November/December 2014

treasurytoday ASIA

research | insight | analysis

Clarifying credit ratings

As the credit ratings agencies move beyond their reality check in the wake of the financial crisis, we examine how their corporate rating methodologies are changing and identify some of the key factors that corporate treasurers now need to be aware of when going through the ratings process.

The Corporate View

Russell Phillips

Head of Treasury, Asia Pacific
British American Tobacco

Women in Treasury

Helen Toh

Treasury Director, Corporate Finance, Regional Treasury Asia Pacific
Deutsche Post DHL

Country Focus
Treasury in Australia

Regulation
Keeping ahead of the game

China Practice
RMB internationalisation

Back to Basics
The reconciliation process

Audited member of BPA Worldwide

treasurytoday ASIA
research | insight | analysis

treasurytodayasia.com
Volume 2 / Issue 6
November/December 2014

Switchboard	+44 (0)13 0462 9000
Publisher	+44 (0)13 0462 9012
Subscriptions	+44 (0)13 0462 9002
Advertising	+44 (0)13 0462 9018
Editorial	+44 (0)13 0462 9004
Production	+44 (0)13 0462 9013
Fax	+44 (0)13 0462 9010

Annual Subscription Rate £285
subscriberservices@treasurytoday.com

Treasury Today Asia is published bi-monthly (6 issues) by Treasury Today Limited
Courtyard Offices • Harnet Street
Sandwich • CT13 9ES • UK

Treasury Today USPS: (USPS 023-387) is published monthly except August and December by Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES.

The 2013 US annual subscription price is $588.00. Airfreight and mailing in the USA by agent named Air Business Ltd, c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA.

Periodicals postage paid at Jamaica NY 11431.

US Postmaster: Send address changes to Treasury Today, Air Business Ltd, c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA.

Subscription records are maintained at Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES.

Air Business Ltd is acting as our mailing agent.

Leveraging change

Throughout 2014, there have been a number of major economic, infrastructural and political developments in countries across the Asia-Pacific region. These changes have both challenged treasurers and created opportunities for innovation and efficiency.

Inevitably, a large degree of focus has been on slowing GDP growth in China. Although the figures still remain impressive compared with developing markets (7.4% as forecasted by the World Bank) some are questioning whether the slowing economy will distract Chinese officials from the reform agenda. Nevertheless, a significant amount of progress towards renminbi internationalisation has been achieved this year, with Beijing appointing three new clearing banks in London, Frankfurt and Seoul. Corporate activity onshore has also been liberalised with companies now able to purchase renminbi-based swaps and options when looking to hedge risk. The Shanghai Free Trade Zone (SFTZ) continues to be a hot, although somewhat divisive, topic and 2015 is sure to see further innovative cash management solutions coming out of the SFTZ.

Away from China, other APAC economies have also witnessed slowing growth, not least India. Political uncertainty has been an additional feature of 2014, with a military coup in Thailand and much controversy over the elections in India.

In more positive news, this year has also seen one of the world's most closed countries take a step onto the international stage, with Myanmar making significant efforts to attract foreign business to the country and issuing banking licences to a number of international banks, which is good news for corporates. Elsewhere, there has been a great deal of progress in the APAC payments space. Singapore, for example, launched its Immediate Payments G3 scheme in March, while in Australia, faster payments will soon be ushered in, as we explain in this Issue's Country Focus article (*see page 15*).

Of course, regulation remains a key theme and treasurers must keep an eye on changes to derivatives regulation in the coming months. One of the main challenges here is that each country in the region is taking its own approach to implementing derivatives reform – there is no co-ordinated, integrated approach – meaning that there is no silver bullet for corporates. Similarly, integration challenges still exist in the ASEAN region. Although progress is (slowly) being made towards the establishment of an ASEAN Economic Community, it remains to be seen whether the region will meet its deadline of 31st December 2015.

Finally, it is expected that global trade will remain sluggish in 2015. This will undoubtedly affect the growth of economies in the region and impact the strategies that corporates operating there must adopt in order to thrive. Against this backdrop, and alongside their business-as-usual duties, treasurers must aim to be nimble enough to take advantage of appropriate efficiency or optimisation opportunities arising from challenges and change. Working closely with industry bodies and business partners will be invaluable here, as will knowledge sharing among peers. Treasury Today Asia will continue to support you throughout 2015, reporting on the latest industry developments and analysing the issues that matter to you.

IN THIS ISSUE

Making the grade: credit ratings

Understanding the minutiae of the methodologies behind corporate credit ratings is not something many corporate treasurers have time for. Treasury Today Asia looks at how the Big Three ratings agencies are trying to increase the transparency of their ratings methodologies, the impact the financial crisis has had on the credibility of ratings and what the future holds.

Helen Toh

Treasury Director, Corporate Finance, Regional Treasury Asia Pacific

Deutsche Post DHL

As a finance professional in the logistics sector, Helen Toh progressed on a circuitous route before arriving in treasury and assuming the role of Treasury Director, Corporate Finance for Deutsche Post DHL's Regional Treasury Asia Pacific office in Singapore. In this interview, she talks about treasury's position as a 'niche area', and the challenges around global visibility and access to cash in a far-reaching business.

PROBLEM SOLVED

Wei Ming Ho

Senior Treasury Manager, Asia Pacific

Problem…

…Solved

in association with citi

Australia

Despite a recent slowdown in its crucial exports of minerals and commodities, Australia's economy appears to be in rude health as it transitions from a focus on the mining sector to other industries. Supported by its highly regulated banking sector, Australia looks set to move on to the next stage of its economic development.

RMB internationalisation: a new world order

Despite China's march to become a global economic powerhouse, its currency has struggled to achieve widespread international adoption. However, renminbi internationalisation is slowly gaining momentum. Here we examine the redback's journey so far, and the challenges that remain.

eBAM: the journey continues

Despite its promise, eBAM technology has faced plenty of challenges and has seen numerous false dawns, leading to frustration for some corporates. And while eBAM currently exists in a number of guises, multibank eBAM - the Holy Grail for corporates, remains largely out of reach, at least for now.

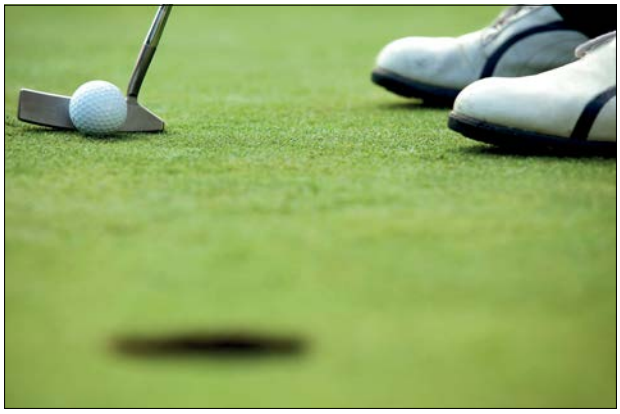
Russell Phillips
Head of Treasury, Asia Pacific

British American Tobacco

Dynamism, adaptability and staying ahead of the curve are traits which Russell Phillips, Head of Treasury, Asia Pacific at British American Tobacco, has had to demonstrate during his tenure at the company. In this interview, he explains how these qualities have been crucial as both organisational and technological changes have dramatically impacted the working methods and the responsibilities of the treasury department.

Uncertain certainties

Corporates in almost every sector are impacted by regulation in some form or other. For the treasurer operating in Asia Pacific, the lack of across-the-board standards makes it even more difficult to keep ahead of the game. We explore what should be on the radar right now and what can be done to prepare.



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

China: finding its comfort zone

September marked the one-year anniversary of the introduction of the Shanghai Free Trade Zone (SFTZ). Hailed as one of the boldest reforms in China for a generation, the launch of the zone was met with great excitement and anticipation. A year into the project, where do we stand? What has been the impact of the zone on businesses in China?

Glass half empty

"Generally there is some disappointment surrounding the zone and what has been achieved – compared to what was anticipated," says Richard Cant, Regional Director at Dezan Shira & Associates. "The main issue for businesses, I believe, is the pace at which the changes are happening – which is not quickly enough," notes Cant. "In addition, there seems to be confusion about what the zone actually is. At times it is presented as an area for financial reform; other times it is presented as being a Hong Kong-style trading hub. And more recently it has been presented as an area for outward foreign investment."

The lack of clarity over the purpose of the zone has manifested itself in disappointing company registration numbers, especially by foreign firms. As of June 2014 just over 10,000 companies were registered in the zone, 12% of which were foreign. It must be noted as well, that only 6% of these companies were from countries other than Taiwan and Hong Kong.

Glass half full

For Louise Zhang, Greater China Head of Product Management, Trade Finance and Cash Management Corporates at Deutsche Bank, the zone has had a positive first year. "From a banking perspective, a series of regulations have been announced that are encouraging," she tells Treasury Today Asia. "The 30 opinions released by the People's Bank of China (PBoC) at the end of last year provided solid guidelines around areas such as RMB internationalisation and increasing financial investment." Zhang highlights that the State Administration for Foreign Exchange has built on these guidelines and introduced new rules around cash pooling and cross-border transactions, all of which have had a positive impact for corporates.

Indeed, if the zone is seen as a testing ground, then its success should be judged on what policies are replicated to other areas of China, she believes. 2014 has already seen cross-border foreign currency pooling be piloted in the zone and then later rolled out across the whole of China.

Automating Islamic finance

In the past decade, Islamic finance has grown from a little-known niche, practised in a handful of nations in the Middle East and South East Asia, into an ever more important part of the mainstream financial services landscape. However, a 2013 report by EY, the accountancy group formerly known as Ernst & Young, suggests that the sector could be doing better. Islamic banks, it reveals, are falling behind conventional banks in terms of profitability. The return on equity (ROE) for Islamic banks, for instance, currently averages at 12% compared with 15% for conventional banks.

Some analysts, such as the management consultant firm AT Kearney, believe that (at least part of) this problem can be traced back to poor operational efficiency. Many of the activities in Islamic finance remain tied to archaic, paper-based processes that require a heavy degree of manual intervention over a multitude of documents. While conventional financial activities have reaped the benefits developments such as ISO 20022, Islamic finance has been shackled by a lack of Sharia-compliant equivalents.

Enter SWIFT

For the past few years, SWIFT has been working on a solution, together with the Association of Islamic Banking Institutions Malaysia (AIBIM). The aim was to come to an agreement that would allow banks to make use of international SWIFT messaging standards to automate three types of financial confirmations covering foreign exchange, deposit placement and commodity placement.

That was not an entirely straightforward task, however. Even within a single jurisdiction, Sharia interpretations can vary considerably. As such, a lot of discussion within the Malaysian banking community was needed before any common ground could be reached.

Now all that hard work is beginning to pay off. A new rulebook, which will clarify the use of financial messaging in Islamic Finance has now been agreed and is set to become available to the Message User Group (MGU) at the end of the year.

More products, wider acceptance

But SWIFT does not plan to stop there. On the contrary, there are a whole range of other financial instruments – Murabaha flows, the Sukuk, Takaful and Wadia – that are now in the Society's sights.

"This is just the beginning," says Tom Alaerts, Director of Payments and Reference Data, Asia Pacific at SWIFT. "You can expect us to look further at other standards that corporates can directly use, such as the sukuk. I can see the rulebook being extended in such ways as to automate operation and reconciliation end-to-end rather than just inter-bank."

Redback gaining a foothold in Europe

According to data from the global transaction services organisation SWIFT, Europe now represents 10% of RMB payments worldwide in value. 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 one day soon be able to attain the status, currently enjoyed by the US dollar, as the world's reserve currency.

However, there are a number of things that the renminbi still lacks compared with other major currencies such as the dollar, not least a quality payments infrastructure.

Progress towards this end is being made, however. This is particularly true in the case of the developments we have seen in the four European countries – the UK, France, Germany and Luxembourg – that SWIFT says have joined the top ten locations involved in RMB transactions (excluding China and Hong Kong) in the past year. RMB use has risen the fastest in the United Kingdom, with 123.6% growth between July 2013 and July 2014, followed by Germany (+116%), France (+43.5%) and, lastly, Luxembourg (+41.9%).

A truly offshore RMB

One of the interesting findings highlighted in the SWIFT press release is the fact that, in Luxembourg, there has been an increasing share of transactions that have not involved parties in mainland China. These transactions are what Michael Moon, Head of Payments and RMB, Asia Pacific at SWIFT calls 'truly offshore flows', something he reminds us is a key characteristic of authentically global currencies.

Does SWIFT believe this is something we will see more of in the years ahead? "I think we will," says Moon. "If you look at the US dollar or the euro, they are international currencies commonly transacted outside of their own markets." Although it is still early days in Europe, Moon says this type of transaction is becoming increasingly commonplace in some Asian countries. "There is more and more RMB being moved around in places like Singapore, for example, that doesn't involve China. I think there is a progression, from domestic transactions, to cross-border truly offshore flows that remain outside of China. And I think we are beginning to see a bit of that now." ■

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

This much I know

Helen Toh

Treasury Director, Corporate Finance, Regional Treasury Asia Pacific

Deutsche Post DHL

Do you feel that women respond to the needs of treasury and finance in the same way that men do – or do they bring something different?

Generally, I feel that women's strength lies in their drive to want to do well in their jobs. Women are often more meticulous and pay attention to details which bring a lot of clarity to the figures we handle in Treasury. Women also tend to be better at data preparation and analysis whereas men's strength often lies in data presentation, though in some cases, both roles can be switched.

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

Balancing work and family life continues to be a conflict for working mothers. Although we are seeing more work/life balance in the corporate world today, women, especially in Asia, are sometimes hesitant to put family over work and often sacrifice family time in order to complete work obligations.

Do you see a day when we will have true equality in the workplace – at all levels?

I believe the day will come. We are already seeing it at middle management level where the new generation of women in the workforce has proven to be highly educated, more capable and more outspoken.

What is the biggest challenge you are facing now as a woman in a male-dominated sector?

I feel that women frequently underestimate what we can actually do and contribute. Often, we are able to offer more than we imagine. However, we lack self-confidence even though we are a hardworking lot. We believe that we must consistently strive to show the value that we can deliver in the space we are in. I am fortunate to have a manager who is very open, shares knowledge generously and values my work. In addition, Deutsche Post DHL is very committed to promoting equality in the workplace. Recently, we launched the DHL Women's Network in Asia Pacific which brings together colleagues – men and women alike – in a community online and offline, to inform and inspire through leadership topics and is another step in our pursuit to advance women to the highest levels of leadership.

What is your greatest inspiration in life?

My greatest inspiration is my husband and my three children, being there for them and being a part of their journey through life.

"Recently, we launched the DHL Women's Network in Asia Pacific which brings together colleagues – men and women alike – in a community online and offline."

ON THE WEB

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


Deutsche Post DHL

As a finance professional in the logistics sector, it seems appropriate that the career of Helen Toh progressed on a circuitous route before she arrived in treasury and assumed the role of Treasury Director, Corporate Finance for Deutsche Post DHL's Regional Treasury Asia Pacific office in Singapore.

Helen, a graduate in business administration from the National University of Singapore, joined DHL back in 1998. She made her mark in a number of different business divisions, taking on a roster of finance roles that included Credit Control Team Leader and Regional Cost Control Team Leader. Prior to joining treasury, she was to be found developing and implementing centralised billing solutions for regional customers in her remit as Regional Billing and Credit Manager. "This role put me in touch with the Regional Treasury team; my first encounter with treasury piqued my interest," she explains.

Describing treasury as a niche area, "very different from the usual finance operations", Helen, undaunted by the prospect, spotted an opportunity in May 2007 to transfer her skills within the organisation. She would bring with her a unique perspective and understanding of the organisation's wider finance function which has since served her well in her work at the company's Regional Treasury Centre Asia Pacific. "The scope in treasury is very wide and while I am already in my seventh year in the profession, I am still picking up new knowledge every day," she notes.

It is the "continuous learning environment as well as a great team" that keeps Helen's professional inspiration fresh. But she knows too that within Deutsche Post DHL there are always opportunities for career progression, be it within or outside Treasury, globally or across Asia Pacific. Not least of the reasons for this is because of the sheer geographic scope of treasury in the firm's Asia Pacific function, extending as it does to some 41 countries.

