September/October 2014

# treasurytoday ASIA

research | insight | analysis

## Investing excess cash in Asia

The increasing popularity of MMFs in the Asia region is making companies think twice about their short-term investment strategies. We look at the impact of regulation on the instruments available and what the future holds for the industry in Asia.

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Regional Treasurer Asia Pacific
WPP

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# Adam Smith Awards ASIA 2014

# Time to shine

## Gala Presentation Lunch

Grand Hyatt Singapore

13th November 2014

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# Now that's an option

In August the Chinese State Administration of Foreign Exchange (SAFE) relaxed the rules surrounding the use of options in the onshore market. The new rules allow domestic corporates to purchase renminbi-based swaps and options – increasing the range of risk management tools at their disposal.

Previously, corporates had limited choices around how to hedge the risks posed by currency volatility – namely forwards and buy options. In addition, the cost of these vanilla instruments often outweighed the rewards. This welcome relaxation of the rules will see corporates trading more exotic structures, although they will still need to adhere to certain guidelines.

To help corporates understand the impact of the new changes, Guan Tao, Director of the Balance of Payments Department at SAFE offered the following tips: "First, enterprises should adapt to the new normal of bi-directional fluctuations of the RMB exchange rate by changing their linear and unilateral thinking, shifting from merely managing risks associated with a unilateral RMB appreciation to comprehensively managing risks from the RMB bi-directional fluctuations, and focus on their main business by changing the uncertainties of bi-directional fluctuations into certainties through hedging activities.

"Second, enterprises should understand their deals and not make unfamiliar deals. They should assess the value of derivatives and determine the level of risk limitations before conducting deals. Third, the financial departments of enterprises should not function as profit centres but should regard derivative transactions as a tool to lock up risks, not a tool to make profits. Fourth, enterprises should properly conduct hedging activities as excessive hedging is a form of speculation and can be risky," noted Tao.

Despite the fact that the onshore options market is still very much in its infancy, and that the full impact and scope of the changes will take time to be seen, the initial reaction has been broadly positive. The move is seen as another step in the right direction – opening up the Chinese market yet further and offering corporates in the country more choice when it comes to hedging.

*Treasury Today Asia will be closely monitoring the impact of the changes and will report on these in more detail over the coming months.*

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## Investing excess cash in Asia

MMFs are increasing in popularity in Asia Pacific and are becoming a genuine alternative to bank deposits, which remain the most popular short-term investment strategy for corporates in the region. However, regulation is a challenge and can have a big effect on investor attitude.



## Kristen Covey
### Treasurer
### Caterpillar Asia

Since Kristen Covey joined Caterpillar in 1996 she has held various positions in treasury, finance and marketing, including stints spent working in Chile and Singapore. Throughout her career she has looked for new experiences and maximised the opportunities she has been presented, and she believes that the advent of technology is facilitating a more flexible and balanced working life.



## Cambodia

Despite being one of the most difficult countries in the world to do business in, the political instability which previously blighted Cambodia has largely disappeared. The country is now looking to develop and grow its economy by attracting more foreign investment, yet many challenges still remain for corporates in the country.




PROBLEM SOLVED

Ms. Rong Li

Problem…

Solved….

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Banking on sector expertise

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Rethinking connectivity

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As an increasing number of companies look to the capital markets in order to fill the big bank-shaped hole in their funding plans, they are discovering both rewards and pitfalls. Tapping the capital markets for the first time is not without its challenges, but as the recent experience of one debut issuer shows us, make all the right calls, and you too might come away with record low-cost funding.

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### A new 'superhighway' for RMB payments

As the Chinese renminbi increasingly becomes a major global currency China is looking to improve its payments and settlements systems both at home and offshore. The new systems are prophesied to offer many benefits to corporate users and may be a key piece in the jigsaw towards the renminbi becoming the global reserve currency.

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**Alex Koh**

**Regional Treasurer, Asia Pacific**

WPP

For Alex Koh, Regional Treasurer, Asia Pacific at global marketing communications service group WPP, change is a good thing. Throughout his career he has worked in a number of different roles, in different sectors and countries across the world, and he believes these experiences are vital to creating a holistic view of the treasury profession.

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**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**

## The renminbi advantage

The results of a study commissioned by HSBC and conducted by Nielsen reveal that the use of renminbi for trade settlements is increasing across the globe due to the financial and relationship benefits this can offer.

The study, carried out in April and May 2014, surveyed more than 1,300 international businesses from Australia, China, Germany, Hong Kong, Singapore, the UK, the USA, Canada, Taiwan and the United Arab Emirates. Of these companies 22% indicated that they are using renminbi, with Germany (23%) and France (26%) having the highest levels of renminbi usage outside of mainland China (33%), Hong Kong (58%) and Taiwan (38%).

### Benefits for corporates

Of those surveyed, just under half indicated that they saw a financial (47%) and a relationship (49%) advantage from using renminbi. For example, companies who are currently using the currency cited: its convenience for daily practice; the reduction of foreign exchange risk and the requests from Chinese counterparties as the primary reasons for using the currency. Similarly, the primary reason given by those who intend to use renminbi in the future was that it will enable them to win more future business in China and that they are also receiving requests from their current Chinese counterparties. "Both the financial and relationship benefits are equally important for corporates," says Mark Emmerson, Head of Global Trade and Receivables Finance UK at HSBC. "Both businesses involved in a transaction are of course looking for the most beneficial financial situation. However, it is vital to be conscious of the importance of relationships to Chinese companies when looking at the longer-term growth of foreign companies in the country."

Jackson Xu, Regional Treasurer at French multinational Alstom, which has been a leader in taking advantage of renminbi internationalisation, tells Treasury Today Asia that it received requests from its Chinese counterparties to start trading in renminbi. The company therefore decided to begin trading in the currency and used this as a platform to launch a number of projects, including introducing a netting structure in China, to leverage a number of other benefits from using renminbi. HSBC's Emmerson says that these requests from Chinese companies are becoming more frequent. "For example, we have a UK customer who orders from China who we have been talking to about renminbi for 18 months," he says.
"The company however indicated that the Chinese supplier had no interest in using renminbi. However, last month they received a request from their Chinese counterparty to start invoicing in renminbi. This is one small story among many companies starting to see the opportunities offered by using renminbi translate into real requests from Chinese counterparties."

## Know your customer

Know your customer (KYC) processes have come increasingly under the spotlight in recent times.

As regulation designed to prevent money laundering and terrorist financing has put pressure on both banks (to collect and screen the information they get from clients) and corporates (to provide ever-more detailed documentation), both sides have been calling out for ways to reduce the burden on their businesses.

In August, Thomson Reuters announced the activation of the secure web-based portal for its Accelus Org ID KYC service. The portal facilitates client on-boarding, and identity collection and verification in a secure environment. Thomson Reuters says it will increase efficiency for both financial institutions and their clients, in addition to reducing operating and remediation costs associated with KYC compliance.

"For many years the industry has envisioned a central registry where participants could source client information, to help them understand the identity of a particular firm," Anna Mazzone, Head of KYC at Thomson Reuters tells Treasury Today Asia.

Chinese computer manufacturer Lenovo is one corporate to already have implemented the solution. "With increased attention being placed on complying with complex KYC requirements, so too is the compelling need to identify and work with trusted industry partners to ensure the collection and maintenance of accurate KYC information," said Damian Glendinning, Treasurer at Lenovo, in a statement.

The Accelus Org ID service is one of several KYC platforms that are either active or in development. SWIFT is currently developing a centralised KYC utility, while KYC Exchange has launched a KYC communications platform. Mazzone says Thomson Reuters' service is different from competitors in that it is already fully live, and that it is the only shared service to have agreed a global standard policy for conducting due diligence with a group of global banks.

The fact that a number of providers consider it necessary to provide such services only goes to show that KYC is proving a headache for corporates and for banks. If the squeeze of regulation continues to impose costly and time-consuming requirements on participants at both ends, the use of these utilities could well increase in the future.

## Trade finance: the future is electronic

For many organisations the benefits of electronic trade finance, otherwise known as e-trade finance or paperless trade, are clear. Nevertheless, uptake has generally been slow amongst corporates. A study released by independent research and advisory firm Aite Group, indicates that things might be about to change.

The study, which sourced responses from 53 senior managers responsible for trade finance or corporate banking at international and regional banks in Europe, North America, Asia Pacific, and the Middle East and Africa, found that traditional paper-based trade finance is shifting to the digital sphere as corporate demand increases. Overall, 77% of those questioned said that they either 'agree' (55%) or 'strongly agree' (22%) that their corporate clients are demanding e-trade finance solutions. "For me this was the most interesting finding of the study," Enrico Camerinelli, Senior Analyst at Aite Group tells Treasury Today. "Corporates are clearly asking for these products now."

### Regional culture

According to Camerinelli, Asia Pacific is the most forward-looking region regarding e-trade finance. "There are many countries in the region which are looking to adopt paperless trade: Korea, Singapore and Indonesia, to name a few. The main reason for this is that they don't have the legacy systems in place like in Europe and the US, which makes it easier to adopt." In addition, there are a number of dematerialisation initiatives taking place across the region.

"These initiatives are replacing the paperwork surrounding trade across the region with the electronic exchange of documents," says Camerinelli. "While these changes are not e-trade finance-specific, it does show that there is a culture in the region of replacing paper with electronic documents and this is pushing into the trade finance field as well."

### Dematerialisation on the horizon

Indeed, the report notes that 47% of those surveyed said that they would electronically produce and submit/receive invoices and electronify paper invoices in the next three years. Forty per cent also said that they would offer corporates the ability to electronically capture and submit/receive purchase orders, while 38% would automatically match purchase orders, invoices, and receipts and identify exceptions.

But "to further the availability of e-trade finance, corporates should place more pressure on banks regarding their need for the product," says Camerinelli. "Banks on the other hand need to focus on the value-add which can be created through providing this product for their corporate clients." ■

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

# This much I know

## Kristen Covey

Treasurer, Caterpillar Asia

CATERPILLAR®

### What is the biggest challenge you are facing now, as a corporate treasurer? And as a woman in a male-dominated sector?

The difficulties we face as Treasurers aren't too different for women or men. We are all challenged with how to best support our businesses in a world that is ever-changing. Regulations and technology continue to evolve, and this keeps us on our toes as we continuously assess and manage the challenges and opportunities that come with this from a treasury perspective.

### Balancing professional and family life is tricky – is the business world progressing in the right direction?

At times it can be quite chaotic. I think the progress we are benefitting from in this space is twofold. Firstly, advances in technology are facilitating a more flexible and balanced life. With remote access, I can be volunteering at my children's school and still stay connected for anything urgent.

Secondly, I think we are truly realising a shift in mindset, in that you don't always have to be sitting at your desk during office hours to be working hard, meeting deadlines and delivering great results. It depends on the type of role you're in and your direct responsibilities, but I have definitely seen progress. I have also learned to take charge of my schedule and block time for personal things that are important to me. Sometimes this is a bit easier working in Asia Pacific for a US-based company because often my work day is night-time conference calls with the US. But I've found if you don't take charge of making your own balance, no one else will do it for you.

### What is your motto in life, or your greatest inspiration?

My kids and husband are my greatest inspiration. They keep me grounded and remind me of what's most important; enjoy life each day and take nothing for granted. You could say my motto is "live in the moment".

### As a treasurer, what is one thing that you just cannot do without?

Hands down, it's a great team. Our regional treasury team is located in China, India, Japan and Singapore. With the complexities that come with doing business in the Asia Pacific region, it's critical to have an engaged, proactive and diverse team that can execute well. I'm very proud of the team we have today.

"Advances in technology are facilitating a more flexible and balanced life. With remote access, I can be volunteering at my children's school and still stay connected for anything urgent."

**ON THE WEB**

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


CATERPILLAR

"I wanted to work in finance in a role that would provide some variety of work," says Kristen Covey, Asia Treasurer of global engineering company, Caterpillar. As she recalls her move in 1996 into the firm's treasury team based at its corporate headquarters in Peoria, Illinois, she adds that being close to family and friends was also "appealing". Here then are two elements that pretty much sum up Kristen's career model: the quest for variety and continuous learning, balanced with an understanding that family, friends and 'the team' must never be forsaken.

Finding that balance can be difficult; it is a daily exercise for Kristen, especially now that she is based in Singapore away from her extended family. "It forces you to think about what is important and you are not always going to be able to predict personal or professional needs. It requires constant navigation through that to be able to attend to everything professionally and maintain time for yourself," she says. The balancing act, she reports, does become easier with time, helped by an employer that genuinely espouses a "family-first" culture.

As one who appreciates the value of new experiences, Kristen has maximised the opportunities that have come her way. "You might say performing a variety of work is an understatement," she comments. "I've had 12 positions in my 18 years with Caterpillar, with two overseas assignments including my position today in Singapore." The diversity of roles to date includes marketing finance, Six Sigma, funding, foreign currency risk management and orders. Each provided "unique opportunities for growth and development".

The key to Kristen's success has been taking those opportunities as they come, regardless of how daunting they may have first seemed. Within three years of working for Caterpillar she had accepted an overseas assignment in Chile as one of the first female Americans the company had sent to South America. "I believe I wouldn't have had this opportunity if it weren't for the manager overseeing our finance programme at the time who helped me secure the position," she notes. Despite "legitimate concerns" about safety, Kristen says she is thankful for having been given the opportunity, providing her with a commercial and personal perspective which she still calls upon today.

In a male-dominated profession, in the even more male-dominated engineering sector, Kristen chooses to focus on what the individual brings to the team. "I strive to create a team environment filled with trust, transparency and empowerment," she states. As a result of her inclusive approach she takes pleasure in the success of others, male or female. "The most rewarding days, for me personally, are those when I see my team members growing and developing, delivering on challenging goals and really feeling proud of their achievements."

Indeed, Kristen consciously enables all team members to fly solo as much as possible whilst offering guidance and reassurance when needed. "I'm hands-on when I feel I need to be but I really feel that a team is most efficient when everyone knows what needs to get done, they have the right tools and resources to do so, and they have support along the way. In the end they feel better about what they have achieved because it is due to their own effort."

In this environment opportunities open up more readily for those with talent. For Kristen the gender-based 'glass ceiling' has not limited her progress to date. "The term 'may the best man or woman win' should apply – and it does within Caterpillar," she reports. Her Chilean assignment was won in this spirit; clearly talent is welcome when it has the ability to see through problems and find resolutions. There are challenges that may be real threats, she notes, "but more often than not if you dig deep enough you can find the opportunity".

In fact, Kristen feels that the treasury profession in general is in an opportunistic position to make its voice heard louder and clearer than ever before. Through the positive action of innovation, finding new ways to partner with other functions and delivering value to the enterprise, she believes more trust will be generated with business partners than by merely talking loudly without substance. "It's about coming to the table, understanding business needs and delivering."

Of course, different treasurers will draw upon different personal resources to keep ahead of the curve. Kristen makes frequent reference to what she feels is the best piece of advice she has been given in her career so far, dispensed by a former senior colleague at Caterpillar: "It's a marathon not a sprint, so enjoy the run". When you're young and eager, she comments, you are always in a hurry to climb to the next rung. "The moment of epiphany is when you realise that it is not all going to be over when you reach the next position." Whilst she is a firm believer that it is good to embrace learning opportunities along the career path and to extract as much as possible from each experience, it is essential also that family and friends fit equitably into the equation. "If you can do that in your career, you can grow with it and have fun". ■

Kristen Covey is the Treasurer of Asia Pacific for Caterpillar Inc., the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines, industrial gas turbines and diesel-electric locomotives. Kristen joined Caterpillar Inc. in 1996, and has held various positions in Treasury, Finance, and Marketing over the past eighteen years, including international assignments in Chile and Singapore.

Since September 2012, Kristen has served on the Board of Directors for Junior Achievement in Singapore, an organization dedicated to inspiring and preparing young people to succeed in a global economy by offering programs in financial literacy, workforce readiness and entrepreneurship.

Kristen has a Bachelor's of Science degree in Finance and Insurance from Illinois State University, and an MBA from Bradley University, both in the United States. Kristen completed Caterpillar's Executive Leadership Program with Stanford University in March 2013.

# ASEAN integration

*What benefits would greater ASEAN integration bring to corporates operating there – and to the broader region? Also, what progress is being made towards the establishment of a pan-ASEAN clearing and settlements system?*

## Anne Rodrigues, President, Malaysian Association of Corporate Treasurers:

The governments of the ten countries that make up the Association of South East Asian Nations (ASEAN) subscribe to the formation of the ASEAN Economic Community (AEC). The AEC will see the integration of all ten ASEAN economies into "a single production base with free movement of goods and services, capital, investments and skilled labour." The deadline for the integration has been set at 31st December 2015.

The full realisation of such an economic community will bring considerable economic benefits to corporates who operate within it, as it will see the creation of an entity with a combined population of around 600m, a GDP of $2.4 trillion, making it the seventh largest trading economy in the world. Additionally, if we include a free trade area (FTA) with dialogue partners (Australia, New Zealand, India, Japan, China and South Korea) and also FTAs with the EU and US, the benefits would be even greater. From these corporates will be able to obtain considerable benefits from economies of scale as well as cross border synergies from ASEAN integration, not to mention a rising of the levels of efficiencies and reduction in all manner of costs with the reduction in tariffs, related administrative and banking costs, as the theory of competitive advantage kicks in. Overall, the full realisation of AEC as envisioned will definitely result in an overall ease of doing business within the region.

The task of implementing the AEC in accordance with the ASEAN Economic Blueprint, which is a master plan for the establishment of the AEC, is entrusted with the ASEAN secretariat. The update provided by the secretariat in July 2013 stated that the implementation rate of the AEC Blueprint was 79%.

I believe that corporates in the region, particularly in the case of Malaysia, who are involved with operating businesses and trading within the ASEAN region are not yet fully aware of the potential impact and benefits of AEC implementation for whatever reason. This could be because of insufficient focus and publicity by the entities involved or because there are other more pressing issues to be tackled, or even a lack of conviction that such a blueprint will finally take off.

Likewise, in respect of the progress of a Pan ASEAN clearing and settlements system, there has been very little information forthcoming from the ASEAN Secretariat and a more detailed framework for banking under the AEC scenario has yet to be disseminated.

## David Morton, Regional Head of Corporate Banking – Asia Pacific, Commercial Banking, HSBC:

Anything that brings together larger groupings of businesses and populations on a single or common regulatory framework, normally leads to greater efficiency and reduced operating costs for businesses. This is especially true in Asia Pacific, a region containing 17 contrasting countries growing at different rates and operating under different political systems. The further integration of the ASEAN region and the creation of the ASEAN Economic Community (AEC) therefore has the potential to offer a number of benefits to corporates with operations in the region.

The major benefits which further ASEAN integration may bring, include; further trade and investment liberalisation, the ability to transfer funds across border more efficiently and without delay, the ability to take advantages of developments such as RMB internationalisation which the ASEAN region will be heavily involved in and also take advantage of the new technologies developed in the region which can be utilised by treasury. In addition, the region and its benefits are not just open to large multinationals. SMEs will also be able to take advantage of ASEAN at the same speed, if not quicker, than large multinationals.

However, a pan-ASEAN clearing and settlement system is currently not something which corporates will readily be able to benefit from, as all parties are still a long way from reaching an agreement. While some countries have taken steps to pave the way for this, such as Singapore launching its FAST payment system, and we expect further countries to adopt similar methods as a way to modernise their own domestic payment infrastructures there is still a significant amount of work to be to create a pan-ASEAN system and this will take some time.

To take full advantage of ASEAN integration it is vital that corporate treasurers stay close to development in the region by keeping up to date with releases from the official bureaucratic sources within the region. Corporates should also look to their home embassies and government trade organisations who will also release information. The challenge for the treasurer however lies in being able to filter the plethora of information to ensure that what they are looking at is up to date and relevant to their operations.

Despite the benefits which further ASEAN integration can offer corporates, there are a number of challenges they may continue to face. These include: cash remaining non-transferable, both in and out, in a number of countries, there being degrees of non-convertibility across the region, continuing complex regulatory frameworks and a lack of harmonisation in technological systems making integration of these challenging. While we are hoping that many of these issues will be resolved in time, the challenge remains that legal harmonisation may not keep up with rapid technological and regulatory change.

