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A focus on the future

What will be the dominant issues on your agenda this year? The outlook remains uncertain on a number of fronts. Treasury Today Asia attempts to help you navigate this landscape and assist you to plan and prepare for the year ahead.



The Corporate View

Stephen Hogan

Vice President, Regional Treasury Asia Pacific
Deutsche Post DHL Group

Financing

Raising debt in Asia

Country Focus

India



Talking Treasury Forum

This is a must-read for any corporate operating in Asia Pacific. The most senior transaction bankers in the region give their visions of the future and talk about the guidance they are providing to their customers.

Risk Management

Managing interest rate risk

Back to Basics

Designing an RFP



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2016 – No time for monkey business

Monday 8th February 2016 will see the world's most populous country celebrate Chinese New Year and welcome in the Year of the Monkey. People born under this sign of the zodiac are believed to be: smart, quick-witted, frank, optimistic, ambitious and adventurous.

Given the economic outlook for 2016, let us hope many of you were indeed born under this zodiac sign. It is perhaps too coincidental that the best-suited careers for such individuals reportedly include accounting, banking and stock market trading.

Without doubt, smartness, ambition and adventure were already abundant in the world of corporate treasury in 2015. Nowhere was this more evident than in the nominations for our Adam Smith Awards Asia – a true barometer of the industry. In November, we celebrated the achievements of no fewer than 40 corporates based in the Asia Pacific region at the Gala Presentation Lunch in Singapore. Some very impressive projects were recognised in the cash, trade, working capital, risk, foreign exchange, liquidity, investments, funding, relationship management and technology categories.

Our Top Treasury Team Asia 2015 winner, Flex Group, stood out for the innovation and teamwork shown, as well as its approach to pushing the boundaries. All these winning solutions are showcased in the Adam Smith Awards Asia Yearbook which accompanies this issue. We hope you find these case studies interesting and informative – and that they inspire and help you to navigate the uncertain environment ahead in 2016.

Our Insight and Analysis article in this issue evaluates the outlook for 2016 and we also incorporate the thoughts and opinions of five senior transaction bankers based in the region in our Talking Treasury Forum Asia. Again, there are some very interesting observations which we hope will help you to plan, prioritise, innovate and be prepared for over the coming year.

Although much activity in the treasury department can be planned for in this way, there are inevitably external forces that cannot be predicted. International relationships, for example, are extremely fragile and this is making the global geopolitical landscape difficult to forecast.

Whilst the future remains uncertain and challenging, there is no better time to embody the personality traits of those born in the Year of the Monkey, aiming to approach 2016 with optimism and ambition. With that in mind, Treasury Today Asia wishes all our readers a very happy and prosperous New Year.



Outlook for 2016

Corporate treasurers are likely to see some big emerging opportunities in the year ahead, but will need to be on guard in case the economic weather begins to turn. In this article, Treasury Today Asia offers some broad themes for the coming year, shares the views of some senior industry participants and highlights the growing importance of the ten countries which make up ASEAN.



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Although the progress towards gender equality can sometimes feel sluggish, across the globe comprehensive campaigns and industry specific initiatives are raising awareness. Here, we take a closer look at the results of Treasury Today's global Women in Treasury Study 2015, supported by RBS.



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This article provides an insight into the enormous opportunities which are becoming ever easier to exploit in this dynamic country. We look at some of the initiatives of the Modi government and what opportunities are available to the evolving number of corporate treasuries located in India.

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Understanding the engines of growth

As China forges further ahead with plans to internationalise its currency and ease the passage of trade, India is starting to liberalise commercial flows and look further afield. What do treasurers need to know and what should be their next steps as both countries take different paths towards economic advancement.



TALKING TREASURY FORUM ASIA



Cash management in Asia – a 20/20 vision

Read the views of five senior transaction bankers based in the Asia Pacific region from a recent Talking Treasury Forum held in Singapore. They provide some candid advice and guidance on the big issues corporates face in the future. The forum covered a broad range of issues from technology, cyber-security, block chain and distributed ledger to new national payment infrastructure, regulations, trends in trade and China.



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After the bond rush

After three successive years of record corporate debt in the region, Treasury Today Asia investigates the debt landscape going forward. The increased use of corporate bonds and the issues around refinancing debt, alternative finance sources and the possibility of default are explored.



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Here we assess the reasons you need to focus on interest rate risk management and what this all means for treasurers operating in the APAC region. The connection between interest rates and FX, the sources of risk, matters of policy and strategies to mitigate such risks are covered.



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Stephen Hogan
Vice President, Regional Treasury Asia Pacific



Treasury Today Asia talks to Stephen Hogan, Vice President, Regional Treasury Asia Pacific about how he ended up managing the Regional Treasury Centre of Deutsche Post DHL Group in Singapore. Hogan explains his role and how treasury has become a core business partner as well as sharing some of his personal opinions and an interesting hobby.

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In a decent proposal

In this article, Treasury Today Asia offers some practical advice and guidance on how to prepare a Request for Proposal to give you the best chance of achieving your goals. We also include a checklist to help you through the process.



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

Masala bonds: the key takeaways

Treasurers are choosing not to exploit the recent decision by the Reserve Bank of India (RBI) to allow corporates to issue rupee denominated bonds overseas, at least for the time being.

Late last year, India's Economic Times reported that several firms preparing so-called Masala bonds – among them Power Finance Corporation – were refraining from going ahead with their issues due to the poor pricing on offer amid speculation around the US Federal Reserve's policy decision on rate hikes. But while the new asset class is yet to live up to the considerable surrounding hype, its creation should matter to corporate treasurers, and not just those in India, for three reasons.

Firstly, as noted in a recent report on Masala bonds by Standard Chartered called 'Hype Versus Reality', the opening up of the offshore INR bond market would give corporates who wish to borrow offshore an alternative to the US dollar or the euro. This is quite pertinent. Recent data published by the BIS shows that dollar credit to emerging markets like India has doubled since 2009 to more than \$3trn. Moreover, a turn in the Federal Reserve policies that has driven this trend could "pose a threat to EM firms with a high level of dollar debt by increasing their debt servicing costs, which could in turn create solvency risks". A Masala bond, on the other hand, would eliminate the currency-mismatch risk inherent in foreign currency borrowings, while allowing the issuer to circumvent the limitations of its own domestic capital market.

Secondly, an overseas offering would allow corporates access to a diverse liquidity pool and, potentially, a new class of investors not present in the onshore market. In a country where underdeveloped capital markets mean the corporate sector is overly reliant on the banks for their financing, a Masala bond might then serve as a great opportunity for some companies to refinance and diversify their capital structures. Additionally, this different investor base could mean cheaper funding, with some estimating that Masala bonds could reduce borrowing costs by at least 150 - 200 bps compared with domestic avenues. In an economy where interest rates are comparatively high according to global averages, these are savings not to be sniffed at.

Thirdly, for multinational organisations Masala bonds might also present advantages from a liquidity management perspective. The Indian government has introduced measures to restrict intercompany loans in recent years (see the Companies Act 2013), perhaps accounting for why the country is regularly cited in surveys as being one of the worst places for trapped cash, second only to China.

Masala bonds might, some commentators propose, offer treasurers a novel means for getting around such restrictions, and the move could even be seen as a step towards full currency convertibility. As Vicky Münzer-Jones, a Singapore-based banking lawyer for Norton Rose Fullbright explains: "The basic structure of a Masala bond is to settle in dollars calculated by reference to a fixed rupee amount so the currency risk gets shifted to the investor. So an Indian company could issue rupee bonds to be purchased by its parent – or another entity that needs dollars – in another country. On the back of that issue, the parent would itself then issue bonds in another currency, such as the US dollar, and after using a swap to change the currencies, the parent would take on the currency risk for its subsidiary. This is a method that could be used by companies to relieve financing pressures on Indian subsidiaries."

So while Masala bond issuance has not been quite as hot as many commentators were expecting it to be from the offset, there are a number of compelling reasons for Indian corporates and multinationals with Indian subsidiaries to be interested in the asset class. Right now, it would appear issuers are being put off by a weak rupee and a strong dollar. But the uncertainty will not last forever – and when it subsides Masala bonds will surely prove a popular funding recipe for some corporate treasurers.

In 2015, Treasury Today and Treasury Today Asia's hugely popular weekly Treasury Insights delivered news, analysis and practical advice to you, our corporate readers. As we move into 2016 we will continue to provide valuable information through our extensive research and industry leading articles, interviews, case studies and much more.

Please visit treasurytodayasia.com for the latest treasury information, insight and analysis of our industry.

Hedging strategies

“ What hedging strategies are being adopted across the region to address volatility in the commodity and currency markets? ”



Devesh Divya,
Associate FX Strategist



Robert Minikin
Head, Asia FX Strategy

FICC Research
Standard Chartered

The USD has made significant gains against Asia ex-Japan (AXJ) currencies for three straight years. This weakness in AXJ currencies has been driven by a combination of Fed policy tightening expectations, weak external demand and a collapse in commodity prices. The currencies which have been the hardest hit, not surprisingly, are the largest net commodity exporters in the region – Indonesia and Malaysia.

We believe corporate treasurers in the region have now almost entirely embraced the expectation of continued USD strength both in the run-up to and beyond the first Fed rate hike in almost a decade. In line with that, corporates in Asia with USD payables have steadily increased their hedge ratios over the past year or so. As such, while we could still see incremental hedging-related USD demand post the Fed hike, we do not expect a ‘taper tantrums’ kind of market stress scenario, as corporates are much better hedged compared to 2013. In India, for instance, central bank data as well as our own proprietary FX flow data supports the view that corporates with FX liabilities have shown an increased propensity to hedge. The Reserve Bank of India reported that hedge ratios on external commercial borrowings and foreign currency convertible bonds had improved to 41% during April-June 2015, compared to only 15% during July-August 2014.

Hedging strategies for corporates with net USD receivables have not been uniform across AXJ markets. In India, given the very attractive carry, exporters have either increased the hedge ratios or extended the duration for which they hedge their receivables. However, in Malaysia, where domestic currency depreciation has been far more entrenched and the carry is not as attractive, exporters have generally remained on the sidelines awaiting better levels to sell USD-MYR.

In North Asia, China’s FX policy is in transition from an official focus on the CNY value against the US dollar to a focus on the CNY’s value against a trade-weighted basket of currencies.