However, this broad sweep of the region has a more immediate impact on Helen's work. "It means that we are continuously impacted by central banks and tax regulations," she notes. Naturally, with such diversity, it is not always plain sailing ahead. "These regulations sometimes hamper the deployment of our in-house banking platform and the repatriation and deployment of trapped cash from highly regulated economies." But treasurers are a valuable resource within any business when it comes to tackling issues such as regulatory impact and risk management. It is a good reason why Helen is adamant that the profession must maintain and even increase the strength of its voice within business.

Within many organisations, whilst there will be policies and guidelines to deal with risk, treasurers have a duty to "exercise flexibility" in their approach to management. "Our focus should also be highlighting and managing risk for the benefit of the business; we should not be the controllers or the policemen, but we can support the business in new initiatives and use every opportunity to bring value by applying business intelligence to the data and numbers we see every day." In fact, the core reason for setting up the Regional Treasury Centre in Asia Pacific was that it could serve as the key contact for all treasury and corporate finance matters for the business, divisions and countries in Asia Pacific. As Helen says, "being close to the business is very important".

As a corporate treasurer operating in a necessarily far-reaching business, the biggest challenge faced by Helen and her team is around global visibility and access to cash held locally in all the subsidiaries worldwide. With different sets of regulations in force in each jurisdiction, she acknowledges that it is a continual demand to maintain that visibility and access to cash in each country. "Within Deutsche Post DHL, we make great use of treasury tools," she says.

The company has rolled out many solutions such as in-house banking, a cash pooling structure, centralised FX management, a payment factory, SWIFT gateway and electronic FX management. As part of its quest for clarity, Deutsche Post DHL is aiming high. "Ideally we would like 100% visibility over cash, bank guarantees and other financial exposures of our subsidiaries on a real-time basis – and at a click of a button." In a perfect world, Helen continues, it would not only be able to bring on board mature markets like Singapore and Tokyo, but also exotic geographies such as Xi'an in the Shaanxi province of China or Kinshasa in the Democratic Republic of the Congo.

It is satisfying for Helen being a trusted source of information and advice for the whole regional finance function of a major multinational, but when it comes to career moves and personal growth, she has some equally solid words of wisdom to impart. "My best advice is not to give up, no matter how difficult the project is," she says. In fact, she appreciates colleagues who add value to their work by taking on any project that comes their way – even if it is difficult or has been shunned by others – not least because that knowledge stays with them forever. "If they share their knowledge generously and continue to progress steadfastly in their career, they contribute value to their team, achieving deeper fulfilment in their own work," she explains. For Helen, nowhere is this better summed up than in the old saying "the more you give, the more you receive". For a treasurer in logistics, this somehow seems appropriate too.

Helen Toh is the Treasury Director in Corporate Finance for Deutsche Post DHL Regional Treasury Asia Pacific. Based in Singapore, Helen is responsible for the management of foreign exchange risk of DPDHL Asia Pacific subsidiaries; this includes the centralisation of balance sheet and planned subsidiary risks at a group level, implementation of eFX solutions for spot FX transactions at a subsidiary and regional level which creates process improvement and greater transparency on FX deals, and providing guidance and support to commercial management on FX issues in customer contracts for margin protection. Helen also focuses on Corporate Finance issues including reviewing the appropriate debt and equity mix at a subsidiary level and driving where appropriate, the repatriation of subsidiary profits to the group via dividends. Helen has been working for DPDHL for 15 years, and has worked mainly in the finance organisation in various business divisions. She started her career in DHL as a credit control executive taking care of customer credit management and subsequently moved to a role providing regional billing solutions and implementation for DHL's top 100 customers in the region prior to joining treasury. Helen holds a Bachelor of Business Administration from National University of Singapore. She is an avid runner and is passionate about motivating and coaching individuals who take to running for interest or health reasons. She also serves as treasurer at a faith-based charity, HOPE Worldwide, founded in Singapore.

Cybersecurity

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

Rohini Tendulkar, Economist, IOSCO:

The first thing to understand is that the cyber attack threat profile that a firm faces will depend very much on the type of firm, the services it provides and its function in the greater financial system. Threat assessments are best performed on an individual basis.

In general, cyber attacks will most likely be targeting money, or information that can be monetised, but this is not always the case. Cybercriminals can come with a myriad of motivations and include actors such as: Criminals, including organised criminal groups, acting for financial gain; 'Hactivists', groups or individuals motivated by a political ideal or ideology; cyber spies, using espionage to steal political or economic secrets, including information on how financial markets work; nation states or terrorist groups, using the cyber vector in warfare with a motive to disrupt or destroy a nation's economy; insiders (eg disgruntled employees) seeking to steal from or sabotage their firm.

This means that in some cases, firms may be targeted by those driven by political, geopolitical and ideological reasons – where revenge, disruption and sabotage are the goals. In addition, a firm, no matter the size, may be targeted as an entry point to get into a system of another, connected firm. It is therefore critical that all firms, clients and third-party vendors are aware of the cyber risk, put in place preventative measures and identify who and how they are connected to each other through IT infrastructure.

In the Asia-Pacific region in particular, it is worth noting the acceleration of technological usage in business and government. As the use of technology increases, new vulnerabilities are introduced. Nevertheless, the status and challenges of cyber risk exist irrespective of regional or national borders. Some cyber threats to consider include:

- Stealing of confidential data/information – through obtaining access credentials and dispatching a virus.
- Distributed denial of service attacks – flooding a server with information requests until it crashes.
- Advanced persistent threats – multi-layered and multi-stage cyber attacks that can stay in a system for years without being detected.
- Ransomware – malware that blocks system access, disrupts processes or scrambles data. Functionality is returned to normal only after a ransom (monetary or political action) is paid.
- Cyber espionage also appears to be an emerging trend in the region, according to some reports.

In terms of tackling cybersecurity, it is important to realise that cybercrime is not something that can be dealt with by a firm's IT department in isolation. Traditional preventative measures such as antivirus software and firewalls are not enough to deal with sophisticated attacks. Even with the most cutting-edge preventative and detection technology in place, human behaviour (such as clicking on an attachment in an email) can provide a channel for cyber attacks to penetrate.

Consequently, for treasurers, it is important to keep up-to-date with trends in the cyber attack landscape to know what to look out for – in particular the various social engineering techniques that may be used to trick someone into allowing a cyber attack to propagate. This can be achieved by attending cybersecurity training or information sharing events/groups. It is also important to identify the most critical or sensitive information/data/processes under one's control and relay this information to IT departments so that cybersecurity efforts can be prioritised. Lastly, treasurers should understand or encourage the development of internal cybersecurity policies in their firm, for example clear reporting lines in the case of a cyber attack.

Anupreet Singh Amole, Senior Associate, Freshfields Bruckhaus Deringer LLP:

Simply put, a cybersecurity incident is a breach or disruption of an organisation's computer systems (or internet presence) by an unauthorised third party. Although this topic is often linked with the growth of technology within an organisation, cyber risk is far more than a technical issue. When hackers steal, or employees lose, confidential data, the affected company faces real-world implications, whether financial, legal or reputational. As such, a company's risk mitigation and incident response should be multi-disciplinary from the very outset.

Hackers use various techniques depending upon their intentions. Those seeking to disrupt, may launch denial of service attacks to cripple a company's client-facing website. By contrast, those seeking to steal confidential commercial information and/or valuable personal data (such as credit card details) will use

spear-phishing emails or sophisticated 'watering-hole attacks', which infect an external website frequented by the target organisation (eg a news outlet for a particular profession or industry sector).

As demonstrated by high-profile cases over recent years at Sony, Adobe, Apple, eBay and Target Inc, these threats can have significant, real world, commercial consequences. In the case of Target, the company suffered both reputationally and financially. Its CEO resigned in the aftermath and it still faces class action litigation by shareholders, consumers and certain financial institutions. It seems that the Target breach is regarded as something of a tipping point in corporate awareness of cybersecurity.

Clearly, there is a place for spending on specialist technical security advice and software. However, one must not see that technical element as a panacea. Instead, and perhaps somewhat counterintuitively, it is the human element that is crucial. Again, a cross-functional approach is required.

Do the directors on your Board understand the effects that a cybersecurity breach could have upon the company? Has the Board discussed relevant guidance issued by government agencies? Are your employees trained about cyber and information security more broadly? Do they know how to spot and report a suspected phishing email? Do employees have access to all data or are there restrictions around the most sensitive data? Does the company have clear computer use policies? What is the policy and procedure regarding employees' access to and storage of company data on their individual personal mobile devices (eg Bring Your Own Device policies)?

Do contracts with suppliers (including data cloud providers) and customers address liability for data loss? Do the company's insurance policies adequately cover the risk of a cyber breach? What are your plans for handling an incident as and when it occurs? Who will be in your incident response team? It would be prudent to include representatives from senior management plus IT, Legal, Security, Corporate Communications, Human Resources, Investor and Press Relations functions. Which external advisers (IT security/forensic consultants; lawyers; corporate brokers) are needed? How and when will you rehearse your incident response? These are just some of the issues to consider when managing cyber risk.

Eddie Toh, Director, Forensic, KPMG and Lem Chin Kok, Partner, Forensic, KPMG:

The underlying risks posed by cyber, in many respects, haven't changed a great deal in the last decade. Malwares and phishing scams are nothing new; however the sophistication of these has increased. The main change however, is the scale of these risks. Over the past decade, organisations have introduced exponential amounts of technology in all areas of the business. Although this has offered many benefits to companies, it has also opened the market to cyber criminals. The market place is also growing, as individuals and organisations throughout Asia Pacific and the world embrace technology.

The big question then is – are companies aware and prepared to meet the threat? In Asia Pacific, generally the answer is no, and in some cases organisations don't care about the topic. We have seen companies introducing lots of technology, and spending lots of money doing so, but not focusing on the risks associated with this and building adequate controls and processes to mitigate these. In the cases where cyber risk is appreciated, a second problem is that in the region we have limited professionals with the knowledge and skillset to help companies mitigate these risks.

Another key problem is the lack of awareness and knowledge about the cyber world at an individual level. For example, we often see cases where an individual within a company has fallen foul of a phishing scam, despite these well-publicised scams existing for a long time. Another example comes from man-in–the-middle attacks, where the cybercriminal eavesdrops, intercepts and relays messages between parties, inducing innocent parties into making payments to bank accounts controlled by the cybercriminal. In recent months, we have seen an increasing trend of the treasury falling foul of these attacks. In many cases, the treasury followed up on requests to make payment to other bank accounts and employed their control procedures by asking for supporting documents to validate the request, which the cybercriminal who made the request was able to fabricate and provide. The payment was made and it was only after a few months, when the real supplier called asking for payment, that the treasury realised what had happened. We therefore always advise our clients to make an independent call back to the vendor to validate the request. Individuals should also be mindful of email accounts of the email sender and receivers (including those copied).

Cyber attacks are becoming increasingly common in the region and are likely to increase. It is no longer a question of whether an organisation will be compromised as a result of cyber attacks, but when. Organisations have to assume that their IT infrastructure will be compromised and ensure that they are well-prepared to detect and respond to cybercrimes when they happen. We strongly believe an organisation can mitigate the risks posed by cyber when it takes a people-led approach, puts in place a strong cyber governance process and invests in the right technology.

The next question:

"With Alibaba making the headlines following its IPO, what do other companies who wish to follow suit need to know? Also, what best practice tips can readers share on how the treasury can add value to the IPO process?"

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

Wei Ming Ho

Senior Treasury Manager, Asia Pacific

TE Connectivity (TE), a $14 billion global technology leader in designing and manufacturing connectivity and sensor solutions for a variety of industries, was using a time-consuming and manual process to minimise idle cash balances and optimise cash requirements in and out of China. The company's implementation of Citi's automated RMB cross-border sweep solution has improved the efficiency and effectiveness of cash management in China resulting in savings for the company.

Problem...

Prior to September 2014, TE had relied on a manual process to move cash in and out of China to its entities abroad. Constrained by the previous government regulation, sweeping funds could take up to two months, leading to inefficient leverage of the cash available to the company.

"Moving cash in and out of China had always been a challenge for us, as it is for most corporations with operations in the country," explains Wei Ming Ho, Senior Treasury Manager, Asia Pacific, at TE. "Applications to the regulator for cash transfers in and out of China would take a month or more, and then only after obtaining necessary approvals could we finally carry out a manual sweep."

China is one of the company's key markets in the Asia-Pacific region, so this inefficient leverage of cash in the country was a major concern. "We wanted a more efficient and effective way to optimise our cash in China and mobilize excess cash in China for global use, as the existing method was tedious and inefficient," says Ho.

TE needed a mechanism that would automatically manage cash to create an acceptable balance that meets operational requirements both for TE's mainland China entities as well as entities abroad and sweep excess cash into its existing RMB account in London, similar to what is currently possible in less-regulated jurisdictions such as Hong Kong and Singapore. New regulatory developments in China now allow for such a setup to be feasible. "With the changes in regulation in China, this is the ideal time to put in place an automated process that will address our cash management challenges and strengthen our ability to plan, manage, monitor and control our cash flows," she adds.

...Solved

TE was able to improve the efficiency and effectiveness of its cash management by implementing Citi's pioneering automated RMB cross-border sweep solution. In partnership with Citi, TE was able to link its domestic RMB pool in China into a special RMB account with Citi Shanghai, supported by the correct documentation. The Special RMB Account was then linked to an RMB account with Citi London operated by TE's Treasury Centre, which is based in Switzerland.

The solution allows TE to easily identify and meet liquidity requirements domestically across a series of entities and accounts, before excess funds are swept automatically at true end of day from Citi Shanghai to Citi London. The reverse is also possible with the solution: RMB balances held with Citi London can be used to rectify negative positions incurred within the domestic pool operated by TE with Citi in China.

"This solution has alleviated the challenge of managing cash in China and consolidating our cash in-house," says Ho. "We are also seeing significant savings in terms of labour process and time efficiency. The previous process took more than a month, but now cash is automatically swept the same day." Furthermore, the solution was implemented two weeks ahead of schedule.

Citi's solution is the first cross-border automatic lending structure from outside the Shanghai Free Trade Zone in China to London. The project connects TE's Multi-Currency Notional Pool with Citi London and its balances in China. As part of Citi's mandate, excess liquidity held with TE's domestic cash pool in China (which is implemented with another global bank) is moved to Citi Shanghai accounts before being swept to Citi London.

Citi's automated RMB cross-border sweep has satisfied TE's needs. The efficiency of Citi's cross-border sweeps allows TE to achieve greater flexibility to maximise net cash flows and move cash in a timely manner. The solution is also advantageous to TE as many of its counterparts already use Citi. Ho concludes, "With this cross-border solution now in place, we have laid the foundation to explore even more advanced solutions as regulation in China continues to become liberalised."

Catching up with credit ratings

Let's be honest. Few treasurers have the time to become experts in the minutiae of the rating agencies' methodologies. But treasurers do require at least general understanding of the basic principles involved. Now with the 'Big Three' ratings agencies promising more transparency around how they reach their decisions, those fundamental principles are evolving. In this feature, we bring treasurers up-to-speed with the latest developments.

For corporates looking to issue debt on the capital markets, an investment-grade credit rating is not entirely essential. But with many institutional investors prohibited from investing in all but the safest credits, having those three A's next to your company's name sure does help.

If you want to make absolutely sure that your company receives the rating it deserves, it helps to have an understanding of how the likes of Moody's, S&P, and Fitch work when scoring the creditworthiness of corporate issuers. Most treasury teams will be familiar with the corporate credit ratings grids (see Chart 1) used by the 'Big Three' ratings agencies, yet their knowledge of the methodologies behind a rating, and the factors that can trigger a change can often be patchy.

Do you, for example, fully understand how M&A activity is treated by the ratings agencies? If a corporate announces an opportunistic acquisition, against a previously declared strategy of organic growth, how will that impact the credit rating? With Fitch's methodology, this kind of event would be excluded from the prior rating, and would "typically generate a rating review based on materiality and impact, depending on the funding mix and cost," according to the agency.

One of the problems with such ambiguities is that they do not tend to breed trust or confidence, two things the agencies have been desperately trying rebuild in recent years.

As we all know, the Big Three agencies came in for robust criticism in the wake of the financial crisis for their ratings of collateralised debt obligations (CDO) – part of a family of instruments Warren Buffett once described as "financial weapons of mass destruction" that were, according to one academic, responsible for $542 billion in write-downs at financial institutions between 2007 and early 2009.

