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ASIA



Best practices in refinancing

Interest rates remain low for the moment, but with the global economy showing signs of improvement higher borrowing costs may soon be a reality. Are you thinking about refinancing?



The Corporate View

V N Shankar

Head of Finance and IT
Rexam Healthcare

Risk Management

Mitigating FX volatility

Back to Basics

Cash flow forecasting



Country Focus

Vietnam has a population of 92 million, a quarter of which are under 14 years of age. The country is an increasingly attractive location for multinationals looking for new opportunities in South-East Asia.

Women in Treasury

Study results

Filtering what matters

Treasury Insights

Bringing the important and relevant news to your inbox every week

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What are we offering you in 2014?

Our job is to research, analyse and report on what is going on in corporate treasury and finance in Asia and elsewhere in the world. This issue reflects that and is a mix of basic, yet crucial, treasury and cash management content coupled with some specific pieces as well as news of our new initiatives in the region.

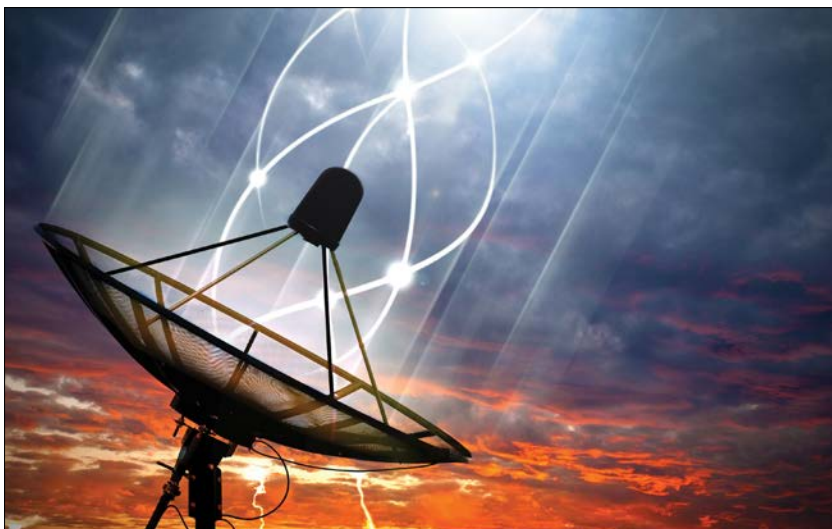
The Shanghai Free Trade Zone (SFTZ) is particularly topical right now and we have some interesting contributions from several industry experts. We explore Vietnam in our Country Focus. Our Insight & Analysis addresses the best way to raise the profile of treasury at Board level and in Corporate Finance we investigate best practices in refinancing; definitely worth reading if you are considering refinancing. Our Risk Management focus this issue is on mitigating FX volatility; particularly topical of late especially where some of the emerging markets currencies are concerned. Our 'Back to Basics' feature looks at a subject on the agenda of every treasurer; cash flow forecasting and offers ten top tips to get better forecasting.

It also gives us great pleasure to announce our industry recognised Adam Smith Awards are coming to Asia in 2014. These Awards recognise corporates who are demonstrating best practice in treasury and finance. Nominations don't open until June but we want to give you all plenty of notice so you can think about submitting your entries. There are 15 categories in total so you should find at least one category that covers the project you have been working on. In what will be the Chinese Year of the Horse, what better way to recognise talent and achievement than nominating yourself for an award?

Finally we are organising the first of our Women in Treasury Forums in May at Raffles in Singapore. This follows the inaugural Forum at the Four Seasons in London last year which was attended by over 150 women from around Europe. We will be sharing the results of our Women in Treasury Study and hearing thoughts from several senior professional women. More details to follow but put the date in your diary now – 8th May 2014

We look forward to a busy and exciting 2014. If you have any comments or suggestions on what we are doing please do not hesitate to contact me.

Angela Berry, Publisher – angela.berry@treasurytoday.com



Raising treasury's profile

The corporate treasurer's role is in the spotlight and their ever expanding remit makes it more important than ever to get visibility at Board level but what are the optimal means to achieve this? No longer just a cost centre, treasury can add value to the company's bottom line. Effective communication is key at all levels.



Women in Treasury Forum

Following our inaugural and highly successful lunch in London on 31st October, we are delighted to include a special report which summarises the findings of our Women in Treasury Study conducted last year.



Best practices in refinancing

If your company's debt is due to mature in the next few years then you may already be thinking about refinancing in order to lock in low interest rates while they are still around. But what is the key to successful refinancing?



COUNTRY FOCUS

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Vietnam

A population approaching 100 million with around a quarter under the age of 14, Vietnam is an increasingly attractive location for multinationals seeking new opportunities in South-East Asia. It is also being pursued by companies opting for the 'China-plus-one' approach where Vietnam is the plus-one country.



RISK MANAGEMENT

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Mitigating FX volatility

The \$5.3 trillion a day foreign exchange market is a dangerous place particularly given the recent volatility we have experienced. In this article we explore how to navigate the challenges that exist.



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25 The Corporate View

V N Shankar
Head of Finance and IT

REXAM

It is V N Shankar's view that the academic must meet the practical to form a balanced view. This view has supported him well in his current role as Head of Finance and IT at Rexam, a global leader in packaging.

BACK TO BASICS

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Understanding your cash flows

Our Back to Basics feature this month looks at a subject on the agenda of every treasurer; cash flow forecasting. We have canvassed the views of the experts, address the question "is the pain worth the gain?" and look at some possible tools to improve the process. We also offer you our experts ten top tips to better forecasting.



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 treasurytodayasia.com

Bitcoin: regulating tulip mania 2.0

At the end of 2013, a year in which a speculative frenzy pushed the value of a Bitcoin above \$1,000 for the first time, Bank of America Merrill Lynch (BofA Merrill) became the first major banking institution to publish a research note on the crypto-currency.

Bitcoin, the BofA Merrill study argued, has the potential to one day become a “major means of payment for e-commerce” and a “serious competitor to traditional money transfers”. Clearly the buzz surrounding Bitcoin shows few signs of abating. If the likes of major Wall Street banks such as BofA Merrill are now beginning to take virtual currencies seriously, then the regulators will surely not be too far behind.

Who's in charge?

The way in which financial regulators look set to approach the supervision of virtual currencies was the focus of a presentation delivered by Samee Zafar, Director at consultants Edgar Dunn at the ICBI-hosted European Payments Regulation Conference in December 2013.

Zafar began by explaining that it is the decentralised nature of digital currencies like Bitcoin that is leaving governments and central banks in a muddle about how to treat it. Unlike our traditional currencies, Bitcoin is administered through a decentralised peer-to-peer network, allowing it to exist without the backing of any central authority. “This hasn't happened before,” says Zafar. “To my mind, that is one of the main reasons the regulators hate it. It is creating a new jurisdiction in the world over which nobody has control.”

In the US, he explains, Bitcoin would have to have the status of legal tender in a particular jurisdiction before it could be classified, and regulated, as a currency. He thinks this shows that the regulators have fallen slightly behind the curve when it comes to the matter of virtual currencies. Sooner or later, he argues, governments may deem it necessary to start thinking of the cyber world as a domain in itself and thus recognise its currencies as foreign exchange.

Tulip mania 2.0

Since the beginning of 2013, Bitcoin has seen price movements as high as 8,000%. To Zafar it seems to have all the traits of a classic speculative bubble – a tulip mania for the digital age.

“The value fluctuation is not that of a currency, it is that of a highly speculative commodity, whose underlying value is unknown and uncertain,” he notes. This should not necessarily mean that the exchange of Bitcoins should be in any way prohibited, but anyone who buys the currency should be aware that its value can fall just as easily and as quickly as it rose. “People don't really know why it is so expensive but because it is and everyone thinks it is going to keep going up, they buy it.”

It raises an interesting question. If Bitcoin behaves less like a currency and more like a commodity, then should it not be regulated as such?

Self-regulation

Concluding the presentation, Zafar told delegates that he thinks the best way forward would be for the industry to develop some form of self-regulation – much in the same way the European payments industry did with Single Euro Payments Area (SEPA).

“People do have quite reasonable concerns around virtual currencies,” he says. “But I think we should see first what self-regulation can do. Can it allay the fears of regulators as well as consumers? I think the industry is beginning to realise that such steps are now necessary to show the world this is not the Wild West that people think it is.”

Lloyds Bank and Standard Chartered extend partnership on Asian trade

Lloyds Bank and Standard Chartered took the opportunity at last year's Sibos conference in Dubai to announce a specific development around Asian trade, which both parties believe will “enhance the experience for UK clients importing from Asia”.

As part of this agreement, Lloyds Bank will use Standard Chartered's on-the-ground capabilities to directly issue import letters of credit (LCs) locally in 20 Asian markets, including China, India and Korea. This provides UK clients with the benefit of local language and time zones, in-country document handling and local currency settlement, including Chinese renminbi (RMB).

In a press statement, Andrew England, Head of Transaction Banking, Lloyds Bank Commercial Banking, said: “This agreement will enable us to improve our product offering, accelerate our growth plans and is part of an ongoing strategy to strengthen our international partner network.”

What's new?

To gain a better understanding of what's new in this deal, Treasury Today Asia spoke with Jacqueline Keogh, Head of Global Trade in the transaction banking team at Lloyds. Keogh says that a strategic partnership operates at a much deeper level than the correspondent banking relationships of the past. "We have a common strategy and objectives, as well as complementary geographical coverage and skills. We see each other as natural partners because Standard Chartered is focused on Africa, Asia and the Middle East, with no desire to engage in the UK other than to help their core client base. Lloyds, on the other hand, is firmly focused on the UK market."

This new agreement "reinforces a shared strategy" on international flows and how to better serve clients, according to Keogh. "This is not for our mutual benefit, but for the benefit of our shared client base."

The ability to issue LCs through Standard Chartered is one such customer benefit. Historically, Lloyds issued LCs through a number of correspondent banks. "From a corporate perspective, it meant being dependent on Lloyds having relationships in a multitude of countries, all with different terms and conditions," explains Keogh. "Through partnering with Standard Chartered, we are extremely confident with regards to the level of service, price, process and how the whole transaction will be managed."

The future

We asked Keogh whether the BPO was an area of interest for future collaboration between the two banks. "Currently Lloyds is not signed up to the BPO, mainly because it is just beginning to revitalise its trade capability and strategy," she explains. "It is an area that we are following very closely and, based on client demand and the ongoing development of Lloyds capability, it is something that we will most likely sign up to in the future."

Although the industry needs something like the BPO, it may not survive in its current form, according to Keogh. "There are very few people in the industry that would question the need – both from the financial industry and the corporate perspective – to have a common definition, shared standards, shared structure and shared products around open account. The BPO is the best we have today and it has the best chance of success, whether in its current form or another variation."

The impact of cross-border OTC regulations in Asia

Speaking at the October 2013 Asia Pacific International Swap and Derivatives Association (ISDA) conference, Howard Lee, Executive Director of Monetary Management at the Hong Kong Monetary Authority (HKMA), warned of the damaging effects cross-territorial over-the-counter (OTC) derivative regulations could potentially have on liquidity in the Asian markets.

The two regulations at the forefront are the European Market Infrastructure Regulation (EMIR) in Europe and Title VII of the Dodd-Frank Act (DFA) in the US. Both sets of rules have started to be phased in over a several-month period and should be fully in force by September 2014.

Lee's comments came over a month after the HKMA and Securities and Futures Commission (SFC) jointly published their conclusions on a joint supplemental consultation regarding the proposed scope of activities to be regulated under the new OTC derivatives regime, and regulatory oversight of systemically important participants. They said they were working together on the detailed requirements under the new regime, which will be set out in subsidiary legislation.

There is now much debate around the likelihood of Hong Kong being granted 'substituted compliance' by the US Commodity Futures Trading Commission (CFTC). Treasury Today Asia spoke with Matthew Streeter, Product Manager at FINCAD, to gain a better understanding of the situation. The derivatives risk management company opened a local Asia office in Beijing last year in order to have a local footprint to better serve customers in the region.

"It is the interconnectedness of the derivatives market that has driven the regulators to have more control over the OTC segment," says Streeter. "For example, there are now many entities domiciled in Hong Kong that could be US-headquartered, so these institutions are looking to see what level of regulation will be put in place in this market."

Talking specifically about Hong Kong, Streeter believes that there will be a consistent regulatory regime, as many of the rules emanate from the G20 post-crisis. "Most of the OTC derivatives traded globally originate with North American banks and institutions whose counterparties are in Asia. Therefore there is a need to have a strong regulatory framework in place in order not to overexpose any one region in favour of another." Effectively, if one bank, which is subject to stringent regulatory requirements, is trading with another financial institution that has more lenient standards, then the former bank would be exposed to risk from the latter.

Such a division between regimes also opens up regulatory arbitrage opportunities, warns Streeter, but in the long run he believes that those opportunities will not persist. ■

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

Women in Treasury Forum

Treasury Today's Women in Treasury initiative was launched in January 2013. Aiming to provide a platform to support, inspire and increase the visibility of women working in our industry, the project began with a series of profiles in Treasury Today and Treasury Today Asia. These profiles of female high flyers working across the treasury profession presented a personalised view of womens' backgrounds, struggles and career highlights. Following this, in June 2013 we launched the Women in Treasury Annual Study. The first of its kind, our Study was developed to better understand the female treasurer's experience at work, including issues such as salary parity and career development.



Women in Treasury Annual Study

To present the results of our Study, bring women in the industry together and provide a networking platform, we hosted a Women in Treasury Forum.

On Thursday 31st October the first Women in Treasury Forum was held at London's Four Seasons Hotel, Canary Wharf. 150 women from a wide range of industries attended to be part of this pioneering initiative. The Forum provided a rare chance for women in our industry to network, share their experiences and hear our four panellists discuss the key issues highlighted by the Study.

The event started at noon with a pre-lunch networking reception during which Angela Berry, Publisher of Treasury Today, presented an ice-breaking welcome message and an exclusive summary of the Study findings. This was followed by the lunch during which an 'all-star' panel discussion took place.

The panel line-up of four extremely well respected women within the treasury industry was composed of:

- Maeve Robinson, Assistant Treasurer, Omnicom Group and the winner of Treasury Today's Adam Smith Awards Woman of the Year 2013.
- Marie-Astrid Dubois, Assistant Treasurer of Honeywell and Highly Commended Adam Smith Awards Woman of the Year 2013.
- Jenny Knott, CEO, Standard Bank.
- Pam Walkden, Group Treasurer, Standard Chartered Bank.