The deadline for the integration of the AEC is 31st December 2015 and while we remain optimistic, the reality is that historically multilateral negotiations are prone to deadline slippages. We are also currently seeing a trend in the establishment of bi-lateral agreements between nations in the region, compared to a 'big-bang' regional agreement. The danger of this is that over time this may make it harder to reach common agreement on issues in the region.

## Usama Delorenzo, Director, Asia Policy and Advocacy, SWIFT:

The debate surrounding ASEAN integration is dense and comprises of a swathe of studies, reports and other documents categorised broadly under terms such as 'regulation', 'industry segments' and 'regional financial infrastructure options'. These collectively outline the vision of ASEAN and the nations within it. For many, this information can be impenetrable and the true facts can be hard to attain. So what does ASEAN integration mean for those organisations that either have or are looking to have business operations there?

For us, what ASEAN integration creates is a single window – a harmonised and standardised community with an integrated and connected ecosystem in which corporates can freely operate efficiently and effectively. The overall benefits for corporates stem from a number of different concepts and initiatives – which all contribute to this overall goal.

Firstly, standardisation across the region is vital and in the last year or two Asia Pacific as a region has taken great strides towards this. In the ASEAN region more specifically, ISO 20022 has been selected to facilitate payments across the region and also to be the recognised standard for the bond market. The specifics of exactly how it will be used are still unclear and currently being decided upon by both banks and central banks. The adoption of ISO 20022 as a standardised financial messaging format across the region can offer corporates numerous benefits including local language support and the ability to carry more reference data, standards which cater to the diversity of the ASEAN region. The adoption of ISO 20022 will also assist with the creation of a regional clearing and settlement system and a fully integrated financial system.

Secondly, further ASEAN integration offers corporates numerous benefits surrounding trade. Again looking at the idea of a single window, the integration of the ASEAN region aims to allow corporates to obtain faster financing, improve trade document transfer and increase transparency, allowing for better governance and risk management. The use of technology and a shift to Supply Chain Finance (SCF) oriented transactions will allow corporates to greater leverage the trade benefits which ASEAN integration brings.

These benefits are not only open to large multinationals, but also to SMEs. For example, we have seen the ASEAN trading link recently created by the ASEAN Exchanges, a collaboration of seven exchanges from Singapore, Thailand, the Philippines, Indonesia, Vietnam and Malaysia designed to create more investment opportunities and to attract more investors into ASEAN capital markets. The ASEAN trading link offers a gateway for easier access to the exchanges which can be utilised by SMEs and other similar companies allowing them to trade in other ASEAN capital markets just as easily as they do in their own.

Overall, the future of corporate treasury in the region depends on the development of its financial market infrastructure. Currently, many corporates lean towards Singapore as a base for their treasury operations as it has the healthy advantage of being both the region's financial and commercial centre. However, as other countries emerge, such as Malaysia and Thailand which are growing quickly, we may see these become more appealing to corporates as locations for their treasury operations.

## The next question:

"With more and more technology creeping into our treasury department, I'd like to know how to tackle cyber security. What are the main threats and what practical steps can treasurers take to help mitigate cyber risk?"

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

## Ms. Rong Li

Deputy General Manager, Finance Department, China Shipping Container Lines

Founded in 1997, China Shipping Container Lines (CSCL) is one of the world's largest integrated international container transportation, logistics and terminal companies. The company operates nearly 80 international and domestic trade routes with a service network that covers Chinese coastal areas and major trade regions in Asia, Europe, America, Africa and the Persian Gulf.

After going through a period of rapid expansion, China Shipping Container Lines (CSCL) wanted to optimise management of working capital and liquidity. With help from Citi, the treasury team at CSCL were able to improve the visibility of cash balances and transform the treasury function into a highly automated, efficient department.

# Problem…

As a flagship state-owned business, China Shipping Container Lines (CSCL) has experienced rapid growth in recent years, and has a strong commitment to financial integrity and transparency. Consequently, group treasury was seeking to enhance its financial reporting in order to achieve more timely, accurate and complete access to cash flow and balance information globally. "By doing so, the company would be able to plan cash and liquidity decisions with more confidence, analyse cash flow trends effectively, and reduce the cost and resources required for financial reporting," says Ms. Rong Li, Deputy General Manager, Finance Department, China Shipping Container Lines Co. Ltd. These objectives were particularly challenging bearing in mind that few solutions in mainland China provide cash flow forecasting capabilities.

# Solved….

CSCL has had a highly successful partnership with Citi for more than a decade, including cash collections and cross-border cash pooling for its entities in more than 40 countries. Based on this experience, the company recognised Citi's expertise in delivering flexible and robust cash and liquidity management solutions, and innovative technology.

CSCL's treasury therefore decided to expand the relationship with Citi to implement TreasuryVision®, including its cash flow forecasting module. "We are the first company in mainland China to do so. The solution covers accounts with Citi globally, including accounts held with third-party banks during subsequent project phases. Not only does TreasuryVision® support CSCL's cash visibility and forecasting objectives, the solution was more cost-effective than treasury management or ERP solutions," explains Ms. Rong Li.

With TreasuryVision®, CSCL now has timely, accurate and complete visibility over its cash positions and fund movements. Information can be consolidated at different levels, from group level through to individual business segments, regions and business units. Cash flow forecasting capabilities are supplemented with a variety of advanced analysis tools such as variance analysis, what-if calculations and stress testing, and workflow tools such as personalised alerts of account movements. As treasury no longer has to produce this information manually, the risk of error or omission is eliminated, resourcing requirements are greatly reduced, and information can be produced quickly and in a flexible format.

"Implementing Citi's TreasuryVision has been a vital step in transforming our treasury function into a highly automated, efficient department that will position the company for future international growth. With greater visibility and insights into current and future cash flows, we are now in a position to manage liquidity and risk in an efficient and cost-effective way," says Ms. Rong Li. ■

# Investing excess cash in Asia

*Bank deposits remain the most popular solution for corporates in most countries in Asia with excess cash. However, now the increasing popularity of MMFs in the region is making companies think twice about their short-term investment strategy. What is the impact of regulation on the instruments available and what does the future hold?*

While money market funds (MMFs) are the staple of the short-term investment strategies of many corporate treasurers across Europe and the US, the instrument is far from attaining mainstream status in the boardrooms of Asia.

The most popular product for corporates in the Asia Pacific region who are looking to invest their excess cash remains bank deposits. "The short-term investment market for investing corporate cash in Asia is still relatively new," says Paula Stibbe, Head of Global Liquidity Sales – Asia Pacific at J.P. Morgan Asset Management (JPM AM). "Traditional bank deposits have been the primary vehicle that corporate treasurers have used to manage their non-operational cash."

And while MMFs are far from unheard of in the region, there are significant hurdles to overcome before they become a mainstay of the Asian treasurer's investment toolbox.

Subash Pillai, Head of Global Liquidity Management, Asia, at Goldman Sachs Asset Management, says there are two key conditions necessary for the establishment of a successful MMF market. One is a large, diversified underlying market of high-quality, liquid paper for funds to invest in. "Many markets in Asia do not meet this condition," he says.

The other condition is likely to be met, at least in some jurisdictions, before the first: a favourable interest rate environment. "Countries such as Hong Kong and Singapore, which have high-quality underlying assets but very low interest rates may well see their MMF markets grow materially when there is a normalisation of interest rates," he adds.

Indeed, considering Pillai's first condition, the fact that MMFs are not widely used by Asian corporates is partly a function of the lack of depth of the capital markets in Asia; in many countries in the region, local currency capital markets are simply very small in comparison with those for dollar-denominated products.

But beyond this lack of depth in some Asian capital markets, what MMFs there are in Asia tend to be smaller-sized funds, as there is just not the range or the volume of assets available for the funds to invest in. This can in turn deter corporates, who might otherwise be favourable towards MMFs, from investing in smaller funds that they consider less diversified, and therefore less safe. "Given that most investors go to MMFs for diversification of risk rather than purely for yield, this is one of the big barriers to growth in the MMF market in Asia," explains Philippe Jaccard, Head of Global Liquidity Management at ANZ.

## Banking culture

Another reason for the continuing popularity of bank deposits in Asia relates to banking culture in the region, says David Blair, Managing Director, at Acarate. "Many local banks in Asia are still very focused on having big balance sheets. Some Chinese bank managers are indeed compensated based on the size of their balance sheets, whereas most Western banks want to reduce their balance sheets by as much as possible," he explains. "On top of this, it is more common for large Asian conglomerates to have close relationships with certain banks."

This is especially the case with companies working within a *keiretsu* system in Japan, and *chaebol* arrangement in Korea (informal business groups), whereby a bank can form the core part of a conglomerate's operations.

However, despite the continuing popularity of bank deposits, there are signs that the nascent MMF market is starting to increase in popularity in the region.

"Over the last ten years we have started to see the types of investment tools that corporate treasurers in Asia use expand," says JPM AM's Stibbe. "MMFs, for example, have grown to where they are now considered a key liquidity option for treasurers to consider."

And one of the key MMF markets of the future in Asia is undoubtedly China.

## Looking to China

China is widely considered the MMF market with the biggest potential in the region, given the scale of the financial resources in China. Indeed, it already represents a significant focus for some of the biggest fund managers, although it is not necessarily the largest MMF market in Asia.

Of J.P. Morgan Global Liquidity's nearly $18.2 billion of assets under management in Asia Pacific, almost half ($7.5 billion) is in China.

"Chinese MMFs have offered investors returns above 3.0%, and although they are not guaranteed, this compares favourably with the People's Bank of China's seven-day time deposit rate ceiling of around 1.35%," says Stibbe. "This kind of yield in a AAA-rated vehicle is difficult to come by elsewhere. As a result many treasurers are now choosing to keep their cash inside China because of the attractive returns available, and solutions are starting to appear outside traditional bank deposits to help them achieve these returns."

Several Western asset managers are increasing their presence in China, with a number of RMB MMFs emerging in recent years. However, these firms are establishing their Chinese MMFs as joint ventures with a local partner, who must be the majority shareholder under Chinese regulation. "Some corporate investors will feel more comfortable investing in Chinese MMFs through names they know," says ANZ's Jaccard. "But it is important to bear in mind the funds are run in collaboration with local Chinese firms."

J.P. Morgan Global Liquidity China, for example, distributes a China-domiciled RMB fund to institutional investors in China from its joint venture, China International Fund Management (CIFM). J.P. Morgan Asset Management UK Ltd owns 49% of the joint venture, while local partner Shanghai International Trust Co., Ltd. owns 51%.

"Through locally domiciled funds like this we now have the ability to bring the depth and breadth of our product offering and insights to corporate treasurers, not only to local Asia-based companies but also to multinational US- or European-based firms with locally domiciled subsidiaries in-region," says JPM AM's Stibbe. "With money markets in Asia developing, especially in China, they are seeing their investment options in the region expand for a range of the functional currencies they carry."

Goldman Sachs, too, has a domestic Chinese money market vehicle that it offers through its strategic partner Beijing Gao Hua Securities.

Furthermore, non-Asian MMFs are upping their investment in Chinese bank debt. Between April 2013 and April 2014, Fitch-rated prime MMFs increased their assets in debt from Chinese financial services groups from around zero to 0.4%. Fitch put this increase in exposure to Chinese bank debt partly down to a higher level of issuance as well as greater investor demand.

The fact that foreign MMFs are increasing exposure to Chinese bank debt demonstrates that China certainly has the underlying assets to sustain a buoyant domestic MMF market too.

And if regulators soften to the extent that 100% foreign-owned asset management entities are permitted, the options available to investors will proliferate. "If the Chinese market continues to open up in the way it has been, and foreign asset managers are allowed to have majority-owned joint ventures, more firms will surely want to expand in the country," says JPM AM's Stibbe.

## Short-term investments elsewhere

Beyond China, the prevalence of MMFs and related instruments among corporates in Asia Pacific is varied.

In India, where the market for instruments known as liquid funds, which are similar to MMFs, is well established, the underlying assets are already in place. "India has an especially developed bond and commercial paper market, which provides the instruments needed for a sound MMF market," says Acarate's Blair.

Here liquid funds offer corporate investors an access point to other asset classes. "India has an established liquid funds industry offering various degrees of liquidity. They also offer a tax advantage to investors if funds pay a dividend rather than an interest rate," adds Blair.

In January 2014, the liquid fund market in India was worth around $40 billion, and it has grown at an annual rate of 15% over the past five years.

Japan also has a significant MMF industry, although currently the yield environment is highly unattractive, with rates barely above zero on most short-term instruments.

In certain other jurisdictions in the Asia Pacific region, such as Australia, Hong Kong, and Singapore, MMFs have similarly languished in their challenging interest rate environments, with slim spreads between the rates on bank deposits and MMFs, and bank deposits remaining the vehicle of choice for many corporates with excess cash, although Australia stands out in that its MMF industry is larger and more developed.

Australia is also notable in that it will be one of the first countries in the Asia Pacific region to implement Basel III in January 2015. This is significant because Basel III will, among other measures, lead to banks being penalised for holding large amounts of corporates' non-operational cash. This will likely drive investment in MMFs as corporates, discouraged from depositing excess cash with their banks, will seek off-balance sheet solutions.

This impact of Basel III on the MMF industry is not limited to Australia, nor indeed to the Asia Pacific region; it is set to be a worldwide phenomenon. However, it will be interesting to observe how Australia's head start in implementing the regulation will affect the development of its domestic MMF industry, as will the subsequent spread of Basel III in other Asian jurisdictions have on their respective MMF industries.

## Regulatory change

One of the biggest challenges in Asia is dealing with the variety of regulatory environments, some of which are much more tightly controlled than others (China, for instance, being one of the more controlled jurisdictions, although this may well change considerably over the coming years). For fund providers, this means packaging and distributing their products according to local regulation, and adhering to cross-border currency movement controls. As we have already seen, it can also mean having to team up with a local partner.

Regulation from European and US legislators is also likely to affect the MMF industry in Asia. However, while the Securities and Exchange Commission's (SEC) shakeup of MMF regulation in the US is likely to have repercussions on MMF vehicles throughout the world, no regulators in Asia Pacific have for the moment put in place an articulated plan to move to variable net asset value (VNAV) pricing of funds. That is not to say, however, that such a shift will not take place in some Asian jurisdictions.

In terms of country-specific regulation, China, not surprisingly, is one of the fastest-changing regulatory environments in Asia Pacific for short-term investment products. And in many cases, regulatory change can be advantageous for corporates, with the relaxation of some rules proving a benefit of both providers and investors.

For example, while MMFs in Europe and the US are typically settled on a same-day basis (T+0), Chinese MMFs were until recently settled on a T+1 basis. For treasurers used to same-day settlement, this made cash planning and forecasting more challenging in China. Now that a recent change in CSRC regulations has allowed MMFs to settle redemptions on T+0 in China, there is an opening for more products with international standards.

For instance, CIFM launched a new RMB MMF in August 2014 that offers institutional investors in China the capability of T+0 settlement on redemption for the first time (although subscriptions will continue to operate on a T+1 basis).

"New products, enabled by the changes in regulation are allowing corporate investors to earn higher yields than bank deposits, while also giving them the ease and convenience of having access to their cash on a same-day basis on redemption," explains JPM AM's Stibbe. "The direction China is moving in is allowing providers to launch products more consistent with international standards, and is boosting the growth of MMFs in the country."

## Investor attitude

Besides regulation, another major challenge to the growth of the MMF market in Asia is that some investors do not fully appreciate the key advantage of the instrument.

"In recent investor memory in Asia there have not been the near misses or indeed failures of financial institutions that we have seen in other regions," says Goldman Sachs's Pillai. "While corporates in Europe and the US have witnessed the potentially catastrophic consequences of not diversifying their short-term investments, companies in Asia have not had this call to action to invest in MMFs."

He says the diversification benefits of MMFs – one of the key selling points of this type of fund – are yet to resonate as strongly with Asian investors. "Providers continue to educate corporates in Asia about how they can diversify their risk by investing in MMFs," he says. "As investors in the region recognise this, market growth will accelerate."

Given that corporates in Asia Pacific may not have as much experience in investing in MMFs as some of their western counterparts, it may take time for some to get to grips with investing in MMFs or other short-term investment options, other than bank deposits. ANZ's Jaccard says there are three steps companies in the region should follow.

- A company needs a board policy outlining the excess cash 'buffer' it will retain. The size of this buffer is a function of the amount of funds it estimates it will require in a stress scenario.
- Excess cash should be spread across as many legal entities, in as many currencies and in as many countries as possible. The more diversified the buffer, the better.
- There should be a mechanism in place for controlling excess cash once it is invested. For example, there are usually conditions attached to the withdrawal of funds from an MMF. What's more, exposure to counterparties and instrument types should be frequently monitored.

Following these steps will not guarantee the success of a corporate's short-term investment strategy but it could help prepare the company for the expanding range of instruments available to them in the coming years. ■

# Cambodia: a snapshot

*While welcome progress has been made towards breaking Cambodia's year-long political impasse, legislators have done little to help entrepreneurs in a country whose process for setting up a business is among the very longest and most complex in the world. Treasury Today Asia considers Cambodia's banking environment, the factors holding back capital market development and progress towards integration with ASEAN.*

The Kingdom of Cambodia is located in the south of the Indochina Peninsula, neighbouring Thailand, Vietnam and Laos. It was previously known as the Khmer Empire when it ruled over South East Asia between 802 and 1431. Today, the country is regarded as one of the emerging nations in the region.

Cambodia has however faced difficulties over the past 60 years following its independence from France in 1953. Political instability, civil war and a bombing campaign devastated the country and its population through the second half of the 20th century – prohibiting its development.

The instability has largely disappeared and the country is now in better shape, and is looking to use its natural resources and economic potential to end its dependence on foreign aid. The country also hopes to encourage more foreign investment.

Nevertheless, Cambodia still has many challenges to overcome but has been granted a 'B2' rating by Moody's with a stable outlook. Moody's cites a healthy outlook for economic growth, limited vulnerability to fiscal and external funding stress and ongoing fiscal consolidation from fiscal stimulus as the key drivers for this.

## Business environment

According to data collected by the World Bank for its Doing Business 2014 report, starting a business in Cambodia requires 11 procedures, takes 104 days and costs 150% of income per capita. Only five countries rank lower in terms of ease of setting up a business.

The report states that Cambodia made starting a business even more difficult last year by introducing a requirement for a company name check at the Department of Intellectual Property and by increasing the costs both for getting registration documents approved and stamped by the Phnom Penh Tax Department and for completing incorporation with the commercial registrar. Cambodia also performs poorly on contract enforcement (162nd of the 189 economies surveyed), although it rates above the regional average and 42nd overall on access to credit. On average, Cambodian firms pay total taxes amounting to 21.4% of profit, which gives it a global taxation ranking of 65.

The 2014 Index of Economic Freedom allocates Cambodia an economic freedom score of 57.4, making its economy the 108th freest of the 178 rated nations. Its overall score is lower than in 2013 and below the regional average.

### Key facts

Population: 14,864,646* (1 June 2013)

GNI per capita: $880*

GDP growth (annual %): 7%** (2013)

Doing Business (2014) rank: 137* (2013: 135)

*Sources: *World Bank. **IMF*

Since Cambodia's economic freedom was first assessed in the 1997 index, its overall economic freedom score has improved by only 4.5 points, with advancements in trade, monetary and investment freedom largely offset by significant declines in business freedom and freedom from corruption. The index states that 'substantial challenges remain, particularly in implementing deeper institutional and systemic reforms.'

## Uneven advance to ASEAN

Cambodia is preparing for the establishment of the ASEAN Economic Community, but needs to step up reforms to improve the transparency and reliability of its regulatory systems to encourage more investment according to a report produced in April 2014 by the Asian Development Bank (ADB) in collaboration with the Institute of South East Asia Studies (ISEAS).

"Cambodia is doing well with preparations for the ASEAN Economic Community because it has always been an open and outward-looking economy, but it needs to catch up with the implementation of e-customs, the national single window (which enables cross-border traders to submit regulatory documents to a single entity) and the ASEAN single window border procedures," says Jayant Menon, lead economist at the ADB.