And while many companies continue to attach significant weight to the agencies' judgement post-crisis, others are reluctant to trust them fully. "The ratings agencies are starting to build up credibility again and they have made great strides, but some corporates still look at them with hesitancy," says John Coon, Global Treasury Manager at Dow Corning Corporation. "With counterparty risk analysis, for example, most corporates used to give the agencies free rein to get on with their job, and would rely almost entirely on their outlooks and ratings for that. But now, at least for our own counterparty risk analysis, our reliance on the ratings agencies has gone down. They still play an important role, but we combine their information with a greater proportion of research we have conducted ourselves."

He is not alone in highlighting this pre-crisis over-reliance of corporates on credit ratings. In June 2014 the International Organisation of Securities Commissions IOSCO said "the role of credit rating agencies has come under regulatory scrutiny,

Chart 1: Comparison of Moody's, S&P and Fitch credit ratings

Moody's		S&P		Fitch		Rating description
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	
Aaa	P-1	AAA	A-1	AAA	F1	Prime
Aa1		AA+		AA+		High grade
Aa2		AA		AA		
Aa3		AA-		AA-		
A1		A+		A+		Upper medium grade
A2		A		A		
A3	P-2	A-	A-2	A-	F2	
Baa1		BBB+		BBB+		Lower medium grade
Baa2	P-3	BBB	A-3	BBB	F3	
Baa3		BBB-		BBB-		
Ba1	Not prime	BB+	B	BB+	B	Non-investment grade speculative

Source: Moody's, S&P and Fitch

mainly as a result of the over-reliance of market participants, including investment managers and institutional investors, on CRA ratings in their assessments of both financial instruments and issuers in the run-up to the 2007-2008 financial crisis." Were the agencies entirely to blame for the corporates that found themselves in hot water during the crisis?

Here it is important to distinguish between corporate credit ratings activity – which has largely performed well for the ratings agencies before, during, and after the crisis – and the mortgage-linked ratings which drew such high-profile censure after the fall of Lehman Brothers.

Indeed, the ratings agencies are quick to point out that there is a distinct segregation between their mortgage-related securities businesses and that of corporate credit ratings. "A fact that is sometimes lost is that the crisis was largely limited to one asset class – US subprime mortgages, which is a very small piece of our business," says Mike Dunning, European Head of Corporates at Fitch Ratings. "Corporate ratings have held up very well since the financial crisis, as evidenced by the default and transition data and reports that we regularly publish."

And while non-financial corporate credit ratings businesses were not implicated in the turmoil in 2007-2009, the agencies have nevertheless taken steps to refine and enhance transparency on this side of their activity post-crisis.

"Since the financial crisis we have taken a number of steps to improve the overall performance of the business. Our criteria function operates independently of our ratings practice, and analysts now rotate so they don't spend an indefinite amount of time on a single account," says Peter Kernan, Managing Director, Criteria Officer, Corporate Ratings EMEA at S&P. "We are now regulated, too."

Regulation is one area in the credit ratings industry that has altered post-crisis, with legislators in Europe and the US putting measures in place aimed at governing the integrity and transparency of the rating process and sustaining confidence in the quality of ratings being produced.

The Securities and Exchange Commission (SEC) in the US put a first round of regulation for ratings agencies into effect in 2007; this was supplemented by the 2010 Dodd-Frank Act, and in August 2014 the SEC adopted further requirements for credit ratings agencies. In Europe, agencies are regulated by European Securities and Markets Authority (ESMA) legislation that came into force in 2010.

Adding value

Beyond the reputational aspect of the ratings agencies, another question a treasurer might ask when it comes to the ratings agencies is, given a large part of their research is based on published historical financial information, where and how exactly do they add value in the ratings process?

"As a cash manager, I don't really care what happened yesterday when I'm looking at credit ratings, I want to know what's likely to happen tomorrow or next month," says Dow Corning's Coon. "Analysing a company's financials definitely holds a lot of weight in predicting future performance, but you need to add further analysis and judgement to get something that's forward-looking."

"Historical information is always helpful, but it is only ever a starting point in our analysis," says William Coley, EMEA Corporate Finance Group Credit Officer at Moody's. "If all ratings were made just on the basis of historical information, you could rate everything by computer. Our analysts provide the additional and important dimension of forward-looking analysis so our ratings have a degree of stability and predictive quality." He adds that Moody's recently introduced a forward-looking grid score to its corporate Credit Opinions that demonstrates how it expects different elements of a company's credit profile to evolve over the next 12 to 18 months in an effort to provide further transparency over their rating rationale.

Issuer understanding

For corporates issuing debt, the treasury department is likely to have considerable interaction with the ratings agencies' analysts. Here the Big Three have several pieces of advice for the treasurer:

- **Watch the sensitivities.** "The key area for treasurers to keep an eye on is the rating sensitivities. The treasurers who manage the credit relationship well are the ones who stay close to that process, who actively engage with the ratings agencies' analysts to keep us informed, to understand themselves what, if anything, it is that's causing us to be concerned," advises Fitch's Dunning.
- **Engage in constant dialogue.** "We are constantly engaged in dialogue with the companies and entities that use our corporate ratings," says S&P's Kernan. "Our strategic goal is to ensure our criteria is very well understood by all parties who use it, and our new criteria make it much easier for corporate treasurers to foresee potential future ratings changes."
- **Be proactive.** "In recent years we have seen that, rather than approaching us on a just-in-time basis, many treasurers from issuing companies now come to us early on in the process to use a range of our products, such as unpublished monitored loan ratings, to their advantage, and to establish a sound relationship with the analyst," notes Coley of Moody's. "Best practice is that ratings committee outcomes should never come as a complete surprise to the issuer."

Mechanisation

As mentioned earlier, the ratings agencies are taking steps to improve the transparency around their methodologies. But might these efforts not dilute the judgement element that goes into a rating, thereby diminishing their value to users? Some in the treasury community evidently see it that way.

For example, in 2013 S&P issued a request for comment to gauge the market's reaction to proposed changes to its revised corporate ratings criteria. The revisions impacted non-financial companies, and included changes to S&P's corporate methodology, ratios and adjustments, country risk, industry risk, group ratings methodology and ratings above the sovereign.

At the time, the ratings agency said the move was intended to improve the transparency and comparability of its ratings. Although the clarifications in the revised criteria were welcomed by some treasurers, others expressed their concern at what they perceived to be the over-formalisation of the new criteria; something they argued has reduced considerably the role of judgement in the corporate ratings process.

L'Association Française des Trésoriers d'Entreprise (AFTE), for instance, while describing the revisions as a "proactive approach to criteria evolution," also went on to claim that the new methodology could lead to too mechanical an approach to credit ratings. "Rating must not become scoring," said the AFTE in an open letter to S&P.

According to S&P's Kernan, this is not the case at all. "We went to great lengths when designing our corporate criteria to make them transparent but also to continue to embed them within our analytical process judgement calls," he says. "There are many areas where our analysts and credit committees are having to make judgement calls."

For example, if a corporate has undergone what S&P describes as a 'major transformational event' such as an M&A or significant recapitalisation, S&P's analysts now have the ability to change the time series used in a rating, giving a reduced weight – or in some cases no weight – to historical information.

"Strategically we will continue to embed this judgement element within the ratings process. We believe we add value in this respect as we have deep, global insight into corporates and their industries, and the ability to make judgement calls in our financial forecasting is clearly very important," he adds.

> "While some of the ratings agencies' client-facing products are very slick, from a cash management perspective we want to reduce the number of URLs and portals we have to use to access the information necessary to do our job."
>
> John Coon, Global Treasury Manager, Dow Corning Corporation

Fitch's Dunning agrees that this judgement factor is key to the ratings agencies' service. "You have to balance the issue of being visible and adding value to the process, but retaining this element of judgement within credit analysis is absolutely critical," he explains. "This is something we defend very strongly; this judgement call needs to stay with us as it's part of the value that we add as an independent third party with an objective opinion."

New player

And for those who are unsatisfied with the Big Three's corporate ratings, a new player has emerged to offer an alternative, at least in Europe.

Scope Ratings was established in 2011, with its corporate rating business starting up in 2012. It has since begun rating banks and structured finance products, too. Scope intends to offer a local knowledge advantage to Europeans over its US-based competitors of Fitch, Moody's and S&P.

"We rate smaller and midcap companies – but we will also rate larger corporates in the near future," Britta Holt, Executive Director of Scope's Corporate Ratings franchise, tells Treasury Today. "Scope used to be a family-owned business, which has provided us with a natural understanding of smaller and mid-sized companies. Our ratings business is a good option for investors looking for an alternative to the Big Three, who are all headquartered in the US."

So far Berlin-based Scope has rated corporates in Germany, Austria, Spain, France and the UK. "We only rate European corporates. Our criteria are broadly in line with those of the larger players. We provide forward-orientated analysis, focusing on cash flow generation capability," adds Holt. "We don't focus on the sheer size of a company alone in our analysis, but also on its positioning in the market – we concentrate on this aspect much more than the larger ratings agencies."

However, despite the emergence of Scope, as well as regional players like China's Dagong Global, the hegemony of the Big Three appears hard to displace: in 2012 they accounted for around 95% of credit ratings worldwide.

Ratings in the future

It is interesting to note that despite the adjustments being made around methodologies in recent years, the fundamentals of corporate credit ratings remain, for the most part, familiar.

"Over the past five to seven years we have seen mass volatility in the financial markets, but our corporate ratings methodologies have not fundamentally changed, and they should not fundamentally change in future," says Fitch's Dunning. "Companies will be impacted by weaker markets, lower growth, or deflation, but the way we assess them should remain broadly the same."

Moody's Coley agrees that the basics of corporate ratings should not change radically. "Our corporate methodologies are not subject to step change, but rather an evolution as they are typically updated on a three- to four-year basis. The methodologies we have in place for traditional industries such as mining, shipping, manufacturing and retail have been developed over decades so our sector-specific views are not likely to change overnight," he says.

"However, we do adapt to emerging trends – we now have a pay-TV methodology, for instance – and I'm sure we will create new methodologies when and if required to capture new industries that may emerge." So, while fundamental revision of the ratings process is unlikely, ongoing subtle, incremental changes are a possibility.

That could mean, for example, interactive ratings tools that allow companies to experiment with variables and get an on-the-spot estimate of how these could impact their credit rating. "We are working on a navigation tool that can sit on a banker's or treasurer's desktop and allow them to adjust certain financial and operational parameters in an interactive manner to see how these affect the way we rate them," adds Fitch's Dunning. "Technological advancements like this should help further inform discussion between analysts and users, making the ratings process as visible as possible. This is to everybody's advantage."

Treasurers who use corporate credit ratings would also like to see technological advancements in the way ratings information is delivered. "While some of the ratings agencies' client-facing products are very slick, from a cash management perspective we want to reduce the number of URLs and portals we have to use to access the information necessary to do our job," says Dow Corning's Coon. "The next step would be to systematically feed the ratings information I need into the TMS I already have in place. That is a question for the future." ■

Australia: an economy in transition

Despite a recent slowdown in its crucial exports of minerals and commodities, Australia's economy appears to be in rude health as it transitions from a focus on the mining sector to other industries. With a highly regulated banking sector that was not impacted as much by the financial crisis as some other developed countries, and stable levels of household debt, Australia looks set to move on to the next stage of its economic development.

A little over 130 years after Captain James Cook's taking possession of the east coast Australia in the name of Great Britain, six colonies that were created in the 18th and 19th centuries federated in 1901 and the Commonwealth of Australia was born. Australia quickly made the most of its natural resource wealth, developing its agricultural and manufacturing sectors, before becoming an internationally competitive, advanced market economy.

One of the most biologically diverse countries in the world, Australia is home to 10% of the world's biodiversity. It is also the driest inhabited continent on earth, making it particularly vulnerable to the challenges of climate change.

Although it emerged from the 2007/2008 financial crisis less damaged than some other developed economies, Australia has recently been hit by a slowdown in exports, particularly in mineral and commodity exports, which is the country's largest export sector. A Bureau of Resources and Energy Economics report published in September 2014 forecasted a 1.2% drop in resources and energy export earnings in the period 2014-2015, to A$192 billion (from A$195 billion the previous year).

Key facts

Population: 23 million*

GDP per capita 2013 (US dollars): 64,863**

GDP percent change 2013: 2.43**

Current account balance 2013 (US dollars/ billions): -44.217**

Inflation (average consumer prices) percent change: (2013) 2.45**

Ease of doing business (2013) rank: 11 out of 189 globally*

Corruption perceptions index (2013) rank: 9 out of 175 globally***

Sources:
**World Bank*
***IMF World Economic Outlook April 2014*
****Transparency International*

Despite rising export volumes, the drop in overall exports has been fuelled by falling iron ore and coal prices, stagnating growth in China (a key export partner for Australia), and a weakened Australian dollar.

"The slowdown in exports has been more about prices than about volume," Felicity Emmett, Senior Economist at ANZ tells Treasury Today Asia. "We have seen a very large fall in the iron ore price this year, from over US$135 at the beginning of the year to around US$80 now. Iron ore alone represents around 20% of Australia's exports, so this fall in prices has had a material impact on overall export receipts and has seen the country's trade deficit widen sharply in the last few months. Export volumes are still growing quite strongly and contributing to economic growth – net exports look set to make another solid contribution to growth in 2014."

An economy in transition

Looking beyond this commodity export slump, the Australian economy is undergoing something of a transition. As the country's mining boom tails off, the question is whether other areas will step in to fuel growth.

"This will be an important issue for the Australian economy over the next couple of years," says ANZ's Emmett. "Mining investment grew very strongly until recently, from 2% of GDP in 2005 to around 8% in late 2012. This increase was largely made up of a small number of very large, multi-billion dollar projects, especially in the liquefied natural gas sector. Now those projects are coming to completion, we will see mining investment step down very sharply over the next few years, which will act as a real headwind to growth." The country's current high export volumes reflect the end product of the mining investment, but other sectors will ultimately have to pick up some of the economic burden. "There will now be a transition from mining growth to non-mining growth – that's why interest rates are quite low, and are expected to stay low for well into 2015," adds Emmett.

Dale Luong, Group Treasurer at Australian Pharmaceutical Industries (API), is optimistic Australia's economy can cope with the transition. "The mining investment boom has been the real impetus for economic growth in Australia over the last ten years, and we have seen continuous growth in the Australian economy during this time," he says. "Even with the slowdown in exports, provided that slowdown is controlled, we shouldn't see too much of an impact on the economy other than that of a normal transition between industries. As the mining sector cools down, the industrial and services part of the economy will take some of that slack."

> "There will now be a transition from mining growth to non-mining growth – that's why interest rates are quite low, and are expected to stay low for well into 2015."

Indeed, mining has shaped Australia's economy in modern times, having both positive and negative effects. In an August 2014 research paper, Australia's central bank, the Reserve Bank of Australia (RBA), said the mining boom had "substantially increased Australian living standards." By 2013, "we estimate that it had raised real per capita household disposable income by 13%, raised real wages by 6% and lowered the unemployment rate by about 1¼ percentage points," said the RBA. However, mining has also had negative impacts on the Australian economy. "The boom has led to a large appreciation of the Australian dollar that has weighed on other industries exposed to trade, such as manufacturing and agriculture," explained the central bank. It also said the phenomenon known as the 'Dutch disease' – that is the deindustrialisation that sometimes accompanies resource booms – had not been strong in Australia's case.

Australia has very close links with other countries in the Asia Pacific region, and is a member of the Asia Pacific Economic Cooperation (APEC). China is its main trading partner for both imports and exports by some distance. Its top export partners are China (29.5%), Japan (19.3%), South Korea (8%), and India (4.9%), while its leading import partners are China (18.4%), the US (11.7%), Japan (7.9%), and Singapore (6%). Its close trading relationship with China was given a boost in 2013 when an agreement with Beijing allowed direct convertibility between the AUD and the RMB.

Banking and payments

Australia has 21 domestic banks, eight subsidiaries of foreign banks, 41 branches of foreign banks and 15 representative offices of foreign banks. Furthermore, there are nine building societies and 85 credit unions operating in the country. The Australian banking system is highly concentrated and is dominated by the 'Big Four' of (in descending order of total assets) National Australia Bank (NAB), Commonwealth Bank of Australia, Australia and New Zealand Banking Group (ANZ), and Westpac. These four banks account for approximately two-thirds of the banking sector's total assets. Regulation of the sector by the Australian Prudential Regulation Authority (APRA) is separate from the central bank, and this regulation stipulates that a merger of any of the four largest banks is not permitted.