Our panel focused on four discussion areas:

1. Job satisfaction.

2. Equality.
3. Mentoring.
4. 'Vive la différence'.

The discussion was facilitated by Maia Rushby, CEO of Diversity in Leadership, in leading a lively and inspiring debate around the role of women within our industry, obstacles to their ongoing success and what women can do to improve their career prospects. Going beyond mere theory and conjecture, these four women articulately shared many personal experiences and accounts of the highlights and trials of their impressive careers to show all women in the industry that they can and should be aiming as high as their ambitions permit.



"I thought it was very inspirational because usually you are just working in a team and you don't really think about what the differences are between you and your colleagues. It was good to hear from very experienced women of ways in which you can think about how you operate in the future and how you can change things for people who may be younger than you."

Sarah Saxby, Treasury Director, Cash Management – Rio Tinto.

A question and answer session followed the discussion, with many interesting and challenging views and questions raised. We recognise the importance of networking, mentoring and support. Our panellists have had many role models that have inspired and encouraged them throughout their careers. Whether an appointed or unknowingly chosen mentor, such figures (either male or female) are vital in raising the ambitions and confidence of any aspiring woman.

The panel discussion and question and answer session echoed many of the views expressed throughout this year by

the women featured in our Women in Treasury profile series, where many female treasurers have expressed their fierce commitment and passion for their profession. What resonates from the responses we have gathered is that the majority of women in treasury feel they are experiencing inequality, both in pay and in career prospects, and this appears to be exacerbated for those who have children. Nearly 60% of Study respondents said that they did not believe they were paid the same as their male counterparts – nor did they feel their career prospects were the same.

Two areas of inequality specific to treasury are identified as the highly male environment that the industry remains and the fact that the nature of the work of a treasurer does not lend itself well to flexible working arrangements, making life particularly difficult for treasurers who are also parents. In addition, one topic that came up during the panel discussion was that women must become more forthright at demanding the (sometimes flexible) working conditions that they need in order to manage the very top jobs and balance that with external responsibilities.





When it comes to professional networking, key to career development, there are very few existing platforms available for women treasurers. Our Study and subsequent Forum have served to highlight the necessity for women to better promote themselves, to find great mentors and to support one another. Although nearly all of the women surveyed stated that they think mentorship is key to career development, over 50% are working for a company that does not offer such a programme. The Women in Treasury Forum was a perfect opportunity for female treasurers to raise their visibility, learn from each other's experience, and to network amongst their peers.

"I don't necessary believe in quotas because that stirs up all kinds of issues. I am intrigued to how is this situation will be resolved. With forums like this it will only become better."

Gabrielle Schumacher

"An event like this is long overdue, there isn't a forum that brings women together on this level and the approach is the right one. The candour of the speakers was really something, they were so open and honest and the women here should reflect on the comments made today."

Marilyn Spearing



And we aren't stopping there. The Women in Treasury initiative has only served to highlight just how essential it is that we create a platform for the women in our industry.

"I have been to several women's networking events in the past, but this was special because it brought together treasury professionals and addressed the particular issues that women face in that industry."

Susan Webb, Managing Director, Pfizer

Women in Treasury ASIA Forum

Following the resounding success of the inaugural Women in Treasury Forum in London we will be holding our Women in Treasury Asia Forum on Thursday 8th May 2014 at Raffles Hotel in Singapore to create a networking and discussion

platform for women in the industry working across the Asia Pacific region.

The Forum will commence at 12 noon with registration and a drinks reception, during which Angela Berry, Publisher of Treasury Today will present a summary of the key findings of our Women in Treasury Study. We will then be holding a panel discussion moderated by Eleanor Hill, Editorial Director, Treasury Today Asia followed by an open question and answer session. This event will provide the rare chance for women in our industry to network, share their experiences and hear women in the industry discuss some of the issues highlighted in the Study.

To book your table now or for more information please email Lisa Bigley, Head of Events at lisa.bigley@treasurytoday.com or call Lisa on +44 (0) 1304 629018.

We will, in addition, be developing further print, online and event based networking for 2014 to run alongside our ongoing series of female corporate profiles. ■



Adam Smith Awards come to Asia

Treasury Today Asia is delighted to announce the launch of the Treasury Today Adam Smith Awards Asia. Over the last seven years, our Adam Smith Awards have firmly established a reputation as the ultimate industry benchmark for corporate best practice showcasing the very best in class across the industry. In 2014 we are introducing a full range of Adam Smith Awards for corporates operating in the Asia Pacific region.



NOMINATIONS OPEN on 16th June 2014

The Adam Smith Awards Asia will be open to any corporate based in or operating in the Asia Pacific region. Our panel of judges will be looking for solutions that demonstrate exceptional best practice and innovation. The Awards provide corporates with the opportunity to significantly raise their profile and that of their treasury team and to portray how they have demonstrated thought leadership and innovation.

One or more solutions can be entered and a single project that covers several treasury disciplines may be entered under more than one category. This particularly applies when nominating for the Top Treasury Team. Our judges are looking for innovation, no matter what the budget, industry sector or location, and the insights that follow from that. There should be evidence of true effectiveness and of how you as a company benefited tangibly from the project. Third-party testimonials, figures and evidence can be included where you feel necessary.

Nominations will open on 16th June and will close on 12th September 2014. Winning corporates together with their banking or other service partners will be presented with exclusive crystal Awards at a prestigious Awards Lunch on Thursday 13th November in Singapore. All winners and highly commended are featured in a special Awards Handbook which will be seen by our readership as well as by your colleagues, clients, investors and peers.

Nominations can be made by any corporate and banks and service providers can assist their clients in completing the short nomination form. Banks and service providers are also allowed to submit nominations on behalf of their corporate clients (with the client's approval).

Further details can be found at treasurytodayasia.com/adamsmith

2014 Award categories

- Treasury Today Asia Top Treasury Team 2014.

Open to any corporate team that has made an outstanding contribution to its organisation, this Award recognises those who have made the world of corporate treasury that much better. This could be purely the treasury team or a broader team effort involving different disciplines within a company.

- First Class Bank Relationship Management.
- Best Cash Management Solution.
- Best Short-Term Liquidity Investing Solution.
- 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.
- Best Foreign Exchange Solution.
- Best Solution in China.
- Treasury Today Asia 'Woman of the Year'.



Shanghai Free Trade Zone

Tapping our collective knowledge to get better information

“ What opportunities does the Shanghai Free Trade Zone open up for corporates? ”

Marco Pearman-Parish, CEO, Corporation China:



The Shanghai Free Trade Zone (SFTZ) has been introduced by the Chinese government to allow companies to establish and operate their businesses in the same manner as they would in other regions such as Hong Kong or Singapore. Over the years, China has functioned as a production factory that enjoyed the ability to produce goods for a lower price than in many other regions of the world. However, in recent years an increase in the value of the renminbi against the dollar has seen Chinese goods reach near parity in price to those produced elsewhere. The Chinese population's wealth is also increasing and thus creating a greater demand for imported goods. When these factors are coupled with the import and export restrictions placed on companies, the production factory that is China becomes a less appealing proposition than it once was. The SFTZ has therefore been established to offset these recent changes and is the testing ground for reform that will eventually spread across the whole of China. The goal of the zone is, ultimately, to make Shanghai the most important place in Asia and take the focus away from other regional economic hubs.

Opening a business in China has historically been a long and arduous process, with a number of different licences needing to be obtained before approval from the regulators is granted. The Chinese authorities have streamlined this process in the SFTZ allowing a business to be established in five working days rather than three months. This streamlined process offers corporates a greater incentive to begin operating in China due to the shorter time frame required when establishing a business and the cost-saving this will bring. In addition, a real address is not needed to register a company in the SFTZ. Instead a virtual address can be applied, removing the overheads associated with establishing a physical office based in China.

The SFTZ will also be open to companies that may traditionally have been unable to tap into the Chinese market, thanks to a relaxation of the registered capital laws employed throughout the rest of the country. In China, one will typically have to pay up to \$150,000 into the company in registered capital before it can be established and penalties are distributed if this is not complied with. The new regulations introduced in the SFTZ have relaxed this rule and give a company 20 years before they have to invest their registered capital in the business. Furthermore, restrictions on what type of business can be opened in China and what actions can be performed have also been relaxed, thereby opening doors for new companies who previously would have been prevented from operating in the Chinese market.

A key benefit for corporates moving into the zone comes from the opportunity to freely convert the renminbi on the capital account. Historically, releasing money from the country is one of the primary challenges faced by corporates operating in China. The regulations employed in the SFTZ have relaxed the foreign exchange laws allowing a company to transfer up to \$50,000 from China to accounts around the world without approval from the State Administration of Foreign Exchange (SAFE). There is no limit on how many transfers can be made, so in theory a few million US dollars could potentially be transferred on a daily basis. This is just the first step by the Chinese authorities and as the zone matures the limits will increase.

Tax incentives are also offered to corporates acting within the zone. A reduced tax rate of 16% will be applied to companies operating in the zone – reduced from the 20% rate that is issued across the rest of China. Furthermore, while import and export tax is currently the same rate as the rest of China, the Chinese authorities have pledged to eliminate this within the zone in the near future.

The regulations that are currently implemented in the SFTZ have already offered huge improvements for businesses wishing to operate in China. Although not all of the zone's functions have been made clear yet, what the Chinese authorities have proposed will happen. They are determined to make it easier for businesses to operate in China and will not change the policy direction. The full implementation of the reforms promised for the zone may take some time because the authorities will want to make sure of each step before progression to the next. Despite this, companies have not been put off. Those businesses who have expressed an interest in establishing themselves in China are now beginning to see the benefits of Shanghai – it is where they want to be.

Liu Li-Gang, Greater China Chief Economist, ANZ:



The Chinese government launched the SFTZ with a desire to effect change through experiments in the services sector. The SFTZ includes a liberalisation plan covering six service sectors or 18 sub-segments. Following the launch, the Shanghai government also issued a number of specific regulations concerning foreign investments allowed within the zone from 1st October 2013. The regulations include a 'negative list' that specifies 190 restricted business lines. It appears that more regulations or guidelines will continue to evolve in order to allow full operation of the zone.

Policy details covering financial, shipping, cultural and professional services have indicated that the SFTZ initiative aims to develop an open geographical zone that allows not only a freer flow of goods but also capital and human resources. In addition, Chinese policymakers have attached great importance to investors' concerns and are looking forward to creating a business-friendly environment for international investment and trade. Aside from financial liberalisation, the FTZ will help China broaden and deepen reforms of the service industry ranging from shipping to healthcare sectors.

The zone is planned to honour the spirit of the free market, highlighting China's key financial reform agenda from the recent Communist Party Council (CPC) 18th Third Plenary Session that has set the tone for China's economic development for several years to come. In three years, the zone's development has a target to reach a stage that is compatible to other market economies in the world. Additionally, the Chinese currency, the renminbi, will be convertible; interest rates will be market-determined; and other factor prices will be driven by market forces.

The opening of the service sector to foreign capital will also be hugely beneficial for corporates. With the 'negative list' approach, foreign investments in industries will face less administrative red tape, thus facilitating the services sector's convergence with international standards. It will also allow China's eventual participation in the US-led Trans Pacific Partnership (TPP) trade agreement.

The plan is a bold step to lift China's economic reform to the next level. After the FTZ trial, successful experiences will be applied to the rest part of China. We believe the Shanghai FTZ will help boost China's reform process, and return the economy to a more sustainable path.

Jane Wang, China Tax and Business Advisory Partner, PwC and Bill Yuan, China Tax and Business Advisory Director, PwC:



The establishment of the SFTZ has been recognised as a crucial economic reform initiated by China's new leadership. The 'pilot experiment' in Shanghai will include reforms focused on four areas:

1. Financial reform.
2. Upgrading of customs supervision framework.
3. Simplification of administrative systems supporting the further opening up of the services sector.
4. Creation of a competitive regulatory and tax environment for businesses.

The focus of the SFTZ financial reform is to promote renminbi (RMB) internationalisation. Foreign banks will be allowed to directly establish a branch, wholly-owned subsidiary or majority-controlled subsidiary with Chinese business partners in the region within a shorter time period. This new policy will reduce lengthy approval processes, significantly easing foreign entry. It is noteworthy that domestic private investors are also allowed to participate in the SFTZ in the form of financing services including setting up private banks, financial leasing and consumer financing (sole investment or joint investment with foreign capital).

For multinational companies operating in China that are not in the financial services industry, and who have their regional headquarters in the country, the relaxation of financial and foreign exchange policies could improve their regional treasury management capabilities. As a pilot initiative, RMB convertibility under capital accounts will also have an impact on domestic companies investing abroad. The SFTZ could encourage local enterprises to issue overseas bonds by creating conditions comparable to those present in overseas platforms commonly used by Chinese investors.

The SFTZ will implement a system in which overseas shipments entering the free trade area will not need customs clearance until a later stage. For logistics companies operating in the SFTZ, operational efficiency can be improved with simplified customs, immigration and quarantine (CIQ) procedures and port management.

In the SFTZ, foreign investors will enjoy similar treatment as their domestic counterparts. Foreign enterprises, except for the sectors specified in the 'negative list', are subject to a record filing system instead of the usual approval requirements. The simplified rules are expected to alleviate foreign investors' administrative burden at the entry stage.

Key features of the tax policies and incentives are meant to support innovative business models in the SFTZ, rather than just provide generally reduced tax rates or universal incentives to all sectors which may not be adopted by other regions in China anytime soon.

Foreign investors should start assessing the impact of the SFTZ on their existing or potential business plans and operations in China. If the reform is implemented smoothly, foreign investors will be able to operate more efficiently throughout the SFTZ with the creation of treasury centres, shared service centres, regional headquarters and distribution hubs, as well as trading and investment platforms.

With more SFTZ-related policies to be released in coming months, we expect international investors in the SFTZ to make relevant changes to their future business models. Investors are also encouraged to start open dialogues with relevant stakeholders and Chinese government authorities to better understand the new policies and regulations. Both local enterprises and multinational corporations need to start developing a systematic strategy and step-by-step plan to take advantage of the policies implemented in the SFTZ.

It is also important to note that the SFTZ should be seen as a testing model with policies that could be replicated in other regions in China. This pilot free trade area provides investors with an idea of the changes that could come about in terms of the investment administrative system, financial and foreign exchange control system, international trade model as well as the further opening up of service sectors across China and beyond Shanghai.