This creates scope for greater two-way variability in the USD-CNY spot rate and over time will likely prompt more active hedging of forward CNY-denominated receivables and overseas FX payables by corporates in the region. So far, MNCs in Asia have been particularly active in hedging their FX exposure. Mainland China exporters appear to have scaled back their USD forward sales following the August China fix reform and mainland importers may have boosted holdings of USD deposits onshore. However, there is still considerable growth for more active China importer hedging of FX risk – not least as the domestic options market finally springs into life.

Commodity prices at multi-year extremes have sparked an upturn in corporate hedging activity both by producers and consumers with a particular focus on metals (such as copper and aluminium). Consumers may have been active in longer forwards locking in depressed prices while option strategies potentially help protect producers from balance sheet stresses associated with any new downdraft in global commodity prices.



Ian Farrar
Corporate Treasury Leader
PwC China & HK

There has been considerable concern about currency volatility building over the last year. The weakening euro at the end of 2014 and early 2015, and the devaluation of RMB over three days in August 2015, were events that focused corporate minds on hedging possibilities that their companies perhaps had not previously considered in earnest. Last year also saw commodity prices plummet. Ensuing hedging strategies aimed at benefitting from such declines have tended to be industry – and often entity – specific. Chinese airlines, for instance, tend not to hedge fuel, giving rise to windfall gains compared to other airlines locked in at much higher rates. Unhedged airlines, however, are obviously susceptible to future increases in the price of oil if they remain unhedged.

Given the recent sea change for commodities and currencies, now might be a good time for corporates to revisit their hedging strategies. But such a review across Asia Inc is not necessarily evident from available information. When we help companies review hedging strategies, it is not uncommon to find that decisions are not aligned with the company’s claimed hedging objectives. Equally, a closer look at these strategies may reveal that they are only optimal at certain points in the range of commodity or currency rates. For example, the use

of certain instruments might be a sound strategy when oil prices are low, but not further up the curve.

We often find there is also an element of commodity basis risk. Corporates often do not hedge their entire exposure – frequently on the grounds of availability of suitable instruments, a lack of clarity where they might uplift bunkers, or because the cost of a matching instrument is prohibitive.

Hedging strategies in currency markets can generally be split into two main areas: FX exposures arising from purchases/sales ('trading') and exposure to foreign currency debt. Historically, many Asian companies have not hedged, or (for those that have hedged) under-hedged their FX exposure from trading activities. In some cases, this was because they were actively taking a position on future currency movements. In others it was due to inadequate forecasting capabilities; if a corporate cannot reliably estimate the extent of their currency exposure in any period it is often prudent to scale back hedging activities. Those companies that have hedged tend to use simple instruments – swaps and forwards. We are, however, seeing more companies at least considering options-based products, particularly those dealing with RMB.

Finally, in 2016, we hope to see a slight change in the mind-set of some companies, typically those new to hedging. These companies tend to view the success of their hedging based on whether or not they achieved a better rate. Instead, treasurers need to measure their hedging strategies based on whether it achieved their objectives, regardless of whether a hedge 'won' or 'lost'. For example, did they 'fix' their cash flows successfully, so they had certainty? There is a lot that can be done to manage ongoing volatility; it's largely a question of making sure decisions made in the name of risk management are being made for the right reasons.

Tony Marrinan

Head of Financial Sales, APAC

OpenLink

The Asia Pacific region has suffered from a significant amount of volatility in recent years. Within treasury departments, companies are having to adopt new strategies to manage these volatilities – and even look to ways to profit from them. We are seeing companies respond in a couple of different ways. At a higher strategic level, companies are having to re-evaluate their hedging policies and strategies and on a tactical level, they are attempting to view and manage their risk holistically across the enterprise.

Strategic reviews are being undertaken by many companies attempting to better define the risk/return profile of

the enterprise. These endeavour to ensure that all risks are identified and quantified before policies are formulated to manage these risks. Increasingly, these policies are becoming a matter of consideration for the board who need to agree on the nature and structure of hedging strategies. Factors for consideration in a strategic review include: minimising year-on-year cash flow volatility, protecting financial targets, managing financial risk within a board approved risk management framework, maximising the use of increasingly tight bank counterparty credit risk and available credit lines, approving an appropriate budget for option premiums and defining the size of mark-to-market position of derivatives. Corporates will, of course, also be looking at competitor hedging strategies.

Tactically, one of the hurdles to effective hedging has been that many businesses place a distinction between currency hedging and commodity hedging. Traditionally, commodity hedging has taken place in the procurement department, while currency hedging is carried out by the treasury. However, there is increasing recognition that there is correlation between these two risk areas, and effective risk management cannot be pursued while these are siloed. Most businesses recognise the most effective hedge is the natural offset. Therefore, corporates need a holistic view of commodity price risk, FX exposure risk, and liquidity (interest rate risk) to maximise the benefit of possible offset. This can be hard to measure and control when commodity hedging is managed by procurement, FX risk by treasury, and liquidity risk by finance.

Consequently, more and more companies are bringing these risk areas together under a single management – risk management, treasury or finance. This presents many benefits, including: improved risk management across the enterprise by enabling complete visibility to correlated risk factors, maximised value of hedging expenditure by eliminating 'double hedging' and improved decision-making by enabling integrated risk modelling, simulations and analytics reporting. Corporates can also measure pre and post trade hedge effectiveness to minimise earnings volatility. This enables the enterprise to automate hedging rules and methodologies to ensure that hedges are being correctly designated. This benefits finance by giving reassurance that earnings statements are being correctly reported and subject to minimal volatility. Finally, being able to measure hedge effectiveness and minimise earnings volatility enables the business to automate the application of hedge accounting rules and methodologies to ensure hedges are being correctly treated. It also provides reassurance that earnings statements are being correctly reported.

Globally, we are seeing the rise of corporates with considerable exposure to commodity and currency risk through their supply chain evaluating solutions to best help them hedge and manage considerable input price changes to their business.

The next question:

"Since the financial crisis, corporates in emerging markets (EMs) have been able to borrow increasingly cheaply in foreign currencies, leading to record dollar denominated bond issuance in Asia. Where should EM corporates focus their funding strategies following the rate lift-off recently embarked upon by the Federal Reserve?"

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



All eyes on China?

Treasurers will be watching developments in China closely in 2016; it is ASEAN, however, where we may yet see the greatest, most enduring changes. Treasury Today Asia asks industry experts what is in store for the year ahead and what treasurers should be doing now to prepare.

There should be no prizes for guessing which Asian economy the rest of the region – and indeed the world – will be watching most anxiously in the year ahead.

The slowdown in China has been on corporates' minds for some time now; in the first quarter of 2015, 13% of respondents to J.P. Morgan's survey of more than 80 treasurers in Asia Pacific cited the China slowdown as the biggest macroeconomic issue affecting their business outlook today. Two quarters later, and 48% rated it as their most significant macroeconomic issue. "It has affected a lot of the plans that corporates might have to achieve in terms of what numbers they have committed or budgeted. Clearly, it's a pressure that many companies are feeling," says Gourang Shah, Treasury Services APAC, J.P. Morgan.

The Asian century

Indeed, the difference between emerging market (EM) growth and developed market growth is narrowing. When you

compare China and the US in terms of growth rate, Shah explains, there used to be a difference of around 6-7% between their GDPs. Now that is more like 4-5%.

Against this backdrop, any business that is supplying commodities to China – whether it is in Brazil, Russia, South Africa, Canada, Australia and so on – will be feeling the effects of the China slow down.

"A lot of components are also made in Asia so you will naturally see the effects here as well as in the big commodity producing countries," says Shah. FX volatility is also an effect of the growth compression between EMs and developed markets. "There has been more money moving into dollars and at the same time, the Asian economies are not able to decrease their interest rates to spur growth because of the currency impact that is happening on the other side." As a result, we are seeing more volatility.

According to Shah, however, this combination of factors will not affect the region's domination. "We still believe that the

21st century is going to be the Asian century. All economies go through a cycle; China is no different.”

If China’s continuing growth story over the long term still looks assured, neither is its prospects in the immediate term quite as bad as some feared last autumn. The country’s frothy real-estate sector is a perennial risk, of course, but experts like Alessandro Theiss, a researcher and analyst at Oxford Economics, believe that most other areas of the economy are in relatively robust shape, a reality which is reflected in the markets. “We feel that the risk of a hard landing market participants have priced in following the August rout is relatively modest,” says Theiss. “This is because there is quite a lot of scope for policy still to be eased in China, especially fiscal policy. Overall we expect growth to slow, but in a relatively gentle, managed fashion.”

With all this in mind, perhaps we should consider what corporates should have on their ‘to do’ lists for the upcoming year. Shah highlights a few potential areas for consideration.

A bumpy ride

First and foremost, treasurers need to insulate their companies against the heightened volatility we have been seeing of late in global financial markets. “We are entering a volatile phase for the next year or so,” says Shah. “Essentially, it is similar to driving on a bumpy road, you have got to take control of the vehicle. In the same way, you need to have good infrastructure to manage cash funding risk and be prepared for the worst case scenario.”

For instance, if a company’s free cash flow generation is lower than expected, the treasurer must be able to manage the liquidity needs of the business accordingly. What’s more, he suggests, because it is possible that the environment will become still more turbulent, treasurers need to ensure they take a close look at risk management policies.

They will need to be especially watchful following the recent change to US interest rates. “There will be a lot of volatility,” says Priyanka Kishore, Senior Economist, Oxford Economics. “I don’t think any emerging market will be spared, but Malaysia tops the list not least because of its trade linkages to China, but also because of its foreign investors in terms of its bond holdings. We all saw what happened to Brazil, Turkey, and even India (an economy with very modest linkages with China) when the CNY was devalued last August. This is pretty much in line with what happens when market tensions increase – asset managers tend to stop differentiating on domestic fundamentals and they treat EM as an asset class.”

It isn’t all doom and gloom, however. China is opening up and is now beginning to allow corporates the freedom to convert and send funds cross-border (still subject in certain instances to regulatory approval). This of course opens the door to a whole new range of liquidity management possibilities for corporates in China. “There are now opportunities for companies to embed China in their global treasury infrastructure when looking at cash pooling,” says Shah. “Those that haven’t done so should prioritise this in 2016.” Corporates can now: start billing in RMB cross-border, hedge offshore because there is enough liquidity in the Hong Kong markets for RMB and move money between China and the global cash pool, whether it’s located in Singapore or London.

In the instance that sales no longer met expectations – as has been the case in China – corporates need to ensure they have

some other source of liquidity to manage the short-term fall which this creates on the cash flow expectations. As a result of uncertainty, there is a tendency to build up cash on the balance sheet – particularly in EMs. “I think they will continue to do so for the next year, maybe longer,” says Shah. “But alternative funding sources needs to be lined up in case.”