Electronic credit transfers account for more than a quarter of all cashless payments in Australia and is the dominant cashless payment instrument in terms of value. Credit transfers

Chart 1: Australia payment statistics

	Millions of transactions		% change 2013/2012	Traffic (AUD billions)		% change 2013/2012
	2012	2013		2012	2013	
Cheques	224.37	194.40	–13.4	1,206.92	1,220.28	1.1
Debit card payments*	3,004.80	3,384.1	12.6	172.26	188.81	9.6
Credit and charge card payments	1,796.26	1,936.5	7.8	260.31	271.71	4.4
Credit transfers**	1,969.48	2,092.5	6.2	7,365.90	8,024.86	8.9
Direct debits	737.87	807.53	9.4	5,854.53	5,897.64	0.7
Total	7,732.78	8,415.03	9.3	14,859.91	15,603.30	5.0

** Not including ATM cash withdrawals. ** Not including transfers cleared via the HVCS.*

accounted for 51.4% of the total value of cashless payments in 2013. Cash remains an important payment medium in Australia, particularly for low-value retail transactions. Cheque usage has declined by approximately 64% over the past decade due to the increasing preference for electronic payments for both high-value and low-value transactions. The vast majority of cheques are now used for company-to-company transactions or personal transactions.

Direct debits are processed via BECS on a next-day basis and accounted for approximately 9.6% of all cashless payments in 2013 and 37.8% of the total value. In 2013, the volume and value of direct debits processed increased 9.4% and 0.7% respectively on 2012 figures, to 807.53 million transactions, with a total value of A$5,897.64 billion.

> There were approximately 38.1 million debit cards and 15.6 million credit and charge cards in circulation in Australia the end of the first quarter of 2014. Debit and credit card transactions accounted for 40.2% and 23.01% respectively of all cashless payments in 2013.

There were approximately 38.1 million debit cards and 15.6 million credit and charge cards in circulation in Australia at the end of the first quarter of 2014. Debit and credit card transactions accounted for 40.2% and 23.01% respectively of all cashless payments in 2013. In value terms, however, they accounted for just 1.2% and 1.7% respectively. There are two debit card systems in Australia: The EFTPOS system accounts for approximately 85% of the country's debit card transactions. EFTPOS Payments Australia, a company owned by its 14 founding members, has commercial responsibility for managing and promoting the national EFTPOS network (composed of seven proprietary networks). Australia's national ATM network is composed of ten proprietary ATM networks; and the system operating under the Visa and MasterCard brands.

RITS (Reserve Bank Information and Transfer System), Australia's national real-time gross settlement (RTGS) system, is operated by the RBA. Final settlement of payment system obligations occurs through transactions on exchange settlement accounts (ESAs) at the RBA. More than 90% of interbank payments, by value, are settled on an RTGS basis.

Electronic payments are supported by Australia's real-time gross settlement (RTGS) system supported by the central reserve bank. At the time of writing, more than 70% of daily transactions are processed through this system.

APCA (Australian Payments Clearing Association Ltd) is responsible for supervising and co-ordinating four different clearing systems:

- HVCS (High-Value Clearing System), an electronic high-value exchange and multilateral net settlement system.
- APCS (Australian Paper Clearing System), an interbank paper-based exchange and settlement system.
- BECS (Bulk Electronic Clearing System), an interbank bulk electronic exchange and settlement system.
- CECS (Consumer Electronic Clearing System), an exchange and settlement system for card-based EFTPOS and ATM transactions.

Plans are also in place to introduce a real-time payment system for retail payments in 2016.

RITS settles interbank obligations arising from participants' transactions in Austraclear and the Australian Stock Exchange's Clearing House Electronic Sub-register System (CHESS), both of which are securities settlement systems. In addition, RITS effects the final settlement of participants' net balances originating from the country's other clearing houses.

Cash management

API's Luong says corporates in Australia can expect more or less the same suite of cash and liquidity management services from most banks as their counterparts in Europe or North America. "The Australian market is very well serviced not only by its local banks but also by branches or subsidiaries of foreign banks."

Chart 2: Major banks in Australia

Bank	Total assets (USD millions) 30th September 2013
National Australia Bank	753,146
Commonwealth Bank of Australia	688,094*
Australia and New Zealand Banking Group	654,920
Westpac Banking Corporation	648,969

** Data as at 30th June 2013.*
Source: www.accuity.com, June 2014.

Notional pooling is allowed between resident and non-resident companies, and cross-border notional pooling is permitted although not widely practised. Cash concentration is also allowed between resident and non-resident companies, and cross-border sweeping is permitted and offered by the larger commercial banks. Cross-border payments are routed via SWIFT and settled through accounts held with correspondent banks abroad.

Electronic banking is offered by Australia's leading banks, and the Australian Bankers' Association (ABA), with the aid of the banking community, has developed and established bank-independent electronic banking standards. These standards apply to EFTPOS terminals, ATMs, automated telephone banking and internet banking. Some of the services offered include balance and transaction reporting and domestic and cross-border payment initiation.

Despite its relatively sound banking system and developed payments infrastructure, few MNCs have chosen to establish an Asia Pacific treasury hub in Australia, largely for logistical reasons. "Although the payments system is very strong and robust, the location and time zone often don't align well with a central treasury operation being based here," says API's Luong. "Corporates typically base their regional treasury centres in South East Asia for example, rather than Australia."

The Australian dollar (AUD) has a free-floating exchange rate, and both domestic currency accounts and foreign exchange accounts can be held by Australian residents domestically and abroad; resident domestic currency accounts are freely convertible into foreign currency via licensed dealers. Non-resident bank accounts are permitted in foreign and domestic currencies, and non-resident domestic currency accounts are also freely convertible into foreign currency via licensed dealers.

Taxation is handled by the Australian Taxation Office (ATO), and only the federal government taxes corporate income – corporate tax is levied at a rate of 30%. There is no state or municipal tax on corporate income.

Attractive environment for business

The spectre of household debt that continues to blight many economies (such as the Eurozone) is not, for the moment at least, a threat to the nation's economic growth. "Household debt as a proportion of income has been fairly steady at around 150% of household income, which is quite a high level in international terms," says ANZ's Emmett. "But many households have been paying off debt at a very rapid rate, and households are paying on average more than A$9,000 extra on their mortgage repayments each year. New housing finance has grown strongly over the past few years, but because people are still paying down debt, credit growth has remained relatively modest so we have not seen household debt as a proportion of incomes pick up at all."

She adds that this modest level of household debt could in fact be overstated owing to the high proportion of households in Australia who have offset mortgages, which distorts the figure. However, house price inflation is a concern. "The central bank is certainly not concerned about the level of indebtedness of households, although they are starting to worry about house prices in Australia, particularly in the Sydney area, where prices went up around 18% over the last year. A lot of that was driven by investor activity, and the reserve bank is concerned about speculative elements in the housing market, although overall house price growth in an aggregate sense is not at a worrying level," she says.

"There are certainly a lot of reasons why corporates would want to do business in Australia," says API's Luong. "We have a stable political environment, which is a key factor in encouraging business activity, and a fully unrestricted currency which is the fifth-most traded in the world." ■

Moving with the times

Russell Phillips
Head of Treasury, Asia Pacific

Dynamism, adaptability and staying ahead of the curve are traits which Russell Phillips, Head of Treasury, Asia Pacific at British American Tobacco, has had to demonstrate during his tenure at the company. These qualities have been crucial as both organisational and technological changes have dramatically impacted the working methods and the responsibilities of the treasury department.

Founded in 1902, British American Tobacco is one of the world's premier tobacco companies, with brands such as Dunhill, Pall Mall, Kent and Lucky Strike penetrating over 200 markets globally. Its global presence saw the company sell 676 billion cigarettes worldwide in 2013, contributing to revenue of over £15 billion - with Asia Pacific contributing the largest portion of revenue at £4.2 billion, a 28% share. The business prides itself on its responsible behaviour from the crop to the customer and is a key part of many local communities around the world. Despite the challenges facing the industry, the company is going from strength to strength and is innovating new and safer forms of cigarette and tobacco.

Since joining British American Tobacco (BAT) in 1998, Russell Phillips has witnessed many changes. "The company has been on a journey towards centralisation which began around the time when I first joined the treasury team," he says. The scale and scope of the changes have had a tangible effect on Phillips's career and in shaping his current role within the treasury.

Phillips joined BAT as a management trainee following graduation from university. "The company offers a very good financial training programme which allows individuals to move between different finance roles within the organisation, while also studying for their management accounting qualification," he says. It was during these rotations that Phillips found himself in a middle

office treasury role. "At the time I didn't understand what treasury was all about," he admits, "so it was an eye opening experience and an extremely valuable one. The level of interaction both internally and with external partners, such as the banks, was very enjoyable and after experiencing other areas of finance it was treasury that I found the most interesting."

Having successfully completed the management trainee programme, and inspired by his experience in treasury, Phillips moved into the dealing room for his first management position. "This was a very dynamic role in an exciting environment, and I worked with some very good people," he recalls. With a touch of nostalgia he describes how dealing was done before the advent of internet trading platforms. "There was a lot of banter with the FX dealers at banks when you had to pick up the phone and competitively bid. It provided a great environment to build relationships." The introduction of platforms such as FXall has changed this way of working, however. "In this regard the relationship element has diminished," says Phillips. "We have more efficient working processes now, but the technology has taken a degree of fun from the role in some instances!"

After his experience in the dealing room, Phillips moved through different areas of the treasury department, including corporate finance (management of BAT's debt programmes), and commercial treasury. "The size of BAT means that we have a fairly large treasury and finance function so I have been exposed to various roles," he says. "This has provided me with an excellent foundation in treasury and made the move to my current role as a regional treasurer smoother."

> "There was a lot of banter with the FX dealers at banks when you had to pick up the phone and competitively bid. It provided a great environment to build relationships."

In his current role, based in Singapore, Phillips is responsible for the Asia Pacific region spanning from Pakistan and Bangladesh in South Asia to Australia and the Pacific Islands. His remit doesn't include India, because the company has an associate in the country. Activity in China is also limited as the industry there is largely monopolised by the state owned China National Tobacco Company. The region is a major growth area for the company and in the last six years it grew from 20% of group operating profit to 30%. "It is a very interesting and diverse region from a treasury perspective as you have developed markets with sophisticated banking infrastructure and then those that are less developed. It makes working in the region very challenging as no two problems are the same."

To fully grasp Phillips' regional role, he stresses the importance of understanding the structure of treasury in BAT and how the recent changes have shaped his remit, the principal change being greater centralisation.

Central influence

At the end of 2012 British American Tobacco started the global implementation of a single instance of SAP. The project is the largest the company has undertaken and treasury was at the forefront of the project. "We had been planning to upgrade our treasury management system (TMS) for a number of years in order to increase our visibility and better manage our risks," says Phillips. The treasury team decided that rather than have their own dedicated TMS it would use the treasury module built into SAP in order to better integrate with an ERP for the whole organisation. "We had the design in place for the system for a while and in many respects had to wait for the readiness of the rest of the organisation," he says.

Central treasury was first to go live on the new instance of SAP implementing in-house cash at the end of 2012. Asia Pacific was then the first region to implement the full ERP template and finished the roll out earlier this year. "It is early days and we are still bedding down the system, but as a regional treasurer I am already reaping the benefits of having increased visibility and control. We have been able to achieve a great deal of straight-through processing (STP) and made many processes more efficient," he says. "This allows treasury to focus on advisory and other more value added activity."

Off the back of this project treasury has taken another step towards centralisation and established a Global Treasury Operations (GTO) centre annexed to the group's shared service centre (SSC) in Romania. "Both back and middle office now sit in the GTO and we are pushing more and more activity from the region and the centre to the GTO," says Phillips. "What we have is a highly centralised structure with 'central' treasury based in London and Singapore, supported by the GTO in Romania. Minimal treasury resources sit in the end markets."

Phillips says that in general the role of the treasury worldwide has transformed following the financial crisis. "It has certainly changed in our company. The crisis provided us with the mandate and opportunity to engineer new processes, such as cash flow forecasting, and improve the function." The historical role of treasury in Phillips's view was to ensure that a robust and efficient treasury infrastructure and risk management processes were in place. "This is now something that is assumed, and the monitoring and control happens in the background," he says. "Because of the centralisation journey my team's primary role is to be an effective commercial business partner and act as a centre of excellence in the region for the business to call upon and consult on liquidity, FX and all manner of topics." In assuming this role treasury has earned the trust and respect of the senior management, who can then concentrate on core business activities.

Not one to rest on his laurels, Phillips is conscious that the treasury needs to constantly support and add value to the wider business. "The focus on treasury can wax and wane, so while what we have achieved in the last ten years is fantastic and highly regarded by the company, we must maintain momentum and ensure the business continues to understand the risks we manage by ongoing education."

The day-to-day

As well as the evolving remit of Phillips's role, day-to-day treasury activity has also been altered. Like many companies, BAT has been affected by currency movements in recent times and this is something which Phillips and his team have paid particular attention to. "The devaluation of currencies such as the Yen, Australian dollar and Indonesian rupiah hurts; it impacts the business and increases costs," explains

Phillips. "It is our role to smooth transactional FX impacts by hedging, so in recent months we have increased the forward cover on exposures." Technology has greatly improved the way which BAT is able to manage this process. "We have a highly automated hedging programme which utilises SAP with bespoke programming on top to show us exactly what our exposures are and what deals are required to maintain target hedge ratios." This process has helped ensure that currency risks are managed effectively. For a company which values certainty, this mitigates a material financial risk.

"Of course there are a number of illiquid currencies in Asia so we do have to take some risk," says Phillips. He points to the Indonesian rupiah as one such example where the cost of hedging is significant. "In this case we don't hedge as far out as we would with a liquid currency – we make a call regarding how much cost we are willing to take for the certainty."

Overall, change management currently takes up a vast amount of Phillips's time. "When a new system is implemented there are often teething problems. Once these are ironed out the challenge is to change people's ways of working and behaviour, to adapt to new processes," he says. "This is something the regional treasury team is leading – we are not just treasurers, we are change managers."

> "The focus on treasury can wax and wane, so while what we have achieved in the last ten years is fantastic and highly regarded by the company, we must maintain momentum and ensure the business continues to understand the risks we manage by ongoing education."

Education of stakeholders is cited as the main weapon in this battle. "If people understand the need for change, they are more likely to accept it. For example, if you are trying to push activity to GTO from Pakistan and Bangladesh, two countries where our teams on the ground have traditionally managed autonomously, then it may not be welcomed. But if we explain why, highlight the benefits, that they will have more time to focus on core business activities, then it may be more widely accepted. It cannot be stressed enough how important communication and relationship building have become to the modern treasurer."

Relationship banking

Asia Pacific is a good place to be for a treasurer with a strong emphasis on building and maintaining relationships, especially with the banks. Globally, British American Tobacco has a group of core relationship banks which it aims to use whenever possible. However the nature of the region means that this isn't always possible and that some relationships with local banks must be formed. "Before we centralised treasury the end markets had their own local relationships, but over time we have stripped these back and moved business towards our core banks. However, where we can't do this, our role as regional treasury team is to ensure we have a good local banking partner who can provide the services and level of quality required," he says.

While the end markets are focussed on performing core business activities, regional treasury takes a more active role in building and maintaining these bank relationships. This comes to the fore when banks seek an audience to demonstrate new products. "We have to control this because we want the banks to come to us in regional treasury rather than engaging with our end markets," he says. We can then decide if products and new ideas are value added and leverage the relationship."

In general, Phillips is happy with the levels of service provided by BAT's banking partners. "We have undertaken a number of partnering projects where we let a bank have access to the company to understand the business in more depth, and then work together to find new and improved ways of working," he says. "In doing so we have achieved a number of benefits which have supported the business in the region."

However, there are some challenges which the banks cannot solve. "Cash and cash collection remains an ongoing challenge for our industry in the region. We continue to expand our presence in developing markets which have significant cash economies with a high degree of unbanked citizens," says Phillips. The regional treasury team has to find solutions to efficiently manage issues such as security, value dating and reconciliation of cash - something Phillips describes as 'real nuts and bolts treasury'. "Technology has evolved in this space to seek to replace cash, but there is no complete solution to become cashless and the banks need to understand this when supporting us in these markets."