Alain Bridoux, International Business Development, GESCO:



The announcement of the Shanghai Free Trade Zone (SFTZ) is an attempt by the Chinese authorities to make Shanghai the economic centre of Asia, or even the world. Regulations surrounding the SFTZ are complicated but, going forward, they will open up most – if not all – of the activities currently restricted to companies operating in China.

While the SFTZ will be useful for companies serving the domestic market, the main benefits will arise for companies who deal mainly in exports. The loosening of regulations in areas such as foreign exchange will allow companies to move their regional headquarters or treasury centres to the FTZ and hedge risk as they would in Western markets. Trapped cash will be less of a problem in the SFTZ compared to mainland China as the relaxation of China's foreign exchange controls within the zone will see corporates trade and deposit the renminbi in the same manner they would on the offshore renminbi market. Eventually it may be possible for companies in the zone to use the renminbi for all their trade and transactions.

Furthermore, the relaxation of controls will permit companies greater cost-saving as operating and payment processes are simplified and streamlined in the zone. Overall, companies in the SFTZ will have more freedom and be able to behave in a more multinational way than ever before in China.

The zone will also make it easier for foreign companies looking to enter the Chinese market. The opening up of some restricted activities will allow companies to move away from the cumbersome joint venture situations that they have had to manage in the past.

Most CFOs in the West are convinced that the role of Regional Treasury Centres (RTCs) located in Hong Kong and Singapore will dwindle due to the reforms being led by the SFTZ. Although the initial edict remains fairly general and the full-range of benefits are yet to be announced, businesses clearly see a lot of promise in the zone. ■

The next question:

“What factors are hindering greater uptake of BAM and eBAM technologies in the Asia region?”

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



Raising treasury's profile: how to be a strategic communicator

With the treasurer's expanding remit and greater face time with the Board, now is the time to show just what treasury is capable of. No longer just a cost centre, treasury can add value to the company's bottom line. How can treasurers increase their team's standing among the different business units in the company, as well as at Board level?

Since the global financial crisis, companies have had to focus more on managing their cash flows, working capital, credit lines and risk exposures. The role of corporate treasury has been thrown into the spotlight and treasurers have expanded their remit to become risk managers and strategic influencers.

This is confirmed by a survey carried out by treasury consultancy TreaSolution, which found that more than two-fifths of treasurers believe that their department is of high

strategic value to the company and more than half say it is of average strategic value.

PwC's 2013 Global Working Capital Annual Review also highlights how company directors in Asia, Africa and Australasia have been placing an increased focus on working capital and cash flow management over the past year. Companies can no longer rely on growth to drive cash flow, so they are looking much more carefully at efficient liquidity

management. This means that liquidity experts are more essential than ever. In light of this, how can corporate treasurers ensure their voice is heard by the Board?

Risky business

"The global financial crisis was a turning point for treasurers," says Ian Farrar, Partner, Corporate Treasury Solutions at PwC in Hong Kong. "While the role of treasury for some organisations was previously undervalued, their role in raising funding, making efficient use of cash and managing risk has enhanced their position following the crisis as these activities moved up the agenda. Leading treasuries have built off this increased profile ever since, taking on increasingly broad responsibilities to manage all kinds of risk, from 'bread and butter' FX, interest rate risk and commodities, to commercial credit risk on receivables, insurance and involvement in M&A."

Not all corporate treasuries have taken on more risk management and many companies have become increasingly risk-averse in response to financial uncertainty. Some practitioners report they have a far more restricted remit when it comes to the kind of hedging instruments company policy allows them to use. Lelaina Lim, CFO at the sport and fashion brand retailer RSH Ltd, based in Singapore, says: "Risk management has become dominant but also more conservative. In the past we could hedge with forwards – now we're not allowed to do forward deals that could hurt the bottom line and it's more plain vanilla. This more risk-averse policy was a decision that came from the group treasurer and senior management after 2009."

Despite the conservative hedging policy, Lim is able to add value to RSH's bottom line through combining her knowledge of the business – with the seasonal aspect of its retail cash flows – with her financial expertise. An example where both business and financial insight are needed is in the management of bank covenants. She says: "Treasury needs to ensure its knowledge of the business is so good there will be no breach of covenants – because in a breach, the bank can pull credit lines. But first the treasurer must understand both its business and the relative covenants – which include the needs of the business, such as seasonal differences. It then needs to work with the banks to ensure that these covenants have enough head room. This would reduce a lot of uncertainty and headache for the Board in case of a breach."

Another consideration in Asia is that company structure can determine a company's appetite for risk. PwC's Farrar has identified two tiers of corporates in Hong Kong and China: the family-controlled businesses and large MNCs. Of the family-led companies, he says: "These tend to be quite conservative, so treasury's hands may be tied in their activities. For example, such companies often shy away from the use of derivatives to manage risk." In contrast, the treasury function tends to have a higher profile in multinationals. Farrar adds: "Their corporate treasurers are getting increasingly proactive. They are getting out into the business more and asking the Board and CFO for time on the agenda."

Loosening the reins

Should Boards consider giving the treasury function more control over choice of hedging instruments? RSH's Lim thinks so. She says: "If the group didn't have such stringent restrictions, there would be more leeway for us to have

investment and hedging strategies – and this could help the bottom line in a positive market. So our hands are tied but the risk is lower."

She adds: "I think that if the Board listened to treasury and saw that treasury can do more, then it would be possible for us to follow a more aggressive higher-risk strategy – but the ongoing dialogue needs to be more open between us and the Board."

Be relevant, be brief

One thing is required by all treasurers who want to demonstrate their value to senior management: good communication. When it comes to Boardroom meetings there are several skills every treasurer should have at his or her disposal.

For a start, according to PwC's Farrar, how often the corporate treasurer participates in Board meetings is a sign of a healthy relationship and status for treasury within the organisation. He says: "When it comes to how treasury communicates with the Board, there are a variety of practices. Some companies have monthly meetings, while the best-in-class might have weekly meetings with a treasury steering committee. But for the majority, formal meetings more than once a month are quite rare."

Dan Carmody, Managing Director at TreaSolution, agrees that regular meetings between the Board, senior management and the corporate treasurer open the door for good communication and raising treasury's ability to influence. There are, however, cases in which treasury needs to be more involved. He says: "One reason for additional meetings and conversations is when a company has stringent liquidity management requirements – eg if it is trying to pay off some debt, or if a strategic move, such as an acquisition, is going to be made. In these cases, generally, treasury's strategic involvement grows and treasury's position becomes more integral."

It's not just the frequency of the meetings that you need to worry about. Getting the key messages across is also essential and this often has to be done in a very limited slot on the agenda.

Carmody says: "A lot of treasury information is quantified and can be transmitted by spreadsheets and graphics via email. A more detailed explanation of this data requires public speaking skills so a treasurer can communicate well with the Board, CEO or CFO. Furthermore, when giving presentations it is important to be very clear and concise. Public speaking skills can be developed if this isn't a strong point."

Anecdotally, Board members are showing more interest in treasury than they used to. One non-executive recently asked PwC's Farrar for advice on what he should be asking his corporate treasurer. This suggests that Boards need to be educated about treasury and this is a role that should fall to the corporate treasurer.

Treasury is what you make it

Since Lehman Brothers first filed for Chapter 11 in September 2008, corporate treasury worldwide has been on a bit of a white-knuckle roller coaster ride. But amid the late nights and tight spots, there has been a lot of opportunity for financial practitioners to really prove their worth. Gary Slawther is the Corporate Treasurer at Octal, a manufacturer of the polymer resin PET (polyethylene terephthalate), which is used to make plastic bottles and packaging products, headquartered in Oman.

He says: "My career has blossomed in companies during difficult times – with a higher profile you can achieve greater things."

"Sometimes the role of corporate treasurer is what you make of it, so you have to make yourself valuable. I enjoy being at the heart of commercial issues – in business, everything involves cash and risk. If treasury doesn't know everything that's happening in the business, it can't manage the risk – you have to know about the problems and how to support the business," he adds.

On the subject of precisely how to achieve a higher profile and make the role of corporate treasurer as valuable as it can be, Slawther emphasises communication and the ability to win over the Board. He says: "Board meetings are a big learning curve – you quickly learn what keeps their attention (which is usually short). When the company runs out of cash, then you have their full attention – and you have to tell them how you're going to use your skills to ease cash flow in a three-minute pitch – so brevity and the ability to focus on what is important are essential."

The perfect partner

Communication isn't just an upward flow – it's also important for treasurers to really understand their business. Slawther says he has become familiar with the plastics production process and can engage with people on the operational and production side of Octal. Having a working knowledge of all parts of the business can prove to be very valuable indeed to the treasurer. "Keep your eyes and ears open – most companies are poor on communications, so build internal networks around the business that allow you to communicate. A lot of operational people will view you as the person who makes sure their wages get to the bank – engage in the business and never assume you know it all – learn and know the business," says Slawther.

According to TreaSolution's Carmody, treasury should strive to be the cash and financial risk management experts within an organisation. He says: "By creating an 'internal gravity' pertaining to treasury department functions this may encourage business units to ask treasury for cash and financial risk management support and expertise."

That's not to say that treasurers should be consulted on every company matter – this article doesn't make the case for treasury world-domination. But when it comes to strategic decisions that involve investment, financial risk and cash – and many do – then a wise Board will get treasury involved at an early stage.

Treasury from the CFO's perspective

So what is the view from the other side? Honnus Cheung is the CFO for Asia Pacific, Travelzoo (Asia Pacific) Inc., based in Hong Kong. Treasury reports into her while other financial functions – tax, audit, risk management – also come under her remit. Travelzoo is an internet media company and publisher of travel and entertainment deals, operating globally.

The CFO sees the treasurer as a vital partner who provides valuable support to the business units, as well as providing international liquidity management expertise. For example, treasury can advise sales on how to negotiate better terms for sales contracts, to improve day's sales outstanding (DSO) or day's payables outstanding (DPO). Cheung says: "Sometimes getting a contract doesn't mean getting the cash flow. Data on cash availability is essential to the CFO and the Board, but the data needs to be timely and transparent. Treasury can

work closely with the business units and in particular with sales and the procurement team; they can assist the business units to structure a better DPO/DSO to increase the flexibility of working capital, and ensure that all financial positions are managed as efficiently as possible."

As CFO, Cheung also believes that the treasurer should have an international outlook and a broad level of understanding outside treasury, with awareness of the political as well as the financial environment. She says: "They need to have the minimum capital structure requirement knowledge of different jurisdictions, eg repatriation rules, minimum debt and equity ratio regulation. Being a competent regional treasurer, they can advise on how to leverage the regional cash pool to benefit different countries, how to get a better and low risk yield from idle cash and funding requirements via issuance of debt, shares or IPO for long-term investment." She adds that sensitivity to currency fluctuations in Asia, as well as against the US dollar and euro, is also a key part of the treasurer's role.

All about the bottom line

Industry sector also affects how treasury can influence company strategy. While a consumer goods retailer might have constant cash inflows and certain short-term market risk exposures, a property development company needs to take a longer view, with long-term investments and a more complex debt structure.

Sharon Sng is Head of Corporate Finance at CapitaLand, one of Asia's biggest real-estate companies, headquartered and listed in Singapore. Its property portfolio includes shopping malls, offices and homes and the role of corporate finance is wide-ranging. While Sng is involved in the company's investment decisions, she also plays an important coordinating role in ensuring each of the company's entities presents a consistent brand to investors.

She says: "A key contribution of our function is being involved in the investment decisions process early on. Being in a capital intensive sector where investments have longer gestation periods, the financing decision has a significant impact on the returns and consequently investment structures and final decision. CapitaLand has eight listed entities within the group, including the parent company, hence it is particularly important that fundraising activity across the group is well coordinated, to avoid confusing investors and the market, as well as to ensure the success of each fundraising."

The fundamental things

So whether your corporate treasury is already a part of the company's strategic decisions or perhaps you'd like to increase your standing with the CFO, the Board or with other business units, it's worth remembering that the basic treasury skills continue to be the most valued. Octal's Slawther says that in times of growth or crisis, treasurers shouldn't forget that their core areas of expertise will always be essential to senior management: "The fundamental things – risk, return and cash – never change. In times of exuberance and downturns, these fundamentals still apply. However, the value the executive Board places on treasury has changed as we have been through a challenging period. In times of cash constraint, treasurers can reveal their true worth. So you don't just need people with tech skills, but someone who is able to sit down monthly with the Board and translate the issues into a language people can understand." ■



Vietnam

With a population of more than 92 million, around a quarter of whom are under the age of 14, Vietnam is increasingly attractive to multinational companies seeking new opportunities in the South-East Asian region. For companies that are pursuing the “China-plus-one” approach, many opt for Vietnam as the plus-one country.

A socialist state, the country's government has been gradually moving away from a centrally-planned economy since 1986 in a programme known as Doi Moi. In January 2007, Vietnam joined the World Trade Organisation and was an official negotiating partner in the Trans-Pacific Partnership (TPP) trade agreement in 2010. Anyone who has visited Vietnam will understand that agriculture plays a significant role in its economy, however the share that agriculture has of the country's economic output has been shrinking. In 2000 a quarter of the country's output was agriculture-based, a share which fell to 22% in 2012. Industry is taking up the slack, increasing from 36% of gross domestic product (GDP) to 41% during the same period.

Overall, Vietnam's GDP grew by 5% in 2012, which was the slowest rate of growth for the country since 1999. The country's export-oriented economy was hard hit by the global recession but exports did bounce back in 2012, increasing by more than 18% year-on-year.

Speaking in Vietnam's capital city, Hanoi, in March 2013, European Commissioner for Trade, Karel De Gucht, said the policy of Doi Moi had moved Vietnam from “rigidity and control to openness and flexibility – allowing room first for domestic private enterprise, then for foreign investors and gradually for a greater role of market forces in the economy”. The greater openness had led to an average growth rate of 6.5% between 2007 and 2011 and significant declines in poverty and the rise of Vietnam up the ranks of global economies, he added. For example, Vietnam now is second only to Singapore in attracting foreign direct investment (FDI) in the ASEAN region, relative to GDP.

FDI in Vietnam has risen steadily during the past decade and in the past year has soared by 65.5%. Vietnam's General Statistics Office (GSO) announced in October that FDI inflows had reached \$19.2 billion, surpassing the government's target of \$13-\$14 billion. The largest share of investment (from a

total of 52 countries) came from Korean investors, who contributed \$3.6 billion in the past year. Singapore with \$2.7 billion was next, followed by China, Japan and Russia, which collectively contributed \$4.4 billion. "As some businesses struggle to be economically viable in China – where costs have risen and the Renminbi has strengthened – they are turning to Vietnam," says Andrew Dyer, Head of Transaction Banking Sales, Asia Pacific at ANZ Group. "Production in Vietnam is fairly low cost and there is a young workforce. In addition the logistics are good and the infrastructure and supply chain is superior to neighbouring countries."