At the same time, Shah explains, shareholders are expecting this cash to be deployed. “If you look at the more developed markets, there will be increasing activity on M&A as well as some investment in the business itself.” Sixty seven percent of respondents to J.P. Morgan’s recent survey agreed that they will be considering strategic uses of surplus liquidity such as share buy-backs, special dividends and M&A.

“We are entering a volatile phase for the next year or so. Essentially, it is similar to driving on a bumpy road, you have got to take control of the vehicle. In the same way, you need to have good infrastructure to manage cash funding risk and be prepared for the worst case scenario.”

Gourang Shah, Treasury Services APAC, J.P. Morgan

The past two decades have seen phenomenal growth in China; it is now a \$10trn economy and, according to Shah, the economy will continue on its upward trajectory. It is just that it will be propelled by a different engine. “China is now going through a change where the service economy has overtaken the manufacturing economy for the first time.” As China goes more towards service and consumption, corporates need to be prepared to adapt their strategies.

Better together

A similar degree of flexibility is required by corporate treasuries operating in South East Asia, albeit for slightly different reasons.

The Association of South East Asia Nations (ASEAN) is made up of ten countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. Ten countries which by no means present a uniform picture. “For corporates, there is fragmentation in terms of differences in capital market depth and banking sector scale which add a layer of complexity to the social, cultural and economic divergence,” explains Carli Renzi, Director, Financial Institutions at ANZ. Change has been on the cards for some time, however.

Envisioned to transform ASEAN into a region with free movement of goods, services, investment, skilled labour and freer flow of capital, the ASEAN Economic Community (AEC) progress has been ongoing for a while. The charter, signed by all members of ASEAN in 2007, set out the goal of achieving regional economic integration by the 31st December 2015, a date brought forward from the original 2020 aim. While China is endeavouring to integrate more with the global economy, then, ASEAN is endeavouring to integrate more with itself.

Despite some doubts circulating about ASEAN's patchy history with the deadlines of such inter-country agreements, interest is certainly stirring prior to the AEC initiative. "Up until recently, ASEAN has been more of an insider term. When I'm talking at conferences or to banks from outside of Asia, I'm still defining what countries make up ASEAN," says Renzi. "But I think it's going to emerge prominently in its own right, especially now that AEC is ready to go."

To illustrate what integration could mean for the region, Renzi compares Singapore and Laos. Whilst Singapore has been one of ASEAN's success stories, Laos is a landlocked country, geographically disadvantaged when it comes to industrial growth, says Renzi. It is without a doubt that Laos differs considerably in terms of development when compared to Singapore. Singapore's banking sector, for instance, has substantial regional presence whereas Laos is ASEAN's smallest banking sector (less than \$9bn).

"But when Laos is integrated into the ASEAN region, its location becomes strategically important; Laos is conveniently on the train line between China and Thailand, for instance." With freer movement of goods and services, development – including in the country's banking sector – would reach a faster pace than could be expected by Laos on its own.

"With the ten countries all comprising different levels of development, as well as having different languages, cultures, currencies and so on, it's really important that banks can equip their clients with local insights. Particularly around entry and exit strategies, supply risk, trade partnerships, distributor risk, and FX and interest rate risk."

Carli Renzi, Director, Financial Institutions, ANZ

This kind of disparity is currently spread across the whole region, and the benefits of integration therefore could be felt far and wide. But whilst waiting for the benefits of AEC to fully materialise, what can corporates operating in, or looking to invest in, the region expect?

A partnership approach

"With the ten countries all comprising different levels of development, as well as having different languages, cultures, currencies and so on, it's really important that banks can equip their clients with local insights. Particularly around entry and exit strategies, supply risk, trade partnerships, distributor risk, and FX and interest rate risk," says Renzi. ANZ predict that there will be an increasing demand for services that seamlessly connect to and within the region. The extent and complexity of service requirements, however, will depend on the customer's stage of growth in the region, as well as their strategic goals. For this purpose, ANZ, in the bank's annual whitepaper taken to SIBOS titled 'Shaping the Future of ASEAN Banking', identified how banks can approach the three sub-regions rising in line with ASEAN trade and financial

integration: the high income economies (Singapore, Brunei and Malaysia), the mid manufacturing competitors (Thailand, Vietnam, Indonesia and the Philippines) and the Mekong frontier (Myanmar, Cambodia and Laos).

"For both MNCs and banks, these sub-regions are a way to cluster strategic objectives. A degree of local customisation, of course, is always going to be necessary but to be efficient, some economies of scale and categorisation are needed," says Renzi. And it is without a doubt that corporates are keeping a close eye on where banks are investing and whether, and how, they are going to be in their present countries going forward.

Time and time again, ANZ's Renzi explains, 'reach' comes up as a critical success driver for banks to be relevant in the relationship decisions of ASEAN's MNCs. "This doesn't necessarily mean banks need to have a full service franchise, however. There are selective ways of building a highly connected bank." And according to ANZ, three broad banking approaches have emerged in the region. Firstly, the regional approach boasts substantial commitment and onshore investment to provide end-to-end services.

Next, there is the network approach which leverages key corridors, maintaining more flexibility to use other banks' services when they don't have the reach or capital onshore. There is also a partnership approach that has emerged. "This is the most common method where banks collaborate with other banks to support their customers' offshore strategies," says Renzi. Categorising banks isn't to say that one strategy is better than another, however. "It also doesn't mean the existence of rigid policies that don't adapt. Rather, that banks having a core value proposition should be able to see out the differentiated impact of integration and the rapid financial development of ASEAN," Renzi clarifies.

A bright future?

ANZ predicts that the creation of AEC will put regional growth at around 6-8% and, by 2025, ASEAN will emerge as a \$4.5trn economy. Making the most of this opportunity, corporates investing and trading in the region will be looking to be provided with a complete suite of trade and hedging solutions in G10 currencies, as well as local currencies. "This means that banks need to align their infrastructure now and build those capabilities or move to partnerships so that they can accommodate these greater local currency volumes in the future," Renzi explains.

The increasing demand for seamless connection to and within the region must be met – whichever approach is taken by a bank. Currently, cross-border banking in the region is a long way from seamless, but greater banking integration could enhance the service capability regionally, deepen inter-regional currency liquidity and improve economies of scale for banks. "For example, if you implement a regional structure, it results in better deals for customers."

Looking ahead, ASEAN certainly seems to be a good bet. The true measure of success, however, will be how well treasurers deal with the present complexities in ASEAN rather than waiting for a dramatic change that is unlikely to occur overnight. And with more market volatility expected in the coming months as US interest rates rise and China continues to progressively open its economy to market forces, rising to that challenge is becoming ever more important.



Women in Treasury: here to stay

Although the progress towards gender equality can sometimes feel sluggish, the good news is that, across the globe, comprehensive campaigns and industry specific initiatives are raising awareness and inviting everyone to join the conversation on how to achieve gender equality. Over the past few years, significant progress has been taken towards addressing legacies of inequality, with a loud and inspiring global push for diversity. Here, we take a closer look at the results of Treasury Today Group's annual global Women in Treasury Study 2015, supported by RBS, which presents milestones to celebrate, as well as reasons to keep up the momentum.

Whether new to the world of corporate treasury or a seasoned professional with many years experience, the challenges women face in the workplace are similar. This commonality provides the foundation from which a sense of unity can be built upon. Speaking about the Women in Treasury Forum held in Singapore last March, Marie Tyndall, Regional Treasury Manager for Johnson & Johnson, said: "By coming to an event like this, you can take reassurance from the fact that you're not on your own. By seeing inspirational leaders speaking about shared concerns for women working in treasury or finance, greater confidence can be built as we all experience very similar issues."

Treasury Today Group's Women in Treasury initiative aims to highlight the importance of having women integrated in the industry – at all levels of seniority. "We are bringing together

women to share their experiences, challenges, successes and failures, as an inspiration for all operating in this field," says Angela Berry, Group Publisher, Treasury Today Group.

Opening doors

Central to the Women in Treasury initiative is the annual global Women in Treasury Study. Going from strength to strength, as it enters its third year, the 2015 study attracted over 300 responses from women around the world. Just over half of all those who participated have been in a corporate treasury role for more than ten years – although for most treasury was not their first role.

Despite this, there are a solid number of women with aspirations to reach FD and/or CFO levels, 9% and 17%



respectively. With 82% also having access to training and development opportunities within their company, these percentages are only going to rise. Top tips given by the study respondents highlight the importance of career progression, including:

- “Anything is possible. Stop looking for barriers, look for opportunities.”
- “We must give the best of ourselves, demonstrate that we can work together with men and not see them as competition. There are new opportunities that warrant recognising that we do not know everything – but we can learn.”
- “Find a sponsor and start advertising yourself much more than you would naturally do.”
- “Get a good mentor early on so there is more balance towards guidance rather than learning from one’s own mistakes. Have a good idea of where you are going and have a plan how to get there; there should be flexibility in the plan to take advantage of opportunities as they come up and to make adjustments as you learn and progress. Most importantly, stay true to yourself.”

One piece of advice that is frequently articulated is the importance of getting a mentor. It was once again received positively in the study with 86% agreeing that mentoring is beneficial in helping the advancement of careers. In terms of helping the cause, 58% would be interested in being a mentor to others. Only 9% responded that they would not be interested, and the remaining 33% responded maybe. There is the implication that the benefits of mentoring could increasingly be felt in the future as the process becomes more commonplace. Sixty five percent of respondents did not have a mentor during their own career development, but it is continually referred to as a springboard for success. At the 2015 Women in Treasury Forum in Singapore, panellist Sonia Clifton-Bligh, Director of Johnson & Johnson’s Regional Treasury Service Centre, Asia Pacific, explained that “coaching and mentoring the skills from a diverse team is definitely a success factor for the organisation.”

More than qualified

Against this backdrop, it is pertinent to celebrate the success and determination of women in the world of treasury. Seventy seven percent are professionally qualified, 59% speak a foreign language and 68% would be willing to move to a different region or country to progress their career. What’s more, 71% envisage finishing their career within a corporate treasury environment.

There is also recognition of a number of other key skills that are important for roles in finance and corporate treasury – interpersonal skills, financial analysis, the ability to multi-task and influencing skills, for instance. “You need to be an excellent communicator and be able to articulate complicated concepts to a non-financial audience. You also need to be good at building relationships both internally, in order to get buy-in for your strategy, and externally, in order to get what you need from banks and advisers,” one respondent commented. Given that 67% of respondents don’t believe their career path at their current employer is mapped out for them, embracing a wide range of skills beyond professional qualifications is bound to be advantageous.

