. Using the above formula, the company's market capitalisation is ¥12,110,000 (¥3.46 x 3,500,000), which according to the classifications below would make it a small-cap company.

Classifications

The classifications for market capitalisation are not precise or fixed and may vary between different exchanges. The classification of shares into large, mid and small-cap is made on the basis of the relative size of that particular stock exchange. For example, a mid-cap stock in the US would be classified as a large-cap company in India. The classifications also vary over time – so what was classified as large-cap in 1960 is almost certainly going to be different in 2013.

Free-float market capitalisation

The above method for calculating market capitalisation is referred to as the full market capitalisation. In reality however, not all of the outstanding shares are freely available to be traded – they may be 'locked' in a government or strategic holding for example. This information can usually be obtained from the company itself or the exchange. There may also be more than one class of share.

Free-float market capitalisation is calculated by multiplying the full market cap by what is known as the free-float factor. This is determined by dividing the number of shares readily available for trading in the market by the total number of shares outstanding and rounding it up or down to the nearest 0.05 increment.

If we continue with the example of company ABC and if, out of the 3,500,000 shares outstanding, 2,875,000 are readily available to trade, the company's free-float factor can be calculated as follows:

(2,875,000/3,500,000) = 0.821, which is then rounded down to 0.80.

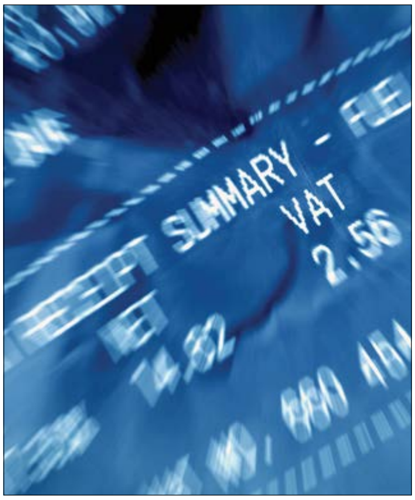
This means that the company's free-float market capitalisation is $12,110,000 x 0.8 = $9,688,000.

Considerations

Market capitalisation is not the only measure to evaluate a company's financial value. A common weakness in this calculation is that it takes into account the sum total of equity. Debt holders have a claim on the company and this should be taken into consideration. Market capitalisation calculation is hence often used together with other formulas, such as enterprise value and valuation ratios. Market capitalisation can also be useful for valuation and any valuation ratio using share prices can also be restated in terms of market capitalisation.

Other uses

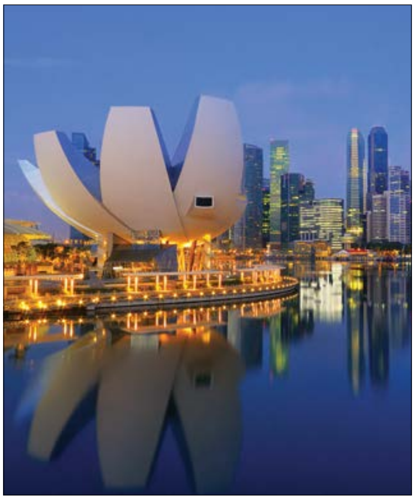
The market capitalisation formula is not used exclusively for calculating the market value of a company's shares – it can also be used to determine the market value of an industry, a stock exchange or even an entire country. ■



TREASURY TRENDS

Tax and treasury

Recent reforms have changed the tax landscape for multinational companies (MNCs) operating in Asia, particularly China. For example, Shanghai replaced business tax with value-added tax at the beginning of 2012, whereas Singapore gives tax credits to incentivise investment in technology to improve productivity.



COUNTRY FOCUS

Singapore

A major financial centre in southeast Asia, Singapore has an open, extremely pro-business environment, with low tax rates (14.2% of GDP) compared to other developed economies and one of the highest per capita GDP in the world. Over recent years, the city-state has been consciously strengthening its attractiveness as a regional hub for corporate treasury centres.

ASIA PRACTICE

Regional outsourcing

Outsourcing is a very attractive proposition in today's workplace, where retaining skilled treasury personnel can be extremely challenging. While many treasurers may want to shift the daily burden executing transactions, confirming deals and producing reports to a third party, they need to remain in control. How can you put together an iron-clad service level agreement?

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

Mark Austen, CEO, Asia Securities Industry and Financial Markets Association; **Percy Batliwalla**, Head of Asia Pacific Sales, Global Transaction Services, Bank of America Merrill Lynch (BofA Merrill); **Carole Berndt**, Head of Global Transaction Services EMEA, Bank of America Merrill Lynch (BofA Merrill); **David Brown**, Senior Vice President, Australian Country Manager and Asia Pacific Product Executive, Fundtech; **Honnus Cheung**, CFO Asia Pacific, Travelzoo; **Nathan Chow**, Economist, DBS Group Research; **Meena Dafesh**, Director of Treasury, Asia Pacific, Ingram Micro Asia Pacific; **Marie-Astrid Dubois**, Assistant Treasurer, EMEA and Asia, Honeywell; **Steve Dwyre**, Managing Director Global Corporates, Lloyds; **Damian Glendinning**, Group Treasurer, Lenovo Group Ltd; **David Kelin**, Partner at Zanders UK LLP; **Stephen King**, Chief Economist, HSBC; **Joseph Lee**, Treasury Director, Asia Pacific Japan and Africa, Hewlett-Packard; **Camille Wenying Liao**, Director, EMEA Liquidity and Investment, Citi Transaction Services; **Ken Lillie**, Director, Lillie Associates; **John Mardle**, Managing Director, Cash Perform; **Alan McGill**, Partner, Sustainability and Climate Change Practice, PwC; **Sharon Miles**, Director, Spencer Stuart; **George Nast**, Global Product Head of Transaction Banking, Standard Chartered; **Stuart Parks**, Head of Asian Equities, Invesco Perpetual; **Yigen Pei**, China Head, Citi Transaction Services; **Paul Pridmore**, Director, Barclays Corporate Technology Office; **Adrian Rodgers**, Director, ARC Solutions; **Sonia Rossetti**, Head of Product West, Standard Chartered Transaction Banking; **Kelvin Walton**, Director, TreasuryWise; **Kee Joo Wong**, Head of Payments and Cash Management, HSBC, China; **Qilong Zhao**, Implementation Manager, SunGard AvantGard, China.