However, Dyer says money is not freely moveable across borders so there are no notional pooling or sweeping products. "It is similar to China about ten years ago; some contract manufacturers will operate very lean companies in Vietnam, keeping their invoicing and other treasury activities offshore," he adds.

During the past year the pace of foreign-funded projects also increased, according to the GSO with more than 1,000 approvals for new ventures and a continued contribution of \$6.2 billion to ongoing projects. Manufacturing and processing proposals received the greatest share of interest from foreign investors and represent 77% of contributed capital.

Two large infrastructure projects during 2013 attracted significant FDI inflow: a thermal power plant that attracted nearly \$2 billion in total investment in a joint venture between the Government's General Department of Energy and Singapore's Sembcorp and a \$1.2 billion integrated circuit project funded through FDI contributions from Korean company Samsung. The power plant is considered essential to ensuring a power supply to support Vietnam's economic development.

On a smaller scale, multinationals Nestlé and Starbucks hope to cash in on the Vietnamese coffee drinking tradition. Vietnam is the world's second biggest producer of coffee beans behind Brazil, with more than 90% of production exported. At the start of 2013 US-based Starbucks opened its first outlet in the country. Nestlé has also targeted the coffee market in Vietnam, having invested in coffee factories in the country.

"Generally Vietnam is a challenging business environment, but many FDI firms are doing very well, a number of Vietnamese firms are doing well, although many Vietnamese state-owned enterprises and SMEs are facing real difficulties," says Herbert Cochran, Executive Director of the American Chamber of Commerce (AmCham) Vietnam in Ho Chi Minh City. "The business environment is pretty good for FDI firms, which account for about 40% of domestic industrial production and two-thirds of all non-oil exports from Vietnam. However, it seems to be quite difficult for SOEs and also for Vietnamese private companies, 66% of whom have reported losses in 2012 and 2013, according to news reports."

Several US-based multinationals, particularly in the consumer goods arena, have taken the lead in investing in Vietnam, he adds, with such companies investing between \$200 million to \$500 million each. For many of these companies Vietnam is their fastest growing market globally. "Moreover, US foreign direct investment in higher value-added modern manufacturing is increasing, led by Intel's investment of \$1 billion in an assembly and test facility in Saigon Hi-Tech Park and scores of other smaller investments." The American Chamber of Commerce in Vietnam has a 'manufacturing

committee' with about 20 companies involved in modern manufacturing. These companies are successful, and more are coming, says Cochran. One company that opened operations in Vietnam five years ago now employs almost 1,000 people, exports about \$50 million worth of goods per year and is looking for new land to expand because it expects to triple its business in the next three to five years.

Cochran says American Chamber of Commerce cooperation with and support of Vietnam's government and business has led to a substantial increase in bilateral trade during the past ten years: from only \$1.5 billion in 2001 when a bilateral trade agreement went into effect in December of that year to \$9.7 billion in 2006 when Vietnam achieved WTO Accession and Permanent Normal Trade Relations with the US (December 2006). More than \$28.7 billion worth of trade is projected in 2013. If present trends continue, bilateral trade could reach \$50 billion by 2020, says Cochran.

"Generally Vietnam is a challenging business environment, but many FDI firms are doing very well, a number of Vietnamese firms are doing well, although many Vietnamese state-owned enterprises and SMEs are facing real difficulties."

Herbert Cochran, Executive Director, American Chamber of Commerce (AmCham), Vietnam

Speaking at the Autumn Economic Forum of the United Nations Development Programme in September 2013, Bakhodir Burkhanov, the Programme's Deputy Country Director for Vietnam, said the country had maintained macroeconomic stability during 2013. But he warned that the slow progress on structural reforms in the banking, public investment and state owned enterprise (SOE) sectors had been an impediment to economic growth. He added: "Investor confidence remains subdued, with growth of labour productivity slowing from 5% annually between 2000 and 2007 to 3.5% between 2008 and 2011. Vietnam has dropped ten places to 75th in the 2012-13 edition of the Global Competitiveness Report by the World Economic Forum, and slipped from 116 in 2010 to 123 in 2012 in Transparency International's Corruption Perception Index. Poverty reduction and human development progress have also slowed down." To tackle these problems he suggested a greater focus be placed on examining the social impact of reform options and on the institutional framework to support reform initiatives.

A study by AmCham into American companies' perceptions of doing business in ASEAN countries found the main sources of dissatisfaction in doing business in Vietnam were caused by corruption (70%) and infrastructure (65%). On the plus side, 59% of companies appreciated the availability of low-cost labour and availability of trained personnel (43%) – see Table 1.

Vietnam has been undertaking a restructure of SOEs and Prime Minister Nguyen Tan Dung has said he plans to push the country's SOEs into closer competition with the private

sector. He hopes this will make them more competitive and the overall goal is to retain only a smaller number of key SOEs in certain industries.

Corruption also is being tackled and in November 2013 a former general director of the state-owned Agribank Financial Leasing Company was sentenced to death for his part in a \$25 million embezzlement of state property. Another man, a former chairman of a construction company, was also sentenced to death in the case.

Another factor in tackling corruption may come in the form of the TPP. Steven Winkelman, Chairman of the Vietnam Business Forum, told an audience in Vietnam in December 2013 that the TPP could help the government in its drive towards a market economy and reform of the SOE sector. The TPP is being negotiated between Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam and the US. Combined, these countries encompass 800 million people, around one-third of world trade, and nearly 40% of the global economy. Studies have shown that Vietnam has the most to gain of any country currently negotiating the agreement, with export and GDP growth potentially greater than for other partner countries. It is believed the partnership will enable the private sector greater access into key markets, will stimulate competition, will attract additional foreign investment and will help build key supply chain infrastructure, thus creating significant opportunities for Vietnamese businesses, and jobs and higher incomes for Vietnamese workers. TPP will help Vietnam's strategic drive to industrialise, modernise and globalise.

“Only 20% of the population has bank accounts, so there are quite significant problems for companies around payroll and accounts payable and receivable.”

Andrew Dyer, Head of Transaction Banking Sales, ANZ Group

Winkelman says foreign companies interested in investing in Vietnam “need to see more evidence of the Government’s willingness to reform the inefficient state-owned system, considered by many analysts as a root cause of Vietnam’s current economic challenges”. Corruption and conflict of interest issues are embedded in the fabric of the SOE sector, according to Winkelman. “Without addressing fundamental governance issues, progress will remain challenging. Investors wonder which over-extended state-owned conglomerate will be the next to fail, or which will be forced into taking bad assets onto their balance sheets. This misallocation of resources continues at a time when Vietnam needs to be making wiser decisions about capital outlays and business strategy.”

Vietnam’s economy also faces challenges because of an undercapitalised banking sector. Non-performing loans weigh heavily on banks and businesses. In September 2012, the official bad debt ratio climbed to 8.8%, although some independent analysts believe it could be higher than 15%.

The Vietnamese Government launched the Vietnamese Asset Management Company (VAMC) in July 2013 in a bid to address the troubled banking sector. US-based Fitch

Ratings, however, has cast doubt on the ability of VAMC to perform its task. Fitch is concerned about the lack of capital at its disposal; at present it stands at \$24 million. The plan is to swap the banks’ debts for government bonds. Says Fitch: “We believe Vietnamese banks may still face capital-impairment risks even after offloading bad debt to the VAMC, based on preliminary data. This is because government-guaranteed bonds received in consideration for bad debt must be written off by a reported 20% each year, which effectively means that the bad bank only buys time for the banks to write off losses.”

Commenting on the Fitch report, the Financial Times said foreign investors were keen for decisive action from the government, not least because the banking sector’s problems have left the economy starved of new credit. “It is always possible that well-capitalised foreigners could come to the direct aid of the banks themselves but, as Fitch points out, there is limited appeal to the sector given a cap on foreign ownership of 30%,” said a report. “And any expansion of bank lending without an injection of fresh capital would only store up more trouble ahead.”

As elsewhere, Vietnam’s authorities have been reducing interest rates in a bid to stimulate economic growth. The cost and availability of financing, particularly for smaller companies and the relative impact of that on exports tends to put greater emphasis on efficient trade finance products. Access to US dollars, both onshore and offshore, is key and many different trade finance instruments are used to achieve this. Cash flow can be improved via pre- or post-shipment finance by utilising trade finance to fund the purchase or manufacture of goods, while awaiting payment from buyers. Many companies choose to finance the period between payments for the imported goods and the final sale of the goods. As more companies outsource elements of their production process to Vietnam there has been a growth in payables financing.

Another issue for multinationals to address when doing business in Vietnam is the largely cash-based economy, which, says ANZ’s Dyer presents challenges in terms of cash management. “Only 20% of the population has bank accounts, so there are quite significant problems for companies around payroll and accounts payable and receivable. There are also technology challenges regarding this because Vietnamese names are very long and the currency is also in high denominations (22,000 dong to \$1). ERP systems have to be substantially modified to cope and there is significant manual input around the AP/AR processes,” he says.

The government is encouraging financial inclusion via a number of initiatives. For example, payments of more than 20 million dong (\$1,000) have to be made through the banking system or a VAT receipt will not be issued. Modern payments systems are also being developed and a new cross-border system for inter-bank payments in dong is being rolled out. At the moment credit cards are not widely used outside of tourist hotels. However, there is a generational shift occurring, particularly as young people who have studied overseas return to the country and want to use internet and mobile banking services.

The main attraction for multinationals setting up in Vietnam is its potential, including low cost of labour, growing consumer market and its membership of ASEAN, which is a market with a combined GDP of \$2.2 trillion. Despite the challenges, Vietnam represents an important opportunity for multinationals and the business environment is improving all the time. ■

Table 1: Current local business environment

Excluding respondents from Brunei and Singapore, corruption continues to be the greatest concern across ASEAN, similar to findings from each of the last five years. Personal security and sentiment towards the US remain highly positive across the ASEAN region, with the exception of Malaysia for personal security, and Laos for sentiment towards the US.

Factors	Regional	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Availability of low cost labour	36%	73%	65%	53%	63%	53%	43%	74%	48%	40%	59%
Availability of raw materials	33%	55%	50%	37%	38%	38%	43%	38%	33%	35%	35%
Availability of trained personnel	41%	55%	55%	39%	69%	44%	71%	87%	57%	42%	43%
Corruption (or lack of)	48%	82%	65%	80%	75%	53%	43%	59%	87%	71%	70%
Ease of moving your products through customs	35%	36%	50%	45%	44%	56%	64%	44%	64%	30%	46%
Free movement of goods within the region	41%	36%	40%	35%	50%	47%	50%	41%	66%	40%	43%
Housing costs	39%	45%	55%	45%	44%	41%	86%	56%	71%	52%	45%
Infrastructure	48%	36%	45%	65%	63%	84%	93%	54%	89%	56%	65%
Laws and regulations	37%	55%	50%	65%	63%	41%	86%	46%	84%	42%	59%
Local protectionism (or lack of)	41%	64%	45%	43%	44%	50%	50%	46%	60%	40%	46%
New business incentives offered by government	36%	45%	40%	47%	38%	44%	43%	44%	65%	42%	49%
Office lease costs	34%	36%	40%	45%	63%	53%	79%	51%	54%	51%	35%
Personal security	69%	91%	60%	49%	63%	34%	71%	56%	93%	75%	55%
Sentiment towards the US	64%	73%	65%	53%	44%	53%	71%	79%	73%	64%	55%
Stable government and political system	51%	73%	45%	37%	38%	47%	50%	62%	90%	45%	38%
Tax structure	40%	45%	45%	45%	50%	41%	57%	56%	84%	43%	57%

Source: American Chamber of Commerce, Vietnam

- Strength: 50% or greater satisfaction rate
- Concern: 40% or greater dissatisfaction rate
- Neutral: the plurality is neutral or the factor is inapplicable
- Weak strength: plurality is satisfied but satisfaction rate is less than 50%
- Weak concern: plurality is dissatisfied but dissatisfaction rate is less than 40%



Best practices in refinancing

Interest rates remain low for the moment, but with the global economy showing signs of improvement higher borrowing costs may soon be a reality. As a result, companies with debt coming into maturity in the next few years are likely to be thinking about renegotiating borrowing terms with lenders and locking in cheap debt. But what is the key to securing the most favourable terms? In this article we ask two corporates and two banks what they think defines best practices in refinancing.

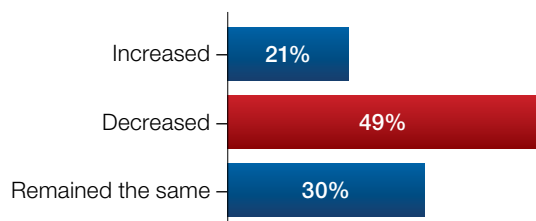
It was yet another huge year for corporate bond issuance in 2013, with the combination of artificially low long-term interest rates and strong investor demand once again pushing debt sales to record levels in European markets.

The issuance boom has resulted in a change in the corporate debt stack. In Europe, companies have traditionally relied upon bank loans for their financing needs. But today, “the loan market share of the corporate debt stack in Western Europe stands at roughly 50%, a reduction of 10% from what it was just two years before,” says Karl Nolson, Managing Director, Debt Finance, Barclays. “In the UK the decline in the same period has been more abrupt, dropping from just over 70% to just inside 50%. Now, there is a considerable amount of liquidity chasing very few deals and this has helped pricing in the loan market to regain some of its competitiveness.”

In the Asia Pacific region, the balance of the corporate debt stack moved in the opposite direction. In the bond markets, the coupons paid on debt increased for many corporates during 2013 after the Federal Reserve’s announcement of its plans to unwind its asset purchases triggered a sell-off in dollar denominated debt across a number of emerging markets. Bond issuance, which had hit record highs in 2012, declined, driving companies back to the more competitive loan market for their financing needs.

Overall though, funding conditions for corporates remain favourable across the board. In Treasury Today’s 2013 European Benchmarking Study, a majority of treasurers (79%) indicated that credit costs had remained the same or declined during the past year. In the Asia Pacific region the figure (75%) was only marginally lower.

Chart 1: How has pricing changed in the last 12 months?