It isn’t, of course, all about what employees can bring to a company. Businesses have a responsibility for the working environment created too – and the factors ranked as the most important for career enhancement were:

1. Job satisfaction.
2. Great treasury team.
3. Competitive salary.
4. Being accepted by senior management.
5. Being treated equally.
6. Career path in treasury.
7. Access to the board.

Playing the right game

Having more women in senior roles might also promote female-friendly hospitality events across the sector. This year,



for the first time, the study assessed how these events can often encourage gender exclusion and – unsurprisingly – the topic triggered some lively response. Forty two percent reported that hospitality events are more centred towards their male colleagues, 37% disagreed but 21% weren't sure.

In 2014, only 44% of respondents reported having the opportunity for flexible working arrangements but by 2015 it had shot up to 62%.

The fact that events are often sports-related was mentioned frequently, with one respondent commenting that it's hard to argue that it's anything other than stereotyping on the part of the host when females aren't invited to events such as rugby matches. Given that the search for balance often goes to the opposite extreme and holding female-only events, the advice would be to develop a broader hospitality programme and encourage events with mixed appeal.

A kind reminder

It is easy to concentrate on how much legwork is yet to be done to achieve gender equality – 33% of respondents believe they are paid less than their male counterparts and 45% do not feel their career prospects are the same as male colleagues, for instance – but the study serves another purpose. It is a reminder that progress hasn't stalled and there are many developments to celebrate. For instance, undoubtedly a huge part of job satisfaction is achieving a desirable work/life balance and 2015 saw a dramatic increase in the number of flexible working arrangements.

In 2014, only 44% of respondents reported having the opportunity for flexible working arrangements but by 2015 it had shot up to 62%. This sharp increase would suggest recognition that employees don't always fit into neat boxes and therefore an approach that appreciates the value of flexibility is required is on the rise. Such changes are undoubtedly welcomed by the industry's women and men. We look forward to seeing you at the Women in Treasury Asia Forum in Singapore on 14th April to discuss how further triumphs can be realised.

Women in Treasury Asia Forum 2016

A growing number of women are finding their voices and inspiring others to achieve progress – you can be one of them. If you are interested in attending our Women in Treasury Asia Forum on Thursday 14th April 2016 at The South Beach, Singapore please contact our Global Head of Events, Lisa Bigley, lisa.bigley@treasurytoday.com, telephone: +44 (0)13 0462 9016



BE INSPIRED

BE INVOLVED

BE THERE



India: ready for take off

India has long been considered a country of enormous opportunity, but in recent years numerous factors have prevented it achieving its full potential. Change, however, is in the air and India may soon be ready to take its seat at the economic top table. What does this all mean for the business and treasury landscape in the country? Treasury Today Asia investigates.

In 2016, the IMF predict that India will grow faster than any other major emerging economy at 7.5%, eclipsing the 6.3% predicted of China in the same year. If correct, this will prove a big boost to the Modi government which entered office with a promise to transform and grow India's then troubled economy.

In his first 12 months in charge Modi took a number of small, but significant steps in the right direction, to modernise, liberalise and open up the economy to more foreign direct investment (FDI) and make India a more business friendly location. For instance: the red tape has been loosened and many permits required to do business can now be obtained online, there has been increased spending on India's infrastructure, corporate tax is due to be cut an unprecedented 25% over the next four years and investment limits on sectors including insurance and defence have been lifted.

Overall, it seems that this strategy is working. India is not just growing at a great pace, it is also proving to be the world's most popular investment location. According to a Financial Times

study between January and June 2015, the country garnered \$31bn of FDI, surpassing China (\$28bn) and the US (\$27bn).

And India, it seems, is set to continue in this positive direction, despite the strong economic headwinds being felt across emerging markets. The reason for this, according to Indian Finance Minister Arun Jaitley, is because the country is a net importer of commodities, unlike many other emerging economies that are net exporters. As a result India, in recent years, has saved \$44bn from the drop in oil prices. This dynamic has also enabled India to build its foreign exchange reserves to an all-time monthly average high of \$328bn. India's strong fiscal position was echoed by ratings agency Moody's that said: "India is less exposed to global risks because of its more resilient economic growth and the impact of positive policy reforms momentum."

Despite this, it hasn't all been positive news for Modi. A number of the government's larger economic initiatives – such as amending the land acquisition act, standardising tax and

revising the labour laws – have hit roadblocks and will require more support before they are passed through parliament. Therefore, according to numerous commentators, India still has some way to go before it can reach its full potential.

The financial sector

A key component in India's journey will be the financial sector which is widely regarded as being fairly well developed and is dominated by local state owned lenders such as the State Bank of India, ICICI Bank and Bank of Baroda. Just under 40 foreign banks are present in the market, these however have a limited share of the total banking assets (around 5%). The rest of the sector comprises privately owned banks and rural or regional lenders.

“There is an over reliance on the banking system for addressing the funding needs of corporates which then puts pressure on banks in times of distress. Alternative financing mechanisms are still evolving.”

Harish Barai, Senior Deputy Manager, Corporate Finance – Treasury, Larsen & Toubro

Given the dominance of the state owned banks, the government looms large over the financial industry. Yet the Reserve Bank of India (RBI), which regulates the sector, has become increasingly independent in recent years and no longer sets the rate of interest banks charge. It does, however, play a role in dictating where the banks cash must flow – notably into priority sectors such as agriculture and infrastructure projects. As a result, the state owned banks have invested heavily in many unprofitable projects, and as the Financial Times recently reported, have been left in aggregate with an alarming level of bad or doubtful loans which may perhaps limit their willingness to lend moving forward.

Limited financing options

Corporate treasurers in India are certainly keeping a close eye on what is happening in the sector, and for good reason. As Harish Barai, Senior Deputy Manager, Corporate Finance – Treasury at Larsen & Toubro explains: “There is an over reliance on the banking system for addressing the funding needs of corporates which then puts pressure on banks in times of distress. Alternative financing mechanisms are still evolving.”

One of the alternative mechanisms still evolving is the capital markets which are considered undeveloped. This has been cited by numerous bodies as a serious impediment to companies who require access to low-cost finance.

The reasons for the slow growth of the capital markets in India is multi faceted. Firstly, the government is a large issuer in the country and can often crowd out the private sector, particularly as banks are required to hold a large portion of government paper. Also, in recent years, a large number of Indian corporates have entered into unprofitable public/private partnerships and taken on a lot of debt. As a result, a number of these companies have been downgraded by the ratings agencies, again limiting their ability to tap the domestic capital

markets – particularly as the shallow investor base is unwilling to take on such risk. “Discussions around development of a proper bond market has been around for quite sometime and regulators are trying hard to push through, but the turn of economic cycle and loss of confidence is complicating matters further and shying investors away,” adds Barai.

In an attempt to diversify their funding needs some Indian corporates, in particular the highly rated names, have looked overseas to raise funds. “The desire by Indian corporates to use international capital markets has been because dollar funding has been cheap,” says Muzammil Patel, Partner at Deloitte India. “Even when corporates considered the fully hedged landed cost of issuing abroad, it has tended to be cheaper than the rupee cost of credit. And although the arbitrage is reducing, it still exists.”

Corporate treasurers will however be encouraged to hear that companies can now raise funds overseas using the rupee. The so called Masala Bonds look set to help internationalise the rupee and also deepen the financial system. The current RBI's norms allow an Indian entity to raise a maximum of \$750m per year through Masala bonds with a minimum maturity of five years. For corporates, the ability to issue such a bond will not only shield the Indian entity against the risk of currency fluctuation, but also allow for a more diversified range of funding sources and perhaps even lower costs moving forward.

An increasingly sophisticated environment

Whilst there may be questions around the health of certain aspects of the financial sector and limited funding options available, there is better news on the cash management front as corporates operating in the country have access to many of the products they would expect to receive in more developed markets. As Dhiraj Bajaj, Head of India Corporate Sales, Bank of America Merrill Lynch explains: “The financial sector in India is in a constant state of evolution, led not only by the RBI, but also by the government, participating banks and the large local and multinational corporations. This evolution has resulted in improvements in the payments infrastructure and broadened the range of innovative working capital funding options.”

The developments in the payments infrastructure now mean that corporates have multiple choices in executing local currency domestic payments with same day value. This is largely on account of the multiple payment platforms supporting low value and high value payments within the country. “Encouragingly, local banks have rapidly adopted core banking infrastructure ensuring that the end consumer can participate in all forms of wire transfers, minimising the usage of cheques in the country,” adds Bajaj.

These movements have enabled corporates to develop centralised models facilitated by the use of sweeping and pooling arrangements. Larsen & Toubro for instance have adopted this model. “Our cash flows back to the head office banks and we utilise technology to ensure that we have high visibility in order to avoid running idle balances,” says Barai.

To date, however, corporates have been unable to extend their centralised operations further and implement more advanced concepts such as multi-entity pooling or a full in-house bank structure. “The former has been difficult to implement because of the Companies Act and Income Tax Act which create arms-length, accounting and taxation related issues around these structures,” adds Deloitte's Patel.

Whilst advanced solutions are becoming more common in the India market, Deloitte's Patel highlights one area where banks need to improve. "Whilst there are many sophisticated products and services available in the market, many banks fall short when it comes to helping corporates find a solution and implement these." Patel believes that this is because until recent years, discussions had largely been focused on credit; extra services were then bundled in for free with this. "The desire from corporates to pay for that next level of service has therefore perhaps been lacking and the banks haven't yet seen a need to invest in this. Given that today many corporates are highly leveraged and have less appetite for credit, I expect to see this service element increase exponentially from banks."

The evolving role of treasury

It will come as no surprise to hear that the growing sophistication of products being offered to corporates in India runs parallel to the developing role of the corporate treasurer. As a recent study by Deloitte titled '2015 India Corporate Treasury Excellence' highlights, the top three priorities for corporate treasurers in India today are:

- Controlling working capital.
- Managing financial risk.
- Providing and managing liquidity.

Whilst the study highlights that these core treasury competencies will remain vital in India moving forward, it also draws out the fact that the role of treasury is becoming increasingly strategic, particularly around the areas of managing risk, funding long-term growth and acting as a financial advisor to the business.