In March 2014 The Cambodia Daily quoted Chuop Narath, deputy director of the department of employment and manpower at the Ministry of Labor as saying that Cambodia was not ready to join the single regional market and production base.

## Exports drive growth

An IMF report released in February 2014 observed that economic activity was robust in 2013 driven by healthy exports and tourism. Real estate and construction also expanded rapidly, supported by fast credit growth and foreign direct investment which remained strong, partly as a result of factories relocating from China and Vietnam.

Private sector credit has grown by approximately 30% per annum over the last three years thanks to ample liquidity – including bank funding from abroad – and heightened competition in the banking system.

The IMF describes the introduction of negotiable certificates of deposit as a welcome first step toward market-based monetary operations, although it warns that establishing an interbank and foreign exchange market would be needed to begin addressing dollarisation, including allowing more exchange rate flexibility.

'The transition to risk-based supervision and the rapid expansion of the banking system continue to put additional burden on the supervisory capacity and in this context, the 2010 Financial Sector Assessment Program recommendation of imposing a moratorium on new bank licenses remains appropriate,' states the IMF.

With the current account largely funded by external aid and foreign direct investment and annual inflation remaining around the historical average of 5%, no immediate macro-financial risks seem to threaten growth prospects, although the rapid bank credit growth of recent years underscores the need for policy vigilance.

Services remained the largest source of growth from the supply side, expanding by an estimated 8.4% in 2013. Bank credit to wholesale and retail traders increased by 24.5% to $2.5 billion and to real estate by 36.5% to $251m. Tourist numbers were up 17.5% to 4.2m.

Industry grew by an estimated 10.5% on strong demand for Cambodian garments and footwear in the EU. Exports of garments and footwear to that market surged by 26% to $2 billion and those to the US rose by 6% to $2.1 billion according to customs data.

Construction and rice milling also contributed to industry growth. Bank credit to construction rose by 29% to $577m and exports of milled rice almost doubled to $262m, although floods in September and October 2013 damaged crops.

In May 2014, the Asian Development Bank (ADB) signed a $75m senior loan with Cambodia's largest bank, ACLEDA Bank, to address the rising financing requirements of micro-, small- and medium-sized enterprises (MSMEs) in the country.

Cambodia's level of financial services is one of the lowest in Asia and the Pacific. While MSMEs account for 99% of private companies and 73% of all jobs in the country, they have very limited access to bank financing. According to the country's central bank, 84% of MSMEs are financed through the informal financial sector, where interest rates are as high as 10% per month.

ACLEDA, which has an extensive branch network in rural areas, will use the loan to broaden its lending base and extend its services to underserved communities.

## Political paralysis

Inflows of net foreign direct investment reached $1.3 billion in 2013, though that figure represented a decline from 2012, partly a result of political tensions after Cambodia's most recent national elections. Cambodia has long been blighted by political unrest. Following the national elections in July 2013, the Cambodia National Rescue Party (CNRP) rejected the results, claiming widespread irregularities in the election process.

Subsequent demonstrations by the CNRP were replicated by other aggrieved sectors, such as garment workers and victims groups protesting human rights abuses. This led to a virtual ban on assembly for opposition groups and the government produced a series of laws that raised concerns over restriction of dissent and separation of powers between the executive and the judiciary.

In July 2014 the ruling Cambodian People's Party (CPP) and the CNRP announced a deal that would enable the opposition party to take its 55 seats in parliament, ending nearly a year of political deadlock and reassuring investors.

Tim Meisburger, regional director for elections and political processes at the Asia Foundation suggests that the political impasse created an opportunity for reform that has not existed in Cambodia since the early 1990s. "Since opposition political parties are unlikely to be able to convince the current government to hold early elections, their next chance will be national elections in 2018. In those elections they may win the big prize in the winner-take-all system. Or they may not, as four years is a long time and in that time voters may swing back towards the CPP, or that party might refuse to give up power."

Given these factors, opposition parties might be willing to trade the uncertain possibility of 100% of government power under the current system for early elections for provincial governors and some level of election system reform that would guarantee them a significant share in government power at the local and national levels and with the possibility of winning a majority in the National Assembly.

"The ruling party might also be willing to deal," says Meisburger. "History suggests that eventually there will be a change in government and the results of the last election suggest that the desire for change – any change – is growing. If that trend continues the governing party will have an increasingly harder time winning the next elections and a loss will mean either they lose 100% of government power or reject the results with potentially disastrous consequences that spell the end of the party completely."

Alternatively, the CPP could lead a reform process that would bring about political decentralisation and election system reform.

## Moribund markets

With a stable exchange rate based on sound macro-fundamentals for the past decade, an inflation rate that has stayed within a manageable level of 4% for the last five years, consistent improvement in government revenue collection and a reduced budget deficit, the National Bank of Cambodia (NBC) says growth momentum is expected to continue in the medium term.

However, the size of the Cambodian stock exchange illustrates how far the country lags other frontier markets in South East Asia. The exchange was only inaugurated in July 2011 and there are just two listed companies, while the relatively small scale of most Cambodian companies means there is limited demand for bond issues in the range of $50m upwards. The first two offerings combined were worth less than $40m.

While Cambodia and Laos have just five listed companies between them, its neighbour to the east (Vietnam) has more than 650 public companies. Indeed, one of the two companies listed in Cambodia and the most recent addition to the bourse is actually Vietnamese – textiles firm Grand Twins International (Cambodia). The only other listed entity is Phnom Penh Water Supply Authority.

Reuters reports that Hong Sok Hour, CEO of the exchange has said that around ten companies are exploring a listing and that there would likely be one more before the end of 2014, while noting that the process of preparing financial statements continued to be a challenge.

## Developed banking sector

The commercial banking sector is regulated by the NBC, the sole regulator of financial institutions in the country and the regulatory environment is pretty sophisticated, explains Patrick Smith, Cambodia-based head of law firm DFDL's Japan desk and deputy head of the firm's banking and finance practice group.

"There are quite a few commercial banks licenced to operate in Cambodia and many foreign banks have established subsidiaries, branches or representative offices, although the NBC has stated that it would be unlikely to issue any further banking licences in the near future."

There is currently no Islamic banking activity in Cambodia, but this is expected to change in the near future in line with other Asian countries.

Recent entrants include Japanese banks SNBC and MUFG, although the representative offices of these banks are not allowed to do banking business in Cambodia – only branches or subsidiaries are able to obtain a banking licence. A favoured method of entering the market is to acquire positions in existing commercial banks.

Overseas banks in Cambodia are sometimes allowed to service companies who are based in their home country, particularly those from Vietnam, China, Japan and Korea, which from a treasury perspective means that international companies can access banks from their own jurisdiction.

"This is not an option for corporates based outside Asia, but the banking system in Cambodia is well-capitalised and it is relatively easy to obtain finance at reasonable rates," says Smith. "The laws relating to lending are transparent and there are few restrictions in terms of what banks can or cannot do."

Lending is conducted at fixed rates of interest in US dollars rather than the local currency and the almost total absence of floating rate lending means hedging is largely redundant. However, there is currency risk and DFDL has acted for a number of hedging counterparties in Cambodia in relation to currency swaps and forwards.

"However, there are options for treasurers looking to do business locally in terms of finance, if not in terms of asset allocation," adds Smith. "There is an established payments infrastructure – most large scale transactions are denominated in dollars. Payments in and out of the country must be made through an authorised intermediary, but this is typically a commercial bank with which a treasurer will already have a relationship."

Cambodia has a foreign exchange law, but it can only be applied by the NBC during times of economic or financial crisis to control currency movement for a period of up to three months. That law has been in effect since the late 1990s but was not exercised either during the Asian financial crisis of 1997-98 or the global financial crisis of 2007-08.

According to Grant Knuckey, ANZ CEO Cambodia, the country is developing rapidly and strengthening ties to the larger ASEAN market are creating a lot of opportunities for businesses.

"The business banking environment is promising and highly competitive, particularly when compared to other emerging markets. We have seen a significant inflow of new banks to the market over the last three years and as a result, the price of liquidity has dropped considerably – certainly below the level one would expect in a single-B jurisdiction. Corporates would absolutely see it as a 'buyers' market' from a price and terms perspective, which is driving a lot of investment into the country."

He also suggests that there is a significant opportunity for growth of financial markets in Cambodia, in terms of both debt capital and equity capital. "Debt capital markets are yet to establish, partly due to the availability of bilateral credit and partly due to the relatively small ticket size. At the top end of the corporate market this looks likely to change soon, as debt levels get beyond the capital constraints of local banks."

## Local treasury presence

When asked whether there are any capital restrictions or controls that affect companies in Cambodia, Smith refers to the requirement for banks to report large transactions in compliance with anti-money laundering laws or the central bank's review of capital inflows and outflows. However, this is a reporting obligation on the part of the bank which is not dissimilar to that in effect in many other countries.

"The companies we deal with typically have treasury staff based in Cambodia, even those with regional treasury centres in locations such as Singapore," Smith concludes.

Knuckey acknowledges that Cambodia's system-level payments environment still has some way to go before it is a full, real time gross settlement environment like most of its peers in the region. "But in terms of bank-to-corporate payments systems, the environment is good and our clients here in Cambodia have access to the same payments and cash functionality (including host-to-host solutions) as clients in more mature markets."

He describes Cambodia as one of the most liberal capital regimes in the region. "Movement of capital is relatively unrestricted, particularly inbound. Outbound, there are some minor restrictions on banks, but these don't apply to corporates."

As a result, the vast majority of companies are locally managed "although some blue-chip multinationals will manage via their regional treasury centre in a site such as Singapore," he concludes. ■

# Banking on sector expertise

*Global companies need global banking partners that are able to understand, not only the constraints and opportunities within each country or region, but also within their business sector. After all, what works well in one industry may be wholly inappropriate in another. In this cash management review, Citi Treasury and Trade Solutions for Asia Pacific explain to us the benefits of sector expertise that its clients are able to draw upon, with examples of key trends across four of the key sectors covered by the bank.*

After nearly a decade of dizzying growth, Asia Pacific economies are now entering a challenging phase. Although growth rates in the region remain at relatively strong levels, events like the ongoing normalisation of US monetary policy, real estate concerns in China and an anaemic recovery in much of the developed world are now weighing heavily on the region's prospects.

Much of the Asia region is also in a state of political flux. In just the past year, the political backdrop has changed considerably with new governments elected in India and Indonesia, a radical set of fiscal and monetary policies known as 'Abenomics' introduced in Japan and, perhaps most significant of all, a programme of economic liberalisation continuing to gather pace in China.

## The big picture

Against this uncertain political and economic backdrop, corporates in Asia have become increasingly focused on achieving better control and visibility over liquidity. Here, treasurers are looking for the means to overcome 'trapped cash' issues so they can move liquidity more seamlessly between Asia's tightly regulated markets and the other markets they operate within globally.

This is particularly true of multinationals in China where treasurers have long aspired to be able to manage liquidity there in the same way that they do in other parts of the world. Thanks to a raft of recent reforms from the PBoC and SAFE, they are now close to realising that ambition. Today, firms operating in the country are increasingly able to release their trapped cash by using a range of new schemes that give them the ability to integrate renminbi into their regional or global cash pools.

"I think that the pace of regulatory change has begun to accelerate over the past few months," says Munir Nanji, Asia Pacific Sales Head, Treasury and Trade Solutions at Citi. "There is certainly a lot more transparency now than a year ago. Now our clients in China who have substantial revenues in the local currency are able to mobilise their previously trapped liquidity and use it across the world, as and when they need it."

China is the largest, most significant market to embark upon a programme of financial deregulation, but it is by far from being the only one. "We see the same thing in a host of other countries," says Nanji. "Whether it is India, Vietnam or Indonesia, treasurers are asking us how they can centralise cash management and achieve better control over the money that is sitting in their various accounts. Essentially, it is about improving the way liquidity is collected globally and overcoming trapped cash issues first and, secondly, accessing structures that optimise the way in which money is distributed within countries."

These are the broad, overarching trends that Citi is seeing at the regional level in Asia. If one looks more closely at the different business sectors within the region, however, each presents their own unique challenges and opportunities which the treasurer must understand and embrace. Help is at hand, however. As this article details, whatever sector your company operates in, Citi has both specialist advice and a range of innovative, tailored solutions that treasurers can draw upon to help them address the challenges they face and, ultimately, build a more efficient treasury.

## Industrials sector

Over the course of the past decade commodity prices have sky-rocketed. Companies operating in the industrial sector saw their business costs rising, and they responded by looking at ways to improve operational and liquidity efficiency within their organisations.

Today, most analysts agree that the commodity super cycle is nearing – or has perhaps even passed – its peak. But the focus on liquidity from companies in the sector is not letting up, says Jason Batman, Asia Pacific Industrials and Energy, Petroleum and Chemicals (EPC) Sales Head, Treasury and Trade Solution at Citi. In fact it is, if anything, growing stronger. "In this sector, the treasury function is really taking control of liquidity across the region and, wherever possible, making sure that subsidiaries are borrowing from an internal source, rather than an external banking source," he says.

What are treasurers in the industrials sector doing to realise this objective? Batman says he is seeing an increasing number of businesses in this sector working to establish optimal regional treasury models or in-house banking structures to manage and take control of their working capital and internal funding requirements across the region. Of course, with the restricted nature of some Asian markets, in-house banks may not enjoy full access to liquidity in every instance. But whatever the regulatory nuances of certain markets, Citi offers clients a liquidity management platform that is globally consistent and locally compliant – whether it is physical zero or target balancing, notional pooling, or delivering liquidity flows to the in-house bank. For example, the automobile industry is a diversified multi-layered financial and operational ecosystem. Deep and diverse supply chains combined with complex distribution structures means that any changes in process and systems can have huge business repercussions in the supply chain. One insight borne from our analysis across the auto sector is the potential for treasury to support delivery of subsidiary funding. Subsidiaries in the enterprise operate very distinctly, and have varying working capital cycles from each other, and therefore traditionally have been managed separately. Today with treasury advancement and use of information and technology – coupled with Citi's liquidity platforms – treasurers are well equipped to meet their liquidity efficiency goals.

## Technology and telecommunications

"The business model in the telecoms sector is evolving," says Manash Dasgupta, Asia Pacific Consumer and Healthcare, and Technology, Media and Telecom Sales Head, Treasury and Trade Solutions at Citi. In Asia, as in other parts of the world, the sector has gone through significant consolidation in each market. The companies remaining therefore tend to dominate their domestic markets, and as a result are limited in their options when it comes to expanding the core business. The solution is to explore innovative ideas to provide value added services to their consumers in established markets as well as look for investments in newer emerging markets. That might mean moving into new products and services such as mobile wallets for consumers or facilitating B2B payments worldwide. "Telecom companies have evolved to becoming providers of communications and connectivity infrastructure for their clients around the world in addition to providing mobility and fixed line services in their home markets," notes Dasgupta.

As a partner bank for the largest technology companies globally, Citi is well placed to respond to changing business needs in this sector. Risk management is one of the key areas where technology companies have found this expertise particularly valuable.
As companies expand their range of products, markets and services, trading partners naturally expand in tandem. But new trading partners will mean new counterparty credit risks to manage. The evolution of business models in this sector has therefore brought about a steady growth in demand for trade related services that help to mitigate risks, support trade flows as well as provide financing as required. Citi has invested significantly in technology that helps to digitise the process for trade services such as export letters of credits, document preparation outsourcing, and issuance of standby letters of credit. Digitisation has supported the growth in volumes as well as provided the required scale that companies need as they expand operations. In addition to large well established brands, there are many new emerging market entrants in the technology segment who have partnered with Citi as they aspire to expand globally. "Without the established brand, the global presence or the marketing muscle, new entrants need financing to bring on board distributors who will sell their products," says Dasgupta. "So there is a real need, not only for Citi clients to be adequately resourced, but also for the customers of our clients to be adequately financed to support growth strategies".

Competitive pressures have significantly impacted margins across the technology ecosystem. Citi has partnered with their large customers to support and finance the supply chain to ensure sustainability and margin protection. These initiatives been particularly helpful for smaller suppliers who are often challenged by credit squeeze and seasonal liquidity challenges. Most large businesses, says Dasgupta, make an effort to ensure that payments terms are such that their key suppliers are able to continue operating profitably. A significant number still end up being squeezed, however.

## Public sector

The role of public sector organisations is changing. Globally, there are a multitude of financial challenges for governments, not too dissimilar to those that we see confronting private businesses. In the wake of the financial crisis, governments in Asia – and across the world – recognised the need for economic stimulus to help the rebuilding of their recession hit economies. This has led to a double-edged sword for government departments who are seeing taxpayers demanding greater value from their public services yet are hamstrung by budgetary pressures intensifying as governments look to reallocate financial resources elsewhere. Damian Macinante, Asia Pacific Public Sector and Non-Bank Financial Institutions Sales Head at Citi, explains that these pressures are encouraging public sector organisations to look for ways to drive down costs by improving the efficiency of financial management.

Best practices in the private sector, where corporates have proven success in delivering efficiency gains in treasury, cash and liquidity management, have provided an example that banks like Citi are encouraging the public sector to follow. "Today the public sector in Asia is looking closely at liquidity management efficiencies, and supply chain financing to extract greater value from their budgetary allocations," says Macinante. Securing sustainable improvements in these areas does, however, require far reaching changes from within. As such, Citi advises its public sector clients not only to look at the liquidity management and SCF solutions that are being deployed to great effect by their corporate clients, but to also work on improving the operational processes behind them. "We see a lot of governments assessing what they can do around automating their purchase order and invoice approval processes because historically that has been very manual and paper-based," says Macinante. The value creation can then be accelerated with group procurement and logistics, shared service centres and actively managing the cash flow.

The benefits can be substantial and are often felt in every area of treasury operations but you have to start with the basics. "That is also key to implementing some of these other services as well," Macinante adds. "After all, it's pointless having a SCF programme in place if your terms are 60 days and it takes you 55 days to approve an invoice."

## Correspondent banking sector

"We operate in a world of growing complexity. More than ever the rate of regulatory change, globalisation and digitisation is requiring banks in Asia to re-evaluate the way in which they price and deliver services to their consumer and institutional client base alike," says David Cavanagh, Asia Pacific Correspondent Banking Sales Head, Treasury and Trade Solutions at Citi.

Access to global networks is critical in meeting the demands of a customer base with growing cross border requirements. Keeping pace with the rapidly changing environment means many banks simply cannot afford to 'go it alone'. More and more, leveraging off a partner bank's infrastructure rather than building "in-house" is viewed as a more efficient option.

Cavanagh adds, "Banks still compete aggressively for client wallet, but there is a growing acceptance that opportunities to partner together can deliver superior outcomes for themselves and most importantly the clients they serve. Citi assumes a leading role within this ecosystem. We work with our financial institution (FI) clients by making available our network in the support of cross-border trade flows as well as facilitating the execution of payments to beneficiaries globally. This in itself is critical in supporting our FI clients, however it is no longer all, or even the most critical value we provide them. Banks in Asia are looking for correspondents that don't just process their flows. Ever greater value is now placed on a partner bank's ability to provide training and the transfer of best practices. This can include new product training, benchmarking services and more and more often, regulatory guidance."

As a global provider of correspondent banking services to financial institutions in over a 160 countries, Citi brings a depth of experience and expertise obtained over decades of commitment to these markets. It is this scale, network and experience that allow our clients to build operational efficiency, extract incremental value out of transactional flows, and deliver a differentiated client experience to their customers.

## The right benchmarks

"The depth of sector knowledge and expertise at Citi is one of the qualities that really sets the bank apart from its competitors. Understanding all the trends within different industries is important since it helps the bank to better help its clients," explains Nanji.

"There is a lot of deep sector knowledge that we can take from one customer in a sector to another in the same sector," he says. Clients who use Citi's Innovation Lab, for example, are able to access data analytics that can show them what solutions and products worked for other businesses in the same industry. "We can benchmark clients across an industry and show them how their peer group is operating. This is something we find our clients really value. If you show treasurers how the best-in-class are bringing down cash conversion cycles, for example, very often the next question they ask is how they can do that. That's why we spend a lot of time talking about best practices at a sector level."