Source: European Corporate Treasury Benchmarking Study 2013

Corporates know that this era of cheap credit is not going to last forever. With the global economy recovering, interest rates are set to rise sooner or later. To make the most of low borrowing costs conditions while they last, a significant number of companies with existing debt due to mature in the next few years are now entering into negotiations with their lenders to modify and extend terms.

But what is the key to successful refinancing? Every company is different and, as such, are likely to approach such negotiations in their own individual ways. However, when Treasury Today raised the subject of best practices in refinancing with corporates and banks, it quickly became apparent that there are some general principles companies can follow to secure the best possible terms from their lenders.

Cash in on investor bond appetite

Both investment-grade and high yield corporate debt issuance have set new records in the US and Europe over the past year. But such is the volume of liquidity in the global economy at the moment that demand for non-financial corporate debt in the US private placement market is still outstripping the supply, says David Cleary, Co-Head of US Private Placements at Lloyds Bank. This supply and demand imbalance has led some US investors to attempt to differentiate themselves by offering, for instance, delayed funding or euro or sterling denominated debt. The trend might provide those corporates who have the ability to access capital markets some unique financing opportunities, whether that be for the purpose of restructuring existing debt, M&A or growth capex.

"That is one of the appeals of the private placement market to the UK or European corporate," says Cleary. "Because investors are looking for ways to differentiate themselves, corporates issuing debt in this market can secure much greater flexibility in their financing. It gives them the opportunity to mix tenors and use different currencies and tranches."

Treasurers evidently now have an abundance of options these days when it comes to refinancing on the capital markets. It is important to consider each of these options early on, says Cleary, referring to the core debt quantum in the business plan and considering the potential impact of any future developments such as mergers and acquisitions or unexpected capital expenditure requirements.

"Finance teams need to ensure that the finance they are putting in place today works over the life of that debt facility," he says. And that is the case whether the company is looking

to take on debt with five year maturity from the bank market, or ten or 15 years in the bond or private placement market. "Assess the options," adds Cleary. "Ensure that each is fit for purpose, and ensure that the terms and conditions will meet your business needs going forward."

Take it while it's there

Ford Motor Company benefited enormously from taking such a forward looking approach when it restructured some of its debts back in 2006. Initially, the treasury at Ford merely intended to renegotiate the company's revolving credit facility, but given the positive market conditions that existed prior to the onset of the credit crisis it soon turned into much more. In addition, a separate term loan was taken and a convertible bond issued securing a total of \$23.5 billion of debt for the company, of which \$12 billion was funded and \$11.5 billion was unfunded as a backstop facility.

"In a good market without a lot of debt supply coming in you need to come prepared."

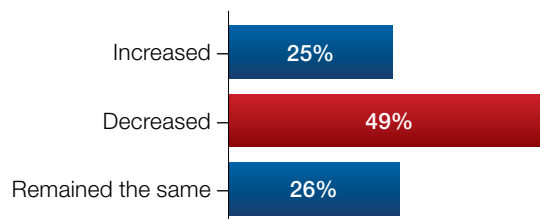
Neil Schloss, Vice President and Treasurer, Ford Motor Company

Neil Schloss, Vice President and Treasurer at Ford Motor Company did not regret for one minute that the company squeezed all the credit it could manage out of the market. Less than two years later the US motor industry was in a dire condition. With the arrival of the financial crisis, Ford, alone among Detroit's big three auto manufacturers, did not need to request Troubled Asset Relief Programme (TARP) money from the US Government, or declare bankruptcy. And it was the mixture of secured and unsecured funding acquired in 2006 that made the difference during this difficult period.

"It was critically important," says Schloss when asked about the significance of the restructuring to the company. "It was one of the elements that prevented us from requiring government support during the crisis and meant that, unlike our two big competitors, we didn't have to cut back on our capital expenditure during that period."

One of the lessons from this, Schloss notes, is that markets tend to move in cycles which do not always align perfectly with business needs at every given moment. It is crucial therefore to take full advantage of favourable borrowing

Chart 2: How has pricing changed in the last 12 months?



Source: Asia Pacific Corporate Treasury Benchmarking Study 2013

conditions when they arise. "You tend to take money when you don't need it and don't take money when you need it," he says.

But in order to take advantage of favourable conditions when they materialise, corporate treasurers need to be on their toes constantly. "Availability today has much shorter windows," he explains. Therefore, corporates who want to refinance when the market is positive need to be ready on any given day to do it. "In a good market without a lot of debt supply coming in you need to come prepared. If you come in one day thinking that the markets look great, but haven't planned what to do then you are likely to miss it."

Engage early with lenders

It is for this very reason that Barclays' Karl Nolson says it is important for corporate borrowers to engage early and maintain regular conversations with their lenders. This will allow corporates to move quickly and execute a strategy at the point which they need to. It is something which he thinks applies even in the loan market which is not as dynamic as a market for bonds. "Finance teams often tell us that they need to anticipate when the Board is going to ask the question of how much debt can be raised and at what price," he says. "For that reason, especially in a heightened M&A environment, the conversation with banks should always be ongoing."

Keeping in touch with lead arrangers will not only help treasurers by preparing them with the information they need to act at short notice, but also take away some of the taxing aspects of the financing process such as documentation and coordinating with other banks in the syndicate to get the best pricing.

Finally, frequent communication with the lender can help the corporate to understand better what is going on at the regional level of the loan market. Although nations are often thought of as distinct markets, there are often considerable regional disparities in pricing. Demand for credit, and therefore the cost of it may, for example, be very different in the North of England than it is in Scotland or London. "If a lender is based in Manchester and it's their job to look after that region, given the paucity of new loan volumes in general, they really can't afford to miss out on any loan issuance emanating from that region. So one tends to see regional pricing variations, but staying in contact with the banks regularly can help the treasurer understand how those dynamics are playing out at any one time."

Be transparent

Frequent communication with your banking partners is one thing, but as the experience of Royal FrieslandCampina testifies, the way in which you communicate is also important. In late 2011, the market for bank finance in Europe was deteriorating as the Eurozone's debt woes escalated. Nevertheless, Royal FrieslandCampina managed, in spite of these very challenging market conditions, to successfully negotiate with their lenders an "amend and extend" of the company's €1 billion general purpose syndicated credit facility.

The manner in which FrieslandCampina communicated its expectations with the banks included in the syndicate was critical to the success of the deal, says Klaas Springer, Director of Corporate Treasury at Royal FrieslandCampina. With the help of Zanders Consultancy, the company

developed a tailor made solution it calls the 'Wallet Sizing' model to help frame the forthcoming negotiations. Using this model, treasury were able to perform their own analysis on the profitability of the business the company was doing with each of the 14 banks in the syndicate, before reporting back to them with the results.

Once treasury had completed this analysis and ascertained that a majority of the banks in the syndicate were satisfied with their relationships with the company, it began exploring the possibility of renegotiating the terms of the loan. In addition to extending the maturity of the loan, treasury also felt that pricing should be brought in line with what other companies of a similar size and creditworthiness were paying in the market.

"They basically couldn't say no to us," says Springer, explaining that having the syndicate banks confirm they were happy with the relationship prior to the discussions had put the company in a very strong negotiating position. Although a few banks displayed some hesitancy, as one might expect given the broader economic climate, Springer held that the vast majority responded positively and were tremendously cooperative.

The lesson from all of this, says Springer, is that when it comes to refinancing it pays to be as transparent as possible with your creditors. "They need to understand where you are coming from," he says. "I always say, if you treat the banks with respect you will get respect back. It certainly helps your cause if you are transparent and involve your banks in the proper way."

The year ahead

As the global economy improves, the prospect of higher rates is certain to increase. Any corporate with maturing fixed income debt would understandably want to refinance before the Federal Reserve reduces the pace of its \$85 billion-a-month asset purchasing programme and yields begin to rise. This, perhaps, is one of the factors that has contributed to the extraordinarily high levels of issuance in recent months and why analysts expect to see it continue at least into early 2014.

The outlook for pricing in the loan market is less certain. In the US, analysts do not foresee any rise in short-term rates until at least the beginning of 2016 while, given the Eurozone's ongoing troubles it seems likely that policy rates there will remain low for some considerable time. Although the Bank of England has raised the possibility of a rise in 2014, it goes without saying that such a move will be conditional on the UK sustaining its recent return to growth. Instead, the biggest issue for corporates accessing bank finance is likely to be regulation, with the leverage ratios introduced under Basel III, in particular, likely to either increase – or, at the very least, put a floor on – loan pricing.

But the impact at the investment-grade end, at least, shouldn't be too adverse says Barclays' Nolson. The corporate with "a good ancillary story" and lots of business to share between its relationship banks will, he adds, always be able to command improved pricing on loans. On that basis, in addition to all the liquidity that is still out there, Nolson expects to see the number of deals continue to pick up as Europe heads towards the next big refinancing spike in 2015. "The number of 'amend to extends' has increased significantly through 2013. We expect a lot of borrowers to continue exploring and executing refinancings as we move into 2014." ■



LEADER OF THE PACK

V N Shankar

Head of Finance and IT

REXAM

For V N Shankar, Head of Finance and IT for Rexam Healthcare, serious study must combine with solid real-world experience to create a fully rounded finance professional. It is a philosophy that has worked well for him as he takes the finance helm of one of the world's leading medical packaging businesses.

Rexam is a global leader in packaging. With 67 plants in 24 countries across Europe, North and South America and the Asia Pacific rim it employs almost 11,000 people. Around 90% of this London Stock Exchange-listed firm's net sales come from the manufacture and supply of beverage cans. However, an expanding part of its portfolio falls into the category of rigid plastic packaging for healthcare applications. Products in this vital field include dry powder inhalers, eye droppers and pharmaceutical pumps. Group revenues in 2012 stood at £4.3 billion and around 34% of this derived from the emerging markets. Rexam is understandably keen to develop these markets and its regional finance operations are playing a key role in this plan.

For Bangalore-based Head of Finance and IT for Rexam Healthcare, V N Shankar, the accumulation of knowledge and experience is an essential part of being a successful corporate finance professional. This means the academic must meet the practical to form a balanced view of the function.

In terms of study, Shankar meets the criterion amply, with accreditation from the Institute of Chartered Accountants of India and the US Certified Management Accountant (CMA) bodies. Commercial experience is delivered in spades too, with Shankar first entering the corporate financial space with

the Indian operation of the globally recognisable heavy earth moving and construction equipment manufacturer, Caterpillar.

Indeed, Caterpillar provided Shankar with a range of roles over a four-year period as he rose up the ranks, starting with internal audit and SOX compliance before progressing to the financial analysis and reporting unit under the auspices of the group's corporate finance team for India. Handling areas such as fixed assets, forecasting, inventory, receivables and payables, treasury and tax, he looked after accounting teams located in two locations. A key part of the role required him to co-ordinate data provided by the teams, enabling him to rapidly develop functional skills and a keen appreciation of the need for accuracy; an ability which has served him well throughout his career.

Following his time with Caterpillar, Shankar spent three years with the fledgling Indian operation of US-based firm, Closure Systems International. The company, which provides plastic and aluminium bottle caps and lids for a vast range of products across the world, had just set out on its Indian journey. Shankar joined them in Bangalore at the set-up stage. His remit was to lay the foundations for, and to establish, the operation's finance team and all its in-country activities from scratch. Here he reported to the group's Bahrain-based regional Finance Director as well as the General Manager of Indian sub-continent in Bangalore; his management of the dual reporting responsibility would again serve him well in a later role. Having set the scene for Closure Systems' Indian finance unit, Shankar undertook the full range of treasury, accounting and tax duties for the operation, adding further to his already broad-based knowledge and experience of financial processes.

Rexam calls

It was this balance of skills that brought Shankar to the attention of Rexam in Bangalore just over a year ago. His role here reflects his portfolio of capabilities and has earned him the title of Head of Finance, with a local twist that also sees him in charge of IT. With Rexam, Shankar once more assumed a wide range of responsibilities, from accounting and treasury to financial reporting. The latter includes market analysis for new business ventures across the Indian subcontinent, whether through the firm's organic growth or via acquisition. A substantial part of Rexam's regional focus now is to increase its market share. In order to achieve this, it has a rolling five-year strategic plan in place which will see it reach deeper into its traditional markets and into the wider Middle East and South-East Asia. With an eye on delivering shorter lead times for its customers and improved product margins for the business, plans are afoot to set up a new production site in a strategic location in the region.

For Shankar this is an exciting opportunity for anyone prepared for progress. Having gained experience and assumed new and different responsibilities, he feels he has made a series of "good moves" to reach his current position. Although "basically an accounting professional from India", armed with the strategic management toolkit provided by CMBA study and some fine commercial experience in some very large global businesses, he has certainly steered his career in the right direction and now finds himself at the heart of a growing company.

Operational structure

Rexam's regional finance function sees Shankar reporting to the Business Unit Finance Director, a position that is currently based near the French city of Lyon and which handles all

European and Indian financial operations. As Business Unit Head of Finance, Shankar heads up financial operations for the Indian subcontinent, reporting to the local Board in Bangalore. He has responsibility for eight personnel including two Chartered Accountants, one Cost and Management Accountant and MBA Graduates. One of the MBA graduates manages the day-to-day treasury activity including banking activities and all relevant statutory compliance.

"In India we have stringent banking regulations," explains Shankar. "The Rexam group uses inter-company loans for which India's central bank (the Reserve Bank of India) has a number of guidelines requiring a significant amount of documentation to be submitted." The documentary requirement starts before the funding is transferred and ends only when the loan is paid off in full. Compliance therefore requires a complete report and analysis for the duration, with returns having to be submitted to the government every month. This process, says Shankar, can take up to five hours to complete each time. It is a heavy burden of bureaucracy, but is just one of many regulatory demands placed on his team – the management of which necessitates strong leadership. The structure of local operations in some ways facilitates good communication and cooperation.

The relationship between finance professionals within Rexam is influenced by a "lean" concept of staffing which sees many individuals having at least two roles to play at a local level. This, notes Shankar, ensures an easier approach to the coordination of duties, even if it creates different reporting structures (of which, it will be recalled, he has past experience). Shankar reports at a functional and group-specific level to the CEO in France and at a day-to-day administrative level to the Managing Director in Bangalore. "As far as the coordination of activities is concerned it is very clear; in fact there are clear guidelines in terms of what I need to handle, and the people to whom I report are very much aware of what activities I am responsible for; there is no confusion or issues in terms of handling activities between treasury and finance." Indeed, treasury is the risk management provider to the operation and, as Shankar says, there should be clear cooperation between functions, with treasury helping to finance the business for both operational activities and growth.