The role has certainly evolved lots since it began its journey in the 1990s. "Corporate treasury became a big focus for corporates in the late 1990s and early 2000s because the FX rules in India were relaxed," says Patel. The RBI also became more pragmatic and pushed through a host of reforms that also make it easier to take hedging positions. "As a result of this there was considerable innovation from the banks and corporate treasury became a core corporate discipline in the mid-2000s."

At this time the role was very markets focused and it was therefore largely populated by ex-bankers with an external facing skillset. "As the profession has evolved it has become far more inward looking and treasurers in recent years have paid particular attention to understanding their liquidity flows, exposures, how their activity reflects on the P&L and a whole host of other internal pieces," says Patel. "The market element still exists but this inward facing analysis is something that drives the profession forward."

Challenges for corporates

Despite the positive steps that have been taken by the regulators, the financial sector and by corporate treasurers themselves, there remains some key challenges that are having to be dealt with. According to the Deloitte survey, Indian corporates are wrestling with the economic headwinds being felt by companies around the world. The understanding and navigation of changes in global regulation is another shared challenge with the wider corporate community.

The survey also highlights some challenges that remain more prevalent in India than perhaps in other more developed markets. One for instance, is gaining a clear view on their exposures. A key reason cited for this was the lack of adequate information from business units. Of course, many corporates around the world have utilised technology to provide this visibility, but this doesn't seem to be the case in India. "Treasury technology is not as developed in India as it should be," says Patel. "Treasurers have therefore been unable to use their company ERP to begin undertaking some of the treasury processing. A lot of data that is required for treasurers sits in this system and I know that many would like to use this as their treasury management system, but this has not yet happened."

Fraud and managing fraud risk is another challenge that while not unique to India is certainly amplified in the country. In fact, a study conducted in late 2014 by global accounting firm Grant Thornton highlighted that instances of fraud in corporate India had increased in the past two years, with over 75% of those surveyed believing that cases of fraud had either increased somewhat or significantly. The move away from paper based transactions as mentioned earlier by BAML's Bajaj is certainly helping in this regard. Despite this a staggering 71% of the Grant Thornton survey respondents believe that incidents of fraud would continue to rise over the next five years.

Evolving regulation

Many of these challenges which corporates face in India are largely a result of the country's stringent regulatory environment and the well-publicised red tape. Overall, the Deloitte study highlights that corporates appear content with the level of regulation but the laws impacting cash pooling and inter-company funding remain a key challenges. As BAML's Bajaj explains: "Repatriation of trapped cash in light of the dividend tax implications and repatriation of profits by a multinational company is an issue for many corporations. Equally, restrictions around notional pooling limit the ability for interest optimisation for local currency balances held in the country."

More broadly than these treasury specific restrictions, the red tape in India has meant the country has often been regarded as an extremely difficult and unfriendly place to do business. In many instances it still is, as highlighted by the fact that India was ranked 130th out of 189 economies in the World Bank's Ease of Doing Business survey in 2015.

But, as previously mentioned, change is occurring. The Modi government are taking significant steps to encourage greater investment in India and turn the country into the world's next key manufacturing hub through the Make in India initiative – a national programme that is designed to facilitate investment, foster innovation, enhance the skills of the workforce and ultimately build a best-in-class manufacturing infrastructure.

This is already having a positive impact as Larsen & Toubro's Barai explains: "One year from now it will be very easy to do business in India – the regulators are removing lots of the restrictions for both foreign and domestic companies. Before the Modi government came in, forms were being submitted to government agencies and they just sat there not being processed. Now we see these move through at much greater speed and it is my belief that in the next year or so India will substantially move up the ease of doing business rankings."

Understanding the engines of growth

As China moves beyond the first flushes of financial enlightenment, India is still emerging into the first light of a new economic dawn. From a treasurer's perspective, we look at the vital changes both need to make to deliver results on the global stage.

China: moving up a gear

Given the level of chatter around China's economic reform it would be easy to feel it was entering the last mile on its journey to become the global economic superpower. But the People's Republic is in no rush to push itself prematurely into this position. Its chief authorities – the Peoples Bank of China (PBoC) and the State Administration of Foreign Exchange (SAFE) – are fully aware that rushing headlong into Western-inspired reform is inadvisable.

This is not to suggest that the country has failed to make phenomenal progress in recent times in the internationalisation of the renminbi (RMB) and in the breaking down of trade barriers that would otherwise restrain its development. China is fully cognisant of the needs of its own people in terms of the development of social reforms which might otherwise be stifled by an unbridled push towards a free economy.

The journey of RMB has been long and arduous, taking in three broad stages of development, notes Amol Gupte, Region Head of Treasury and Trade Solutions, Asia Pacific, Citi. Its arrival as a trade currency has been largely successful (a quarter of all Chinese imports are already denominated in RMB). But its capital convertibility is still at an initial stage and the third phase of becoming a reserve currency is best described as 'just off the starting blocks' – joining the IMF's list of Special Drawing Rights (SDR) will not take effect until October 2016. "Becoming a meaningful reserve currency is some way off," Gupte believes. "The level of adoption of RMB will be determined by the extent of confidence that the Chinese government is able to create in the ease of using this currency."

For RMB to gain traction, it must attain the ability to be freely-denominated, it must be easy to transfer in and out of China, and there must be capacity to co-mingle the two unitary expressions of RMB (CNY in China and CNH in Hong Kong). 'Ease of use' also means establishing a regulatory environment conducive to commerce and creating a general setting which market participants are comfortable with.

Many commentators such as Gupte also argue that there is a need for China to open up its capital account, creating and developing its offshore financial markets so investors can hold RMB-denominated assets overseas. China's clearing infrastructure must facilitate easier movement and settlement of RMB across the world too. This, notes Gupte, is where the multi-bank China International Payment System (CIPS) project has a key role to play, enabling banks to offer their worldwide client-base settlement in RMB. The importance of ensuring deep liquidity in RMB both onshore and offshore must also be attended to. Only a handful of countries (eg Hong Kong and Singapore) have so far used the currency swap lines that the Chinese government has opened up to enable market players – tier one banks such as Citi – to indirectly benefit from that liquidity.

Intrinsically linked to the development of China as an economic force is its way of approaching governance, land reforms, income inequality, healthcare, pensions, education, the environment and a host of other internal matters. These will all at some point intersect with and influence the financial flows of the country. China is undergoing a monumental shift in its economic philosophy: an expectation of rapid change is perhaps to ignore these fundamental concerns. "For an economy like China, its sheer size and the fact that it is centrally controlled, means it can only slowly open up," notes Gupte. "I do not for one minute believe that large volatile swings are in any way beneficial to its progress. But the Chinese model of governance means it is sometimes difficult to predict future changes or how those changes align with the needs of Corporates in China."

As corporate treasurers recognise that they have a meaningful portion of their balance sheet in RMB, they will need to understand the influence of reform on their supply chain, in terms of their clients and suppliers. At the very least treasurers must understand how to link onshore domestic flows into offshore flows. "Just a couple of years ago money in China was effectively trapped cash," notes Gupte. "Today, the regulations allow RMB to be moved in and out under certain defined processes."

Notwithstanding the pace of reform, corporates operating in China should make it a priority to stay ahead of the curve, understanding where they can leverage and optimise. Working with a bank such as Citi, which is on the ground and engaged with local regulators, can provide both a broad and focused view of change as it happens.

India: firing on all cylinders?

India's delivery of the goods, both figurative and actual, is tied to its will to change. With an economy expected to grow in 2016 at 7%, it is one of the few emerging market countries of meaningful size and potential that has shown any real spark in recent months, notes Gupte. Higher public and private investment continues apace and domestic consumption is rising rapidly as inflation falls (helped by plummeting commodity prices). Its current government has a progressive stance on facilitating growth through legislation. India's proposed (and somewhat radical) move towards a national Goods and Services Tax (GST) will be a major boost but it has to be passed into law amidst some serious opposition. It is currently levied on the movement or transfer of ownership of goods and services by individual States. The efficiency of a unified approach is predicted to boost GDP by 1- 2%.

The country has engaged in recent times in a number of liberalising reforms allowing, for example, the issuance of rupee-denominated bonds in overseas markets (so-called Masala bonds). It has also opened up to foreign direct investments in sectors such as defence, railways, construction and insurance. However, the real test of the success of these measures is whether the money actually flows in and thereafter keeps coming: as these are very recent changes the waiting game has only just started. In India, the future efficacy of planned changes has been supported by a wealth of underlying grass-roots work in the country. Plans for financial inclusion include a scheme to issue a unique identification (or 'Aadhaar') number to all citizens (as at December 2015, 940 million had been issued). As the world's largest ID project it is being used to provide access to various government services and other activities such as bank account opening (more retail banking, small banks and payment bank licences have also been issued) and hence the participation of millions more in the advancement of the economy.

India's progress in the e-commerce space has seen online market growth of 35%. The authorities have just approved the involvement of the major international players in this sector, some of which (Amazon, for example) are now locally incorporated. The further permission by Indian authorities for single-brand retail firms to join the e-commerce revolution adds to the forward momentum of this economy.

For all this effort, Gupte argues that the major changes that must happen in India to fully establish – and maintain – its credibility are the passing and implementation of the GST Bill and changes to the existing Land Acquisition Act. The latter is intended to send the message to investors that the administrative burden of infrastructure investment in India is being lifted. Such projects are also top of the agenda. Road, rail, sea and airports provide for the free movement of goods, services and people, and will lift the economy. This is why the government is so focused on highways projects and the quadrilateral high-speed railway connecting all economic centres of the country. "These are real game-changers," he comments. However, he adds that there is constant need to tackle endemic corruption. "In a country with high economic disparity, that's large and fragmented it is idealistic to think corruption can be removed completely but it must be dealt with as it impedes meaningful growth."

As in China, corporate treasurers operating in India need to keep ahead of the game, observing the changes and staying in touch with those with access to the authorities. The wise practitioner will also pay close attention to, and learn how to leverage, India's digital agenda which, says Gupte, is moving "at an incredible pace". There are two good reasons for this. Firstly, it can deliver benefits on the expense line – there is plenty of scope to optimise: India has for a long time been perceived to be an entirely paper-based market for trade and commerce settlement but today, more than 90% of the value of settlements in India are electronic. Secondly, the shift in consumer behaviour towards the digital economy means different sales models should be investigated, leveraging data analytics to change the game in terms of market share and competitiveness.