## Next frontiers in sector expertise

The global rise of Asian companies and the expansion of Western multinationals into the region have accelerated the development of sophisticated and innovative digital solutions, reflecting the transnational nature of their treasury and finance demands. Enhanced client experience, advanced data analytics and interactive tools will be the next frontiers for treasury management. Nanji says, "This is already happening at Citi as we help clients stay ahead of competition and augment their strategic treasury management capabilities." As an example, leveraging big data analytics, Citi's Trade Financing Interactive Solution – the first of its kind in the market – enables companies to visualise their supply chain, benchmark working capital metrics against competitors, and quantify the financial benefit of their Supply Chain Financing programme.

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# Making your bond debut

*More and more companies are looking to the capital markets in order to fill the big bank-shaped hole in their funding plans. Tapping the capital markets for the first time is not without its challenges, but as the recent experience of one debut issuer shows us, make all the right calls, and you too might come away with record low-cost funding.*

The face of corporate funding is changing. Companies have been keen to lock in long-term funding while borrowing rates remain low, and with bank finance retreating under mounting regulatory pressure, the bond markets have become an increasingly popular destination for corporates.

As a consequence, debut bond finance has been surging across all the markets. As of June this year, a total of 402 newly rated companies have made their first issue globally, close to a 10% increase on the 364 companies who debuted during the same period in 2013, according to figures supplied by Moody's (see Chart 1).

"Since the crisis the credit quality of corporates has improved massively," says Pascal Ba, Head of EMEA Corporate Debt Capital Markets at Bank of America Merrill Lynch (BofA Merrill). "Because of that, investors are more comfortable with this asset class at the moment and they are prepared to take the time to understand and invest in new names." What this means is that capital market skills are becoming increasingly important to treasurers, wherever they are in the world.

Irish airline Ryanair is one company to have recently taken advantage of the growing penchant for 'new names' amongst fixed-income investors. "We have a large capital expenditure programme coming over the next five years," explains Neil Sorahan, Finance Director at Ryanair. With commitments to buy 180 Boeing 737 aircraft in the years ahead the company sought access to financing that had 'deep pockets' and long tenor. They also wished to diversify their funding, having relied heavily in the past on secured financing. And, of course, they wanted to borrow cheaply.

"The debt capital markets, particularly in the current environment, gave us access to that," says Sorahan. In June, the budget airline made a debut €850m BBB+ rated bond offering. The pricing the company secured, even in the context of ultra-low base rates, was excellent. In a sale that saw over €7 billion of orders, the coupon was fixed at just 1.875%, the cheapest BBB+ issuance in the market to date. Even still the bond was nearly eight times oversubscribed.

Tapping the capital markets is, of course, very different to raising equity finance or applying for a loan through a banking partner. For companies going through the process for the first time, understanding the particular nuances of the bond market quickly will be essential to get the best possible pricing on their credit. What then, have Ryanair's finance team learnt from their debut issue? And what tips do they and the banks that facilitate such deals have for others considering the capital markets for the first time?

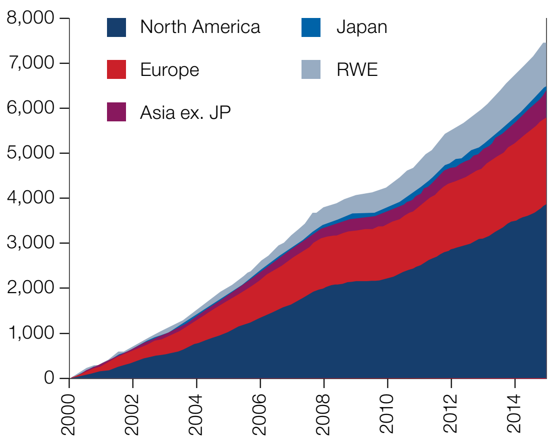
## Picking the right advisors

The first point is that it would be a mistake to underestimate the workload involved in tapping the capital markets. Corporate treasuries are rarely overstaffed, after all. It is perhaps just as well then that this is a very well-trodden path where treasurers should be able to quickly find the assistance they need to lighten the load.

"If you are giving advice to a corporate that is planning to go into the market for the first time, my first piece of advice would be to pick experienced bookrunners and appoint an independent adviser if needed," says Russell Maybury, Vice Chairman, UK Debt Capital Markets, RBS. The right advisory team will take a lot of the burden off the shoulders of the treasury, he notes. "They can assist you in every step of the issue, including the documentation, the investor memorandums, ratings advice and the roadshow."

Ryanair agree that picking the right advisors is important. In their case, Citi were appointed to help them through the ratings process and were joined later by BNP Paribas (BNP) and Deutsche Bank to be book runners for the issue. Although tasks such as preparing the legal documentation ultimately proved to be relatively straightforward, Sorahan says the advice the business received at each stage of the issue was valuable to them as a capital markets debutant.

### Chart 1: Newly rated issuers: global




*Source: Moody's Ratings Service*

"We had numerous calls on strategy with them (Citi, BNP and Deutsche Bank) throughout the process, discussing at each stage the best way to proceed, early pricing indications, and so on," says Sorahan.

## Getting rated

There is near universal agreement on the fact that a credit rating is needed for companies to secure the best pricing and volumes on the capital markets. For Ryanair, who were unrated when they began considering a bond issue, this was evidently a top priority. The important thing for those in charge of the issue was not to get the highest rating; rather they wanted a stable one which they felt could be comfortably maintained. The investment-grade BBB+ rating they were ultimately awarded by S&P and Fitch Ratings – the highest of any airline in the world – seemed suitable in that respect.

"S&P awarded us an A- anchor," says John O'Flynn, Treasurer at Ryanair. That effectively means, he explains, that when you put the Ryanair model through S&P's grading system, they come out in the A category. In the end, they ended up one notch down O'Flynn believes that resisting the temptation to overstretch in search of the highest possible rating was the right move though, and would advise other debuting companies to follow the same practice.

## Positioning your credit

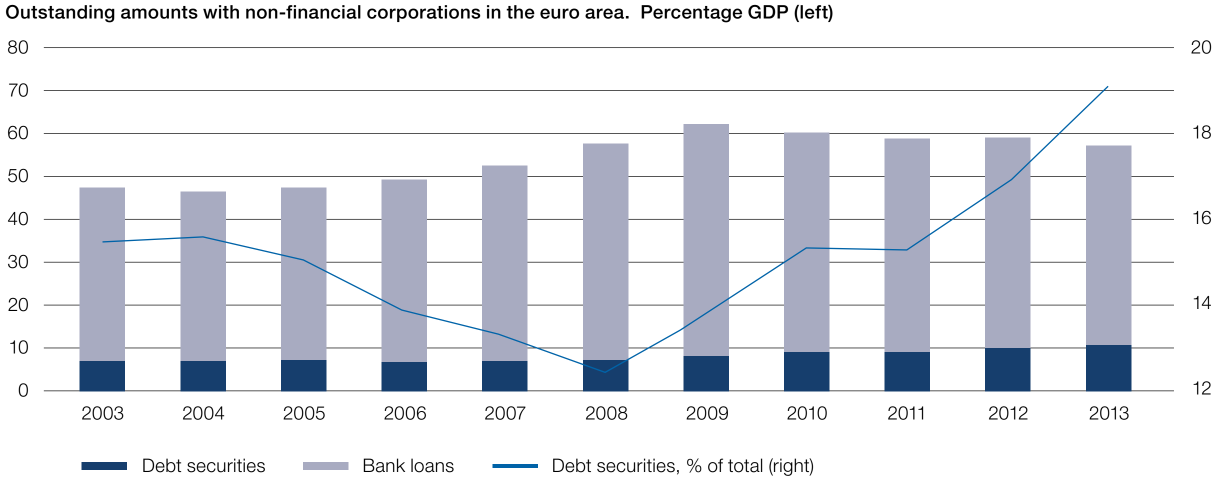
Once the credit rating has been obtained the next job is deciding what form the issue will take. There are, of course, a multitude of different options for corporates across the global capital markets, and different maturities that can be targeted. Ryanair, for instance, had to choose between a euro medium-term note programme (MTN) or US-dollar or euro private placements. There is no universal answer to these questions: what makes sense for one business is typically a reflection of its particular circumstances and priorities. But these early considerations are, says Ba, going to be critical to the success of the issue. "The key is to be really well prepared in terms of ambitions," he says.

Companies that want to issue bonds need to have a clear view of what can and cannot be achieved. Having that awareness, it becomes much easier to position the marketing of the bonds. "I think one of the risks for a debut issuer is to be too focused on the pricing element and not enough on the credit position. When an investor buys credit, it's because the credit has been correctly positioned."

A lot of the new companies coming to the market are small, relative to other issuers, and it is going to be a challenge for them to issue on ten-year maturities. So they may find that a medium-term note (MTN) on the five-seven year part of the yield curve is the best option. "That is often the sweet spot for investors in that situation, unless they benefit from a solid investment grade rating," he notes. Which market to issue in, meanwhile, will often be determined by the geographical footprint of the business and which currencies it has revenues in.

In the case of Ryanair, whose revenues are all in euros and do not intend their financing to be a one-off, the decision to issue a euro denominated EMTN programme was an easy one." Now we have all the ratings work and documentation in place, it should be a relatively straightforward and quick process to reissue. That will allow us to take swift advantage of movements in the market when opportunities present themselves."

Chart 2: Funding mix shifts towards capital market instruments




*Source: ECB, Deutsce Bank Research*

However, that is not to say the company will take the same approach when they return to the market in future. On the contrary, Sorahan says they are open to trying new things in the future. "We will look at all forms of suitable financing as we move forward," he says. "We will continue to look at the likes of the global bond in the United States and the private placements market. But for the size of the transaction we're looking for, the EMTN seemed like the ideal place to start."

## On the road

"Don't fall into the trap of expecting that a fixed-income roadshow will be more or less the same as an equity roadshow," warns BofA Merrill's Ba. "They are very different."

The first thing those familiar with equity roadshows will notice is the obvious difference in priorities. To fixed-income investors, the growth trajectory of the business is but a secondary consideration. What these investors are really after, and what new issuers need to focus on, is to be convinced that the company will be able to meet its repayment commitments whatever happens.

It will be hard work. Ryanair's own campaign, for example, comprised more than 30 one-on-one meetings and group presentations in eight different European cities in just four days. But the roadshow should not be taken lightly by anybody, especially new issuers. Investors will, of course, be able to obtain public information indicating the financial health of a rated company, but they will not yet know the business on a deeper, personal level.

So the roadshow is the company's big chance to impress, and the presenting team would be well advised to go as prepared as possible. "We always encourage debut borrowers to practise their roadshow thoroughly before they go on the road," says RBS's Maybury. "It won't necessarily go wrong if you don't, but we do feel it gives you a better chance of success."

In the current environment there is little doubt around whether you will get your money or not. What is at stake, however, is the pricing. Sometimes a good performance on the road can make all the difference when it comes to grabbing the intention of prospective investors. "On some road shows you see that the issuer is doing a great job of winning over investors," says Maybury. "On the other hand, sometimes you feel that they aren't generating the same level of enthusiasm."

## No time to lose

The last, but certainly not the least, thing for treasurers to note is to keep a watchful eye on market conditions. With experts agreeing that the favourable market conditions for corporate debt issuers are likely to continue through 2014, should a corporate considering a debt issue move now or wait for the market to move even further in their favour?

Most experts believe it would be unwise to delay. We saw last year how even a hint from the Federal Reserve of a reversal of accommodative monetary policy measures panicked markets and drove up yields on government, and by extension, corporate debt. With recent tensions in Crimea and ongoing conflicts in the Middle East, the geopolitical backdrop in 2014 is far from settled either. The longer a corporate waits, the more chance there is of an event producing a massive swing in government yields.

Until then though, conditions remain favourable, and corporates with the ability to tap the capital markets would be advised to continue taking advantage, even if the cash is not needed right now but somewhere further down the line. "I think we will continue to see more borrowers coming to the market. Investor appetite is very strong, and they are looking at opportunities they wouldn't have considered just a few years ago. Issuers can certainly feel very confident and, even if they have only a very small requirement, the bond market will be very keen to see them." ■

# Changing places

**Alex Koh**
Regional Treasurer Asia Pacific

WPP

With a career that began in computer auditing before shifting to banking, Alex Koh, Regional Treasurer Asia Pacific at WPP, has finally found his home in corporate treasury. Having sampled work in a number of different countries for a variety of businesses Koh is now focusing on supporting WPP's growth in Asia Pacific.

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*British multinational WPP is a truly global brand. It is the world's largest marketing communications services group with 3,000 offices, in 110 countries, offering services in advertising; media investment management; data investment management; public relations and public affairs; branding and identity; healthcare communications; direct, digital, promotion and relationship marketing and specialist communications. The group works with 351 of the Fortune Global 500, all 30 of the Dow Jones 30 and 69 of the NASDAQ 100.*

Change has been a strong feature in the life of Alex Koh. Currently in his second tenure as Regional Treasurer Asia Pacific, a role which he has held in total for over ten years, Koh has seen the business change considerably, as media services, digital marketing and big data have become increasingly important throughout the region. "The landscape has transformed in terms of advertising. Asia Pacific is a major growth engine and home to some of the world's largest consumer markets," says Koh. "Since I joined in 1998, WPP's Asia Pacific revenue has increased at least six fold."

The path to a career in corporate treasury is not always direct. This was certainly true for Koh. He began his working life wanting to be a systems analyst and taking a job at KPMG in London working as a computer auditor that was meant to provide the launch pad for this ambition. Twenty nine years later, his CV tells of a very different trajectory.

## All roads lead to treasury

Following five years at KPMG, Koh moved into the banking sector with UBS London as a Treasury Accountant with Group Finance before moving to Operations, where he headed the funding desk. It was here that he made his first foray into the world of corporate treasury. "I looked after the dispositions and cash management team across the corporate and investment bank, so I dealt a lot with banking operations which facilitated the move to treasury," he says. "After four years at UBS I moved back to Malaysia and after comparing opportunities in banking and corporate sectors, joined a nascent corporate treasury discipline within general finance."

It wasn't the career change which Koh thought would prove the most challenging, having already notched up some treasury experience. "After working in the UK for almost 10 years I thought I might struggle a bit in Malaysia due to the difference in work culture," he says. Being a Malaysia national these fears went unfounded. "I understood the cultural and personal relationship aspects, having also worked briefly for KPMG Malaysia, so was able to assimilate back in quickly."

Koh's first job in Malaysia was for Hong Leong, an owner-managed listed group, as Head of Finance and Treasury. This saw him responsible for all treasury matters related to the listed companies owned by Hong Leong. "In addition to the day-to-day treasury activities, I also reported to the chairman and acted as a face for the group, meeting potential investors and fund managers." A role which he admits was "unusual at the time."

Koh's next move saw him step from a patriarch-led business into a government-linked company, assuming the role of Group Treasurer at Sime Darby, which at the time was the largest conglomerate in Malaysia. "This role was very different to the one at Hong Leong," recalls Koh, "primarily because we were cash rich while Hong Leong had net debt". During his time at Sime Darby, Koh leveraged this position and established the group's first cash pool. From Sime Darby he moved on to take his first commission at WPP, heading up its regional treasury based in Hong Kong.

Despite making his mark at WPP, Koh was lured away by McKinsey where he became Director of Finance Asia. "I was very happy at WPP but McKinsey is a tremendous brand and it was a hard opportunity to turn down," he explains. But ever-mindful of a need to progress, and with a keen eye on moving to "where the action was happening," Koh departed McKinsey three years later to become CFO of China Real Estate Opportunities PLC, a UK AIM listed Irish property development and management company, in Shanghai. "I wanted to move to China for my career path and experience working there rather than having to look after China from other locations." Unfortunately this was at the time when the sub-prime led financial crisis took hold and private equity investors and bank financing departed the property sector.

To date, inspired by change, Koh has gathered a wealth of experience and skills and worked for a wide range of companies from owner managed to government linked, partnership and FTSE100 entities. "They are all very different with their own operating models, culture and people," he says. To navigate these differences Koh believes that treasurers need their own working model and reference points, which can be carried from one job to the next. "If you are able to adapt, it will be fine moving through different environments."

## Triple action treasury

Koh is now fully focused on supporting the growth of WPP in Asia Pacific where the regional treasury team has an important role to play as both a facilitator for the business networks to grow and also as a watchdog over what is happening across the region. With the WPP business networks on the ground servicing clients and developing innovative offerings throughout the region, it is the role of the treasury to support them and facilitate their ability to win new business. On the other hand the treasury team has to ensure that pursuit of revenue is carried out with stringent financial discipline, such as managing working capital efficiently. "We are both a friend and foe," jokes Koh.

Indeed, the management of liquidity and working capital is one of the primary challenges for the WPP treasury. "We have systems and processes in place which help to monitor what is happening on the ground," he says. "If there are any problems we are able to act quickly and communicate with the business teams to identify and address the issues."

"Due to the nature of the advertising business, we are constantly acquiring other businesses across the region," says Koh. "This is the third area which dominates our team's time." He admits that these deals can be challenging because of the myriad of regulatory constraints across the region. Some countries, for example, require regulatory approval before funds can enter the country and/or have requirements over the remittance process. "Obtaining approvals and managing the cashflows on completion can often be complex and time consuming, so we have to handhold the process, ensure all stakeholders are in the loop and communicate with them constantly – as it's only too easy to inadvertently commit to a timetable or completion process which may be impacted by factors beyond our control."

## The voice of treasury

To ensure that the regional treasury team is able to conduct these roles effectively, Koh spends a lot of his time communicating with the operating companies, understanding the challenges they are facing and how these can be overcome. "I am a great believer in teamwork and communication," says Koh. "It is not possible for the treasury to work in isolation. To be an effective treasury team we need to have a holistic view of the business and constantly communicate with the people who run it. Unless you make this effort and build up trust with the business so that they view treasury as a value added function, we cannot be effective." In his time at WPP Koh has worked hard to ensure that the treasury is seen by the wider business management as a knowledge centre which can be called upon when needed. "It is a two way street, we are there for them when they need us and in return they are happy to abide by parent company guidelines, it is a dynamic which works well."

It is not just the operating companies below which hear the voice of the treasury, the C-Suite above are also keen to know its performance and views. "The nature of our business is such that working capital metrics dominate the balance sheet and have significant impact on operating cashflows," says Koh. "The board takes a keen interest on treasury performance." The global head of treasury in London sits down regularly with the CEO, CFO and main board to give an update on treasury activity globally and discuss both operational and group corporate finance matters, thereby ensuring that the treasury aspect remains intertwined in the broader business strategy.

## Flexibility is key

The time zone differential within Asia Pacific, with up to seven and a half hours difference at the two extremes and a further adjustment to UK time means, that the Asia Pacific treasury team needs to be flexible in its working practices and hours.

"We can't work to set hours or lock the hours into a specific time zone. Our team recognises that and we do what is needed to fulfil our responsibilities," says Koh. "I am fortunate to work with a great team in the region who work hard and are committed. However I think anyone in a regional role faces a similar challenge and will be able to relate, but this is a requirement of the job."

## Technology

Unsurprisingly for a person with an active interest in the power of IT, technology plays a key role in the WPP treasury, with the focus being on achieving maximum control and efficiency. When dealing with operating companies, treasury is required to dive deep into the granular data of their balance sheets to build a clear picture of the working capital dynamics of theoperations, then identify and communicate any issues with the finance teams. This requires an effective ERP to capture and process the data, given the size and complexity of WPP.

"We are constantly exploring technology solutions to enhance efficiency or analytical effectiveness," says Koh. "The driver comes from a desire within the treasury to continually improve how data is gathered and used and technology is a powerful tool to achieve this."

Despite the technological developments, spreadsheets still play an important role in the treasury and for Koh are indispensable tools. "The finance community loves spreadsheets because of their versatility and ability to model, then slice and dice very quickly. The downside is security and lack of structure inherent in an ERP. Hence there needs to be happy medium between the two and over time a stabilised spreadsheet algorithm should migrate to the ERP," says Koh. "We deal with a lot of data and hence rely on technology tools to simplify and automate as much as possible."