Banking and funding

Rexam works with a short list of global corporate banks as its primary partners but local operations are permitted to work with suitable national providers for day-to-day requirements such as payroll or tax payments. The reason for this is simple: local banks are closer to local operations, both physically and in terms of working relationships. This, notes Shankar, ensures business understanding is optimised, "problem-solving is less of an issue and visibility over local accounts is enhanced". Additionally, in India, he explains that tax payments must be paid online, necessitating a relationship with a domestic nationalised or public sector bank (using a private institution adds several days to the process and thus negatively impacts cash flow).

For operational purposes each country entity is responsible for meeting its own funding requirements (for raw materials, additional headcount, tooling and so on). But for growth plans external funding may be required. This may take the form of bank funding or, more likely, as an inter-company loan. There are strict guidelines laid down at corporate level as to what kind of funding may be used, this being based, as might be expected, on cash flow and liquidity requirements.

Inter-company lending, driven from Rexam's regional finance centre in London, is typically the least expensive form of borrowing, but local lending can be arranged by the group's international corporate banks. This will be as a mix of fund-based lending (either as a bank guarantee or letter of credit) and non-fund-based lending (such as a term loan, overdraft or cash credit).

Non-fund based lending means the bank does not commit to any physical outflow of its own cash (so its own cash position is unaffected). The fund-based form will see a physical outflow of cash from the bank which is therefore more expensive. With an approximate 30/70 split in favour of non-fund base lending, Shankar is able to comment that "my overall finance cost is lower and my balance sheet looks good".

In India, Rexam also uses a type of funding called buyer's credit which bears a resemblance to supply-chain finance. Buyer's credit, Shankar explains, is short-term credit for importers provided by overseas lenders. This is often cheaper (in terms of interest rate) than traditional funding for the buyer and also offers an additional credit period. The duration of buyer's credit varies but in India it can extend up to one year for tradable goods and up to three years for the import of capital goods (although interest can be reset in that period). For Shankar's purposes vendors can be paid immediately by the bank but payment by Rexam can be deferred by 180 days.

In practice, as soon as Rexam receives a vendor's invoice, that document is itemised to the bank which will automatically make the payment to the relevant vendor on the due date. Rexam will remit to the bank after 180 days. "It is a completely automated process; I don't need to worry when the vendor payment is due to the vendor or the bank; it gives very good control over payments and financing activity, the balance sheet looks good and the vendors are happy."

Technology and hedging

Although Rexam in India uses a number of modules with the group's SAP ERP system, including a payments automation function, one of its most important treasury functions – the execution of FX hedging contracts – is transacted manually through the in-house bank in London.

Rexam's European regional banking structure incorporates a header account in London with an account for US dollars, euro and sterling, plus in-country accounts for customer collections which are used to fund payments to vendors in the relevant currency, minimising FX costs. However, the level of overseas trade conducted by Rexam group's regional and local operations still means it has significant foreign currency exposure; hedging is therefore a key part of its risk mitigation procedure, explains Shankar. Where FX hedges are required they will only go out as far as three months and all hedges are managed on a rolling monthly basis, built around the local team's foreign currency forecast.

To assist its treasury teams, Rexam has deployed an in-house built and developed reporting system, known as Finder. This solution has been integrated with the group reporting system and offers a comprehensive view across the group of all treasury activities and exposures such as currency hedging and interest costs. The reporting data is updated every month, providing a rolling 12-month forecast by different currencies, giving full visibility over treasury processes with a 90% accuracy rate over three months.

With a substantial portion of Rexam's India-based production requirements for raw materials being imported, recent fluctuations in the FX market, especially with the Indian rupee against dollar, sterling and euro, such instability has affected operations. "Fortunately we have the hedging contracts; without them we would have lost millions," states Shankar.

Duty-bound

The importation of raw materials – largely from the US, Europe and the Middle East – brings with it another concern; compliance with strict Indian customs and excise regulations and, more pressing, the level of import duty. Production of the correct documentation – and subsequent processing by the relevant authorities – is a time-consuming process that can add four or five days to customer lead times. Duties applied to imports naturally hit profitability and cash flow but slower lead times also block the flow of working capital which is something of a double whammy for all importers.

At the Rexam end of the chain, whilst a certain level of intervention will always be required to comply with official demands, the production of reports and documentation is to a large extent automated (around 70% says Shankar). Its SAP system has been configured to meet local requirements, notably India's extremely demanding tax and customs reporting regime and attendant financial accounting. "Without automation it would be a nightmare for us to manage," comments Shankar. Without the local knowledge and experience of his team, it would be far worse.

Onwards and upwards

With day-to-day accounting and reporting activities taken care of by colleagues, and with Rexam in expansion mode, most of Shankar's time now is taken up by analysis of customer, product and geographic profitability. There is good reason for this: the Indian government is currently offering a tax exemption scheme to encourage businesses to engage in new product research and development.

In-house R&D centres of companies in certain sectors (such as pharmaceuticals, electronic equipment, computers, automotive and telecoms equipment) are being offered a weighted tax deduction at 200% on R&D expenditure as long as they obtain approval from a central, state or provincial regulatory authority and file an application for a patent on their product. Businesses can write off revenue and capital expenditure on R&D in the year the expenditure was incurred. Although India is a very bureaucratic environment for businesses, Shankar notes that "a lot of companies are now using this as an opportunity to carry out research". With Rexam preparing for expansion in the Indian subcontinent specifically for a new product line, Shankar's accumulated financial, analytical and administrative skills are in heavy demand.

For his own future, he is keen too to take advantage of opportunities as they arise. With some high level academic success under his belt and a breadth of experience gained in the last eight years with three global corporations, he is not only looking to consolidate but also to build upon his achievements to date. With a transparent operational model, close cooperation from colleagues at group and in-country level and a business that is clearly ripe for expansion, he is in no doubt that Rexam is the place to extend the reach of his remit. ■

Mitigating FX volatility

In the last four years global corporations have lived through some of the most volatile times in the \$5.3 trillion a day foreign exchange market. The volatility started with the global financial crisis, swiftly followed by the sovereign debt crisis in the Eurozone and, in more recent months, volatility in safe-haven currencies such as the Japanese yen and the Swiss franc. Talk of turning off the liquidity taps by the US Federal Reserve Bank also highlighted some structural weaknesses in emerging market economies such as India, which saw the rupee record some of its biggest falls against the US dollar in more than two decades.

Volatility is not just confined to emerging markets currencies. The G10 currencies have had their fair share of ups and downs too. The US debt-ceiling crisis saw the dollar depreciate against sterling and the euro and go-to safe havens — yen and the Swiss franc — were undermined by local shifts in policy. The Swiss introduced a currency floor in September 2011 and “Abenomics” — named after Japanese Prime Minister Shinzō Abe — resulted in expansionary monetary policies, which caused the yen to depreciate.

In Q2 2013, 233 companies reported negative currency headwinds, say FX exposure management and analytics provider FiREapps, see Chart 1 below. This was less than the same period a year earlier but an increase of 9% on Q1 2013 and a 10% increase over the 2012 average. FiREapps attributed the increased headwinds in Q2 to currency wars in Latin America and Japan and “surprise” impacts from countries like Australia (FX volatility increased ahead of recent political elections), which continued to significantly erode corporates’ EPS.

FiREapps estimates that for the last two years multinationals have consistently lost money to currency exposures, with second quarter 2013 losses totalling \$4.01 billion (an average currency impact to earnings per share of \$.03, which is three times higher than the standard industry benchmark). Total currency-related losses for the first half of 2013 reached \$7.7 billion, say FiREapps. Quarterly loss estimates are based on analysis of earnings calls of 800 publicly-traded companies —

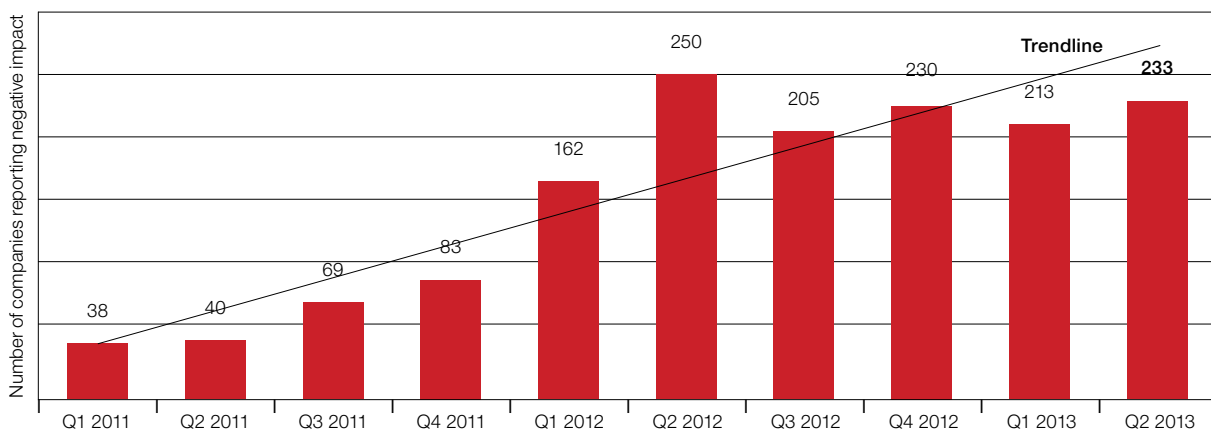
a subset of the Fortune 2000—that have 15% or more of their revenues in at least two currencies.

Different levels of awareness

Yet, as FiREapps points out, currency impacts reported by companies are likely to be underestimates as those that faced strong “headwinds” are unlikely to point them out, and few companies may have quantified the impact. “The other thing you have to look at is the maturity level of the financial disclosure,” says Andy Gage, Vice President, Strategic Market Development, FiREapps. “If you look at the US versus European disclosure, the Securities Exchange Commission puts pressure on corporates to be much more transparent on how FX impacts their corporate performance. Europe is just behind that but they don’t get as much heat as US corporates, and in Asia it is a bit murkier.”

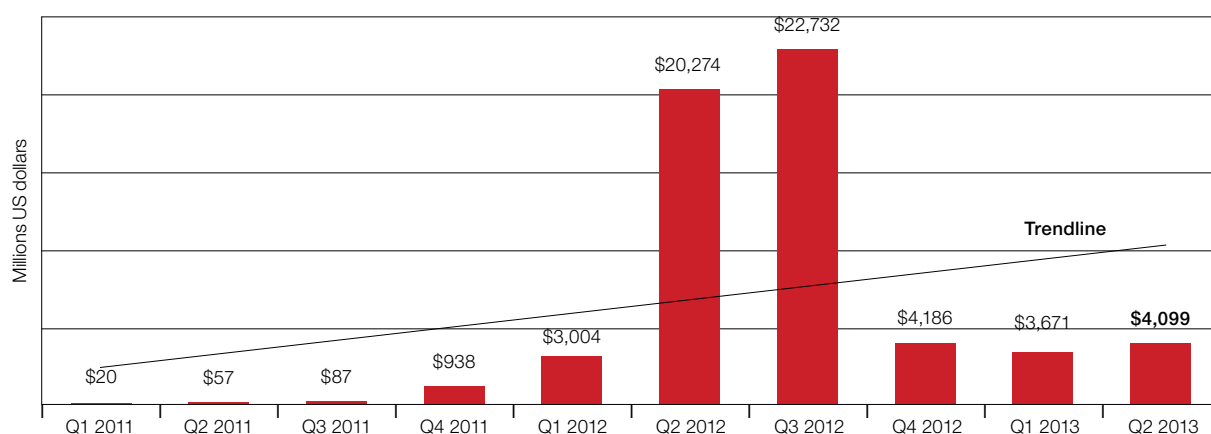
However, Gage believes the devaluation of the Indian rupee last spring has had a profound effect on how financial professionals view currency risk. “There were some huge exposures to the rupee and CFO’s do not want to see this happen again,” he says. Others say Indian rupee volatility will make little difference when it comes to Asian treasurers’ awareness of currency risk in general. “I don’t think it will make currency risk a higher priority, as Asian treasurers are not fully aware of all strategies to hedge their receivables and payables,” says Rahul Magan, Corporate Treasury Manager at EXL Services, an outsourcing

Chart 1: Number of companies reporting negative currency impact



Source: FiREapps Q2 2013 Corporate Earnings Currency Impact Report

Chart 2: Size of reported negative currency impact



Source: FIREapps Q2 2013 Corporate Earnings Currency Impact Report

and transformation firm. “Treasurers understanding of FX exposure is very limited in Asia.”

Asian treasurers' limited understanding of FX volatility and risk can be attributed to a number of factors. FX is only one aspect of treasury operations, and for Asian companies that are experiencing rapid growth or who are largely domestic focused, FX risk may not be as high a priority as it is for Western companies who have already experienced major international expansion and have a greater awareness of the risks that can bring. “In Asia, understanding of FX exposure is evolving,” says Gage. “It is such a rapidly growing environment in a lot of these markets. One of the challenges about FX and treasury in general is when a company experiences rapid growth they are so focused on staying out in front by supporting operations and distribution that risk management often takes a back seat. By contrast, a US or European corporate puts risk management higher up the priority list. They understand the business and volatility in these markets, and have a more mature view of currency risk.”

To hedge or not to hedge

While MNCs typically have a risk management policy that is fairly regimented, local companies in developing markets who transact business in a limited number of currencies have more leeway in general, says Gautam Hazarika, Head of MNC Markets Sales, APAC ex-Japan, Royal Bank of Scotland. “There's an element of the local mindset seeping in,” he explains. “If you are a local Indian company and you have a US dollar exposure what you think is going to happen to the rupee impacts hedging decisions.”

Blaik Wilson, Director, Solutions Consulting, Asia Pacific for risk and treasury management solutions provider, Reval, says treasurers in mature markets tend to be more cautious and passive in their hedging strategies. “They hedge for longer periods,” he says. “In Asia they tend to hedge more short term and are more subjective in their approach. Asian treasurers typically run really good margins, and if you have excess cash you can ride the currency a lot more but as margins get squeezed you need to hedge more.”

Those treasurers with a less coherent and disciplined strategy for mitigating FX risk are more likely to find themselves in reactive mode when currency markets become more volatile. “Arguably,

the biggest mistake prospective hedgers make is to wait until volatility increases,” says Ira Kawaller of Kawaller & Co. Brooklyn, New York, which advises companies on their use of derivatives for managing financial risks. “More often than not, it's not the higher volatility that precipitates the consideration of hedging strategies, but rather it's the coincidence of higher volatility with an adverse change in the exchange rate moves. The time to develop a hedging programme is before the perception of higher volatility is reflected in derivatives' pricing.”