Patience is a virtue

There may be a sense that progress is slow in India because the high expectation felt when the Modi government swept to power in 2014 (based on the guiding principle of "minimum government and maximum governance") is taking longer to materialise. But it is essential to take the longer-term view, Gupte suggests. India has made significant movement in the right direction over the past decade or so and continues to do so. Indeed, viewing China through the same long-view lens reveals a country that has made sweeping changes that could barely have been anticipated a decade ago. Indeed, as he concludes, "we are sometimes consumed by our own expectations, but both countries have made phenomenal progress". For treasurers, following this evolution, with the guidance of a well-chosen partner, is the route to leveraging such growth.



Amol Gupte

Region Head, Asia Pacific – Treasury and Trade Solutions, Citi

Amol Gupte is Managing Director and Region Head of Treasury and Trade Solutions in Asia Pacific. Based in Hong Kong, Amol is responsible for the strategic direction and development of Citi's comprehensive suite of treasury and trade solutions in Asia Pacific to meet the transaction banking needs of clients across the region and help emerging markets clients go global. A 25-year Citi veteran, Amol was most recently Region Head of Treasury and Trade Solutions in North America. Previously Amol held numerous positions in Transaction Services, including Head of Cash Management for North America; Head of Payments for Europe, Middle East and Africa; Head of Cash Management for Western Europe and Head of Transaction Services for sub-continent India.



After the bond rush

With the economic weather for the year ahead shrouded in uncertainty, corporate borrowers on Asia's capital markets are not guaranteed such an easy ride in the next 12 months. Liability management exercises may well be on the agenda for some corporate treasurers.

Is Asia's debt binge coming to an end? After three successive years of record debt sales by non-financial corporates in the region, issuance was relatively muted in 2015 and experts believe it could fall further in 2016 as the era of easy money draws to a close.

If the debt spree really is over, that means Asia's corporates are likely to encounter some tough decisions on the road ahead. The Federal Reserve has ended the post-crisis era of ultra-low interest rates, China's economy is cooling for the first time in a quarter of a century and commodity prices on a steep downward trajectory. Accordingly, emerging market (EM) currencies have plunged and refinancing costs – in the overseas markets especially – have risen. And this is all happening at a time when a considerable amount of debt is soon due for repayment.

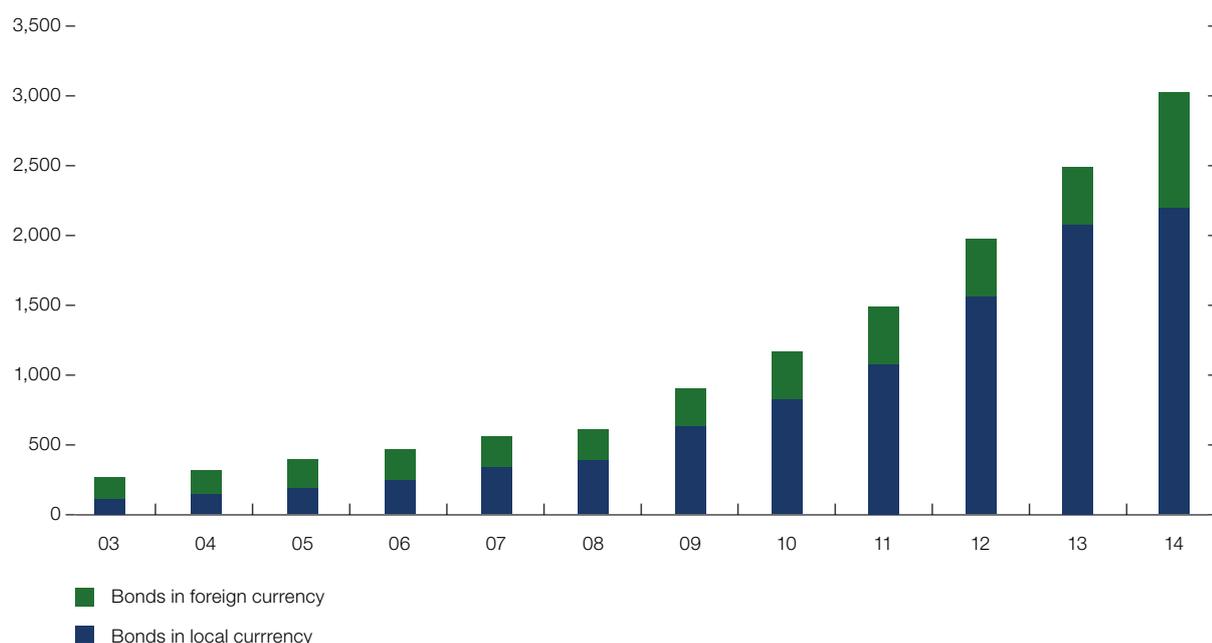
Overall corporates and governments have an unprecedented \$262bn worth of notes in currencies outside of their domestic

markets to repay in 2016, according to data recently compiled by Bloomberg. Commentators disagree, however, on what this might mean for corporate issuers in the year ahead.

Trouble ahead?

Some say that they are confident there will continue to be sufficient liquidity for those firms who decide to tap the market for refinancing, irrespective of the pace of monetary tightening at the Federal Reserve. "The simple message we are getting from investors here is that there is still a lot of cash to be put to work," says Leonard Ng, Director of Asia Debt Capital Markets at ANZ. "Gone are the days where if they did a USD deal, Asian issuers would have to rely on European or US investors for a big chunk of the transaction. These days we are seeing some deals in Asia where 80% of the deal is taken by the Asian investor base. Now we have a consistent pool of capital here that obviously gets recycled. Even though the

Chart 1: EM corporate bond composition (billions of US dollars)



Source: International Monetary Fund

issuer base has grown dramatically, the supply is still getting absorbed by the demand.”

Other analysts are, however, feeling more apprehensive about what lies ahead. “We have been warning against the risk of rapidly increasing EM debt for some time,” the Bank of International Settlements (BIS) wrote in its last quarterly review, published in December 2015. “Non-stop demand for EM credit has fuelled the credit boom, with corporates able to borrow cheaply and increasingly in foreign currencies. The turn in easy Fed policy will pose a threat to EM firms with a high level of dollar debt by increasing their debt servicing costs, which could in turn create solvency risks.”

Either way, those issuers needing to refinance appear to be biding their time. Vicky Münzer-Jones, a Singapore-based debt capital markets lawyer for Norton Rose Fulbright told Treasury Today. Besides a handful of large issues that have skewed the overall figures somewhat, the markets, she says, have been very quiet lately relative to the figures notched up in the previous three years. “This year we have seen concern regarding corruption allegations in Malaysia and not as much progress as hoped in Indonesia. Then there is still Greece, which has been creating challenges for European banks, and China with its own set of problems. It feels that there are lots of issues that have arisen to bring about a situation where companies that you would expect to see in the market are not here.”

Perhaps, Münzer-Jones ponders, this is a sign that those pressures the BIS and others have warned us of are now beginning to be felt at some firms. Once market access declines, elevated debt servicing costs (a consequence of higher rates and depreciating currencies) and instances of companies experiencing rollover problems are perhaps all but inevitable. “We are now reaching a situation where some companies might begin to default,” she says. “Given that there are fewer bond issues at the moment and the loan market has not been looking very strong either, I feel that we

will see companies getting into trouble at some point especially with commodity prices still down.”

With some companies beginning to struggle to generate the cash needed to service their debts – a situation exacerbated by the dollar’s recent strength – defaults are beginning to mount. According to Standard & Poor’s, defaults in EM economies hit their highest level since 2009 in 2015, and were up by over 40% on the year before. Some treasurers may be looking at such trends and feeling understandably nervous about what lies ahead, now that the era of easy money is drawing to a close. Fortunately, there are measures that otherwise healthy companies can take to actively mitigate risks where covenants in existing bonds are likely to come under stress.

Breathing space

Above all, treasurers of companies faced with such circumstances need to be thinking about the debt the company has in place and whether the various terms, borrowing rate and tenor agreed are the most favourable they can obtain. “If companies are finding it difficult to refinance their bonds which are maturing, they may start looking at some form of liability management,” says Münzer-Jones. “They may look at an exchange offer or consent solicitation, for instance, which would amend the terms of their bonds to defer an interest payment, extend the maturity or reduce the interest rate – ultimately something that reduces their liabilities.”

Very often it is tender offers and exchange offers (where the company is exchanging its bonds for new ones issued by itself on different terms or by a parent company or third party or doing something that could be presented as enhancing the debt for the investor, she adds. This is not uncommon. “But when companies are looking to extend or amend in order to reduce their liabilities that tends to be part of a bigger discussion between the issuer and its bond holders, and the bond holders

From banks to bonds

The role of the bond market finance has grown rapidly as a share of corporate debt in Asian economies since the global financial crisis.

Recent data from Dealogic, for instance, shows that bond issues in Asia have gained since 2010 as a share of GDP while syndicated loans have fallen. In aggregate terms, syndicated loans and bonds can be substituted for one another, depending on whether the issuer prefers to opt for the liquidity of the loan market or the longer tenors typically on offer in the bond market.

High investor demand due to the search for yield has been one of the factors fuelling the surge in bond issuance. "When there is a lot of liquidity yields become compressed and we do bonds or medium-term note (MTN) programmes, primarily because with those instruments we can raise funding at a cheaper rate than with the banks," says Joel Cheah, Treasurer, Cambridge Industrial Trust Management, a firm which has raised over \$200m on Asia's debt capital markets in the past 18 months.

There is also another – more strategic – motivation for treasurers shifting to financing on the bond markets: the desire to reduce the dependency of their firms on bank funding, and the fact that the bond markets offer greater flexibility. "Debt capital markets can provide a lot of operational flexibility. It is also about risk management though: your options can become very limited if your funding begins to dry up."

ANZ's Ng agrees with this assessment. "The financial crisis in 2008-2009 marked the turning point," he says. "Some of the banks were facing issues and withdrew from some of the markets – and that left some corporates hanging without any access to bank funding. It was around that time that CFOs and treasurers began looking at the capital markets for an alternative."

are in a position where they feel they are going to lose out if they don't agree to a certain amendment or deference of payment."

Noting that a lot of companies have left liabilities – dollar and renminbi – largely unhedged, Keith Pogson, Senior Partner, Financial Services, Asia Pacific at EY is also of the view that liability management exercises will inevitably feature on the agenda for some companies over the coming months.

"Some of those that have paper may well be thinking about that in a more active way," Pogson says. "I think most treasurers are probably thinking through now what they should be doing in the different scenarios that could play out. Some companies will be running dollar funding risks and some will be looking at upward curves and considering whether it makes sense now to extend their risk and take cheaper funding for longer."