## Regional banking

The theme of control runs through into the WPP banking operations as well. The relationship which the company has with its banks in Asia Pacific is something which has undergone transformation during Koh's time in charge of the regional treasury. Since 1998 WPP's bank accounts and partners across the region have been consolidated in order to obtain greater control and oversight.

For Koh, leaner banking partners also mean stronger relationships, which he believes is vital in such a diverse cultural and regulatory environment such as Asia Pacific where having the correct treasury-related information is a key.

The question is where can this information be obtained from? For Koh, "the key to unlocking the information lies with the banks." The focus again is on forming relationships and a two way flow of communication and trust. "We rely on our banks for their insight into regulatory developments in-country and also what is happening across the region, so we focussed on forming strong banking relationships and communicating our business requirements. The relationship managers should understand our business and value add by highlighting information and changes which impact our businesses.

"Despite the consolidation which has taken place, it is impossible to have just one banking partner across the region," admits Koh. "The reason for this is twofold, firstly the regulations across the region restrict the services which foreign banks can offer in certain countries. Secondly, in some markets local banks offer an extensive branch network which is a key requirement for our businesses which operate in remote locations or new markets where foreign banks don't have a footprint."

In terms of the services which banks offer and the prices charged for these Koh is of the belief that they can always be more competitive. "For me, it is about fairness," he says, "over the years there has been consolidated pressure from the treasury community on banks to lower their fees and I believe that pricing is becoming more reasonable." However, things can change quickly. "With the global liquidity market tightening and Basel III regulations beginning to take hold, banks are increasing the price of liquidity and evaluating relationships holistically."

## A changing world

Koh, like many in the region, cited the usual suspects of trapped cash, regulatory complexity and currency volatility, when asked about the challenges faced. However Koh is acutely aware that something new is often waiting around the corner. "The biggest fear is that the world will dramatically change again, just as it did in 2007/8, and the countries in the region which were opening up and relaxing their foreign exchange controls reverse this trend," he says. "A situation where the market suddenly panics and causes chaos is almost impossible to predict accurately and is an ever present black swan."

To ensure that the WPP treasury are prepared for any new challenges which are around the corner Koh ensures that it does not stand still. "We are constantly looking at what we can do better and how," says Koh, "it is a process of constant improvement because everything is changing." Actions reflect Koh's philosophical view to this challenge. "Ultimately we can't control the changes in the environment which we work in, but we can anticipate them and plan our response to ensure that we remain in control."

Koh sees treasury as a profession which will continue to grow and become an increasingly important value add function to the business. And when asked how he would sell the role of the treasury to the rest of the world he responded – "imagine a world without risk – if you can't, then welcome to the treasury profession." Not a bad marketing slogan for the industry. ■

# Rethinking connectivity

*Tackling the key themes of integration, security, and mobility, this workshop, held at BNP Paribas' 7th Cash Management University in Paris, analysed the latest trends – and challenges – around corporate connectivity. Where should treasurers be focusing their attention and budget? Which technologies are game changers and which are simply gimmicks?*

The role of the treasurer is becoming increasingly complex and the tasks that treasury professionals perform on a daily basis are now far more sophisticated than ten, or even five, years ago. In turn, this evolving remit calls for technological innovation which will support treasurers to complete their day-to-day tasks, while simultaneously adding value to the wider business.

One such innovation is cloud computing. According to an informative presentation given during this workshop by Marcus Hughes, Director Business Development at Bottomline Technologies, cloud computing is now more important than ever. There are several significant drivers for this, he believes, such as the fact that many banks are reducing their cross-border lending, or deleveraging, and reducing their international networks as a result of Basel III, or in some cases, political pressure.

An unintended consequence of this banking 'de-globalisation' is that corporates will need even more banking partners to achieve global coverage, noted Hughes. This could exacerbate a longstanding problem for many corporates: too many smart cards and tokens for connecting with multiple banks, using different standards and different file formats. This situation could quickly become quite a headache to control and a major security risk, he said.

Little surprise then that more and more corporates are looking to use bank-agnostic SWIFT connectivity services – largely through the use of a SWIFT bureau. And as Hughes pointed out, SWIFT service bureaux were created originally to provide secure connectivity to SWIFT but now the best bureaux offer much than just connectivity: cloud-based applications for payment factories, SEPA DD mandate management, reconciliation, data transformation, compliance, cash forecasting, sweeping and pooling.

## Regulatory pressure

In addition to de-globalisation, banks are also becoming more selective about which companies they lend to and at what price – again as a result of Basel III. The types of deposit that banks will take is also coming under greater scrutiny since the new Liquidity Coverage and Net Stable Funding Ratios mean that retail deposits are more attractive than corporate deposits, unless they are operational balances as part of cash management services, or unless the deposits are committed to the banks for longer periods. This is precisely why, Hughes explained, efficient cash forecasting, sweeping and pooling arrangements are going to be even more valuable to avoid unnecessary overdrafts and optimise interest.

To meet these requirements, and the added burden of regulations such as the European Market Infrastructure Regulation (EMIR), it is important for corporate treasurers to find a multi-channel platform which is adaptable, scalable, secure, resilient, proven and flexible. And increasingly, noted Hughes, these platforms are in the cloud, offering connectivity to multiple banks and multiple networks and a stack of software applications.

In short, with the arrival of cloud computing, corporates need to think not just about connectivity, but about 'connectivity plus' – in other words, accessing value add software applications, hosted in the cloud.

## Cloud computing in practice

During the session, Hughes also provided a detailed case study on Scor, the French re-insurance group, a customer of Bottomline's teams in France and Switzerland. The company was looking to migrate from ETEBAC to SEPA and was also tasked with a number of strategic decisions around multi-bank connectivity and security. It was looking for a smart solution to solve its multiple operational and strategic challenges in one – it approached Bottomline.

Today, Scor achieves secure and resilient connectivity with multiple banks and counterparties internationally by outsourcing to Bottomline's SWIFT service bureau in Geneva, using GTExchange multi-network interface. Scor also uses SWIFT's 3SKey to approve and authenticate outgoing messages. This is a single token to securely authenticate and approve transactions with multiple banks, using multiple channels, such as SWIFT and banks' own e-banking platforms. 3SKey uses PKI and ensures a clear audit trail of who has approved a transaction. This, Hughes explained, is additional security on top of a SWIFT BIC which indicates which legal entity initiated a transaction.

In addition, Scor has automated data transformation of legacy formats into and from ISO 20022, to comply with SEPA and other message types using XML, which improves STP. For this, Scor uses BT's GTFrame data transformation solution. Conducting all the data transformation on one platform means that Scor does not need to update its formats in different platforms; instead they simply update once for all their systems. Elsewhere, the company also uses Bottomline's enterprise reconciliation solution GTMatch, which reconciles payments, bank statements, FX and MM transactions, as well as statements of securities holding.

The benefits of these solutions are wide and varied, but centre around cost reduction, risk mitigation and flexibility:


*Source: Rethinking connectivity, BNP Paribas. BNP Paribas Cash Management University, Marcus Hughes, Director of Business Development, Bottomline Technologies*

## Technology for excellence

Another company that has reaped significant benefits from an overhaul of its treasury technology is Valeo, one of the world's leading automotive suppliers. The so-called TOTEM (Tools for Treasury Excellence in cash Management) project was led by Thierry Hamon, the company's Treasury Controller. With more than 100 treasury staff and 600 signatories spread across 26 countries and four continents, 60 ERP systems, numerous payroll systems, and more than ten bank groups, the group's connectivity challenges were manifold – and something had to change.

The graphic opposite illustrates the sheer scope of the project, and highlights how the challenges were overcome – primarily through the integration a software-as-a-service platform and the implementation of SWIFT connectivity.

As Hamon outlined, the all-in-one Saas platform offers the company a number of benefits, including: automatic forecasts after payments; integrated reporting statements and automatic controls over bank details. The core treasury team manages user access and profiles for the platform, meaning that they can be updated as and when necessary, with no delay.

In addition to the platform, the implementation of a centralised database with secure web access means that updates, disaster recovery planning and backups are no longer the treasury function's responsibility. Also, multiple treasury staff can access the database simultaneously. And due to the cloud nature of the solution, payments validation is now both mobile and flexible.

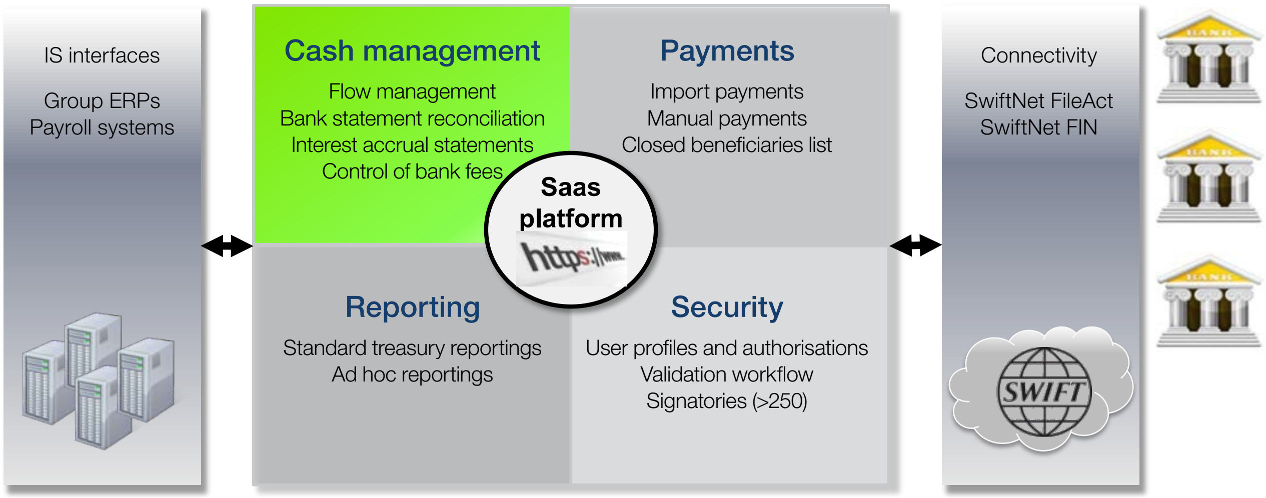
Moreover, having a standard technology tool worldwide has led to better communication amongst treasurers and more reliable treasury reporting at Valeo. Benchmarking of best practices has also become far simpler with the new set-up, according to Hamon.

## Lessons learnt

But, of course, garnering the benefits of the TOTEM project meant overcoming a number of hurdles along the way – and these provide interesting learning points for the wider treasury community. Take, for example, the fact that XML is not actually standardised. As Marie Laurence-Faure, Head of Marketing Product Channels at BNP Paribas explained during the connectivity workshop, despite XML being a standard in its own right, there are often small differences in fields and options at a national level and SEPA XML is a good example here. Certain banks may also use XML differently.

**TOTEM project: scope**

**Key modules**




*Source: Valeo*

To mitigate any such confusion or complications caused by potential XML inconsistencies, Hamon had consultants lead a workshop with all of his banking partners to get them on the same page. Other key lessons Hamon learned from the TOTEM project included the need to have: a single named point of contact at each bank, as well as one SWIFT SCORE contract by bank; a strong co-ordination plan to ensure all stakeholders are involved and on-board; and a rigorous testing programme with local experts to ensure all local specificities are covered and that the set-up works in all environments.

With a limited budget and timescale to implement TOTEM, Hamon also explained that success was ultimately dependent upon his team remaining focused solely on the defined scope of the project.

## Security is paramount

Additional advice given by Hamon during the session centred largely around improving security in treasury systems. He suggested four key action points:

1. **Control your data**. This not only means protection through means of firewalls but the activation of automatic controls in the ERP.
2. **Secure your workflow**. Segregation of duties will be vital here, as will internal controls.
3. **Connectivity**. Use the robustness of the SWIFT network to improve reliability. Where possible, remove any unnecessary actors from the connectivity loop.
4. **Define service level agreements**. This is particularly important for the TMS. Pinpoint where backups will be hosted. Outline expected levels of response time when problems arise. Ensure you have a 24/7 hotline number for all regions – and that the necessary languages are spoken by hotline staff.

Going forward, Hamon's team will be investigating 3SKey as a means to further improve its security processes.

## The future of connectivity

According to BNP Paribas' Faure, mobile technology will continue to gain traction in the corporate treasury field. And this will stretch beyond simple payments verification to wider cash management tasks, as well as treasury-related information. To illustrate this point, Faure explained that the new Cash Management Atlas app from BNP Paribas provides comprehensive cash management information on 48 countries globally. This includes information on permitted pooling techniques, payment and cash management instruments in use, clearing systems, the tax and regulatory environment, and local market practices.

Other connectivity innovations that will positively impact the treasury landscape in the near future include the ongoing development of additional bank-agnostic messaging systems, such as SAP's financial services network (FSN). While the panel felt that the SAP's FSN would not present a threat to SWIFT as such, the development of FSN was widely viewed as beneficial for corporates and banks alike.

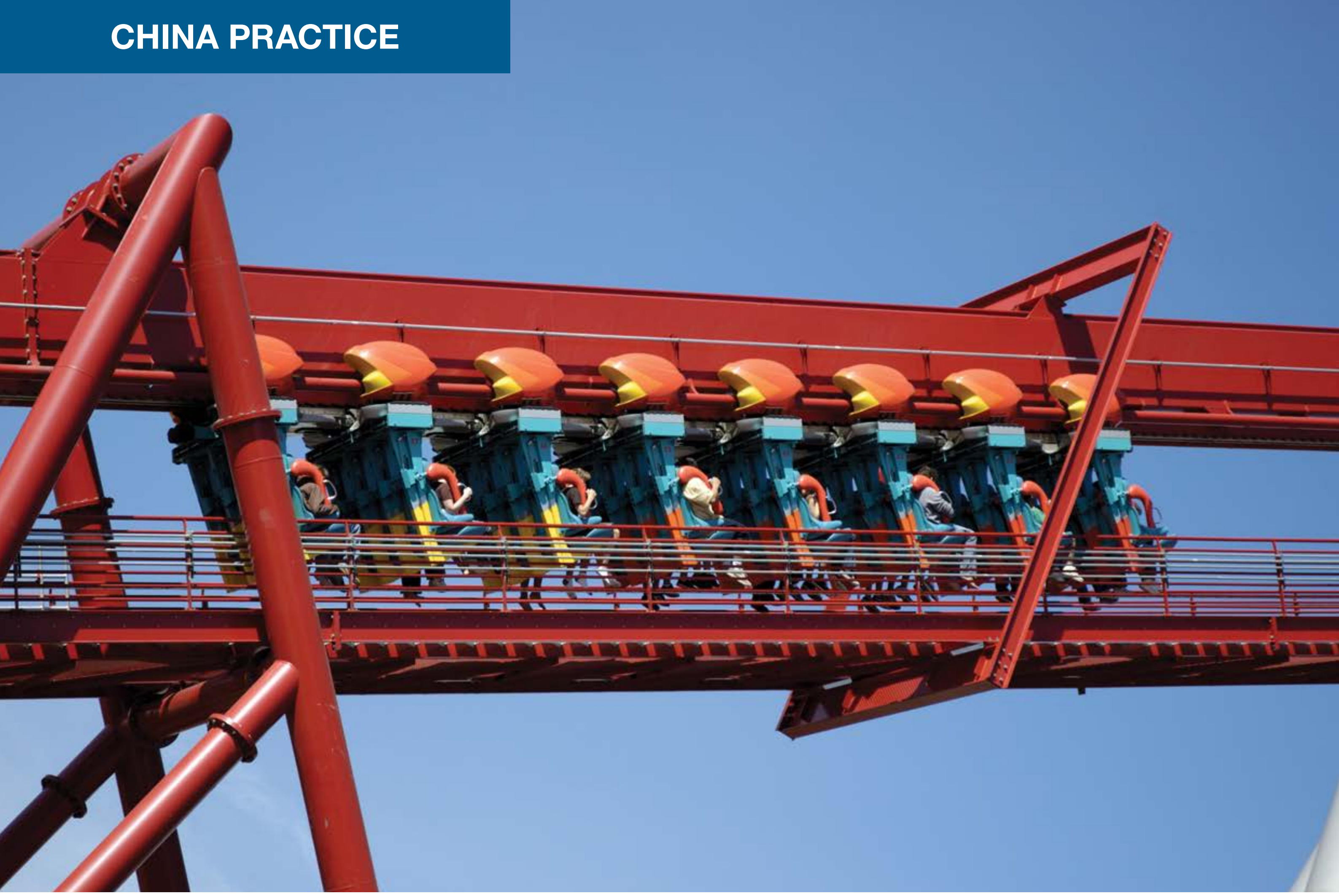
Additional key connectivity trends identified by the panel included the outsourcing of activities to banks or vendors. Where companies recognise that they do not have the necessary expertise in-house, there is a growing move towards leveraging strategic business partnerships to provide specialist knowledge or services, said Faure. This might range from reconciliation services to data transformation. Citing an example here, Hughes noted that to overcome the issue of 'local flavours' of SEPA corporates can use solution providers, especially SWIFT service bureaux, to act as hubs connecting them with their banks and providing data transformation services to ensure STP.

Elsewhere, for Hughes, the emerging use of predictive analytics in improving the accuracy of cloud-based cash forecasting is another development to watch. He also drew attention to the adoption of payment sanction filtering by corporates. While banks retain ultimate regulatory responsibility for AML, he explained, corporates are starting to see the benefit of screening their payment instructions before submission to banks, thereby reducing the number of false positives that banks have to handle and minimising any reputational risk issues for their own entity.

Faure, on the other hand, highlighted reconciliations as a significant area of connectivity focus in the immediate future. The ultimate goal of straight through reconciliation, she said, will require deep, process-level, integration between corporate clients and their banks – but the continued move towards treasury centralisation should help to foster this. Virtual account solutions will also help to smooth the path towards automated reconciliation, helping to eliminate errors and reduce the need for manual intervention.

Finally, Hamon brought the session to a close with some simple yet powerful advice for his fellow treasurers: strive for continuous improvement. No matter how good your connectivity set-up is, he said, there will always be room for improvement – and that is what makes it so very interesting.


*(Left to right) Marcus Hughes, Bottomline, Marie Laurence-Faure, BNP Paribas, Thierry Hamon, Valeo, Eleanor Hill, Editorial Director, Treasury Today*



# A new 'superhighway' for RMB payments

*Payments and settlement systems in China are changing. With the imminent arrival of the Chinese International Payment System (CIPS) and the second generation of the Chinese National Advanced Payment System (CNAPS), experts believe that the infrastructure necessary for the renminbi to become a fully-fledged global currency will finally be in place. What advantages will this brand-new payments landscape bring for corporates on the ground?*

There is no doubt that the Chinese renminbi is on its way to becoming a major global currency. While the authorities in Beijing continue to liberalise the regulation controlling the flow of currency in and out of the country, the redback has risen (according to SWIFT data) to become the seventh most-used currency in the world in goods and services payments, overtaking 22 currencies in the past three years. Just two years ago, RMB-settled trade only accounted for 1% of China's trade. Now it accounts for around 10%.

Clearly, RMB is becoming increasingly important: both to China's international trade ambitions and the rest of the world's trade ambitions with China. The growing expectation is that the currency will soon be able to attain the status, currently enjoyed by the US dollar, as the world's reserve currency. However, there is one thing that the renminbi lacks compared with the dollar and other major currencies: a quality payments system in line with established international standards.

"Now that RMB has consolidated its position as a globally used currency, we expect the industry's attention to shift to discussions on the best architecture for RMB cross-border transactions so the market can reach levels of operational efficiency, risk and liquidity management on par with other globally traded currencies," Franck de Praetere, Head of Payments and Trade Markets, Asia Pacific, at SWIFT said in a statement earlier this year.