Hedging in a competitive market environment can be difficult, says Kawaller. “There is a real concern if you guess wrong on a hedge and your competitors don't, you could put yourself at a disadvantage. You do not want to be far out on a limb, diverging too much from the rest of industry.” Instead of thinking would one have made or saved money after the fact had you not hedged, Hazarika of RBS says corporates should look at hedging as an insurance policy that can buy them some certainty. “Maximising certainty of cash flows and reducing costs are the key objectives for most corporates,” he says.

“More often than not, it's not the higher volatility that precipitates the consideration of hedging strategies, but rather it's the coincidence of higher volatility with an adverse change in the exchange rate moves.”

Ira Kawaller of Kawaller & Co., Brooklyn, New York

Wilson of Reval goes a step further, saying the treasurer needs to give management a clear understanding of the consequences of not hedging, even if they lose on a hedge. “Treasurers in emerging markets need to educate management, and as the business expands into new geographical areas stricter guidelines on hedging are needed.”

Rolling with the punches

Magan of EXL Services points to the example of the Indian economy, which as it becomes more globalised, is

experiencing a greater inflow of payables and receivables in foreign currencies including the Australian dollar, New Zealand dollar, Canadian dollar and G7 currencies. Globalisation has also meant there are increasing foreign currency loans (mostly in US dollars) on Indian companies' books, particularly in the steel sector, which are subject to interest rate and revaluation risks. Magan says hedging strategies linked to derivatives such as plain vanilla forwards, options and interest rate swaps are highly effective tools for mitigating the impact of currency and interest rate volatility on companies' balance sheets.

Given the current volatility in currencies such as the rupee, Magan says treasurers should hedge their receivables and payables using a layered hedging strategy, which takes into account the nature of their business. "Layering hedging over a rolling six month period means you could start off hedging 95% of your exposures in the first month, then 30%, and so on (ratios can change subject to the exporting model)," he explains. "It is always a declining percentage. That gives you more flexibility."

In a rolling hedging programme, Magan says the treasurer needs to understand the spot level, the implied volatility, historical volatility and where the currency is moving. "Treasurers need to change their mindset to one of managing FX as a vital function," he says. "FX is the most volatile market in the world. The mindset should not be I have covered my exposure, and then leave it at that. If you are able to use your skill set in the best way then you will be able to pass on any gains from hedging to your clients in the form of a discount and, ultimately, win more business from clients."

Kawaller says more disciplined companies have hedging horizons that they divide into smaller sub-periods, setting parameters to change how much they hedge in say, six month time spans. "You might hedge 80% of your exposure in the first six months, then 60%, 40%, 20%. You need to have trigger points that foster hedge adjustments. For instance, if you see a deterioration of 2% or 5% in the exchange rate, you can adjust your hedging strategy to take into account changing market conditions and new market information."

The challenge for most treasurers is that with hedging there is no clear-cut right answer, says Kawaller. "Regardless of how much information you collate you are still in a probabilistic world. That is why you need a roadmap of how you are going to respond. All the time you are making business judgements, which should be based on disciplined considerations of objective criteria."

Typically, FX managers from leading multinationals have management objectives of less than \$.01 EPS impact from balance sheet currency exposures, says Gage of FIREapps. "The best way to achieve that is not to be concerned about specific currencies but instead look at your total portfolio of exposure and manage it in the most cost effective way." Yet one of the biggest challenges many treasurers face is gaining a clear picture of what their underlying currency exposures are. "Most treasurers struggle to quantify their exposure or loss. If you haven't got the systems and processes set up it is not that easy to produce exposure data," says Wilson of Reval.

The challenge of collating FX exposure data is multiplied if your treasury operations are wholly reliant on manual processes. However, by extracting data from ERP and accounting systems cloud-based software solutions such as FIREapps' FX exposure platform can give treasurers visibility of their balance sheet currency exposure at a more granular level, which helps them to make more well-informed hedging decisions.

Embedded risks

But FX exposure management is not a hedging-only story, nor is it confined just to the balance sheet. In some emerging market currencies hedging may not even be an option, or the costs may be too prohibitive to make it worthwhile. "Treasurers need to make a decision: am I going to get enough return on my investment in a derivative product to warrant the potential cost of hedging?" says Gage of FIREapps. "If hedging doesn't make sense you can set up inter-company lending and move cash to reduce your net exposure."

"Even if you have centralised treasury operations you still need to have an approach that is mindful of the fact that the people that manage these processes are not going to think as coherently as someone managing that risk,"

Andy Gage, Vice President, FIREapps

Hazarika of RBS says treasurers should also focus on uncovering unapparent costs such as suppliers paid in local currency where the contract is linked to an underlying commodity. "When you look at the fine print of a contract, you might pay 100 rupees per item, but if the price of oil goes up by more than 5%, you might have to pay 105 rupees. Such details must be highlighted in the forecasting process so treasury can manage the risk". Another avenue of managing costs is to change the invoicing currency for suppliers to their local currency rather than, for example, US dollars, so suppliers don't include a premium into their existing US dollars contracts for managing FX exposures they face today, says Hazarika.

These "hidden" FX risks, which aren't always reflected in the balance sheet, are much more difficult for the treasurer to identify. While treasury operations may be centralised the underlying business processes that create these type of FX exposure are decentralised. "Even if you have centralised treasury operations you still need to have an approach that is mindful of the fact that the people that manage these processes are not going to think as coherently as someone managing that risk," says Gage of FIREapps. Wilson of Reval says treasurers need to understand their pricing drivers, and even examine the contracts themselves for embedded currency risk.

For the most part treasurers today are still very much focused on balance sheet currency exposure, which is more obvious as it typically flows out onto the P&L under income and other expenses. More strategic treasurers, however, are starting to turn their attention towards cash flow currency exposure by trying to influence how sales contracts are written and collaborating more closely with their sales teams to make them more aware of how contract decisions translate in currency risk terms, but this is still very much uncharted territory.

At the end of the day managing the different nuances of FX exposure, whether it is on the cash side or on the balance sheet, is about the tools the treasurer has in their toolbox and how they decide to use them. That will then determine the effectiveness of their hedging programme, alongside any metrics and policies they put in place for defining how hedging decisions are made. ■



Understanding your cash flows

Cash flow forecasting has long been a pain point for corporates. In this Back to Basics article, Treasury Today canvasses the experts for top tips to take the pain away.

Year after year corporate treasurers identify cash flow forecasting as one of the top areas in need of improvement. In Treasury Today's European Corporate Treasury Benchmarking Study in 2012, it was ranked as the third priority, behind cash management/pooling structures and banking relationships.

But what makes it so difficult? A group treasurer at a Middle Eastern airline focuses on the complexity of the task due to the variability in the amounts, currencies and timing of business cash flows, as well as the impact of unpredictable changes in market prices for commodities (eg oil and fuel prices), exchange rates and interest rates. Many treasuries struggle with forecasting in countries where there are strict foreign exchange (FX) controls. In addition, there are more intrinsic issues related to the business, its infrastructure, organisation and geographical spread.

With a myriad of different technology systems and applications, including accounting, treasury management systems (TMS), enterprise resource planning (ERP), spreadsheets and emails, having a consistent and integrated view across the company is a significant challenge. According to Joerg Wiemer, CEO of

Treasury Intelligence Solutions (TIS) and a treasurer for 12 years previously: "Even the questions 'how much cash does the company have?' or 'what is the cash flow over the past six months in a certain subsidiary, currency or customer?' can be extremely difficult for a treasurer to answer. This is because of multiple ERP systems, data sources, the thousands of customers and hundreds of bank accounts that contain the information needed for forecasting analysis. The first step to accurate forecasting is to establish a single source of truth."

Lisa Rossi, Managing Director and Global Head of Structured Liquidity Products (SLP) for Global Transaction Banking at Deutsche Bank, agrees: "Treasurers use spreadsheets and emails to share data, which creates a disjointed view between actual and forecasted positions, and does not provide for a seamless flow of information. If you don't have a complete picture or full transparency how can you undertake solid cash forecasting?"

The infrastructure challenge may be tough, but so are the internal organisational hurdles. Brian Titus, Treasury Cash Analyst at

global brewer SABMiller, says: "It is a challenge to make colleagues understand what information you need for forecasting. Sometimes they don't fully comprehend the bigger picture and how important it is to get that information." This isn't helped, he adds, by a wide geographic spread which can affect the timing of the data. "If the data is out of date, it is less reliable."

Relying on information sent by others is the main problem, according to Paul Steeman, ex-treasurer and currently an independent consultant. "The difficulty for a treasurer is that they are not 100% in control of the numbers and are effectively relying on information provided by others. They need others to send good quality data on time and in the correct format."

Is the gain worth the pain?

Despite the level of difficulty, a reliable and trusted cash flow forecast is hotly sought-after and is considered to be a key performance indicator (KPI) for treasury. Respondents to Treasury Today's European Corporate Treasury Benchmarking Study 2012 indicated that it was the number one KPI for core cash management efficiency and liquidity management.

Forecasting can also be the shareholders' principal metric. Steeman says, "I became aware of this in the private equity world, where I have been active during the past few years. Cash flow forecasting is the first metric they look at. More important than EBITDA numbers, it is the cash that they are interested in."

For the Middle East group treasurer, an accurate forecast allows a company to be proactive in preparing for liquidity issues, as opposed to reacting to them. "This can have a significant impact on working capital costs, such as improved return on excess cash or lower funding cost on drawn facilities. In addition, it instils discipline and maintains a focus on cash throughout the business."

Titus agrees, adding: "In the short term, it is all about cash management and ensuring that we have the right currency in the right place. If our forecast is not up-to-date, it may mean we have to go to the spot market and swap currencies when we could have planned it better. The long-term view is all about liquidity risk and whether we have covered our funding gap one or two years out." Even though SABMiller can obtain a decent fixed interest rate at the moment, this won't always be the case and therefore cash forecasting will only gain in importance for the company. His colleague, Alan Chitty, Treasury Controller, adds that with better forecasting, companies can also pay short-term debts back earlier and save money that way.

Successful liquidity planning, including analysing the gap between actual and forecasting, helps to better manage the company, according to Wiemer. "This will allow the treasurer to position their team as a business partner to the CFO because finally they can help the CFO to better manage the whole company. It is not just about better working capital management or optimising financial results, but also determining how important certain customers or suppliers are to the company."

Both Deutsche Bank's Rossi and Nancy Pierce, Senior Vice President (SVP) and Manager of the Capital One Bank's Treasury Management Product Management Group, touched on the importance of good cash flow forecasting in risk management. As Rossi explains: "A lack of information can create blind spots – nobody wants blind spots when managing cash."

Pierce talks of one client who used cash flow forecasting as a risk mitigation tool during the financial crisis. When a large

proportion of the company's lending froze up, treasury had to find other sources of funding. The company had a TMS in place but realised that it was only using about 10% of its functionality, mainly as an operating system for payments and receivables. Treasury worked with the software vendor on a project to reap the benefits of its technology much more broadly.

In addition, treasury put processes in place across the company to ensure that all the subsidiaries were using the tool and knew what they needed to input, as well as the proper controls around accuracy. It also switched to a more regional-based treasury structure so that all its subsidiaries were close to a centre of excellence. As a result, treasury was able to find trapped cash throughout the company that could help with its current commitments. That enabled it to alter the balance between bank funding and utilising internal cash. "It's a great story of what this company accomplished in an urgent situation – it was able to marshal its forces and get it done quickly," says Pierce.

Tools for improvement

Technology plays a critical role in forecasting, but it is also a question of process governance, according to Wiemer. TIS' cloud-based platform, which is delivered as a software-as-a-service (SaaS) solution, includes a governance module which helps to define data collection and aggregation processes. "These need to be automated and streamlined," says Wiemer. "Although it is possible in theory to roll out a treasury guideline and try to get people in a local subsidiary to stick to your rules, in real life they probably won't even read them. This is why you need to roll out governance processes and technology as well. For example, TIS technology provides a step-by-step workflow that the local staff need to go through in data collection."

Governance is hindered in many ways by the prevalence of spreadsheet usage in companies of all sizes. Christian Mnich, Director Solution Management – Treasury Applications at SAP AG, spoke of a client that previously used an Excel spreadsheet globally – its subsidiaries access the spreadsheet on a single server and create rolling forecasts for the coming 12 months: "They struggled with the spreadsheet because they couldn't see which subsidiary has already submitted a forecast or if someone has altered it."

A client of Deutsche Bank used multiple spreadsheets to forecast their overall position, with subsidiaries sending cash updates via email on a weekly basis. The data would then have to be consolidated and evaluated. By using Autobahn's Liquidity Manager app, the treasurer was able to take all account information, segmented in a way the team could understand and analyse so that each subsidiary's account information was easily visible. "This meant he could see how effective their daily planning schedule was against actual payment flows – the system has a reconciliation tool that can match cash receipts and payments," explains Rossi.

The platform also has an investment dashboard to monitor the company's overall investment position. This allows the treasurer to understand their liquidity profile in addition to the allocation of counterparty risk, which are both important. Therefore, if a particular event is pending where he needs more funding, the treasurer can easily see where and when funding was available and accessible.

Interestingly, despite implementing a new TMS globally SABMiller still relies on spreadsheets for capturing forecasts

but they have been able to significantly improve its cash flow forecasting. As part of its ongoing 'Project Griffin', SABMiller rolled out IT2 NET, which is a remote, browser-based solution, around the regions. The majority of the subsidiaries' forecasts come into IT2 NET through a pre-determined spreadsheet which looks and feels the same business-to-business. The treasury team was able to construct the spreadsheet's rules and logic, and also prompts in terms of data ranges. Treasury also has macros embedded, so that it can pull specific information. The spreadsheet itself can't be incorrectly uploaded into IT2 NET, so it is a combination of "an easy spreadsheet for people to use, reflecting what they are already accustomed to, and more controls over that information before it is imported into the IT2 system," says Chitty.

"We could have gone down the route where they plug the numbers directly into IT2 NET screens, but in reality they would just be using their own spreadsheets, taking the numbers out and typing them in, which could introduce transposition errors. Therefore, we decided to let them use spreadsheets but have greater control over them," he adds.