Sweeten the deal

Yet given the way in which industry analysts expect the market to evolve over 2016, the window of opportunity for cheaper funding may not be around for long; indeed, for some firms, it may have already closed. Treasurers may, therefore, need to start thinking more creatively when it comes to financing on the capital markets.

"By using collateral, for example, you might be able to reduce the cost by de-risking the strategy," says EY's Pogson. "I think treasurers are realising they need to be a bit smarter now, and looking for ways to keep those costs under control."

The collateral pledged by companies to secure their notes might come in the form of the traditional types of securities held on the balance sheet such as T-bills, or stocks and bonds of other companies. Equally though, it could be something less traditional. We have seen numerous examples in recent years of companies unlocking value in assets on their balance sheets not traditionally considered by lenders. Adam Smith Award winners Etihad Airways, for example, used landing slots at Heathrow Airport to support a transaction; while Intellectual Ventures similarly won in the Best Financing Solution category

at last year's event for creating a new asset class through the securitisation of the company's intellectual property portfolio.

Don't panic

Given that the level of preparedness for higher funding costs differs so greatly across the region, it stands to reason that there will be some firms that find it more difficult to service their debts. But the changing conditions should only pose an existential risk for a small number of companies as experts maintain that, overall, Asia's corporates have not overstretched themselves with foreign currency issuance and rising leverage.

In terms of leverage, one could certainly argue that with such favourable conditions on the bond markets some issuers have been tempted perhaps to take on more leverage than they could otherwise afford. But this is not characteristic of the market as a whole and, for the most part, the record borrowing we have seen merely reflects the region's recent growth trajectory. "Yes, leverage may have gone up, but I don't think it is the case where they have over committed themselves in an irresponsible way," says ANZ's Ng. "If you look at the growth rates in Asia – people talk about a slowdown in China but they are still growing at 5-6%. I think leverage from their perspective is still relatively well managed."

Although, as noted above, defaults are on an upward trend in Asia, ANZ's Ng reminds us of the importance of retaining some perspective. "The simple fact is, if you look at default rates across Asia – without going down into specific countries – default rates are still at or near historical lows," he says. "Every now and then we do see one or two cases that make headlines, and every so often the press may be tempted to call it the first of many to come, but we have seen enough that they tend to be very isolated cases."

And especially if the treasurers of other companies plan, early on, what mitigative steps they can take in the event the covenants in their bonds come under stress, then isolated cases they should remain. Naturally, renegotiating the terms of the debts early on has to be preferable to defaulting altogether.

Cash management in Asia – a 20/20 vision

This is a must-read for any corporate operating in Asia Pacific (APAC). We invited the most senior transaction bankers in the region for a roundtable discussion. We asked them for their visions of the future and asked what guidance they are providing to corporates operating in the region. Read on for some enlightening and practical advice.

Participants



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Moderator
Richard Parkinson
Managing Director, Treasury Today
Group



Carole Berndt

out of particular markets and scaled down their product suites.

The challenge therefore for the corporate treasurer in my opinion is how do they create a nimble treasury environment that delivers the economies of scale, drives efficiency through the standardisation of processes all whilst working with fewer banks and mitigating the risk of being dependent on one key supplier.

Amol Gupte, Region Head, Treasury and Trade Solutions, Asia Pacific, Citi: In addition to what Carole rightly just said I would add that, if you take an external perspective, the world has changed significantly in the last 12 to 18 months. I think corporates are clearly concerned by and are grappling with the evolving macroeconomic environment and this is something that is not going to go away in the short term.

A lot of this is driven by what is currently happening in China. The country has achieved 30 years of really massive, double-digit growth and consumed a lot of commodities. The structural shift that we see occurring however means that growth is slowing and that it will no longer consume commodities at the rate it once was, this has significant implications on downstream corporates.

When what is happening in China is combined with commodity prices sinking to dramatic lows, exports failing to pick up, other domestic economies in APAC struggling and the threat of rates rising in the US, there is a lot that corporates need to consider and factor into their cost structure and risk.

John Laurens, Head of Global Transaction Services, DBS:

I would echo what Amol is saying. China's slowdown, Indonesia's slowdown, volatility in equity markets,

currency fluctuations and the decline in commodity prices are all clearly having a direct impact on corporates and their supply chains. Moreover, I think companies are still grappling with what the internationalisation of the renminbi (RMB) means for their businesses and the path it will take going forward.

Treasurers are also contending with new technology and making the right calls in this regard. Clients are requiring technology more than ever to help navigate through quite difficult waters, particularly in APAC.

Di Challenor, Managing Director and Head of Treasury Services, Asia Pacific, J.P. Morgan: In the face of volatile

“ My advice to corporates would be: work out who your real bank friends are. The current environment, for both corporates and the banks, means that relationships are going to become increasingly important, because everything else is commoditised. It is these relationships that are going to help better align the treasurer to the business and make the department more relevant. ”

What are the big issues facing corporates operating in Asia right now?

Carole Berndt, Head, Global Transaction Banking, ANZ: From my perspective, the topic that I see corporates discussing a lot at the present time, and this has been particularly evident at recent conferences, is how they should be reacting when banks change their strategy.

Whilst this is certainly not a new discussion given the focus on Basel III, the cost of capital, evolving regulatory environments and banks evaluating their geographical focus, the reality has really hit home over the past 12 months as a number of banks have pulled

macroeconomic conditions, corporates are increasingly looking to their banks for support and advice. Our clients expect us to have an intimate level of detail about the regulatory landscape and how best to navigate it.

Clients regularly ask us very specific questions about the impact of regulatory changes in certain countries, such as how they can better manage their cash flows across the region as a result of the changes, and ultimately what all these changes mean for them. Very often, the debate around regulation is focused on banks, but as the requirements of regulators continue to evolve, they are increasingly influencing the strategic thinking and decisions of corporates.

Ivo Distelbrink, Asia Pacific Head of Global Transaction Services, Bank of America Merrill Lynch:

The conversations that we are having with our clients centre around how we can help them think through and facilitate some of the fundamental changes in their commercial business models. Today you have e-commerce, mobile payments, mobile wallets, the cloud, big data: all redefining how our clients do business across industries.

These changes are having and will continue to have a profound impact to how treasury is done. So for us, right now, it is key to be reviewing with our clients established processes and established relationships; to optimise platforms and introduce digital technology; to make sure that treasury can facilitate and successfully enable new emerging business models.

Technology is a major driver in every industry. In the banking industry, there is a lot of talk about blockchain and distributed ledger which is proving a challenge. How does this affect corporates?

John Laurens, DBS: For as long as I have been in banking, technology has been a key driver of change. In reality, banks could not exist or function in the way that they do today if they hadn't been at the forefront of innovating and pushing the development of new technology. So whilst we talk about FinTech and the impact startups may bring – which could be significant in the transaction banking world – we have to remember that banks themselves at their very core are FinTech companies.

When we look at new technologies such as distributed ledger technology, there is a plethora of solutions looking

for problems. That said, we are experimenting with the application of such technologies across the payments and trade businesses, which I believe will ultimately give corporates more choices, as well as the potential to lower the cost of operations and enable near real-time transactions across borders.

It is a really interesting and rapidly changing landscape. There are a lot of assumptions being made too early around how the distributed ledger technologies may pan out, but, overall this is a really exciting time to be in this industry because of the extent of change that's likely to take place.

Carole Berndt, ANZ: You look at the commentary around FinTech and it often suggests that traditional banks are doomed. But if you look back over the history of banking, and



 **John Laurens**

“China’s slowdown, Indonesia’s slowdown, volatility in equity markets, currency fluctuations and the decline in commodity prices are all clearly having a direct impact on corporates and their supply chains. Moreover, I think companies are still grappling with what the internationalisation of the RMB means for their businesses and the path it will take going forward.”



J.P.Morgan

Di Challenor

customers paid by cash, a cheque, or by wire transfer, so long as they were able to collect. And as a bank, it's our job to provide this service efficiently and clients must trust us to deliver this.

Amol Gupte, Citi: I don't see FinTech as something on the outside that is going to eat into traditional banks. Technology is an enabler for banks, and it is only a matter of time before banks come together and embrace the new wave of FinTech to see what else they can do to elevate the quality of services and value that they provide to their clients. I am not suggesting that we replace what banks have built, in terms of SWIFT, over decades. But there is potential to try something in parallel on the back of this technology.

For now, banks continuously invest in the next generation of technology infrastructure. Citi has been looking at distributed ledger technology for the last few years with a skilled team. We have up and running three separate systems that deploy blockchain distributed ledger technologies. They are all within our innovation labs so there is no real money passing through these systems. We also have an equivalent to bitcoin, again within the labs, so we can mine what we call a "Citicoins". By exploring disruptive new technologies, we can help clients to understand the potential of digital money and how we are, and should be, digitising them, where their experiential value promises to take us and what security, technology, regulatory and financial considerations they pose along the way.

“ Data and cyber-security are very important, especially when treasurers are looking to drive efficiency and mitigate financial risks. It can be easy to forget about the information security piece. When corporates are looking to drive down costs, they need to be aware of how the changes may impact their data security. ”

specifically transaction banking, it is not that long ago we were all talking about the internet and how that was going to change banking, and that banks could not adapt.

If you look at the industry today, I agree with John, we are a FinTech orientated industry, banks are technology. What is happening now is just the next phase of this evolution. The challenge is how to merge the opportunity that technology provides with the regulatory constraints, this is the real challenge.

Di Challenor, J.P. Morgan: When it comes to technology, trust is critical. While everyone agrees that it improves connectivity, removes barriers and when done correctly improves the efficiency of a business, I believe there must be a high level of trust between the client and the bank. Someone recently commented that they were not concerned if their

Ivo Distelbrink, BofAML: I do think distributed ledgers are a huge

opportunity to do things better, cheaper, faster, both for us as banks ourselves, as well as for our clients. Yet, it requires, over time, agreed protocols and open source code, so that all participants run in the same direction when it comes to developing distributed ledger applications.

As long as we do that, I believe the potential and the opportunity to be immense and, in that case, I don't think it is the banks who are nervous about the challenge. I think the established infrastructure players should be and are nervous right now.

Carole Berndt, ANZ: Technology reduces barriers to entry. There used to be a period when if you wanted to become a transaction bank it was a big task to build a mainframe,

develop bespoke host-to-host connectivity and clearing system connectivity.