Prataere makes a good point. At present, multinationals trading cross-border with onshore Chinese entities face a number of challenges resulting from the poor efficiency associated with the country's current patchwork of local payments systems. The root of the problem was that the current systems require a lot of manual intervention at nearly every stage of a transaction. For example, when a Chinese business sells something to an offshore entity, the name of the Chinese seller has to be converted into four-digit codes supported by ISO 20022 and then back to Chinese again for processing. While most global transaction banks use international messaging standards, one-to-one comparisons were not possible under the original CNAPS infrastructure. In addition there are also a host of difficulties in processing non-Latin characters in international transactions and, for European counterparties, the delays caused by time zone differences. With shortcomings such as these it is perhaps no surprise that businesses complain of the price of transactions in China and the time it takes to process them.

The Chinese authorities, aware of these challenges, now realise that the renminbi will never reach the status of an international currency unless the payments infrastructure in China is overhauled. That, it seems, is the rationale behind the plan to introduce the Chinese International Payments System (CIPS), announced by the People's Bank of China (PBoC) in April 2012, and the Chinese National Payment System, 'Mark II'.

## Getting to grips with CIPS

Let's begin with CIPS. The proposed payment infrastructure has four key elements, each of which should help to make trading renminbi in and out of China more efficient. First and foremost, the new system will provide a renminbi clearing and settlement network that's fully integrated with the onshore financial system (see Chart 1), thereby enabling cross-border RMB clearing among both onshore and offshore participants. Secondly, the system will be multilingual and apply international reporting standards. Thirdly, it will be able to handle payments across a total of 17 different time zones across every continent simultaneously. And finally, it will run on SWIFT ISO 20022 XML standards, which will allow for optimal mapping between SWIFT message formats and the various CNAPS message formats.

CIPS was originally scheduled for roll-out in 2014; however, the project has been beset by both technological challenges and policy disagreements over how much currency users should be allowed to move in a single day, without undermining the country's strict capital controls. As such, the roll-out is not expected to arrive on the market before 2016 at the earliest.

"China has been investing tremendous efforts on country clearing infrastructure. Thus we don't foresee any critical issue to launch the system," says Cathy Dou, Head of Global Transaction Services, China at Bank of America Merrill Lynch (BofA Merrill). "A phased approach may be adopted considering the large geography and complex situation, but we believe the new system will run smoothly when it is eventually launched, based on past experience of successful CNAPS and BEPS implementation."

## The new CNAPS

In the meantime, the PBoC will be focusing its attention on completing the migration of its domestic payment system to the second generation of CNAPS, which it began piloting back in 2010. Like CIPS, the launch is already behind schedule, having been announced for roll-out in 2012. The latest information suggests that it will be fully operational at some point in 2014, although there remains a lack of clarity over the exact timing.

"It will not be a 'big bang'," Frankie Au, Head of RMB Products, Transaction Banking at Standard Chartered told Treasury Today. "I think over the course of the next year we will see some banks in China begin migrating to the platform. But it will still take some time for the market to get used to the second generation of the platform."

While CIPS will cater specifically for international transactions, the focus of the next generation of CNAPS will be on improving the infrastructure around the onshore use of renminbi. Development of the original CNAPS began back in the early 1990s but was not launched until 2005. CNAPS, a central bank-operated RMB clearing system, was designed to modernise the domestic payment system in China, handling both bulk electronic payments and large-value fund transfers. Unlike the various systems it replaced, CNAPS did not differentiate between intra- and inter-bank payments, local or national, and enabled an integrated national payments structure providing same-day settlements.

However, CNAPS's design was, naturally, influenced by the realities and demands of the Chinese economy at that time and, as might be expected in a market changing at such a rapid pace, new demands and realities began to emerge almost as soon as the system became operational. For all its advantages over the systems it replaced, the first generation CNAPS suffers, amongst other things, from a lack of reliable data and information transparency. In order to address these concerns, the PBoC began work on an upgrade in 2010.

Enhancements to the functionality and security level of the existing system will be key features of the new system in development. In addition, CNAPS 2 will, like the forthcoming CIPS infrastructure, introduce ISO 20022-based standards and formats that will support a larger number of transaction types. Once the system has been fully rolled out the hope – or indeed expectation – is that, with a broader number of transaction types supported, banks will be able to greatly enhance the cash management services they provide to corporates.

## STP at last?

So when it does finally arrive what exactly will the arrival of CIPS and CNAPS 2 mean for corporates in China or those offshore but trading with onshore Chinese entities? The hope is that the introduction of a system running on ISO 20022 – which can support an unlimited number of character sets – will eliminate the need for manual intervention and allow corporates in the region to finally achieve end-to-end straight through processing (STP) on their renminbi transactions.

This hope may, however, be misplaced – at least for the immediate future. Unfortunately, before the transactions can be settled, banks will be required to add codes detailing its purposes.

## Offshore hubs and the RMB superhighway

While we have been waiting for the PBoC to announce that the new systems are fully operational, other new solutions for international RMB clearing have arrived on the market. In the past year, we have seen the establishment of a host of RMB 'clearing hubs' in Europe, as cities such as London, Frankfurt, Paris and Luxembourg compete for a share of the growing volume of RMB-denominated transactions.

Thanks to the development of these clearing hubs, companies in Europe will no longer need to route RMB payments via other financial centres, a development which should, at least hypothetically, mean lower costs when transacting with Chinese onshore counterparties. Also, with the hubs addressing Europe's time zone disadvantage, the settlement process itself should be much more expedient.

Cheaper and faster payments are something corporates will surely embrace with open arms. Of course, as good as all this sounds, it does raise questions as to the future of the offshore clearing centres that have sprung up in nearly every corner of the world in the past few years. After all, with a direct link between the onshore market and the rest of the world, will these centres not become obsolete?

"For offshore banks, CIPS will allow them to access the RMB clearing system directly, engage in inter-bank clearing nationwide and transact inter-bank bond transactions real-time with counterparties. Therefore, for China's big clearing banks, and RMB offshore centres like Singapore, CIPS might impact their privileged position," says BofA Merrill's Dou.

Others, however, believe CIPS will mostly complement, rather than replace the offshore centres. They say that rather than thinking of CIPS as a replacement, one should look at it as a 'superhighway' connecting these dispersed hubs, and fast-tracking their transactions back to the onshore market. To take the analogy a little further, just because a government has built a superhighway to speed up transportation between cities, doesn't mean that the roads within the cities are now suddenly no longer needed.

Each of the markets in which offshore clearing hubs have been established have their own specialisation and should continue to attract a share of the global renminbi business. "In international payments and transactions the role of common global standards is very important in supporting the development of the RMB currency internationally. But CIPS doesn't necessarily take away the need for having some of the offshore centres as well," says Michael Moon, Head of Payments and RMB, Asia Pacific at SWIFT.

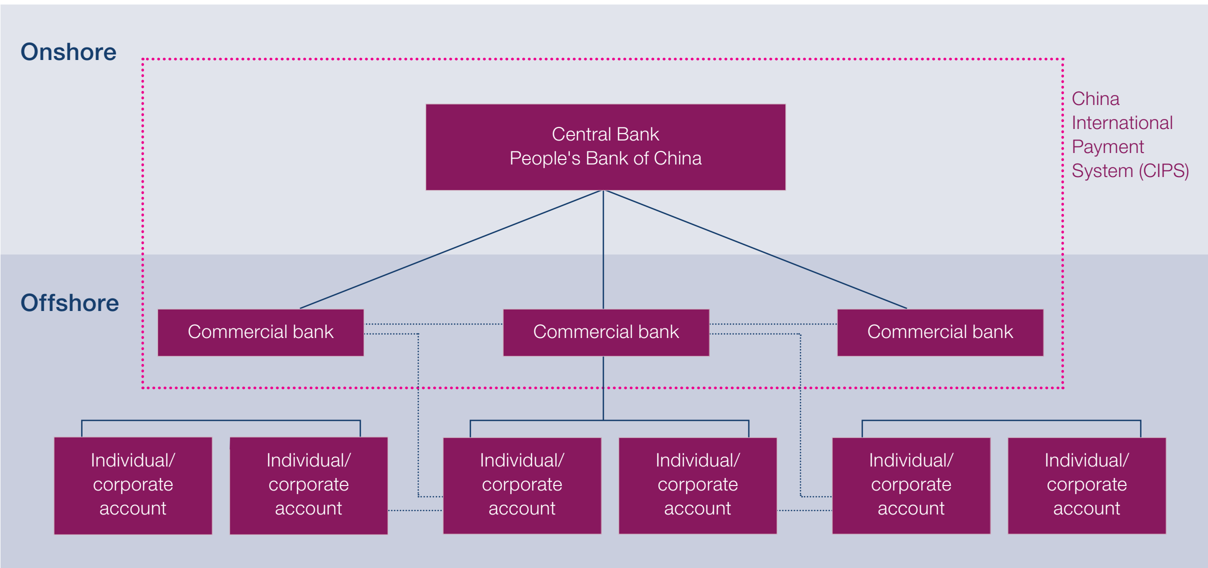
Singapore, for example, seems like a natural hub for South East Asia. France, similarly, is an important player in a number of the African markets that have become valuable trading partners of China's in recent years. There will also be opportunities, he adds, to get involved in different types of transactions – such as securities – besides plain vanilla payments. "That way they can move up the value chain as well. There is plenty of room in the RMB market for different types of services and infrastructure," Moon adds.

## Redback released

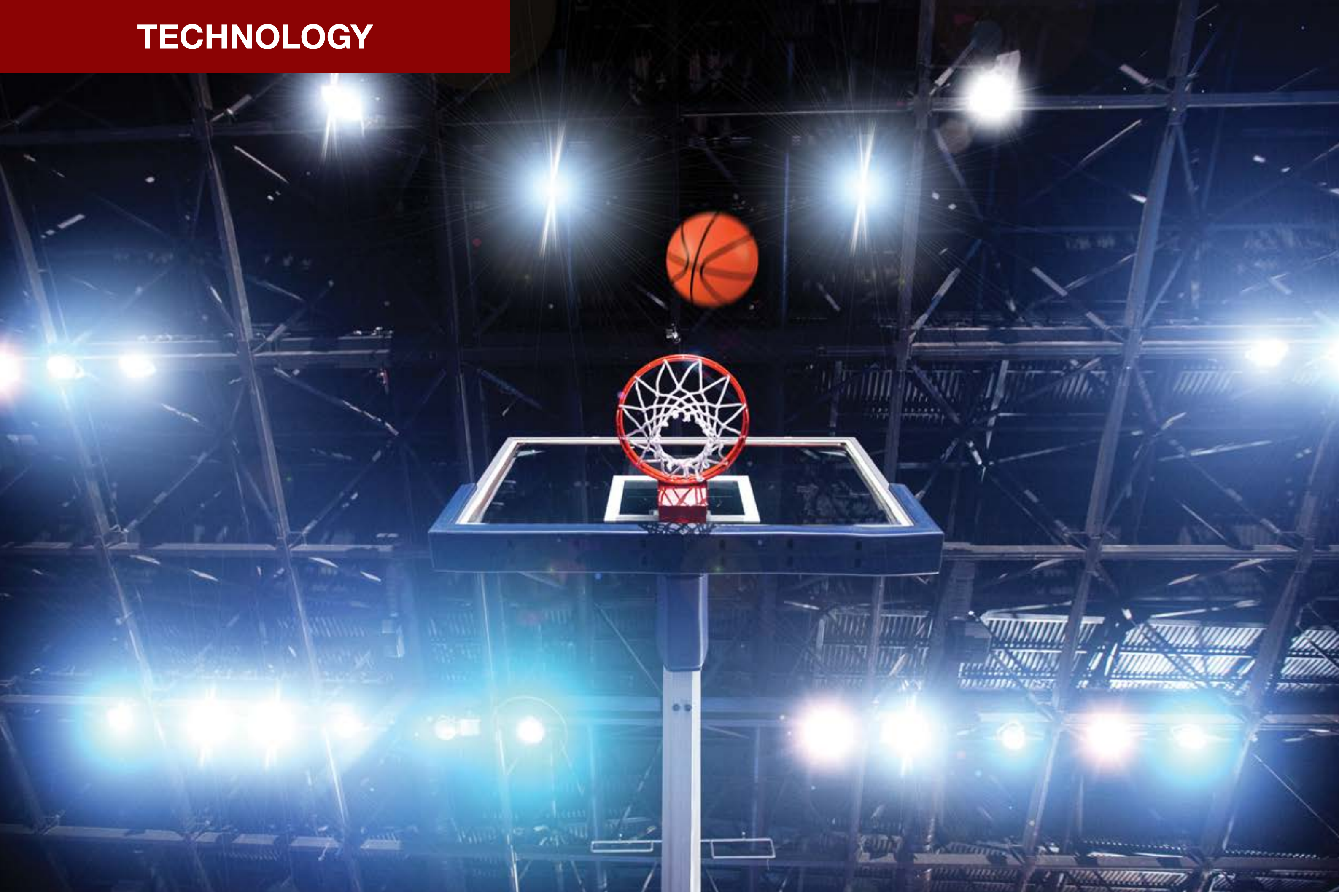
Evidently, the CIPS and CNAPS 2 payments systems are developments that corporates and transaction bankers have high hopes for. China does, of course, have a bit of a patchy record when it comes to big infrastructural changes such as these. To expect that things are going to change overnight may, then, be a little over-optimistic.

But once the PBoC eventually manages to get the new systems in place and fully functioning without any hiccups, there is every reason to believe it will mark the start of a new era with RMB, by then, well on its way to becoming the global reserve currency so many experts have prophesied it will be. ■

### Chart 1: The future – offshore RMB settled directly with PBOC




*Source: Aite Group 2014*



# What's the SCORE?

*SWIFT has been handling financial messages since 1977 but it took another 24 years before it was in a position to announce the availability of corporate access to its network. The bulk of its 1,300 corporate members signed up since 2001 still originate in Europe and the US, so what is happening in the Asian markets?*

As the messaging service provider for most of the systemically important payment and securities clearing systems in the world, SWIFT is what is known as a 'critical financial market infrastructure'. It would be reasonable to view the global corporate community as a major player within that system and yet back in 2007, at SWIFT's own Sibos event, the assembled stakeholders were informed that business users were not necessarily feeling part of the process.

At the event, held that year in Boston, the then Virgin Atlantic Group Treasurer, Alex Harris (now at Al Muhaidib Group in Saudi Arabia), commented in a plenary session that while it was recognised SWIFT had made progress in "lowering the barriers to entry", the corporate access model was "weighted heavily in favour of the very large multinationals". Furthermore, banks were regarded as "reacting very slowly, especially to the needs of mid-market firms".

Harris certainly had a point: the few corporates that were interested in accessing SWIFT directly had to sign up to the cumbersome Member-Administered Closed User Group (MA-CUG) model and only the major multinationals could justify the effort and expense. However, since the introduction in 2004 of SWIFT's single closed user group, Standardised Corporate Environment (SCORE), corporates have been able to use transaction banking functionality via the network, communicating with any bank that is part of their group. Whilst SCORE promised to ease much of the MA-CUG pain, it has been apparent that not all banks know about or wish to subscribe to SCORE. This in part has limited the usefulness of corporate membership.

With the growth of the emerging markets, particularly in Asia Pacific, the issue of awareness and access may be about to change for the better and Joan Lee, Director of Corporate

Markets, Asia Pacific, for SWIFT says the industry cooperative is on the case.

## Asia in sight

In 2007, SWIFT had started rolling out its corporate access model in Asia. Having matured its operations in North America and Europe, it had been considering how it would attract more interest from the emerging markets, being particularly mindful of the growing number of businesses making their entry into Asia Pacific. It set its sights on the region, prioritising China, Japan and Korea, Singapore and Hong Kong, followed by India, ASEAN and Oceania.

But it was not just the mega-corporations that were reaching into the region. Smaller businesses from outside were keen to take advantage of the vibrancy of the commercial environment. Driven in part by a 'customer-centric' operational model, many were setting up shop closer to their clients or, if they were large companies, establishing regional treasury and shared services centres. Home-grown enterprises too were seeking a greater slice of the commercial action both domestically and overseas. By launching its 'user-friendly' corporate access programme in Asia Pacific, SWIFT was effectively "moving with the trend for customer-centricity", notes Lee. With so many mid-sized businesses and regional banks located there, this was also a timely response to the criticism that it was an exclusive club for multinationals.

Whilst the level of uptake by corporates globally has now reached about 1,300, representing about 30,000 entities in total, the figure for Asia Pacific has edged past its first century-milestone and is currently heading towards 130. "With greater brand awareness and bank support we do believe this number will rapidly and exponentially rise," states Lee.

## Getting connected

Generating interest to fulfil this belief has seen Lee and the corporate sales team use a multi-pronged marketing approach that in the first instance exploits its obvious relationship with the banking community – bank referrals are important, she says. Naturally, SWIFT must call upon its own knowledge and understanding, working directly with industry bodies and financial communities in Asia Pacific, with the anticipation that, as the number of corporates increases, word-of-mouth will also play its part in driving growth. But SWIFT is keen to work closely with its industry partners such as application vendors and ASP partners, whether these are positioned globally, regionally or domestically; the latter two, notes Lee, are typically able to offer essential experience and knowledge of local market practices and conditions. Some of these markets – Japan, China and Korea in particular – have unique needs in legal and regulatory terms and local partners are in fact essential to facilitate SWIFT's progress, she says.

An increasingly favoured SWIFT access route in Europe – particularly for smaller companies – is via a service bureau. It is worth noting here that of those corporates currently accessing the programme in Asia Pacific, few are using this route. "It can be used but it is generally less of a workable solution due to widely varying regulatory, compliance and technical requirements," explains Lee. Although service bureaux are operating in jurisdictions such as Singapore and Hong Kong, the entry-model of choice across the region tends to be what she calls a "partnership total solution". This means the major technology vendors – such as the ERP and TMS providers – offer a "connecting bridge" between SWIFT and the corporate's own technology infrastructure. "A lot of vendors work very closely with us to extend their solutions; being able to penetrate this market provides them with a competitive edge. We just have to be conscious of the best business model to serve the customer base."

Amongst the relevant technology firms, such as the SWIFT-certified vendors (those whose products reach a certain operational and functional standard as laid down by SWIFT), there are a few that are truly global (such a SAP and Oracle). Lee notes that a rising number of international application vendors, especially those with a strong presence in North America or Europe, are seeking closer alliance with SWIFT to facilitate their move further into Asia Pacific. Some local partners tend to focus on their own niche territories simply because the diversity of regulatory environments and customer-segment needs is generally too broad for these vendors to tackle, especially where complex markets such as Japan, China and Korea are concerned. "We have not seen one vendor that can meet the needs of the whole region," she comments.

There is clearly a market opening for a local vendor capable of bridging that gap. In the meantime, in the interests of meeting local peculiarities, SWIFT is working with a small number of domestic vendors in each of these countries, encouraging a "proactive approach" to product development. SWIFT's Asian market partnership model is not restricted to application vendors. Consultancy practices, including the 'Big Four' are very much included in the programme, working with SWIFT and providing recommendations to their customers.

## Getting in focus

The programme to raise brand awareness and sign new corporate members in Asia Pacific is precisely targeted; Lee confirming that China, Japan and Korea are indeed the strategic focus. As might be expected, Singapore and Hong Kong with their regional status as preferred sites for regional treasury centres are equally placed in that hierarchy. SWIFT is also eyeing Malaysia and the Philippines in light of the number of up-and-coming shared services centres here; these being promoted vigorously by their respective regulatory and central bank authorities. The current strategic focus, Lee insists, is not being implemented to the exclusion of the other countries in Asia Pacific. Indeed, as SWIFT's operation in the region progresses the net will be cast ever-wider. It already has a sales presence in Australia, India, Japan, Korea, China, Hong Kong) and Singapore, whilst the other ASEAN countries are also now firmly on the SWIFT radar.

The total number of corporates on board today is within the realms of SWIFT's expectation, states Lee. "There is a five-year plan which is reviewed annually. We are moving at a reasonable pace and year-on-year we are seeing around 50% growth in terms of corporate targets," she adds. "Brand awareness is critical for SWIFT but is something that is lacking in the Asia Pacific region, even in the regional and domestic banking communities."