Indeed, Phillips wants to see the banks offer more in certain areas. "On the vendor side, FXall and SWIFT have been among the biggest game changers in recent years. These multi-bank platforms are the future. I'd like to see more innovative products from banks. This ultimately comes down to their ability to understand their customer's needs. Overall they need to start thinking differently - and they need to deliver," he says. As well as innovating, Phillips believes that banks also need to live up to their promises in terms of post-sales service. "Banks can sell well, but they need to follow through once they have won the business. Sometimes they let themselves down in this regard."

Exploring treasury

The journey which Phillips has been on during his time with British American Tobacco has tested his ability to adapt, as well as demonstrating the full value of the treasury to the business while the company undergoes major changes. It has also allowed him to experience a number of different cultures. "There are many differences between working in Europe and Asia Pacific and it is great to be fully immersed in the culture of the region," he says. "I enjoy travelling and seeing new places. I travelled for a year after university and now I have the chance to do it with my job. It is an enriching life experience bringing the family to a new country to live and using this as a stepping stone to explore Asia."

In addition to the geographical exploration, the journey has been an educational one: "it has been very interesting to see not only the evolution of the company during my years here but also the evolution of treasury as new technology, ways of working and responsibilities has transformed the role," he says. "Treasury is such a rewarding career because it never stands still." ■

RMB internationalisation: a new world order

While China's economy has grown to become a powerhouse, its currency has struggled to achieve global adoption. But now as the internationalisation of the renminbi slowly gains momentum, treasurers around the world are starting to ask themselves what this means for their businesses. We look at the redback's progress so far, the challenges that remain, and the implications for corporates.

It is unlikely to have escaped your notice that China is on the verge of becoming the world's biggest economy. In fact, it may be already. In October International Monetary Fund (IMF) projections showed that China's GDP for 2014 would marginally exceed that of the US for the first time (at least based on purchasing power parity). And while there is debate as to whether, according to what measure of GDP you use, the US is still the world's top economy, it is nevertheless indisputable that China has become a veritable economic powerhouse.

However, despite the country's economic rise, the prevalence of its currency internationally has failed to keep pace with the growth of China's global influence – as of October 2014, RMB was only the seventh-most traded currency in the world. But of course, things take time. And we cannot expect internationalisation to be meteoric – we must look to the medium-term for redback domination.

What this means is that treasurers must start thinking now about the rise of the renminbi and how they may need to integrate the currency into their treasury risk policies much sooner than they had anticipated if its internationalisation continues at its current pace. After all, RMB volumes across Thomson Reuters' Matching and FXall in the first quarter of 2014 reached record highs, and the dollar-renminbi entered the top ten traded currency pairs on FXall in March 2014 and is typically one of the top four traded pairs by volume on Matching.

"The renminbi has gone from the 20th most traded currency just two years ago to the seventh most traded today – a very substantial improvement," says Janet Ming, Head of China Desk at RBS. "As China continues to strengthen its position in global trade, RMB will further improve its position."

The steps to internationalisation

The RMB's rise is not a serendipitous occurrence, but part of a concerted plan. Its progress marks one of the early steps on a path that Beijing hopes will result in the RMB becoming widely held in reserve by foreign central banks. In 'RMB Roadmap', a whitepaper published in May by Asia Securities Industry and Financial Markets Association (ASIFMA), Standard Chartered, and Thomson Reuters, the authors set out five milestones along this path:

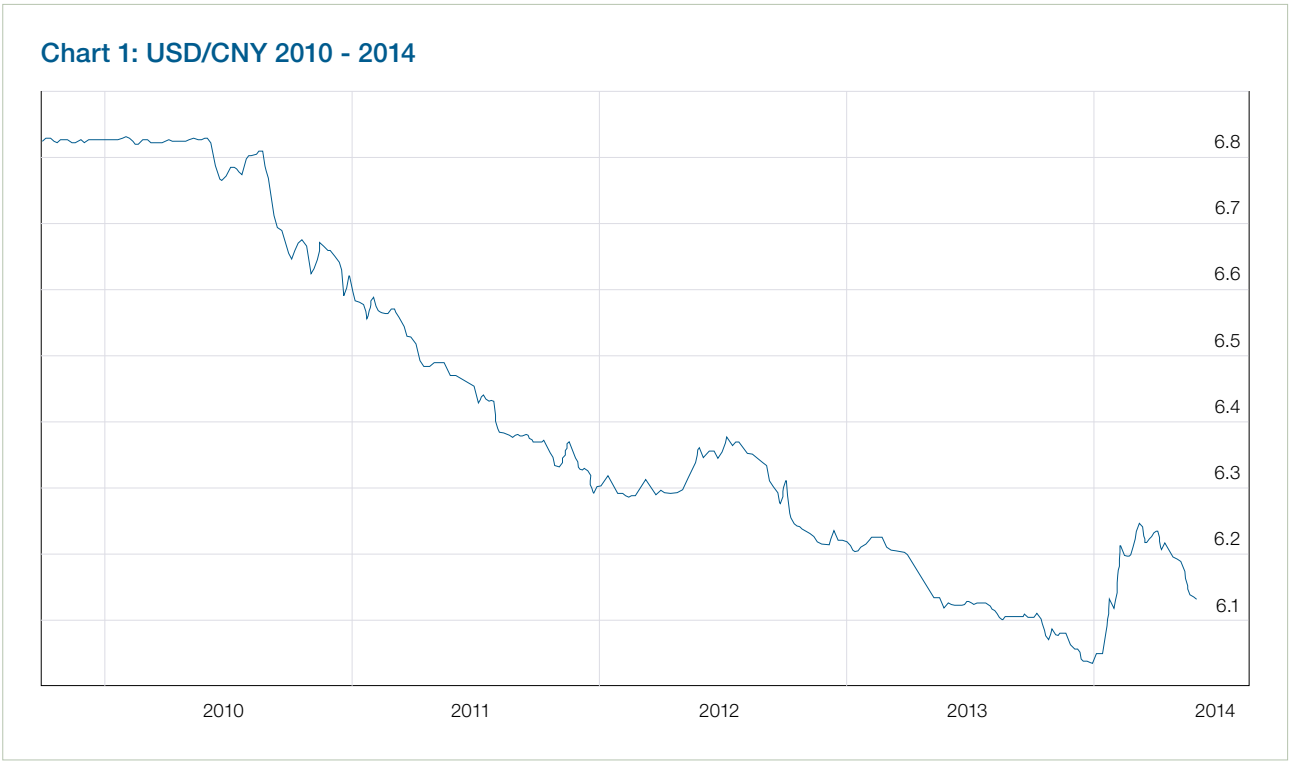
1. Becoming a deposit currency internationally.
2. Being used increasingly for trade.
3. Becoming an investment currency.
4. Central banks agreeing bilateral swap agreements with the People's Bank of China.
5. Being accepted globally as a reserve currency.

The majority of industry insiders that Treasury Today has spoken to recently believe the renminbi will be a fully convertible currency by 2020, and that the redback has made significant progress in that direction to date. "Although not yet fully convertible, we know that around 40 central banks are already diversifying some of their reserve currency in RMB. If this redenomination continues, and the investment flows keep multiplying, RMB should become a G4 currency, alongside the dollar, euro and sterling, by 2020," says Carmen Ling, Global Head RMB Solutions for Corporate and Institutional Clients at Standard Chartered.

Foreign governments are not standing idly by watching the RMB's rise to prominence, either. In October, the UK became the first Western government to issue a renminbi-denominated sovereign bond. The RMB three billion bond was the largest ever RMB bond from a non-Chinese issuer, and has been seen as a strong statement of intent by the UK to build up RMB reserves (prior to the issuance of the bond, Britain only held reserves in US dollar, euro, yen and Canadian dollar).

"The UK's decision to issue a sovereign bond in RMB was certainly a strong symbolic gesture," says Evan Goldstein, Global Head of RMB Solutions at Deutsche Bank. "When other central banks start to build up RMB deposits and diversify their currency holdings, then Beijing will have achieved its objective. But the currency will only be truly global after major capital account reforms take place, and there is convergence between the off and onshore market in terms of interest rates, FX rates, and pricing mechanisms."

The renminbi's progress along this path has been accompanied by a nascent two-way volatility in the USD/CNY exchange rate – earlier this year, after three and a half years of appreciation against the dollar, the RMB experienced a spike, going from 6.05 in January to almost 6.26 in May, before recommencing its path of appreciation once again (see Chart 1). "As the RMB becomes



Source: Google Finance

a more international currency, its exchange rate will also be more liberalised and market-driven – it is no longer a one-way bet," adds Standard Chartered's Ling.

The internationalisation process is being facilitated by Beijing's capital account liberalisation plan. China took steps towards large-scale capital account opening in 2002 with its Qualified Foreign Institutional Investor (QFII) programme, which allows licenced overseas investors to trade in RMB-denominated shares. This was followed up in 2007 with the Qualified Domestic Institutional Investor (QDII) scheme, which allows capital raised from Chinese investors to be invested abroad.

In late 2012, China's State Administration of Foreign Exchange (SAFE) took the first steps towards allowing foreign currency, two-way cash pooling, as well as centralised payment and collection on a company's current account. It also technically allowed netting for trade settlement to take place. This was a huge advance for corporates with operations in China, who had previously experienced problems with trapped cash in the country, although that is not to say that the issue of trapped cash has been eliminated.

The role of the PBoC

One key factor dictating how rapidly internationalisation can progress is Beijing's ability and willingness to encourage worldwide acceptance of RMB. "It has become increasingly apparent that the People's Bank of China (PBoC) sees the internationalisation of the RMB as unfolding through the creation of a global network of offshore RMB clearing banks, currency swap agreements, integrated e-infrastructure, and related regulatory underpinnings," says Jim Kwiatkowski, Global Head of Sales, FX, Thomson Reuters.

At the time of writing, there are seven official RMB offshore centres, in Hong Kong, Singapore, Taiwan, London, Luxembourg, Paris and Frankfurt. These financial hubs are able to concentrate offshore RMB funds in the country itself and in the neighbouring region. The centres can use a clearing bank for RMB activity, although this is not absolutely necessary; for example, ICBC Singapore is the clearing bank in Singapore, while in Luxembourg there is no RMB clearing bank, at the time of writing.

"The use of Chinese banks as designated clearing banks on the part of the PBoC has been the predominant method by which China has been trying to deploy RMB on the international market, as part of its current account reform process," says Deutsche Bank's Goldstein. "The appointment of more of these clearing banks in various markets around the world is a positive sign, and illustrates the greater degree of cooperation and coordination between the PBoC and other central banks. It has also allowed for the introduction of a local time frame for RMB clearing."

Hong Kong was the first such hub to be established, and in May 2013 the daily value of RMB cleared through Hong Kong's real-time gross settlement (RTGS) system exceeded that of HKD for the first time.

Goldstein says collaboration is key in the process. "China has been very active in working with other countries and market infrastructure organisations to understand how the RMB is being used in the offshore market and also the ways in which it can improve acceptance of the currency for investment," he says. For example, through this collaboration, The Hong Kong Monetary Authority has started offering banks a RMB repo facility and extended local RMB clearing house times.

The Shanghai Free Trade Zone (FTZ) is a key part of this collaborative development of the currency. Launched in September 2013, the zone has allowed regulators to experiment with initiatives on a small scale before they are implemented more widely. "The FTZ serves as a holistic testing ground for financial reform," explains RBS's Ming.

"The Government wants a fully market-driven environment with liberalised interest rates and exchange rates, and the Zone gives them some idea of the shape of things to come as the currency gradually becomes fully convertible. Anything being tested inside the FTZ is of strategic importance for companies outside the Zone because things happening there could very soon be happening outside it."

Furthermore, the Shanghai FTZ is relatively easily replicable, meaning Beijing could expand its experiment before wider implementation. Guangdong and Tianjin, for example, could have their own FTZs before long. And as the implementation of reforms expands, within FTZs and beyond, corporates should be able to do more with the currency.

Cash management opportunities

For corporates, the range of RMB services on offer from banks is increasing in line with the internationalisation of the currency. A number of banks already provide basic onshore and offshore RMB trading solutions; furthermore, the provision of more advanced services is also on the up.

According to data from Thomson Reuters, dim sum bond issuance has grown considerably in 2014, and this looks set to continue to be a useful tool for capital raising. The amount of dim sum bond issuance between January and May this year was RMB 188.5 billion – more than the total for all of 2013 (RMB 186.9 billion). "The renminbi continues to be a strong issuance currency in 2014. As cross-border renminbi trade channels continue to embed further with China's growing influence on international trade, coupled with tight credit conditions onshore, conditions for dim sum bond growth will remain favourable," says Thomson Reuters' Kwiatkowski.

It appears that treasurers are encouraged by the cash management opportunities the process will ultimately give them. "RMB internationalisation gives us comfort that we will be able to utilise the range of treasury products that we are ordinarily able to utilise in markets where there are fewer restrictions," says Craig Weeks, Regional Treasurer, Asia Pacific at SABMiller. "This will allow us to raise capital more efficiently, with more transparency over the prices we are getting, whether for borrowing or for FX."

Corporate users of RMB outside of APAC are also likely to experience improved cash management as a result of the aforementioned development of the offshore RMB clearing banks, particularly in Europe. "Having RMB clearing infrastructure in Europe will allow corporates in this part of the world to have more efficient RMB settlement, reduced transaction costs and better risk mitigation," says Ming of RBS.

Beyond cash management, RMB internationalisation could also be a disruptive influence for good in trade finance for certain corporates. "By introducing an alternative trade settlement currency to the USD or euro, wider RMB use would help some users," explains Standard Chartered's Ling. "For example a Brazilian company that has traditionally traded with Chinese partners using USD, could eliminate this third element of currency risk by switching to RMB as the trade currency." However, this switching would also require the corporate to fully understand the settlement risk and market risk of the RMB, too. "Once corporates start to redenominate their trades in RMB, the next challenge will be to distribute the benefits of the currency throughout the supply chain," adds Ling.

Internationalisation will also mean a redrafting of treasury risk policies. "For treasurers, full RMB internationalisation would mean that the currency would play a role in corporate treasury policies, influencing their hedging and risk management," says Deutsche Bank's Goldstein. He adds that his bank is starting to see shades of this even now. "We have multinational clients in China that have been very successful in growing their onshore business through a subsidiary. The build-up of RMB on their books is significant enough that their head offices now want to manage that currency risk and the position itself offshore, because it has become a significant consideration for them in terms of their total book."

Escaping isolation

Despite Beijing's grand ambitions for the redback, it has its work cut out in spreading the reach of the renminbi across the globe. While China accounts for more than 10% of global trade, its currency is used for only 2% of trade. "At the moment China is not freely linked to the global financial system, and gaining more exposure and experience will be a gradual process," says RBS's Ming. "The pace of financial deregulation in China over the past two years has been the fastest of all APAC countries, but there is still a long way to go. China needs to make sure its financial system is mature and robust enough to face global competition."

While the offshore RMB market was explicitly created to allow the RMB to internationalise, the onshore market remains separate from the global market. As a result the RMB is essentially fragmented at the moment into three main markets: the onshore RMB (CNY) market, the dollar-settled non-deliverable forward (NDF) market, and the offshore RMB (CNH) market.

"Each of these markets has its own demand and supply dynamics because of capital controls and the partial convertibility of the RMB as between the onshore and offshore markets," says Thomson Reuters's Kwiatkowski. "These conditions have resulted in the three separate, but related, markets with differentiated FX and interest rates and securities pricing." However, he goes on to say that as capital controls ease and linkages grow, the level of difficulty in making cross-border transfers will drop, resulting in offshore/onshore convergence.

Addressing pricing differentials is a key factor here. "It is important to understand the difference in and the application of onshore and offshore pricing," says SABMiller's Weeks. "Further, establishing efficient liquidity solutions within the country is a target."

Despite the remaining hurdles, RBS's Ming is bullish. "This is a currency you cannot afford to ignore," she concludes. "The question is how to maximise the benefits from a treasury perspective. While the internationalisation process is ongoing, treasury managers need to stay on top of the challenges, understand the implications for their business, and try their best to integrate their Chinese operation into the regional or global treasury system."