It is clear that both processes and technology are critical components of improving cash flow forecasting, but where do the banks come in? A number of banks say that the answer lies in their proprietary electronic banking (e-banking) systems, but many corporates are looking to be more bank-agnostic in their relationships. Robert Pehrson, Global Head of Liquidity Products, SEB, says that the most important thing that a bank can bring to the table is experience from other clients. "We too have a tool that supports the forecasting process. However, the tool itself is not the major benefit for the customer but the knowledge that we have built up working with other corporates."

One of the first clients SEB worked with didn't have centralised forecasting at the beginning. Today, the company has a daily process in place – by 8am it has a consolidated view of the balances for all subsidiaries, approximately 300-400 accounts. It also has daily, weekly and monthly forecasts. "This means they can act during the day on securing positions based on reliable data," says Pehrson. "They also developed a rigid follow-up process for subsidiaries that don't report according to plan. This is extremely important to give feedback to subsidiaries that might report late or with poor quality information. They have also put in place KPIs so that the subsidiaries are given an incentive to improve their information."

Ten top tips to better forecasting

When asked their advice on how to achieve better accuracy in cash flow forecasting, the experts interviewed for this article were not short of comment. Here are some of their top tips.

1. Use technology to your advantage

As SABMiller's Chitty says: "You must embrace your technology and make it work for you". Technology is a great enabler, but it must be calibrated for your organisation; according to Capital One's Pierce, "you could have a lot of power there that isn't used."

2. Integrate your systems

Once you have the technology in place, the systems need to be able to speak to one another. "Integration plays a major role, so the more operational systems you can integrate as sources the better the forecast will be," says SAP's Mnich.

3. Automate as much as possible

Almost everyone touched on this. The Middle East group treasurer comments: "Make sure you are able to obtain cash balances daily for all accounts in as automated a way as possible. This starting point forms the basis for forecasts."

4. Define your terminology

This starts with specifying the difference between short-, medium- and long-term forecasts and defining their parameters and usage. Nomenclature and formats are also critical, as well as a definition of global liquidity, which "shouldn't be underestimated in terms of effort," says Mnich.

5. Develop and standardise processes

"This relates to your internal information flows and accuracy, and people's willingness and ability to follow the corporate practices and policies that are key," says Pierce. "It is important to standardise processes and make sure your subsidiaries are all following the same practices and are able to capture the data needed for analysis."

6. Build internal relationships

The Middle East group treasurer suggests working closely with planning and budgeting to make sure both P/L and cash perspectives are understood and generated. In addition, build a close relationship with the big spenders in the business and set up a process to get their updated cash forecasts.

7. Get buy-in from top management

"Very often people preparing cash flow forecasting at operations level consider this to be just another task that they have to do every week or however often you require it. To have CFO buy-in helps underscore the importance of cash flow forecasting. Otherwise people won't be properly engaged," says Stheeman.

8. Feedback

It is important to go back to the subsidiaries with feedback as to how accurate it was and build in some KPIs into the process. "Over time you can view how well or how poorly they have done," says SABMiller's Titus. "That is the area we are looking into next – now that our colleagues are used to the process, it is all about improving it and having a KPI measure attached to it."

9. Make people accountable

Both Stheeman and Chitty advise making people accountable for forecasting, so that they actually make an effort with this. "If it just becomes a cut and paste job then people can quite easily carry forward mistakes," says Chitty.

10. Communicate, communicate, communicate

Although everyone touched on this point, Stheeman succinctly says: "Let everyone know what you are doing and its importance. Don't roll out something and just say 'this is our new cash flow forecasting tool, use it as of next week'. Make an effort to visit and educate the subsidiaries and business units."

"People often talk about cash flow forecasting, and with Basel III and banks being more strategic about balance sheet, funding costs will be under even greater pressure. It is time that we stop analysing cash flow forecasting, and instead grab the bull by the horns and just apply good cash forecasting techniques using progressive technology," says Rossi. ■

Point of View

Independent industry analysis from our corporate treasury insider.

Electronic Commercial Draft System

When I ran Asia Pacific treasury for a western multinational, BADs and CADs were a real headache – ‘bad’ news indeed.

BAD is the acronym for Bank Acceptance Draft and CAD is the acronym for Commercial Acceptance Draft. They are sometimes called BAN and CAN ie Bank Acceptance Note and Commercial Acceptance Note; and sometimes called BAB and CAB ie Bank Acceptance Bill and Commercial Acceptance Bill.

Bank Acceptance Draft Discount – 星展银行中国- 个人银行、中小企业

银行 = bank = Yínháng

承兑 = acceptances = Chéngduì

汇票 = draft = Huìpiào

BADs and CADs are basically bills of exchange issued respectively by banks and commercial companies in China. It might sound similar to BAs that banks discount with their respective central banks in the west, but their usage and effects are very different.

BADs and CADs are essentially promises to pay by the issuer. It sounds fair enough. Something akin to the promissory notes that have been helpful in Korea. But this belies the considerable issues these instruments have created in China.

BADs and CADs are legally and regulatory recognised transferrable instruments. Unlike for instance fapiaos – tax invoices – which are not transferrable (thus stymying factoring and receivable sales in China). As such BADs and CADs have oiled the wheels of China domestic commerce for decades.

I can hear readers lighting up with the supply chain finance possibilities of these instruments. And yes, BADs and CADs can be and are used for supply chain finance and much more besides. But remember these are paper instruments in an often chaotic developing market. BADs and CADs have caused considerable systemic and operational risk in China.

Although the so called shadow banking system in China – mainly wealth management products sold by banks through off balance sheet vehicles to get around the People’s Bank of China (PBOC) mandated deposit and lending rates – has been more in the news recently, longer-term China watchers will be familiar with the term triangular debt. This recycling of corporate obligations, often without final settlement, has thrived on the basis of BADs and CADs.

Since BADs and CADs are transferrable and endorsable, companies would pay their suppliers with BADs and CADs collected from their customers – putting a whole new spin on supply chain financing. Instead of clean bank transfers, you would see accounts receivable converted into a thick wad of BADs and CADs of dubious quality. Naturally, you would want to pass them on as quickly as possible. It became a dangerous national game of pass the parcel.

Because BADs and CADs were paper instruments, they have been hard to track at a national level, driving significant levels of systemic risk in China. In an attempt to

“When I first learned about ECDS, I enthusiastically signed up as a pilot. I was very excited when I heard that PBOC would soon ban paper drafts and force business to move to EDCS once it had stabilised the platform.”

control this risk, PBOC has mandated a maximum six month tenor for BADs and CADs.

Their paper form and the Chinese predilection for chops drives massive operational risk in BADs and CADs. Simply put, it is extremely difficult to verify that the BAD/CAD you receive is indeed valid. Even the original issuing chop was hard to verify, especially if it came from a remote location. Even the four state banks had difficulty verifying chops from their own remote branches. And this was compounded by often long chains of transfer endorsements.

I ended up with a policy decision to discount all BADs and CADs received immediately – even for good names whose credit we were comfortable with – simply to address the operational risk of fraud on these instruments. This was expensive and difficult. In some cases impossible. So material collections had to be approved by our banks in advance with confirmation that we could sell the BADs and CADs with which customers proposed to settle. This was extremely painful because – especially in China where collecting accounts receivable can be challenging – you do not want to refuse your customers offer to pay, whatever the format.

In addition to the external operational risks described above, companies find BADs and CADs very hard to manage internally. Sales people may receive them in person from customers. What should they do to them? China is a big country. Do you trust local courier services? Do you trust your own people not to try to cash the drafts and claim they were lost? At best it is a lengthy and administratively costly process which materially delays converting accounts receivable to cash.

The sheer volume of paper involved in this has driven a profitable service from banks called BAD warehousing, which is analogous to the (equally odd) lockbox system for cheques in the USA.

Since negotiable drafts are useful in trade flows, we would not want to eliminate BADs and CADs altogether. The obvious solution is to make them electronic. This is exactly what PBOC concluded a few years ago. They launched Electronic

Commercial Drafts System – an online platform to replace the legacy paper BADs and CADs. When I first learned about ECDS, I enthusiastically signed up as a pilot. I was very excited when I heard that PBOC would soon ban paper drafts and force business to move to ECDS once it had stabilised the platform. This is not implausible in China, but it has not happened yet.

Five years on, paper is still the majority sport. Banks still profit from BAD warehousing and discounting to manage the multiplicities of paper risk. But I am heartened by two big developments.

First, instead of the blank (and often incredulous) looks I used to get a few years ago, treasurers mostly know what I am talking about when I ask about ECDS. Better still, large numbers of treasurers are using ECDS, most in conjunction with warehousing for the old paper habit they have not yet been able to kick fully.

Second, although PBOC has not yet banned paper, they are heading in the right direction with incentives. Paper drafts are limited by PBOC regulation to a maximum six month tenor. ECDS drafts can go up to 12 months. This is a significant benefit, especially in China where access to credit can be erratic, and I believe it will speed the move from paper to electronic.

ECDS puts China ahead of most western countries by providing a nationwide platform for safe and reliable negotiable commercial drafts that will drive supply chain finance across the country that is home to the world's biggest and most extensive commercial supply chains.

I believe the demand is there – it is no coincidence that China is an early and leading adopter of SWIFT's TSU/BPO solution for cross-border trade. The awareness is building according to my anecdotal inputs. And the regulators are nudging this along consistently.

If ECDS piggy backs the internationalisation of CNY/CNH, then it might become the world's favourite way of conducting international trade. Why not? UnionPay is showing the way in consumer settlement. ■



David Blair, Managing Director

Twenty five years of management and treasury experience in global companies. David Blair was formerly Vice-President Treasury at Huawei where he drove a treasury transformation for this fast-growing Chinese infocomm equipment supplier. Before that Blair was Group Treasurer of Nokia, where he built one of the most respected treasury organisations in the world. He has previous experience with ABB, PriceWaterhouse and Cargill. Blair has extensive experience managing global and diverse treasury teams, as well as playing a leading role in e-commerce standard development and in professional associations. He has counselled corporations and banks as well as governments. He trains treasury teams around the world and serves as a preferred tutor to the EuroFinance treasury and risk management training curriculum.

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COUNTRY FOCUS

Thailand

Long one of the stars for emerging market investors, Thailand's economy fell into recession during the second quarter of 2013, growing at just 2.8%. The Thai baht joined the Indian rupee in a tumble resulting from the Fed Chairman Ben Bernanke's talk of unwinding QE.



CORPORATE FINANCE

Key facts about the BPO

Despite the ICC approving the basic legal framework of the Bank Payment Obligation (BPO) in April 2013, uptake has been slow. To date there are just six banks live on BPO, and these are all Asia-based. What do treasurers need to know in order to roll out a BPO programme?



CHINA

Shadow banking

Shadow lending, which allows banks to bypass controls and capital requirements, is flourishing in China because most small businesses cannot get bank loans. However, the Chinese regulators are planning to place restrictions on this activity by increasing the risk capital requirement for the inter-bank business.

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

David Blair, Managing Director, Acarate; **Alain Bridoux**, International Business Development, GESCO; **Bakhodir Burkhanov**, Deputy Country Director for Vietnam, United Nations Development Programme; **Dan Carmody**, Managing Director, TreaSolution; **Honnus Cheung**, CFO, Travelzoo (Asia Pacific) Inc; **Alan Chitty**, Treasury Controller, SABMiller; **David Cleary**, Co-Head of US Private Placements, Lloyds Bank; **Herbert Cochran**, Executive Director, American Chamber of Commerce (AmCham) Vietnam; **Karel De Gucht**, European Commissioner for Trade; **Marie-Astrid Dubois**, Assistant Treasurer, Honeywell; **Andrew Dyer**, Head of Transaction Banking Sales, Asia Pacific, ANZ; **Andrew England**, Head of Transaction Banking, Lloyds Bank Commercial Banking; **Ian Farrar**, Partner, Corporate Treasury Solutions, PwC; **Andy Gage**, Vice President, Strategic Market Development, FfEapps; **Gautam Hazarika**, Head of MNC Markets Sales APAC ex-Japan, RBS; **Ira Kwallier**, Kwallier & Co; **Jacqueline Keogh**, Head of Global Trade, Lloyds Bank; **Jenny Knott**, CEO, Standard Bank; **Howard Lee**, Executive Director of Money Management, Hong Kong Monetary Authority (HKMA); **Liu Li-Gang**, Greater China Chief Economist, ANZ; **Lelaina Lim**, CFO, RSH Ltd; **Rahul Magan**, Corporate Treasury Manager, EXL Services; **Christian Mnich**, Director, Solution Management, SAP AG; **Karl Nolson**, Managing Director, Debt Finance, Barclays; **Marco Pearman-Parish**, CEO, Corporation China; **Robert Pehrson**, Global Head of Liquidity Products, SEB; **Nancy Pierce**, Senior Vice President and Manager Treasury Management Product Management Group, Capital One Bank; **Maeve Robinson**, Assistant Treasurer, Omnicom Group; **Lisa Rossi**, Managing Director and Global Head of Structured Liquidity Products (SLP), Global Transaction Banking, Deutsche Bank; **Maia Rushby**, CEO, Diversity in Leadership; **Sarah Saxby**, Treasury Director, Cash Management, Rio Tinto; **Neil Schloss**, Vice President and Treasurer, Ford Motor Co.; **Gabrielle Schumacher**; **V N Shankar**, Head of Finance and IT, Rexam Healthcare; **Gary Slawther**, Corporate Treasurer, Octal; **Sharon Sng**, Head of Corporate Finance, CapitaLand; **Marilyn Spearing**; **Klaas Springer**, Director of Corporate Treasury, Royal Friesland Campina; **Paul Stheeman**, Independent Consultant; **Matthew Streeter**, Product Manager, FINCAD; **Brian Titus**, Treasury Cash Analyst, SABMiller; **Pam Walkden**, Group Treasurer, Standard Chartered Bank; **Jane Wang**, China Tax and Business Advisory Partner, PwC; **Susan Webb**, Managing Director, Pfizer; **Joerg Wiemer**, CFO, Treasury Intelligence Solutions (TIS); **Blaik Wilson**, Director, Solutions Consulting, Asia Pacific, Reval; **Steven Winkelman**, Chairman, Vietnam Business Forum; **Bill Yuan**, China Tax and Business Advisory Director, PwC; **Samee Zafar**, Director, Edgar Dunn.

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The background of the entire image is a pair of heavy red curtains. A vertical slit in the center of the curtains reveals a bright blue light source, possibly a stage light or a window, creating a strong contrast with the dark red fabric.

Adam Smith Awards ASIA 2014

COMING SOON