## Raising awareness

The entire region presents as a "dynamic and exciting" market place, with diverse social and business cultures using multiple currencies and languages. SWIFT has been in Asia Pacific for more than 30 years and understands the need to raise brand awareness but the sheer diversity of the region is simultaneously a benefit and hindrance. For SWIFT's awareness campaign, placing teams in each and every country is not feasible. However, by taking a more creative approach and using its partners to drive home the message, SWIFT is able to overcome such limitations.

For example, SWIFT works "proactively" with the banks and partners – using educational events, seminars, speaking opportunities and so on – to generate awareness amongst the relationship managers. Industry and trade associations are frequently co-opted to reach their members and help create greater awareness at both regional and country levels. "From there we will drive greater awareness amongst the customers," states Lee. SWIFT also works to bring the financial community together, through various user groups and working groups, operating collaboratively to shape market practice, define standards and debate issues of mutual interest.

## The right products

The SWIFT for corporates offering has grown in recent years, developing from its core messaging service to include a broad suite of corporate solutions covering payments, treasury, trade and supply chain. Lee notes that the Asia Pacific market is still developing at the emerging phase, "where corporates have started to see the importance and greater need for global cash visibility and management". Therefore, many Asia Pacific corporates are actively looking for cash and treasury management solutions to achieve greater operational process efficiency, risk mitigation and cost efficiency. For some users, they are looking beyond cost and treasury management to other services such as eBAM, SWIFTRef, 3SKey and Accord.

"In Asia Pacific, adoption is not solely a top down process," Lee adds. "It requires a lot of effort to reach out to the banking community and for the corporate decision makers to accept these products."

## Taking advice

"The strategic approach for us now is to focus on the core needs of customers," says Lee. "We want to correct the perception held by some Asia Pacific corporates that SWIFT does not have products for businesses with basic requirements." This is why SWIFT now has a variety of 'on-boarding' packages to more closely match corporate usage. The large corporate presence in multiple countries, working with multiple banks and accounts, will typically require a host-to-host service. "This is where our Alliance Access and Alliance Entry messaging interfaces come into the picture," she says. Alliance Access is targeted at medium to high-volume users, whereas Alliance Entry is the version aimed at customers exchanging a maximum 1,000 files and messages a day; this may still prove too costly for some to justify. For customers with even less complex usage requirements, SWIFT offers the scaled back web-based Alliance Lite2 entry-level connectivity solution (Alliance Lite was introduced in 2008 and Lite2 arrived in 2012, claiming to further simplify on-boarding and reduce cost).

## Getting involved

Within the SWIFT corporate family, some of the larger firms in the region are members of the Common Global Implementation initiative (CGI). This is a global collaboration between banks, corporates, vendors and payments institutions which, since 2009, have been seeking message harmonisation in the cash management sector. In Asia Pacific, Lee reports that its membership includes major corporates such as Huawei and China Railway Group Limited in China. It also has support from several global treasury centres in Singapore, including that of medical assistance organisation International SOS, and some of the larger regional corporates in ASEAN which are preparing treasury centres in their own countries and are primarily interested in the core cash management and treasury reporting services from SWIFT.

As an example of the latter, China National Offshore Oil Corporation (CNOOC), the largest offshore oil and gas producer in China, was one of the first state-owned enterprises to introduce advanced cash and treasury management technology and processes, including multibank connectivity through SWIFT. "We are very pleased with the benefits we get from using SWIFT," Huang Yi, Treasury Supervisor at CNOOC told Treasury Today. Now with a single, secure and standardised messaging platform he says the whole process is straight through, "bringing us greater efficiency while reducing costs and risks". He sees CNOOC's progress to date in this space as a "significant milestone as we continue to strengthen business operations in achieving our aggressive growth plans".

Stemming from the desire to harmonise processes, and perhaps the key to progress for many users, is the adoption of ISO 20022 and MX standard for financial services messaging. As an alternative to the existing and more insular SWIFT FIN format, ISO 20022 (which has been adopted by many other financial services providers such as ISDA, FIX and Omgeo) uses the relatively simple XML format to encode documents. XML, being based on Unicode characters, allows it to express just about all of the world's writing systems, meeting the needs of the global financial services industry and its customers.

"This is an initiative that both the banking and corporate communities should look into," says Lee. "It facilitates operational efficiencies and eases process and integration costs." That said, she feels uptake has faced "some challenges", perhaps because of the general level of awareness of SWIFT services but also perhaps because of a general regional tendency not to be the first to adopt but instead to 'wait and see'. "This is the consensus we are picking up on the ground so we need to share more information about the benefits of ISO 20022."

## Spreading the word

That SWIFT is now offering a number of services and products aimed directly at corporates of all sizes – but especially those that are multi-banked – is proof that it is trying to lower the barriers to entry and that its options for access are no longer weighted heavily in favour of the very large multinationals. The slow but steady level of uptake of SWIFT corporate services in Asia Pacific is more a symptom of the level of awareness than a lack of suitable products. As is the case across the globe, SWIFT membership is not appropriate for every business, but Lee is certain that if the level of understanding and knowledge is communicated at the right levels within the banks and the wider financial services industry, the interest of the corporate community is practically assured. ■

# A closer look at tri-party repos

*In an environment where banks continue to feel the impact of regulation, collateralised products open up a new world of opportunities for investors. Tri-party repos, for example, can offer investors both sustained revenues and lower risk – a genuine breath of fresh air for corporate treasurers in today's low-yield environment.*

Corporate treasurers could be forgiven for viewing tri-party repos as a complicated type of transaction. The reality, however, is not nearly as complex as some might think. Indeed, tri-party repos are one of the simpler forms of secured investment: they are essentially bank deposits secured by independently held and managed assets.

And in the current economic environment, that security could not be more welcome. Several high-profile bank failures in recent years have highlighted that unsecured bank deposits are not necessarily as safe as they were previously considered. Yet some corporates have more cash on their balance sheets than ever before – which presents them with somewhat of a dilemma.

Increasingly, corporates are thinking outside their traditional investment boxes and as a result, tri-party repos are falling into favour. A tri-party repo offers corporate investors the advantage of collateral (in the form of securities) in return for depositing cash for the duration of the transaction.

"It allows corporates to either diversify their counterparty network or lend more cash with their house banks if unsecured lines are already fully utilised", says Pascal Morosini, Executive Director, Head of Global Securities Financing Sales and Relationship Management at Clearstream. "But the biggest and undisputable advantage is that tri-party repo is much more secure than cash deposits."

## Driving the market

One of the key drivers of the growth in the tri-party repo market is regulation. For large corporates who have obligations under the European Market Infrastructure Regulation (EMIR) or Dodd-Frank to post collateral for OTC derivative transactions with central counterparties, tri-party repo offers a significant advantage over alternative products. "The collateral corporates hold against cash can be sold immediately should a counterparty default. This collateral can also be used to cover derivative liabilities that corporates have with their prime brokers and clearing members," explains Morosini.

For this reason, tri-party repo is increasingly considered an alternative to money market funds (MMFs) for corporates with cash to invest in securities. Additional regulation in the MMF space is also causing corporate investors to turn towards tri-party repos.

Against the backdrop of regulatory pressure on investors, tri-party repo presents an opportunity for corporates, who to date have largely invested their cash on a unsecured basis, to invest in collateral-backed deposits.

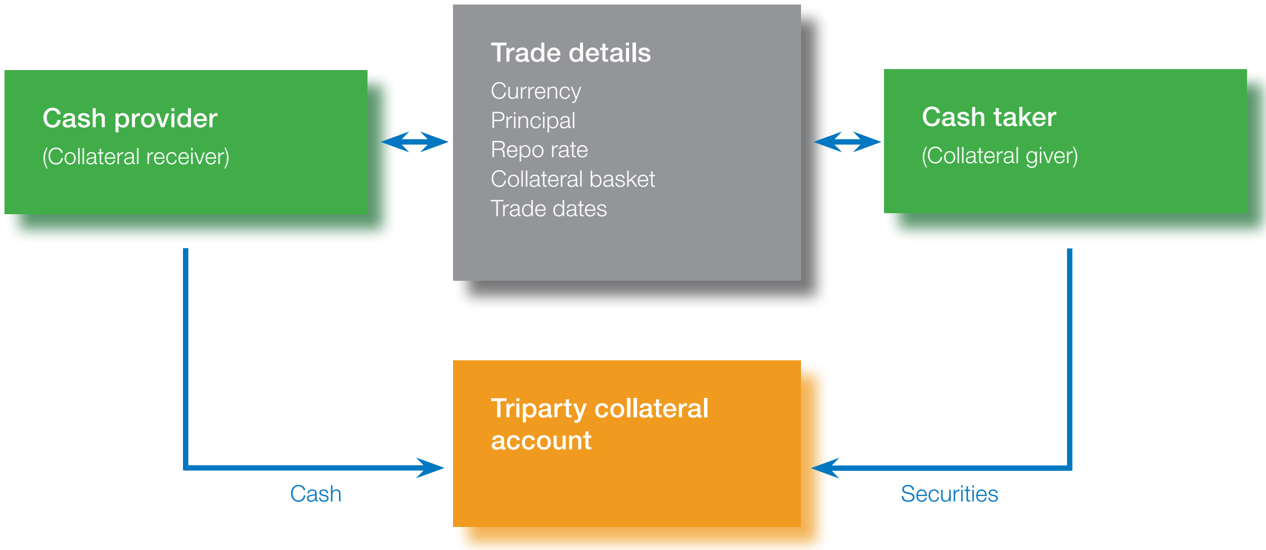
"The low-yield environment, which continues to put a strain on investors, is another reason why now may be a good time for corporates to move into the tri-party repo market. Subject to the type of collateral investors are willing to receive in return for their cash, the yield on tri-party repos can even sometimes beat what they are earning on their current investments," notes Morosini.

## Role of the tri-party agent

Clearstream, a leader in the tri-party repo market, acts as collateral agent and securities depository (ICSD). In its custodian role it holds accounts for banks and global custodians, who in turn hold securities on behalf of their clients. More than €12 trillion of deposits are held within Clearstream by around 2,500 customers around the world. In its tri-party collateral agent role, Clearstream manages collateral worth more than EUR 650 billion for more than 550 customers.

"Clearstream acts as a neutral collateral agent, handling all the administration related to the transfer of collateral from one counterparty to another," says Morosini. "We value and allocate the collateral, monitor and process substitutions, execute margin calls, issue reporting and maintain and cross-check the eligibility criteria. In essence, our role is to ensure that sufficient eligible securities are transferred to cover any given exposure at any moment in time."

### Chart 1: How it works, Clearstream tri-party repo service flow diagram




The company's role as tri-party agent is an important risk mitigation factor, as Clearstream is not directly part of the transaction. This neutrality guarantees – for both parties in a transaction – that should one default, the collateral will remain segregated and be immediately available for resale.

In addition, Clearstream's tri-party repo service offers a number of unique features. The principal trading relationship remains between the counterparties, and only one signature of the Collateral Management Service Agreement (CMSA) with Clearstream Banking as the agent is required. Collateral profiles (either customised or designed according to industry standards) are predefined within the CMSA appendix, making it very easy and straightforward to sign up for the service.

Furthermore, the tri-party repo service presents distinct advantages to both the givers and receivers of collateral. Collateral givers can finance a broader basket of assets, tap into new sources of financing, use automatic asset allocation and unlimited substitutions, and be assured of optimal collateral allocation across products and locations. Receivers of collateral benefit from security of holding, an optimised balance sheet, low maintenance costs and full reuse of the collateral received.

Elsewhere, the outsourcing of back office operations to Clearstream provides corporates with access to a wide range of counterparties across the world. Clearstream clients have full control over their asset portfolio and benefit from efficient use of their cash and securities as well as from risk management solutions tailored to their individual needs. The solution is a flexible money market instrument at the heart of Clearstream's Global Liquidity Hub which can form an integral part of a corporate's wider liquidity strategy.

Clearstream offers a full suite of products under the Global Liquidity Hub, ranging from securities lending and borrowing to the posting of initial margin to central counterparties for cleared OTC derivative trades. The growing desire of corporates for greater security of the money they deposit with banking partners is reflected in the growth of the Clearstream platform, which now has more than 30 corporate users, with a combined $25 billion in cash.

## In practice

For a cash provider using Clearstream, once a tri-party repo deal is concluded, the user instructs its back office to pay the cash to its Clearstream account via its cash correspondent bank. Once this has cleared, Clearstream arranges the simultaneous exchange of the cash on the account for the securities from the counterparty. A core feature of the Clearstream platform is its delivery versus payment (DVP) functionality, which ensures that cash is not paid to the counterparty until the securities have been received, meaning the investor is never exposed.

Users must also inform Clearstream of the transaction with the counterparty; this can be carried out via various channels, including the 360T platform, the Bloomberg Professional service, or Clearstream's own CmaX online communications portal. "Once you have deposited the cash in your Clearstream account and informed us of the transaction, you do not need to handle the collateral side of the transaction," says Morosini. "Clearstream handles all the administration of the transaction, and the investor can remain passive until the transaction is automatically unwound."

## What's in it for corporate treasurers?

Tri-party repo was initially created as a means for broker-dealers to maximise the use of small asset positions left in their accounts. Today it has expanded to cater to the needs of the larger corporate world. Though initially conceived as an inter-bank product, Clearstream's platform is bringing tri-party repo to a much broader market. "Clearstream is opening the door for corporates to the tri-party repo market," says Morosini. "We are facilitating and streamlining access to our state-of-the-art Global Liquidity Hub with our simplified legal agreements. Our goal is to industrialise and commoditise this product and offer it to a much wider audience so they too can reap the benefits."

Indeed, greater numbers of corporate treasurers are starting to see the benefits of sustained revenues with lower risk that tri-party repo can offer.

In short the benefits could be summarised as follows:

- Access to a broader range of counterparties, thus diversifying risk and creating yield enhancement opportunities.
- Security: cash loans are secured by collateral in the form of securities.
- Simplicity: trades are negotiated like cash deposits.
- Outsource back office workload: all the administration regarding the management of securities is done by Clearstream
- Simplified legal documentation for instant access to a large number of counterparties.

## Evolution and innovation

But what makes Clearstream's offering stand out? For starters, Clearstream's tri-party repo product has matured with the market, meaning that since its launch in Europe in 1992, the service has become more flexible through the implementation of a streamlined signatory process. Users of the service have also benefited from the ability to re-use securities within the system, a feature that was put in place in 2006.

The company's collateral management exchange engine (CmaX) has also been developed as a result of its longstanding industry experience and close market consultation.

Building on its core tri-party repo offering, Clearstream launched its GC Pooling product in 2005 in collaboration with Eurex Clearing AG, the central clearer of the Deutsche Börse Group. "This is essentially a tri-party repo transacted through a central counterparty with full counterparty anonymity. This product, which has on average €180 billion of outstanding, dramatically lowers risk to counterparties for corporates. It is currently unrivalled in the market and is now available for corporates," Morosini explains.

In addition to these innovative products, Clearstream's principal lending product ASLplus was launched in 2006. Through this service, Clearstream borrows securities (mainly high-quality assets such as government bonds) from its custody clients and re-lends them in its own name under a principal structure (as opposed to an agency structure). ASLplus, which is the market leader in terms of German government bond distribution, has around €50 billion outstanding.

A principal agreement is required to trade repos. This could be a Global Master Repurchase Agreement (GMRA), a document traditionally used for bilateral interbank repo trading which is negotiated with each counterparty individually. Some corporate treasurers have been deterred from trading repo as the negotiation process can be cumbersome and numerous provisions apply solely to bilateral repo, and are hence not relevant for those wishing to use tri-party repo.

Clearstream has sought to simplify the process by designing a standardised tri-party-only principal agreement, the Clearstream Repurchase Conditions (CRCs). Like the CMSA, this agreement is multilateral and only needs to be signed once with the agent. Counterparties do the same and the relationship is formed by acceptance of the collateral receiver's eligibility criteria. The combination of the CMSA and CRCs effectively gives corporate treasurers membership to a club within which they can trade with other members without having to sign further agreements. The standardised nature of this setup saves both time and legal costs. This innovation alone can speed up the process for accessing tri-party repo counterparties by up to 12 months for corporates – particularly small and medium-sized companies.

Beyond innovation, Clearstream also prides itself on the level of service it offers its customers and the advanced technological portal through which this is provided.

And as more corporates start to appreciate the potential benefits of tri-party repo, these unique features, believes Morosini, will see Clearstream's market share continue to grow. After all, Clearstream's tri-party repo service offers the advantages of being secure and sophisticated, while at the same time being simple and transparent for corporates to set up.

Pascal Morosini is Executive Director, Global Head of GSF Sales and Relationship Management, at Clearstream.

Pascal joined what was then Cedel Group in 1994 to work in collateral valuation operations. In 1997, he moved to triparty repo operations, and two years later he joined Clearstream Banking's Customer Relations Department as a Global Securities Financing sales specialist. He is now responsible for sales and relationship management for all GSF products worldwide.

Pascal holds a Diploma in Banking Management from the "Centre Universitaire de Luxembourg" and has also participated in the Clearstream Banking Global Markets training programme.

## Clearstream

Clearstream is part of the Deutsche Börse Group and provides post-trade services to financial and corporate customers in more than 100 countries with access to 54 markets.

Our tri-party repo services through our Global Liquidity Hub provide corporate treasurers with a safe, flexible, collateralised money market product with innovative options including a unique 'one time' master repurchase agreement (CRCs) and end-to-end integration with vendors such as 360T.

With access to trade reporting services via REGIS-TR and OTC derivative clearing via Eurex, the Deutsche Börse Group offers a 'one-stop-shop' for all your treasury activities.

**www.clearstream.com**

# Treasury outsourcing

*To outsource or not to outsource is a question which many corporates will have faced over the years. For a number of reasons, the answer for the majority has been 'not'. However in recent times treasury outsourcing has made something of a return and is offering an option to corporates looking to reduce costs and increase efficiency. In this article, Treasury Today Asia looks at what treasury outsourcing actually is, its uses, and the debate surrounding the practice.*

Outsourcing, the process of transferring a portion of a business's operations out to a third-party provider, is something which generates an eclectic mix of opinions. For some, outsourcing an area of business responsibilities can be seen as a way to reduce costs, improve efficiency and free time to perform value-add duties. For others, it can be perceived as a threat which can cause a loss of control, loss of power and a loss of jobs. Despite this, outsourcing is something which many businesses participate in, primarily outsourcing high-volume functions such as human resources and IT, and have done for many years.

Treasury is another area where outsourcing was touted to be a revolutionary concept, redefining the role of the function when first introduced in the late 1980s. However, for a number of reasons the adoption of treasury outsourcing was neither widespread nor long-lived (in the main). In more recent times outsourcing has made a return, not as the revolutionary concept it once claimed to be, but as a genuine option for companies to consider when looking at ways to improve their treasury function. However, many still are not fully aware of what treasury outsourcing actually is and what it can offer.

## What is treasury outsourcing?

Simply put, treasury outsourcing is the outsourcing of all or part of the treasury function to a third-party outsourcing provider, or shared service centre. However, within this simplistic definition there are many nuances. "The industry still hasn't been exactly defined," says Gautam Dhillon, Founder and CEO at treasury outsourcing provider, The Treasury Outsourcing Company (TOC). "Many companies offer treasury outsourcing services," says Dhillon. "Banks for example offer netting and pooling services, some companies offer front office outsourcing solutions and others middle and back office. The scope and variety of services is large and occasionally fragmented. To overcome this problem we have a simple model where we offer a complete tactical and operational outsourcing solution. The client can choose to outsource its entire front, middle and back office or components of each; with each activity being performed on world-class TMS."

Treasury outsourcing services can generally be viewed along a spectrum of treasury operations. "At one end you have the bottom-end, high-volume processes, such as payments processing, which treasurers can outsource on an operational basis," says Jackie Bowie, CEO at financial risk consultants J.C. Rathbone Associates. "At the other end of the spectrum there are the high-end acute decision-making processes which require technical and current market expertise, such as hedging strategies, which can also be outsourced on an ad-hoc/project-by-project basis."