So as the renminbi continues its march to worldwide adoption, treasurers would do well to start thinking about putting their own RMB plans in place. ■

eBAM: the journey continues

The story of eBAM is not an easy read for corporates. Despite its promise, the technology has faced plenty of challenges and has seen numerous false dawns. And while eBAM currently exists in a number of guises, multibank eBAM – the Holy Grail for corporates, remains largely out of reach, for now at least.

Bank account management – the opening, closing and updating of accounts and their signatories – is not the most exciting task for a treasurer. It is a very manual, heavily paper-based, time-consuming task, and one often fraught with error.

Cash visibility has also historically been a challenge for corporates due to the paper-based processes involved. "Accessing timely information about accounts from different banking partners across the globe is a daunting task. There is a lot of work required from both the corporate and the bank to obtain this information," explains Manoj Dugar, Product Head, Core Cash, Asia Pacific at J.P. Morgan. As such, the information that corporates hold about their accounts is often not real-time.

Aside from the governance and audit challenges that having such little visibility presents, the lack of true information can also present a wave of control issues which can have more dire consequences. "Not having up-to-date information means that you don't know who can access the accounts," says Marcus Hughes, Business Development Director at Bottomline Technologies. "Despite internal controls, in a worst case scenario it is conceivable that an organisation will fail to inform a bank that a signatory on an account has left the organisation, meaning the ex-employee, should they wish, could fraudulently access the account and transfer the funds."

Electronic bank account management (eBAM) looks to solve these challenges and mitigate the risks around bank account management by automating the process and improving visibility and control.

So what exactly is it? Well, there are mixed views on what truly constitutes eBAM, but fundamentally, eBAM is a simple concept. True eBAM looks to allow corporates and banks to fully automate the account management process, end-to-end, using a set of industry-standard messaging formats; a secure electronic platform that can provide access to online forms (that can be pre-populated) and provide the necessary information around the account management process. In addition, eBAM is intended to create an electronic work flow ensuring process efficiency which, as the information is collected, a real-time electronic database containing information about these accounts is created and maintained within the platform.

The Holy Grail

Seven years on from the first eBAM breakthrough, and the development of the eBAM standard message formats in 2010, the landscape looks very different to how many expected. "There has been and there continue to be two streams of eBAM – the bank-led portals and the SWIFT-led portals," says J.P. Morgan's Dugar. Corporates with a select number of banks are therefore able to access some single-bank eBAM functionality, but the Holy Grail of true end-to-end eBAM remains out of reach. The question is why?

According to Bob Stark, Vice President Strategy at technology vendor Kyriba, "although multi-bank functionality is often reported as a stumbling block, banks are actually well versed in multi-bank technology – multi-bank reporting and the ISO XML bank-agnostic payment files are just two examples," – so this should not be seen as a major eBAM hurdle." Technology vendors are also up to speed in this area and the job for them is fairly simple. "For TMS suppliers like ourselves we just have to ensure that we produce and communicate the prescribed messages on behalf of our clients," he says. "The communication flowing both ways with the banks are simple."

The real challenge, says Stark is that "the banks are currently trying to understand and decide how these messages are going to replace the complex legacy documentary process which they have in place. Many actions are triggered when an eBAM message is received. It is not just a case of receiving electronic messages rather than paper-based ones."

On the same page?

Damian Macinante, Citi's Asia Pacific Public Sector and Non-Bank Financial Institutions Sales Head, Treasury and Trade Solutions, goes one step further in his appraisal of the current state of play. "It is one thing to have a harmonised solution from a client-facing perspective, but a large degree of the benefits that derive from eBAM come from what the bank does with the information once it arrives," he says. The promise of the solution is not only to automate for corporates but also banks. "Due to this, it will take time for all the participants involved in delivering multi-bank eBAM to develop a harmonised solution because of the disparate data flows in each system."

Although the delays have been frustrating for the corporate community, Stark preaches patience. "The project and the banks shouldn't be seen as moving slowly," he says. "They are just working through the process." The responsibility on the banks' side to ensure that everything works is cited as a key reason for the time being taken. "It is like an iceberg; the simple stuff is what we see above the water, but the dangerous stuff – and what is taking the time to ensure that it is done right – is below the surface and out of the public eye."

Unique challenges to Asia

Despite the delays, corporates are still asking for the product. In Asia Pacific, a region which Treasury Today's Corporate

Gazprom Marketing and Trading: eBAM in practice

Andrew Bishop
Head of Cash Management

With eight different banking relationships and 140 accounts globally, the bank account management process at Gazprom Marketing and Trading (GM&T) is complex. "Historically, we used SAP and spreadsheets to manage this process," says Andrew Bishop, Head of Cash Management at Gazprom Marketing & Trading. "In order to achieve greater control and visibility of our account status, we wished to move away from a spreadsheet solution as eBAM gave us greater systemic control."

Ninety percent of GM&T's accounts are with its main cash management banks, who are also one of the pioneers of the eBAM initiative. "We engaged with our bank to see what the solutions current status was and what it could offer us," says Bishop. "The bank was honest in saying the product wasn't yet complete but GM&T saw the value and decided to implement the solution." At this stage it became clear that there was work to be done in order to have a truly single multi-bank solution.

"We could only use the eBAM solution with that one bank and although this helps, our preference was and remains to have a multi-bank solution," says Bishop. Through discussions with various industry players Bishop realised that the lack of a bank agnostic solution isn't necessarily the fault of the banks. "It is a wider community issue. Different players would say that they are ready, but in reality there are many different issues being ironed out across the board," he says. "As a corporate with different bank relationships, a single multi-bank solution is what is needed."

Challenges of eBAM

GM&T is now live with a proprietary eBAM solution, although Bishop says that implementing this wasn't an easy task. "The bank required us to authenticate any requests using a digital certificate sent from a designated authoriser. This is great in principle but the technicality of implementing this software was problematic due to the different settings required on the user's computer." For Bishop, a simple software package that corporates could download to use eBAM would be an improvement. "The current process required a lot of interfacing and effort from both our IT and the banks and this was not ideal."

A further challenge GM&T encountered surrounded the regulations in certain countries. "In Singapore, for example, we have a selection of accounts," explains Bishop. "Although we have eBAM rolled out in Singapore, the regulations still require that the execution of any instruction to the bank is paper-based." Despite this, an electronic database is still maintained by the bank for GM&T which is update manually form the paper instructions. "Once you dig down, the full service eBAM which is offered in countries like the UK just isn't available in Asia yet. This is against the principle of being able to electronically communicate with banks – all the risk that is present with using paper is still present, and work needs to be done to overcome this challenge."

Best practice

"The current product that we have in place is simple, but it is an improvement on our previous bank account management process with additional control and reporting capabilities," says Bishop. "From our experience, it's worthwhile considering all of the pros and cons of embarking on the current eBAM offering and ensuring that you are clear in terms of the global solution offering. By assisting our partner banks, I'm sure the regulatory challenges in Singapore can be overcome."

"I think multi-bank eBAM will happen eventually; we have seen similar examples before such as electronic payments," says Bishop. "But with everything else that the industry is contending with at the moment it is just a matter of priority. We are close – eBAM just needs somebody to take hold of it and push it over the line."

Treasury Benchmarking Studies have previously shown to have less interest in the product than Western Europe and the US, demand is starting to appear. "In nearly all of my meetings with clients there is a conversation around eBAM," says J.P. Morgan's Dugar. "Asian corporates are keen to leverage an eBAM platform and want to see it taking hold in the region much more quickly." However, the region amplifies many of the challenges which surround the eBAM initiative.

Digital signatures are a key pillar of eBAM and these have caused a legal headache in a number of countries worldwide. In Asia Pacific in particular these pose a major stumbling block. "Singapore, Hong Kong and Australia accept digital signatures in some format, but if we start to look at other countries in the region, it is still something that the regulators need to accept as an alternative to wet signatures," says Citi's Macinante. "Currently there is a lack of legal precedent so from this perspective the regulators are still trying to understand the implications."

Stark believes that as eBAM develops there may need to be a pragmatic approach from corporates. "The regulatory challenge in Asia Pacific is a big one. I can certainly foresee corporates rolling out the solution in full across most of the region, and then countries, such as China, having to use a limited instance."

J.P. Morgan's Dugar is also optimistic. "For eBAM to fully work corporates need to centralise; the banks and industry players need to establish best practice; and standards and regulatory barriers such as the lack of acceptance of digital signatures need to be removed. All of these are moving in the right direction – it is just the timing and scale which is yet to be determined."

However, Bottomline's Hughes echoes Bishop's point that many corporates worldwide and in Asia have other priorities besides eBAM. "It has great potential and corporates want the solution but it is not top of their priority list," he says. "We still find the main focus is on cash visibility and cash concentration as well as efficient working capital management, so these are being actioned on, not eBAM."

A lack of enthusiasm for local banks to adopt the product is a final challenge in the region. "When implementing the solution, it is desirable for a treasury to obtain 100% coverage over their accounts," Jarno Timmerman, Head of Treasury South East Asia Pacific, AkzoNobel, told Treasury Today Asia earlier this year. "Many regional banks do not yet support SWIFT connectivity, so therefore if a corporate has accounts with these banks only part of the standardisation and improved straight-through processing that eBAM delivers will be able to be achieved."

Driving forward

With eBAM moving at a glacial pace on the surface, many treasurers are asking not only when true eBAM will become a reality, but also whether it will at all. The good news is that a number of factors appear to be driving the initiative forward.

The banks have a large role to play in the development of eBAM, not only in ensuring that they can accept and act on eBAM messages but also in encouraging the regulators to accept the necessary technology – such as digital signatures. "The regulatory environment won't evolve itself," says Citi's Macinante.

He also says that the education element is vital, especially in Asia Pacific, not just for the regulators but for the local banks and corporates. "Although we are seeing demand for this service in the region, this is primarily from multinationals who are pushing it through their internal structure," he says. "Many local corporates are very comfortable using paper-based products so moving away from these is going to be a big change. Only with greater exposure and education will they become more comfortable with the technology, its security and benefits. There is certainly a mind-set change that needs to happen in the region overall."

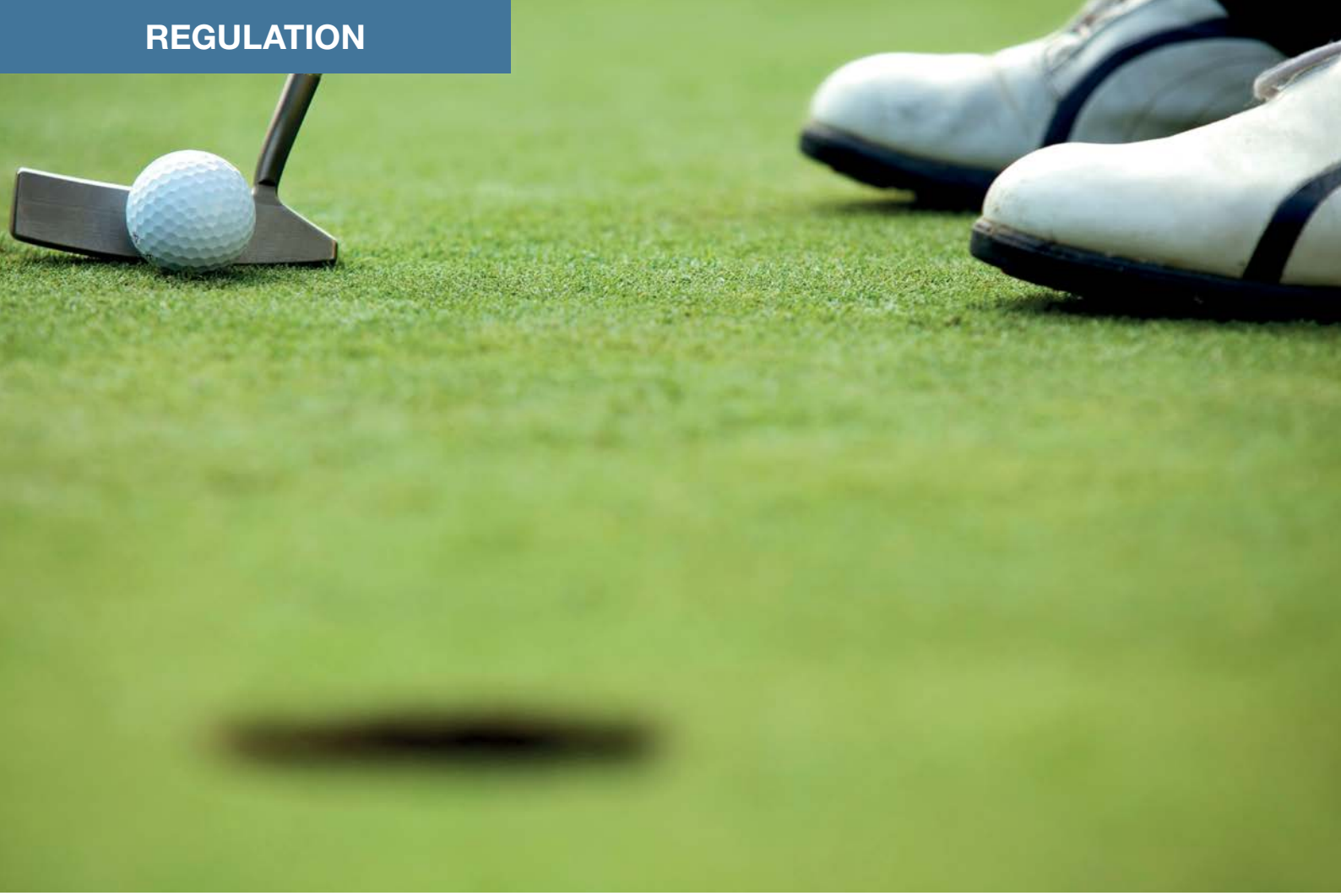
The push towards treasury centralisation may be another driver in the region. "To obtain full value from eBAM corporates need to centralise their treasury structure," says Dugar. "Many multinationals and large local corporates have adopted this structure and we see a trend developing across the region. The drive towards centralisation in the region may therefore be an enabler for corporates to leverage the product and bolster demand."

A final driver towards true eBAM is the adoption of the product by local banks in the region. As Timmerman mentioned, currently there is little interest from local banks in adopting the technology. But Stark expects this to evolve over time. "Corporates may be unwilling going forward to do business with those banks who don't offer eBAM. Therefore we may see a follow-the-leader mentality in the region as the product develops and becomes more established."

The next chapter

In some respects the future is already here as some banks do offer corporates a form of eBAM. However, the product which corporates and banks are looking for, true multi-bank eBAM, remains some way off. "We will get there," prophesises Stark. "eBAM has a bright future, the questions remain around the timing. In my opinion it will be sooner rather than later, as the banking community is making lots of progress with their work in the background."

Looking specifically at Asia, Hughes believes that the project might take more time. "The US and Europe will be quickest to adopt eBAM as they have more centralised treasury structures, greater corporate usage of SWIFT, and an easier regulatory environment for adoption. There are many more hurdles to jump, so the ability to deploy true multi-bank eBAM may remain some way off in the region." ■



Uncertain certainties

Few if any businesses are untouched by regulation in some form or other. For the corporate treasurer operating in Asia Pacific, the lack of across-the-board standards makes it more difficult to keep ahead of the game. What should be on the radar right now and what can be done to prepare?

Regulation, like death and taxation, is an immutable fact of life; for businesses the world over it applies in varying degrees of difficulty but it will always be something to deal with. "In Asia Pacific, we cover 41 countries. This means that we are continuously impacted by central banks and tax regulations," Helen Toh, Corporate Finance - Regional Treasury Asia Pacific Deutsche Post – DHL told Treasury Today Asia in a recent interview. One of the major difficulties faced by companies such as Deutsche Post – DHL in Asia is the lack of regulatory uniformity; attempts are made to implement global or regional standards but as the old adage goes, the problem with standards is that there are just so many of them.

For a treasurer, keeping on top of change when change comes at you from many different angles is challenging. Whilst there are "some commonalities", Charlotte Robins, Corporate Partner with international law firm, Norton Rose Fulbright Hong Kong, warns that businesses operating in the region "need to be cognisant of the different nuances and granular facts within each jurisdiction that may trip them up". A simple but key consideration from a corporate perspective is understanding where it is actually doing business and how; there being no all-encompassing 'Asian regulation' per se. Whilst Robins notes from experience that it does not necessarily make dealing with regulation more onerous if a corporate is carrying out its business on a cross-border basis in Asia, there are still many considerations.

Only trying to help

According to the World Bank's annual 'Doing Business' report 2014, "governments support economic activity by establishing and enforcing rules that clarify property rights and reduce the cost of dispute resolution, increasing predictability of economic interactions". It states too that "doing business is not about less regulation but about better regulation". If regulators are there to help, there is clearly still work to be done: Treasury Today's 2013

Asia Pacific Corporate Treasury Benchmarking Study reveals that 68% of treasurers see regulation as a challenge. This is more than in any other region (and up from 38% in 2012).

Despite this, the 'Doing Business' report 2014 ranks 189 countries for 'Ease of Doing Business'. This reads as something of a Who's Who of Asian economies. Singapore takes the number one spot, followed by Hong Kong and then New Zealand. Malaysia comes in at number six, with the Republic of Korea following in seventh place. Australia is in 11th place whilst China is 16th and Thailand 18th. Rounding off the top 20 is Mauritius. Japan is 27th.

Some territories are clearly trying to make life easier for treasury operations. Hong Kong's Financial Secretary, John Tsang Chun-Wah, announced plans at the end of September to enable it to become a more attractive financial hub, against rivals such as Singapore. According to the South China Morning Post, the Hong Kong government has already established a taskforce "to develop proposals to attract more multinationals and mainland firms to set up corporate treasury centres in the city".

A general view

It is apparent that some Asian markets, such as Hong Kong Australia, and Singapore, are making more regulatory progress than others. But for the treasury community, it is still the lack of any regulatory connectedness across the region that poses the biggest challenge. Blaik Wilson, Director of Solutions, APAC, for technology firm, Reval, comments that "there is a feeling sometimes that it might be three steps forward and two steps back", he says, adding that "the intentions are good and we are seeing improvements in regulations across the board".

For Robins, there are positive developments too. "Asian regulators are increasingly communicating about regulatory change, for example US or European extra-territorial regulation, about which Asian regulators are consulting one another and responding with a stronger voice," she observes.

Some key changes

In terms of specific regulation, Asian corporates are seeing many more (and enhanced) data privacy controls, says Robins. "The world is that much more sensitive when it comes to the transfer of data and regulators in this space are becoming increasingly active," she notes. "As such, we are seeing a trend in Asia towards the enhancement and greater focus on the transfer and use of personal data." A new wave of data privacy changes were implemented in 2011 across Hong Kong, South Korea, India, China, Malaysia and Taiwan. Singapore implemented changes to its data privacy laws in 2012. And proving that regulators do talk to each other, in mid-September of this year the Australian Securities and Investments Commission and the Monetary Authority of Singapore signed an agreement (a world first) to facilitate the mutual monitoring of OTC derivatives trading data. Under existing national data protection laws this had not been possible.

Money laundering, bribery and corruption is a concern for corporates everywhere. With the delivery of the European Commission's Fourth Money Laundering Directive (4MLD), following pronouncements from the global anti-money laundering standards body, the Financial Action Task Force (FATF), it is now a requirement for multinationals to have group-wide policies and procedures around data protection, the sharing of information on anti-money laundering (AML) and combating terrorist financing. The Commission expects companies to implement these policies at branch level and majority-owned subsidiaries in member states and third countries.

"From a corporate treasury perspective it is necessary to be aware of the issues and ultimately know who you are dealing with," says Robins. She feels that it is incumbent upon all senior personnel to fully understand the risks inherent in their own industry and enable appropriate policies to be implemented to mitigate the issues.

Derivatives reform

Perhaps the most significant current regulatory event to affect the Asian financial sector flows from reform principles for OTC derivatives set during the 2009 G20 Pittsburgh Summit. Whilst those that have progressed furthest (Singapore, Hong Kong, Australia and Japan) have all moved forward with trade repositories, reporting requirements and centralised clearing, there is still divergence in the detail. In the absence of a single body to oversee progress the potential exists to inadvertently undermine the G20 goals of making the global markets more transparent. Corporates will need to ensure they have read, interpreted and understood the laws and regulations correctly across each country in which they operate, warns Robins.

An interesting outcome for Asian OTC derivative reform will be the extent to which corporates can and will rely on their banks to report on their behalf – and indeed how this might play out for inter-company transactions (whether they are excluded or included, as they are in EMIR). Reval's Wilson notes that many corporates maintain their own records even though their banks report on their behalf – something he feels is driven by acute corporate awareness that they still carry all the reporting responsibility. As reform rolls out across Asia, he suggests that the largest corporates may also adopt this 'belt and braces' approach.

One angle to derivatives reform that Wilson suggests many corporates may not yet have fully taken on board is the potential for a pricing differential between companies that post collateral where they have a bi-lateral agreement with the counterparty, and those that don't.

Many Asian corporates do rely on their banks to post collateral on a day-to-day basis and all banks charge for doing so. "The question is, at what point does the price differential make corporates want to start posting collateral on their derivatives?" It is a difficult decision: a treasury under the obligation to manage daily posting of collateral will need to be rather more slick in how its working capital is managed to meet any shortfall. "On the systems side I think we will see companies move to more sophisticated liquidity planning and management tools," suggests Wilson.

Listing differences

In the capital markets space, companies in Asia seeking an IPO should be aware of just how different the regulatory approaches of various stock exchanges can be. Of significant interest is the way in which the Hong Kong stock exchange (HKEx) implemented a number of changes to the process by which companies may become listed.

"They have not changed the financial requirements to qualify as a listed company but they have raised the level of scrutiny over first-time applicants," notes Stephen Peepels, Head of US Capital Markets, Asia-Pacific for multinational law firm, DLA Piper Hong Kong. As of 1st May 2014, HKEx requires virtually all of the due diligence and related work to be done before a company can even submit a draft application and a prospectus to the stock exchange for listing, he explains. The sponsors must certify that all legal opinions, auditor certificates and other foundational work is substantially complete, or risk having their filing rejected. The rejection will be publicly disclosed. The potential for reputational damage if this happens should not be underestimated. As a result, he has seen a lot of commentary suggesting many Chinese companies have been "scared away" from going forward with an IPO in Hong Kong. If a company has the flexibility to think about where it lists, the view that the Hong Kong market is a more challenging one to get through may be the deciding factor. To this end, says Peepels, it is interesting that the US exchanges (NYSE and Nasdaq) "have been making a lot of effort to attract and accommodate companies from overseas to reconsider the United States as the best place to list".

Following the intense scrutiny of the quality of some listed companies a decade or so ago (notably Enron in 2001), the US tightened up its rules in the mid-2000s with the passing of Sarbanes-Oxley and other measures. This may have intimidated and perhaps even prevented some companies from pursuing US listings. Peepels now sees the US regulatory pendulum as having moved back towards a more balanced and accommodating angle, allowing certain exceptions for foreign and smaller issuers, and promoting a willingness to help firms achieve their listing.

Meanwhile, although a Hong Kong listing still has a certain prestige, as regulatory scrutiny tightens, for many companies, the question is raised as to whether it might be easier to go elsewhere, certainly for companies on the cusp of acceptability or which do not have an obvious connection to the territory. "For those that are not tied to Hong Kong, maybe they will consider exchanges that are a bit more welcoming," comments Peepels. Indeed, he adds, some Chinese companies that had perhaps given up on listing in the United States and had decided to list in Hong Kong have now shifted back to the US.

NYSE was a big winner in September this year when China-based e-commerce firm Alibaba completed the largest IPO ever, raising nearly $25 billion – surpassing the 2010 record set by the Agricultural Bank of China which raised $22.1 billion in its debut on HKEx. Peepels notes that although there were other reasons informing Alibaba's choice, it won't change the impact generated by China's most successful internet company going to the United States, not Hong Kong. "My guess is that the more technologically sophisticated companies seeking high-tech investors and analysts that understand their businesses are now going to have a long, hard look at the US." There is of course no suggestion that Hong Kong's new stricter regulatory regime will see it fall away as a desired listing venue; there will always be local companies that want a listing close to home.

It may seem that Hong Kong regulators are being heavy-handed in their approach; Peepels notes that HKEx often asks more "aggressive" questions about an applicant company's existing business than would a US exchange. "The US exchanges generally believe that as long as a company is open, honest and fair with the way it describes itself, then investors are free to decide whether or not they like that company," he says. Hong Kong regulators take a more "parochial" view of commerce and can insist that a company makes certain changes in order to satisfy the exchange's listing requirements. As an example, where a company has a major shareholder that also invests heavily in one of that company's core suppliers, the US would require disclosure in the prospectus of related-party transactions. HKEx can require the prospective listing company to exit that relationship or face rejection of its application.

Arguably this strict new regulatory approach may also play into the hands of other exchanges in the region, such as that of Singapore, which has remained on an even regulatory keel. "Its current system works well and it may be anticipating some additional listing candidates because of the approach Hong Kong is taking right now," Peepels suggests.

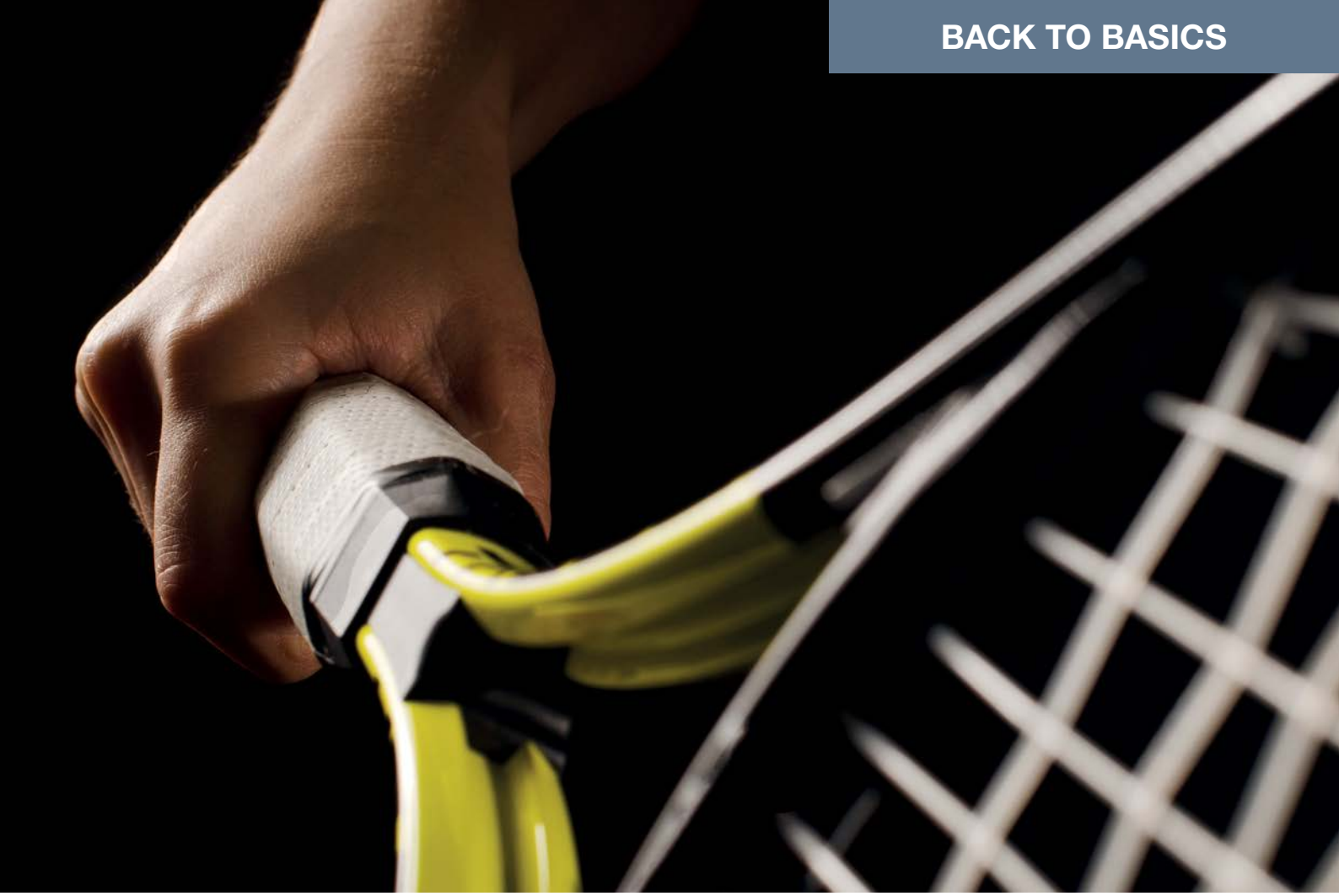
Getting the right technology

With Asian businesses constantly dealing with change at a regulatory level, Reval's Wilson puts the technological case for the software-as-a-service (SaaS) delivery model. "As the vendor, we update the software and every client gets that enhancement immediately," he explains. "It would be a nightmare working with a client server model in Asia because instead of upgrading hundreds of clients once, it means upgrading them individually." Arguably this is a problem for the vendor not the corporate, but unless that client has significant weight behind it, it may be lower in the order of service for each roll-out. The third option, maintaining technology in-house, could present a serious challenge for the IT department if the system is distributed across many jurisdictions.

This may not currently be a big issue in Asia as it is a relatively immature market for many vendors, with spreadsheet-based operations still prevalent. But it does seem as though the market is on the cusp of a major sea-change in this respect. "When Asian treasurers decide to go, they tend to want to make the leap to fully automated systems, having a vision of quite a sophisticated system at the end," comments Wilson.

Keep looking

Working in a regulatory space that is so diverse and seemingly in a constant state of flux means Asia-based treasurers may face challenges that those elsewhere do not, but they also benefit from having a largely solid banking sector that avoided most of the troubles of the financial crisis. However, it is clear that corporates the world over do not have carte blanche to do whatever they want with their own money. In this environment, where a business simultaneously tries to optimise its finances whilst ensuring it is not jeopardising its own core operations it will increase the requirement for strong treasury oversight. Treasurers in Asia have to be ready to tackle whatever comes their way and if that means leaping regulatory hurdles, then so be it! ■



Getting to grips with reconciliation

The pressure is on for corporate treasurers to do more with less. Straight-through reconciliation is something which can help to free up time for treasury teams whilst simultaneously bringing about vast improvements in the efficiency of the working capital cycle. But before we can begin to think of ways to improve a process, it might be helpful to first reacquaint ourselves with the basics. In this article, we look at what the reconciliation process is, why it is important to treasurers, and what companies can do to optimise the exercise.

It's no secret that corporate treasury teams today are feeling ever more squeezed, both in terms of their time and resources. It's something that industry experts are calling the 'T-bar' effect. Not only have treasurers been taking on an increasingly strategic role within their organisations in recent years, but they are also having to juggle those new responsibilities with a more extensive operational role too.

Streamlining the account reconciliation not only frees up time that treasurers can then re-deploy to strategic matters, it could also – by enhancing the working capital cycle – make a tangible impact on the bottom line. But what exactly is reconciliation and what does it mean for your business?

The term reconciliation refers to the process of ensuring that two independent sets of records – typically the balances of two accounts – are in agreement. At a fundamental level, it is an activity individuals often perform every day or so, when we check our bank account balance to make sure that each transaction is valid. The reasons are similar in the business context. It is performed for the purpose of internal control; to check for fraud and to prevent errors and ensure financial

statements contain accurate information. This is vital because for publicly traded companies in particular, the occurrence of such errors can have very serious implications.

Bank reconciliations

A general ledger – colloquially known as 'the books' – is a collection of all balance sheet and income statements, thereby offering a complete record of every transaction over the life of a company. Supporting the general ledger are sub-ledgers, containing details of transactions within a specific account, like the detail for all issued invoices and cash receipts held in accounts receivable, for example. Sub-ledgers are typically summarised before being posted to the general ledger at the end of each business day.

> Streamlining the account reconciliation not only frees up time that treasurers can then re-deploy to strategic matters, it could also – by enhancing the working capital cycle – make a tangible impact on the bottom line .

There is always the possibility of errors, however. To check all accounts are accurate, it is necessary to reconcile the balances of the general ledger with the balances of the sub-ledger on a periodic basis in order to identify any inaccuracies in the data. The process begins by analysing the general ledger and the sub-ledger balances to identify any differences, paying close attention to items such as non-recurring transactions where the potential for error is highest.