Just as there are two forms of outsourcing, discretionary and operational, there are two major types of third-party outsourcing provider. Firstly, banks can offer a range of treasury outsourcing services. Although this section of the market has been scaled back in recent years, one bank which still offers these services is Bank of America Merrill Lynch (BofAML). "Our outsourcing services complement the products which we offer," says Suzanne Janse van Rensburg, Regional Head of Liquidity and Investments, GTS EMEA, BofAML. "And we are able to offer these services with the expertise and support of the bank fully behind it."

The second type of outsourcing service provider is independent companies that focus on treasury as a key competency. "It is important that a treasury outsourcing provider has a treasury orientation," says Pat Leavy, Executive Director at FTI Treasury, a provider of treasury outsourcing solutions. "The concentration should therefore be on practical corporate treasury risk management and for this corporate treasury expertise and knowledge are required in addition to treasury technology and best practice processes, which third-party providers like us can deliver."

Providers of outsourced treasury technology, known as Application Service Providers (ASPs) are also regarded as third-party treasury service providers. These offer companies the ability to hire costly treasury technology such as a TMS, thus allowing the corporate to avoid many of the costs associated with these. The trade-off comes with the limited flexibility and customisation offered by many ASPs.

## What can be outsourced?

Theoretically, all aspects of the treasury function can be outsourced. However it is extremely rare for a company to outsource all of its treasury activity. Due to this the treasury function is divided into three broad areas which can be outsourced; front office (execution), middle office (accounting and reporting) and the back office (settlement and reconciliation). The treasury can decide to outsource the entire office or alternatively some functions within it, keeping the others in-house.

How much of and what a treasury decides to outsource is very much based on the organisation's individual circumstances and what can provide the most value. However, as FTI Treasury's Leavy explains, there are four fundamental models of treasury outsourcing:

1. Full suite treasury outsourcing – this model sees the organisation outsource the front, middle and back office to a third party.

2. Back and middle office outsourcing – through outsourcing the back and middle office the treasury can focus its in-house recourses on strategy and execution.

3. Regional treasury centre outsourcing – this model will see the outsource service provider manage the organisation's regional cash and intercompany financing without the need for it to establish its own treasury function in the region.

4. Standalone activity outsourcing – a company may choose to outsource a single activity should they not have the capabilities to carry it out in-house. Intercompany netting and intercompany lending provide good examples of these standalone activities.

A new and relatively undeveloped area which can also be outsourced is a company's disaster recovery. "Our research suggests that many treasuries do not have a satisfactory disaster recovery policy in place," says TOC's Dhillon, "so, if for any reason a company is unable to get into the office or the systems crash, there can be large ramifications." For Dhillon, outsourcing provides a logical safeguard against any disaster scenario and ensures that the risk of this is mitigated. "This is further boosted with the advent of cloud technology, allowing outsourcing services to be hosted in the cloud, meaning regardless of the disaster the data will still be remotely accessible and useable."

While many aspects of treasury can be outsourced, our experts agree that there are some areas which should be retained in house. These include core competencies such as strategy development and any decisions around treasury management such as key performance indicators and service level agreements with its outsourcing provider (OSP). Bank relationships and treasury controlling are another two areas which a treasury should keep firmly in-house.

## Why outsource?

So far we have looked at what treasury outsourcing is and the areas of treasury which can be outsourced; but why would a treasury want to outsource its operations? The answer is primarily to reduce costs. There are however a number of other drivers which may lead a treasury to outsource its operations, which include:

1. Technology – if a company is looking to purchase or update its legacy technology it may look to outsourcing as an alternative. In this relationship the set-up will be quicker and the ongoing maintenance of the technology removing the need for this expertise in-house.

2. Specialist expertise – a treasury may not have the expertise in certain areas and may therefore look to outsource these processes.

3. Processes – many treasuries with limited resources will often find they have a number of inefficiencies and an inadequate segregation of duties. Outsourcing some areas of the treasury function can help to resolve this.

4. Location – if a company looks to expand to a new region it may wish to outsource its regional treasury for that region rather than build its own infrastructure.

The wide range of drivers for outsourcing means that it can offer value to companies throughout its life cycle. For example, a start-up looking to acquire a centralised treasury function can achieve this quickly, with support and without the costs associated with establishing its own through outsourcing. Alternatively a company which is in the growth stage of its life cycle may wish to outsource some of its processes to help with its development and then look to insource these at a later date. Finally, a mature company may wish to outsource to radically change the culture of the treasury.

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>
> Gautam Dhillon, Founder & CEO at treasury outsourcing provider, The Treasury Outsourcing Company (TOC)

## Benefits

Other than the simple advantage of reducing costs, an outsourcing arrangement has the potential to deliver a number of additional benefits to the treasury and the organisation as a whole. These include:

- Allowing treasury to focus on strategy – as the treasury is being called upon to be more of a value-add strategic business partner, outsourcing the day-to-day activities can provide the in-house team with more time to focus on this.
- Increased focus on the activities which remain in-house, thereby increasing efficiency.
- Organisational benefits – outsourcing can allow the treasury to improve its organisational structure and create an improved segregation of duties, mitigating the risk of fraud and error between back and front office activities.
- Reducing costs – the outsourcing provider should be able to make use of economies of scale and provide certain services at a lower cost than they would be if performed in-house.
- Speed of implementation – following fundamental shifts in the organisational structure of the company, a merger and acquisition (M&A) for example, outsourcing can be used as a method to introduce the required new treasury activities more quickly than establishing these in-house.
- Flexibility – the outsourcing provider may be able to adapt to a corporate's changing requirements quicker and more efficiently than if completed in-house.
- Data quality – very often an unanticipated outsourcing benefit is that the quality of the data that is produced is higher. The challenge for the corporate receiving the data is therefore how to use it.

## Concerns around outsourcing

Despite the benefits which outsourcing can offer corporates, there are a number of issues which are highlighted by treasury professionals about the practice which historically have prevented greater uptake.

The fear of relinquishing control surrounding treasury operations is the main issue around the practice of outsourcing. Although it is inevitable that by outsourcing a certain degree of control will be lost, the fear may often be overstated. "Despite the perceptions, in the outsourcing world most, if not all, the decisions and control remains in house," says Leavy. "All actions taken by an outsourcer occur within discrete parameters and with very limited discretion from the provider's point of view. The main decisions remain in-house – it is just the processes behind these which are outsourced."

The seeds of this mind-set may be found during the early days of treasury outsourcing where it was promised to be revolutionary. "The initial vision of outsourcing was to outsource everything including decisions and strategy," says Leavy. "This ultimately never happened and in reality shouldn't." For Leavy the mind-set remains because the purpose of outsourcing hasn't been fully communicated to the treasury community.

Another area of potential concern regarding outsourcing is around security and this is something which should be considered carefully by treasurers when looking to establish an outsourcing arrangement. "Ensuring the client's data is secure and confidential is critical and corporates need to be sure that the right security is in place," says BofAML's Janse van Rensburg. TOC's Dhillon agrees. "There needs to be strict controls regarding who can access the data both within the OSP and once it is sent back to the client. If a service is web-based then encryption will also be required."

In addition to the loss of control and security fears there may also be wider effects caused by outsourcing treasury operations which can cause issues for the department. One of these is job restructuring or job losses which can affect both the efficiency and moral of the treasury. A second area of potential concern surrounds the relationship which the treasury has with other operating units. By outsourcing, these relationships may be altered, so the impact of these should be carefully assessed by the department.

## Full value

If a treasury decides to set foot into the outsourcing world, how can it ensure it receives full value from the arrangement? "An outsourcing relationship is very much like a marriage," says TOC's Dhillon. "Regardless of the client's outsourcing motivations there should be constant dialogue between both sides with each understanding the scope of work, KPIs and SLAs. Once this happens the relationship is then on a firm footing." For Dhillon this is the key to obtaining the most out of an outsourcing agreement and insists that a lack of dialogue and strategic scope alignment is a serious problem. "The clients who get the most out of the arrangement are the ones that enter the relationship with a clear scope. This then enables the OSP to deliver and be measured against demanding KPI and SLAs.

If, on the other hand, the client has not fully scoped the requirements and proceeds to outsource treasury activities, this will be problematic even if the OSP is meeting all the KPIs and SLAs, since the strategic scoping exercise was incorrect. This means the client will ultimately be unhappy with the venture," he says.

Engagement in the process and asking questions is also seen by Bowie as key to the treasury obtaining the most out of the arrangement. "This allows us to understand their concerns and tailor a solution to fit their individual needs," she says. If they step back then often the outsourcing service provider will not feel fully briefed." Many outsource providers are now also now able to provide flexible bespoke agreements to suit the diversity of corporate needs. This is, however, something which again can only be arrived at through dialogue.

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> Suzanne Janse van Rensburg, Regional Head of Liquidity and Investments, GTS EMEA, Bank of America Merrill Lynch

## Future outsourcing

"Corporates will say that they are outsourcing more now than ever before," says Bowie. "However, this is rather misleading; prior to the financial crisis corporates were heavily reliant on their banks for both ideas and strategy. This may not have been perceived as outsourcing because there is no explicit fee for the services but in reality this was a form of quasi-outsourcing in itself."

Despite the evolution of the market outsourcing is not yet a mainstream treasury practice and is still viewed by many through an outmoded lens. To change this, the industry is required to communicate the scope and benefits of outsourcing more efficiently to the treasury community. On the other hand the developing role of treasury may see the popularity of outsourcing increase. "Traditionally treasury has been seen as a cost centre," says Dhillon. "If you outsource treasury processes the activity that was once seen as a cost centre becomes a profit centre for the OSP, this shift can be transformational for the treasury function and the captive organisation as a whole."

It must be noted that a potential barrier to the greater use of treasury outsourcing in the future comes from the fact that operating costs have been able to be reduced, not through outsourcing but through automated cash management solutions. This has allowed corporates to remove a large degree of the recurring daily duties from their operations, although it must be noted that not all the benefits which can be obtained through an outsourcing agreement can be accessed this way.

Ultimately, outsourcing remains polarising amongst the treasury community. For some, outsourcing is a great way to reduce costs and create greater efficiencies in the treasury. For others, it is something which will lead to a loss of control. Then there are those that sit in the space between the two. So while not being the revolutionary solution it once promised to be, outsourcing must be regarded as another option open to treasurers when looking at ways to reduce costs and increase efficiency. ■

# Payment factory: beyond plumbing

*Payment factories tend to be seen as data pipes between centralised ERPs and banks. This remains a very valid model. Some groups cannot or choose not to centralise in this way. Adaptation of the payment factory model allows them to enjoy the many benefits payment factory technology offers, says our treasury insider.*

As an early impetus, payment factories (which centralise payment processing), gained from the spread of shared service centres (SSCs). These SSCs sought to improve control in response to Sarbanes-Oxley through standardised processes and contain costs in response to increasing competition through economies of scale, taking advantage of the opportunities for centralisation offered by the internet.

Once accounts payable (AP) was centralised to an SSC, it made sense to handle the payments there as well. Since SSCs tend to run on a single-instance ERP, payment factories are a large, secure pipe connecting the ERP to banks – typically via SWIFT.

The benefits of SSCs in terms of control and costs continue to be attractive, which is why the SSC bandwagon is still rolling on strongly over a decade after the initial boom. More and more operational back office-type processes, that can often be considered hygiene rather than core, are put into SSCs. The objective is to free the customer-facing teams from routine administration so that they can focus on the core business.

However, the high-volume pipe connecting the ERP to banks is not the only argument for payment factories. And not all groups want a centralised model, nor is it suitable for all businesses. Examples include conglomerates spanning different businesses with divergent operational needs, and groups that comprise individual businesses that need to remain independent for various reasons, as well as groups (often in regulated industries) that expand through joint ventures where, lacking control, they cannot avail themselves of SSCs.

Even without the centralisation and standardised processes implied in SSCs, there is a strong case for payment factories to enhance control and reduce costs through economies of scale and efficient payment routing.

## Payment factory mass customisation

When a group, for one reason or another, does not want to go down the route of centralisation and SSC, how can they benefit from payment factory technology?

For treasurers who do not want to interfere with their subsidiaries' operating processes, one model might be simply to replace bank proprietary e-banking with a multi-bank e-banking solution. This need not be disruptive at all, and can preserve the subsidiaries' existing bank relations and ways of working.

At least when it comes to making payments and receiving bank statements, most banks' web portals have similar functionality, along the lines of:

- Enter or upload payments.
- Re-use payment templates.
- Approval matrixes by value and seniority.
- Payment status tracking.
- Read and download statements and advices.

A multi-bank replacement for proprietary e-banking allows treasurers and head office in general increased visibility over flows, balances, controls, and costs – discretely and without interfering with subsidiaries' autonomy and process idiosyncrasies. SWIFT's Alliance solution can cover these functionalities, as can many other products.

There are many variations between the low-tech e-banking swap out described above and the high-volume pipe connecting ERP to banks. SSCs normally rely heavily on the

"Even without the centralisation and standardised processes implied in SSCs, there is a strong case for payment factories to enhance control and reduce costs through economies of scale and efficient payment routing".

integrity of their ERPs – purchase orders (POs) and delivery notes (DNs) are approved by business operations, the ERP checks that invoices match the relevant POs and DNs and often pays the invoices automatically – "No PO, no pay".

Many companies are not fully confident in the security of their ERPs; they want a final check before the money flows out of their accounts. Banks cover this scenario by reading in payments in host-to-host mode (ERP-to-bank file transfer) then allowing authorised signatories to log on to their e-banking and approve payments. Multi-bank solutions offer the same functionality.

## Payment factories and OBO

Payment factories have long been associated with payment on behalf of (POBO) and receipt on behalf of (ROBO) (together, on behalf of, or OBO). Basically, instead of using subsidiaries' bank accounts to collect and pay, the payment factory opens accounts in its own name in relevant countries, and pays and collects from these accounts on behalf of subsidiaries. A variation is that the payment factory commandeers subsidiaries' accounts in each country for group use.

This eliminates subsidiary bank accounts and thus reduces the number of bank accounts in the group and their associated costs and operational risk. More importantly, OBO facilitates efficient payment routing by eliminating expensive cross-border flows.

## Payment factories and IHB

Another logical extension of the payment factory is to warehouse payments for planning purposes and to concentrate intercompany settlements to reduce payment fees, FX spread, float, and operational risk.

In-house bank (IHB) functionality provides for all of this by allowing payments and receipts to be posted on an intercompany account, together with intercompany flows, and settled once a month.

IHB maintains the goal of preserving subsidiary independence. An external bank account is simply replaced by an intercompany account. The intercompany account can have limits such as zero or other overdraft limits, pay credit interest at arm's-length rates, in addition to other features. This can be helpful if the group does not use value-based management metrics like ROIC, EVA, or other WACC measures.

One caveat is that IHB balances, being intercompany balances, bring tax risks. They may be attacked on transfer pricing, withholding tax, thin capitalisation, deemed dividend, and other fronts. Notional pooling, when done properly, has many advantages in this respect. Another simple workaround is to arrange local third-party funding combined with a zero overdraft on the intercompany account.

## Payment factories are global

There is a myth that none of this works in developing countries. In fact in Asia, the majority of these benefits are available in most commercially important countries. Flexibility can bring many of the benefits while complying with regulations. Examples include dropping OBO and using "gross in – gross out" in countries that prohibit netting.

Both OBO and IHB work (and are being done) in China and can be applied cross-border under the new regulatory framework. Being new, it will take some explaining to banks and regulators in far flung corners – for example letters explaining OBO for vendors to show to their banks. Some companies have decided to zero balance IHB accounts for Chinese entities at month end.

## Payment factories for decentralised groups

For the avoidance of doubt, I want to state here that I am a big believer in centralisation of back office operations in SSCs, payment factories, treasury centres, etc. I believe that front-line management should be free to focus on attracting and retaining customers – which Peter Drucker called the core purpose of business – not bogged down in back office administration duties.

That said, centralisation does not suit all business models and cultures, so there is a need for effective solutions for such groups. Groups who find the centralising plug-and-play model unsuitable, will find this payment factory functionality allows them to materially decrease costs and reduce operational risk without interfering with their subsidiaries' unique business models and processes. ■


### 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.

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

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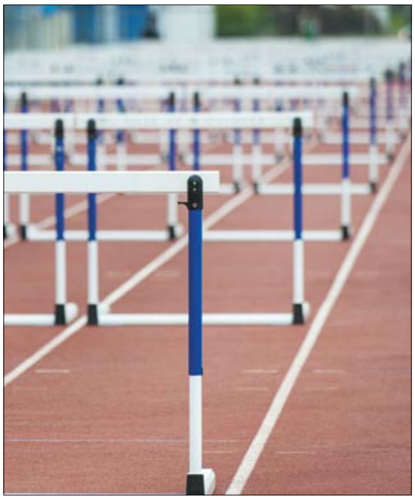
*The views and opinions expressed in this article are those of the authors*



**CHINA PRACTICE**

## RMB internationalisation

Over the past year China has taken a number of additional steps to internationalise its currency, the renmimbi, creating a number of new opportunities and challenges for corporates that operate in and trade with China. In this article, we document the changes that have occurred and what they mean for corporates, while also looking to future developments.

**REGULATION**

## The next big hurdle

The heterogeneous nature of the countries, and their often complex regulatory environments, which comprise the Asia Pacific region – poses a well-documented challenge for corporate treasurers. With 2015 firmly in sight, Treasury Today Asia looks at the next set of regulatory hurdles that corporates operating in the region must face, examining what treasurers can do to prepare.

**INSIGHT AND ANALYSIS**

## Making the grade – credit ratings

For a corporate, a good credit rating can open the door to a number of benefits, including easier and cheaper access to loans and debt. Yet corporates are often unaware of how a rating is actually constructed by the various ratings agencies. This article seeks to demystify the methodologies used by agencies to construct a corporate rating and how the recent changes in these are impacting corporates.

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

**Pascal Ba**, Head of EMEA Corporate Debt Capital Markets, Bank of America Merrill Lynch; **Jason Batman**, Managing Director, Sector Head, Industrials and EPC, Global Transaction Services, APAC, Citi; **David Blair**, Managing Director, Acarate; **Jackie Bowie**, CEO, J.C. Rathbone Associates; **Kristen Covey**, Treasurer, Asia Pacific, Caterpillar Asia Pte Ltd; **Manish Dasgupta**, Managing Director, Sector Head, Technology, Media and Telecommunications, Asia Pacific, Citi; **Usama Delorenzo**, Director, Asia Policy and Advocacy, SWIFT; **Gautam Dhillon**, CEO, The Treasury Outsourcing Company; **Philippe Jaccard**, Head of Global Liquidity Management, ANZ; **Suzanne Janse van Rensburg**, Regional Head of Liquidity and Investments, GTS EMEA, Bank of America Merrill Lynch; **Grant Knuckey**, CEO, ANZ Cambodia; **Alex Koh**, Regional Treasurer Asia Pacific, WPP; **Pat Leavy**, Executive Director, FTI Treasury; **Joan Lee**, Director of Corporate Markets, Asia Pacific, SWIFT; **Damian Macinante**, Public Sector and Non-Bank Financial Institutions Sales Head, Asia Pacific, Citi; **Russell Maybury**, Vice Chairman, UK Debt Capital Markets, RBS; **Tim Meisburger**, Regional Director for Elections and Political Processes, Asia Foundation; **Jayant Menon**, Lead Economist, ADB; **Pascal Morosini**, Executive Director, Global Head of Global Securities Financing Sales and Relationship Management, Clearstream; **David Morton**, Regional Head of Corporate Banking - Asia Pacific, Commercial Banking, HSBC; **Niraj Muraka**, Deputy Global Treasurer, HCL Technologies; **Munir Nanji**, Asia Pacific Sales Head, Treasury and Trade Solutions, Citi; **John O'Flynn**, Treasury Manager and Head of Investor Relations, Ryanair; **Subash Pillai**, Head of Global Liquidity Management, Asia, Goldman Sachs Asset Management; **Anne Rodrigues**, President, Malaysian Association of Corporate Treasurers; **Patrick Smith**, Managing Partne, DFDL; **Neil Sorahan**, CFO, Ryanair; **Paula Stibbe**, Head of Global Liquidity Sales - Asia Pacific, J.P. Morgan Asset Management; **Huang Yi**, Treasury Supervisor, CNOOC.