Naturally, this is quite a complex process when performed in a corporate environment where hundreds of thousands of transactions may be flowing in and out on a daily basis. This means it is imperative to have technology, an ERP or specialist payments software that can provide a degree of automation to various stages of the process.

When a company receives a bank statement, it is also necessary to verify that the amounts detailed on the statement are consistent with the amounts in the company's general ledger, a process called bank reconciliation. Again, this can be a cumbersome process, not least because amounts which appear in the company's cash account one month might not appear on a bank statement until later. There are a number of circumstances that could lead to such outcomes. A cheque might, for example, be written at the end of February, which would not clear the bank account until early March – even though the amount would, in all likelihood, have been deducted immediately. An alternative example would be a bank service charge deducted at the end of the month, but not seen on a bank statement until early the next. Obviously, given the two examples provided above, there are often differences found between the balances on a bank statement and the balances of cash accounts. In order to report a true and accurate cash position, some degree of adjustment may be required.

Step-by-step

If there is one golden rule of the bank reconciliation process it is to add the values present on one set of records but absent on the others. The details of the process can be summed up in a few key steps. Here we provide a brief overview of each step, including the key things that the individual or team performing the reconciliations should look out for:

1. Adjust the balance per bank

Adjusting the balance on the bank statement to the true balance should be the very first step. To achieve this, one will need to add deposits that are in transit, deduct any outstanding cheques and account for any bank errors that are identified.

In the case of deposits in transit, that is amounts which have been received and recorded but do not appear yet on the bank statement, there is no need to adjust the company's records. They must, however, be listed on the bank reconciliation as an "increase in the balance per bank", in order that the true cash position be reported.

Similarly outstanding cheques that have been written and recorded in the company's cash account, but have not yet cleared do not mean that the company's records have to be adjusted. A "decrease in the balance per bank" should, however, be listed on the bank reconciliation.

Finally, the bank should be notified of any errors it has made on a transaction, whether that be an incorrect amount or omission of an amount. The adjustment made might be an increase or decrease in the balance shown on the bank statement, depending on the nature of the error. Once again, the company's own records are left unchanged.

> If bank reconciliation is not performed on a timely basis, the company would consequently be exposing itself to enormous risks. These risks manifest themselves in a number of forms. The company might, for example, have individuals stealing from its accounts. Equally, the company's banks might be making fee mistakes and charging the company too much.

2. Adjust the balance per books

Once the balance per bank has been adjusted it is necessary to look at what might need to be amended on the company's own books. This entails making deductions for items such as bank service charges, unpaid cheques, and cheque printing charges. Interest earnings and notes receivable collected by the bank must be added, while errors in the company's cash account may need to added or deducted depending on the nature of the error.

First on the list of things to be deducted are bank service charges, the fees deducted from the bank statement charged for the bank's services on the checking account. The banks might deduct such charges without prior notification. Indeed, the company usually only learns such amounts have been deducted after receiving its statement from the bank. Since the charges have already been deducted from the bank statement, the only adjustment needed to be made is to a decrease of the relevant amount in the company's cash account.

Once these and any unpaid cheques and cheque printing fees have been deducted, the final step is to add values which increase the balances on the company's chequing accounts but have not yet been listed on the books. Notes receivable, documents such as promissory notes issued as evidence of debt, fall into this category, as do interest earned on account balances. Again, these figures will be automatically added to the bank statement, so to reconcile one must simply add what is on the bank statement to the books.

3. Compare adjusted balances

Now that adjustments have been made to the balance per bank and the balance per books, the respective amounts should be of equal value. If that is not the case an error has evidently been made, and the process must be repeated again – checking carefully for anything overlooked on the first occasion – until the values shown on each are identical. To complete the process, adjustments made to the balance of books must be recorded through journal entries, whilst any adjustments to the cash balance will need to be addressed by crediting one account from another.

> Considering both the scale and importance of bank reconciliation, corporates will naturally want to optimise the way the process is performed as much as possible

Why is bank reconciliation important?

As we can see from the above, the bank reconciliation process might end up being a very lengthy, protracted procedure, especially in large organisations. Without the right technology in place, it may mean trawling through dozens of general and sub-ledgers and bank statements from a multitude of accounts covering, in some cases, hundreds of thousands of transactions. And even when there is an ERP or TMS that is able to perform some of the heavy lifting, some degree of manual intervention is almost always required. So why do companies go to all the trouble of performing this exercise on a regular basis?

The answer is relatively straightforward: risk. If bank reconciliation is not performed on a timely basis, the company would consequently be exposing itself to enormous risks. These risks manifest themselves in a number of forms. The company might, for example, have individuals stealing from its accounts. Equally, the company's banks might be making fee mistakes and charging the company too much. Without banking reconciliation procedures in place to ensure the accuracy of the books and accounts, there is a possibility that neither issue would come to the attention of the company.

If the balances at the company's various banks can be confirmed to be correct, by comparing them with the accounting records, however, it can provide an added level of confidence to the treasurer that what he sees in the books is an accurate representation of the company's cash position. Such information is vital, not only to help the treasurer make important decisions about investments and financing requirements, but also to certify that everything is in check for the auditors. Bank reconciliation, then, should be seen as a critical control to ensure a company's financial integrity.

Best practices in bank reconciliation

Considering both the scale and importance of bank reconciliation, corporates will naturally want to optimise the way the process is performed as much as possible. Thankfully, there are a number of well-established guidelines companies can follow to improve the effectiveness and efficiency of their reconciliation practices and avoid some of the common, yet preventable, problems that can occur.

Here's a list of things companies can do:

- **Rationalise the number of bank accounts**
  As a business grows and new processes are introduced, bank accounts quickly begin to accumulate. Quite often companies will find themselves with a large number of bank accounts that are effectively redundant. Of course, the greater the number of accounts one has, the greater the workload when it comes to performing bank reconciliations. If the treasury is able to perform a regular account reconciliation exercise, therefore, they might find the number of account reconciliations required can be dramatically reduced.

- **Automate (as much as possible)**
  Manual reconciliations will always be prone to error, no matter how meticulously the process is performed. In companies with high transaction volumes, the need for a high level of manual input can also be very time consuming, costly and, not to mention, open to fraud. Therefore using tailored reconciliation software which can be deployed quickly, flexibly and cost effectively can be extremely beneficial.

- **Reconcile daily**
  Performing account reconciliations on a daily basis can provide the treasurer with greater assurance over the general ledger balances. It can also help the team to keep on top of the work. After all, reconciling a handful of transactions at the end of each day should be much less demanding than tackling a whole multitude at the end of the month. Don't let them build up. ■

TMS selection

Choosing a treasury management system (TMS) is often a fraught exercise. Most claim to be market leaders. They all cover all your needs. They all guarantee a pain-free implementation. Then you have to contend with often conflicting priorities from your colleagues in IT and procurement. Our treasury insider explains a few techniques that will go a long way to reduce the risk of expensive failure.

Spoilt for choice

In many ways, we are spoilt for choice. Despite active consolidation by private equity funds, there are still several well-established old school TMSs on the market based on 20-year-old client server technology that has evolved over time. Post crisis, a gaggle of newer internet stack and Software-as-a-Service (SaaS) products have gained traction and are going global. Meanwhile, though most treasurers still feel they are a bit behind the cutting edge, the ERP vendors continue to develop their TMS offerings.

Even though they all claim to do everything, most TMSs come from specific histories, and this impacts their current functionality and style. For example, some started out as front office dealing systems, while others started in the back office. Some TMSs reflect the needs of the customer segment for whom they were first developed. Knowing this can help in understanding the system better.

BPR or customise?

Implementing a TMS can at one extreme be an exercise in business process reengineering (BPR) or at the other extreme it can be an exercise in software customisation.

The BPR scenario is that the buyer adapts its processes to the functionality of the TMS. The epitome of this school of thought is the view that SAP reflects process best practice, so it is better to adapt your processes to SAP rather than adapt SAP to your processes (In any case, you need very deep pockets for the latter!).

The customise scenario is that the buyer pays to have the software customised to fit exactly to existing processes. This sounds attractive but initial customisation is always expensive and often disappointing; then you are left with a maintenance nightmare – I know companies who run ten year old versions of their TMS because upgrading the TMS – and the customisations – is just too frightening.

Treasurers moving from Excel spreadsheet and paper treasury to their first TMS will probably benefit from taking the BPR approach. You do not want to replicate inefficient and dangerous manual processes into your new TMS, and you likely have little experience of the automated and straight through processing (STP) world of TMS.

Most treasurers will have something in between. So how do you decide which processes can be reengineered and which are immutable? One rule of thumb is to map the requirements in terms of external processes in your business. The logic here is that, as treasurer, you can easily change internal processes within treasury; but you may struggle to change wider order-to cash (O2C) and procure to pay (P2P) processes across your company. (This does depend of course on the remit of treasury, and whether the TMS is pure treasury or a CFO level decision.)

For this analysis, I would include external financial and market interfaces as being open to reengineering. For example, if the TMS has SWIFT connectivity built in, treasury can choose to go multi-bank without disrupting the rest of the company, likewise for eFX and confirmation platforms and market data feeds. Regulatory constraints may create exceptions – for example, Chinese multinationals will require regulatory compliance and appropriate market practice from their TMS.

Mapping treasury boundaries

The simplest way to describe immutable processes is to start with the inputs and outputs and then add the actions that have to happen within treasury in minimal terms. Do not

"Treasurers moving from Excel spreadsheet and paper treasury to their first TMS will probably benefit from taking the BPR approach."

forget to include your internal control requirements – if your company likes to have eight eyes reviewing FX exposures before hedging, then a TMS that only handles four eyes will not work for you. An example description:

Inputs	1.	FX exposure data from subsidiary (input.csv).
Actions	2.	Review input and explain variances.
	3.	Model hedge alternatives and agree strategy.
	4.	Execute hedges (forwards, NDFs, options).
Outputs	5.	Hedge report to subsidiary (report.csv).
	6.	FX risk consolidation to executive committee on dashboard.
	7.	IFRS compliant journal entries to ERP.
	8.	IFRS compliant revaluations to ERP.

Notice what is not covered in this description:

- We do not describe processes within treasury because we are willing and able to change them.
- We do not provide samples of the Excel sheets we currently use (because we want to free ourselves from spreadsheet purgatory).
- We do not describe our current insanity of calling banks by phone to ask prices (because we are open to eFX as an escape from operational risk and 'rip-off' phone pricing).
- We do not provide samples of the FX confirmations that we currently type up manually in Word and fax to banks (because we are open to the joys of electronic confirmation).

This rigour is especially important when you are migrating from manual/Excel to TMS, because you simply do not know what TMS can do, so it makes much more sense to ask the vendors to show you. Even if you are moving from an existing TMS, you do not know what your new solution might offer so it is best to describe requirements as openly as possible – firstly you will learn more and secondly you will be better able to differentiate between the TMSs.

Demonstrations

Once you have described your immutable processes, select the ones that are the least ordinary and ask you vendors to demonstrate how they will cover your needs in their TMS. Since a live demonstration of an unusual process may be a lot of work for the vendor to set up, select only the processes that are most unusual and critical for you.

The demonstration can really set vendors apart. The worst ones will try to get away with demonstration by PowerPoint, which is not a demonstration at all – it is more like promises which may or may not be fulfilled, and at what cost.

The better ones will demonstrate the functionality you need on their live TMS. This should highlight any gaps and allow you to realistically assess the TMS' suitability to your organisation.

There will also be differentiation between the live demonstrations. Some may stick to the minimal requested functionality. This has the merit of keeping the demonstration simple. Others may try to share what they observe as best practice. This can be a benefit, especially for treasury organisations moving from Excel to TMS.

Putting it all together

The techniques I have described are not used in isolation. What works well is a two-phase approach. Start with an RFI (request for information) exercise based on requirements lists. Invite the vendors who seem to meet your requirements to give a generic demo which gives you a chance to see the system and ask follow up questions.

On the basis of the RFI results, you will be able to shortlist the vendors who appear to best meet your basic requirements. 'Scanning' an extensive part of the TMS market; but to not waste your own, nor the vendors' time.

With the shortlisted vendors, you share the immutable process descriptions described above and ask them to demonstrate how they can cover your needs with their TMS. You can evaluate whether they cover your needs and also how much added-value their TMS brings to the process for you.

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.

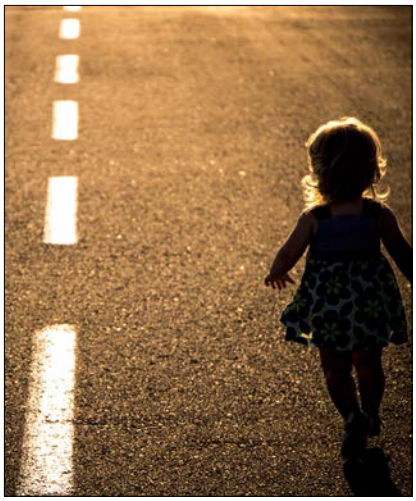
Clients located all over the world rely on the advice and expertise of Acarate to help improve corporate treasury performance. Acarate offers consultancy on all aspects of treasury from policy and practice to cash, risk and liquidity, and technology management. The company also provides leadership and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

david.blair@acarate.com

www.acarate.com

Acarate
improving treasury performance

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



INSIGHT AND ANALYSIS

The year ahead: challenges and opportunities

With 2015 looming, treasurers will no doubt be turning their attention to the year ahead. Treasury Today Asia talks to a number of experts about their predictions for the next 12 months, the challenges and opportunities in store for treasurers, and how best to prepare 2015.

FINANCING

Private placements

Raising funds via private placements has become a popular tool for corporates over the past year. The method can offer corporates greater control and speed around their issuance and can also help avoid a lot of the work that is required in traditional issuances. Treasury Today Asia explores the popularity of private placements in the Asian market and highlights what treasurers looking to use them need to know.

RISK MANAGEMENT

Tackling political risk

Most successful multinational companies (MNCs) now recognise that the way in which political risks are managed can have a substantial impact upon performance. This awareness is particularly acute amongst businesses that have had their fingers burnt by political events in the past. As the global geopolitical landscape continues to rapidly evolve, it is more important than ever for corporates to be aware of political risk and continually learn how to manage it effectively.

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

Amole Anupreet Singh, Senior Associate, Freshfields Bruckhaus Deringer LLP; **Andrew Bishop**, Head of Cash Management, Gazprom Marketing and Trading; **William Coley**, EMEA Corporate Finance Group Credit Officer, Moody's; **John Coon**, Global Treasury Manager, Dow Corning Corporation; **Manoj Dugar**, Product Head, Core Cash, Asia Pacific, J.P. Morgan; **Mike Dunning**, European Head of Corporates, Fitch Ratings; **Felicity Emmett**, Senior Economist, ANZ Research; **Evan Goldstein**, Global Head of RMB Solutions, Deutsche Bank; **Marcus Hughes**, Business Development Director, Bottomline Technologies; **Peter Kernan**, Managing Director, Criteria Officer, Corporate Ratings EMEA, S&P; **Lem Chin Kok**, Partner, Forensic, KPMG; **Jim Kwiatkowski**, Global Head of Sales, FX, Thomson Reuters; **Carmen Ling**, Global Head RMB Solutions for Corporate and Institutional Clients, Standard Chartered; **Dale Luong**, Group Treasurer, Australian Pharmaceutical Industries Ltd; **Damian Macinante**, Asia Pacific Public Sector and Non-Bank Financial Institutions Sales Head, Treasury and Trade Solutions, Citi; **Janet Ming**, Head of China Desk, RBS; **Wei Ming**, Senior Treasury Manager, TE Connectivity; **Stephen Peepels**, Head of US Capital Markets, Asia Pacific, DLA Piper; **Russell Phillips**, Head of Treasury - Asia Pacific, British American Tobacco; **Charlotte Robins**, Corporate Partner, Norton Rose Fulbright Hong Kong; **Bob Stark**, Vice President Strategy, Kyriba; **Rohini Tendulkar**, Economist, IOSCO; **Eddie Toh**, Director, Forensic, KPMG; **Helen Toh**, Treasury Director, Corporate Finance, Regional Treasury Asia Pacific, Deutsche Post – DHL; **Craig Weeks**, Regional Treasurer, Asia Pacific, SABMiller; **Blaik Wilson**, Director of Solutions, APAC, Reval.