This isn't the case today. ANZ for instance has only been in the market for eight years but technology has enabled us to be very nimble, and in a very short period of time, reach peer capability with banks who have been here a lot longer. Whilst on the one hand that is great, we all need to be conscious of it, because reducing barriers to entry in the current market environment means there will be more competition, and we need to think about how our strategies play out in this environment.

So what is the advice to corporates right now? There are new technologies as well as lots of new national payment infrastructures in APAC. Should corporates be quizzing you on your blockchain technology, or should they just wait and see what develops?

Carole Berndt, ANZ: My advice to corporates would be: work out who your real bank friends are. The current environment, for both corporates and the banks, means that relationships are going to become increasingly important, because everything else is commoditised. It is these relationships that are going to help better align the treasurer to the business and make the department more relevant.

Di Challenor, J.P. Morgan: Corporates are increasingly looking towards technology to provide them with the necessary business solutions and I am regularly asked how much J.P. Morgan is investing into our technology in the region. It's essential that corporates sit down with their banks to discuss the banks' own technology strategies. Corporates should also work with their banks to ensure that optimum technology is being employed to further enhance their own supply chains.

John Laurens, DBS: This point is really important, because corporates also need to know where that money is being invested. In recent years, as an industry globally, perhaps particularly amongst the global banks, a significant amount has been invested in risk resolution and compliance, so the question corporates should ask is how are banks channelling investment into the future as well as into the development of new technologies?

Corporates, as always, need to ensure that their banks are investing in the future, and that their transaction banks

will be there for them in terms of driving technological and market infrastructure change.

What about the new payment infrastructures that technology is enabling?

Ivo Distelbrink, BofAML: Our clients clearly welcome the speed of faster payments but what they value even more is the 24x7 window. In addition to this, clients also value the richer information and data that is enabled by these new clearing systems. With this data, treasurers can improve end-to-end reconciliation and optimise flows.

So there is more to these new systems than speed and in fact, at some point, the industry and our clients will have to ask



“ The commercial business models of corporates are changing; these changes are clearly changing the priorities and responsibilities of corporate treasury. A treasurer's focus on working capital is business as usual and will always be there. But, the strategic treasurer is now working with CEOs and heads of strategy to understand how to facilitate new business models. ”



Amol Gupte

7 convenience at low cost to the consumers.

Amol Gupte, Citi: In terms of what I would say to corporates, I would break it up into three big buckets. Firstly, given the external environment a lot of corporates are focused on profitability. The first reaction when this happens is for corporates to cut expenses, but I think it is a great time to look at capital structuring and take a long-term view to decide what to do when times are tough. We therefore see a lot of clients doubling down on their efforts on bringing far more efficiency into their working capital cycle.

The second area I suggest keeping an eye on is regulations. Whilst these can be challenges they also provide an opportunity, especially regarding what is happening in China. For example, the benefits of unlocking all of that trapped cash that has been building up in China are also felt offshore. With ongoing deregulation, companies are increasingly able to have those revenues sitting inside their global cash pool.

Finally, the last big area is around cyber-security. There have been some very high-profile incidents in recent months and it is easy to think that these will always happen to somebody else. But, it is something that every corporate should have close to the top of their agenda.

Di Challenor, J.P. Morgan: I agree. Data and cyber-security are very important, especially when treasurers are looking to drive efficiency and mitigate financial risks. It can be easy to forget about the information security piece. When corporates are looking to drive down costs, they need to be aware of how the changes may impact their data security.

“I don't see FinTech as something on the outside that is going to eat into traditional banks. Technology is an enabler for banks, and it is only a matter of time before banks come together and embrace the new wave of FinTech to see what else they can do to elevate the quality of services and value that they provide to their clients.”

'when is fast, too fast?' Do corporates really want instant irrevocable credits? The reality is that many probably do not often want this and for very good reasons.

John Laurens, DBS: In my view, what is going to be important for us as an industry is that new payment systems will drive convergence of high and low value payments. New real-time payments infrastructure will also start to blur some of the distinctions between cross-border and domestic payments.

As an industry, we have some work to do to make sure that we don't have a broad array of domestic standards emerging. The challenge is how does one achieve standardisation across newly developed national payments infrastructures, all of which have been driven by governments or regulators to deliver 24 by

Carole Berndt, ANZ: There are also other factors. I had an interesting discussion with a corporate the other week. We have been talking working capital as long as I have been in the industry. That's a good couple of decades. And we always talk about optimising it and this treasurer was saying: "Look, I really appreciate everything you are doing and the focus on working capital, and I had this great project and I have really improved it. But, the other day, it was completely blown out of the water." And I said "how did this happen?" to which he replied "you know, someone in our procurement department decided to change the way that we ship our goods. Instead of airfreighting them, to save money they now ship them by sea. That has added 60 days into my working capital cycle." So it is

interesting, we always think about it in the context of the banking arrangements, but there is a far broader discussion including something as simple as transportation.

How much are treasurers getting involved in the business as a whole in APAC? Is treasury getting out there and working with the other parts of the company on taking advantage of changes?

Amol Gupte, Citi: They are front and centre. For instance, we work with a consumer company in India. They now have data on 100m individual shoppers, and their buying behaviour. This is the type of information technology and data that can then be utilised by treasury and the wider business. Treasurers are now thinking about what this means to their cash management collections and how they can get more data and pass this onto the front office for them to take marketing decisions.

Ivo Distelbrink, BofAML: The commercial business models of corporates are changing; these changes are clearly changing the priorities and responsibilities of corporate treasury. A treasurer's focus on working capital is business as usual and will always be there. But, the strategic treasurer is now working with CEOs and heads of strategy to understand how to facilitate new business models.

In this light, questions now being asked are: can corporate treasury manage positions 24/7, across currencies and time zones? Can corporate treasury monetise mobile wallets, gift cards, loyalty points and so on and so forth, beyond simply managing cash? Can corporate treasury use big data to make better funding decisions? With such questions treasury has well and truly moved beyond managing day-to-day working capital into the C-suite, actively driving the redefinition of commercial business models.

John Laurens, DBS: The corporate treasury has always strived to be more than its central function as a utility to the company, and to become a strategic advisor to commercial business lines. This is an evolution that has taken place over recent years. But, given the extent of change today, be it regulatory or technological, there's never been a better time for treasurers to play the strategic role they have always sought to play in their organisations.

Carole Berndt, ANZ: I have recently come from Europe which has a strong consumer protection environment, and increasingly so. I actually think there is a tsunami

of regulatory change headed our way, focused on protecting the consumer that will impact banking and will impact the corporates who work in the consumer space.

For instance, the actions by European governments regarding bank behaviour, how they charge, and the speed of payments. I think Ivo made a very good point, is immediate real time payment a good thing? The regulators certainly think that for the consumer, it is. These trends lead me to believe that we are going to face some challenges as governments focus on increasing consumer protection in the financial world. I think it is the second wave of the impact of the GFC (Global Financial Crisis).

Regulation has come up several times. How does a corporate client stay current when they are operating across the region, with multiple jurisdictions and the possibility of a second wave of regulation coming through? Should corporates be looking to their banks to keep them up to speed?

Carole Berndt, ANZ: Keeping our clients up-to-date with regulatory change is an important part of our role. We are constantly seeking to build deeper relationships with our corporate clients and offer our expertise and knowledge to





Amol Gupte, Citi: I echo what Di and Carole said, banks absolutely play a big role, but corporates also need an independent view. The discussion is also broader than regulation, it covers tax as well. Corporates need to form their own view on what they can and cannot do because their entities' structures, their location, the way they fund themselves, the way they borrow between entities, all have profound tax and cost implications.

John Laurens, DBS: I'd echo these sentiments, the key word is advisory. In the transaction banking space, if you are not engaging your clients in an advisory capacity today, then you are not going to be delivering value to your customers or competing very effectively in the market. It is what customers are looking for.

Di Challenor, J.P. Morgan: There's a lot of conversations about transaction banking becoming commoditised but I don't believe it is. Being a trusted advisor means treasurers should be able to look us in the eye and know that we will treat their business like it's our own and always deliver what they need to the highest possible standards. I don't believe you can commoditise this.

them through multiple channels. Nevertheless, treasurers also need to have an independent perspective.

Di Challenor, J.P. Morgan: A bank's compliance department can add a tremendous amount of value in these conversations as they help us to navigate through the regulations. However, we have to be careful because while we can advise our clients, we don't have the fiduciary responsibility to make decisions for clients.

It is a difficult line to walk, isn't it?

Di Challenor, J.P. Morgan: It is a difficult line. The securities business has done this effectively for a number of years as they have had people who are able to advise their clients around what is happening in various settlement systems and what's happening on securities.

I think the cash management industry needs to step up in this area and offer further advisory services. We have the access to regulators that clients don't necessarily have, so they increasingly look to us for advice. This is especially true in markets like China where banks are key to any proposition – regardless of cross-border sweeps, two-way structures, or a cross-border loan – the regulator would want to see the corporate and their bank. It can be a fine line.

We touched on cyber-security which is an important element in trust and that is something we should discuss.

Di Challenor, J.P. Morgan: Cyber-security can be broken into two components: cyber-attacks and wire fraud. Wire fraud has become much more prevalent. We used to be more concerned about manual payments but now we spend a significant amount of time ensuring that our straight-through payments are safe.

We are starting to see banks come together in the US to discuss this, which is a very positive development. I would like to see greater collaboration in Asia where we can hold these conversations and share best practice as to how to mitigate cyber threats. It is also vital that we work to educate corporates and each other as an industry. Protecting the industry is critical.

Carole Berndt, ANZ: One must also consider that often when a corporate has suffered cyber-attacks there is a large element of human error. So, yes, we must make sure that systems are safe and secure. But, there does need to be an increase in ownership and awareness around the manual processes and the people management that makes the technology to protect corporates from cyber-crime. This whole debate is as much about human behaviours as it is about systems and technologies and these very sophisticated scams.

John Laurens, DBS: Education is vital. The majority of wire fraud that is identified is caught typically because something has been spotted as being unusual or out of the ordinary. The more that banks can do to heighten awareness in this regard is vital. It is not just a technological-driven solution set. There is also a human aspect to it.

Carole Berndt, ANZ: To be a contrarian, we talk about mobile technology. Is a treasurer really going to sit on the tube on a Monday morning and be on their mobile phone to rush through authorising payments? Because that is going to increase the potential for them to miss these nuances and patterns. It is an interesting debate, technology is going to make treasurers more mobile but, if not implemented correctly, it is also going to expose a lot more, I believe.

Ivo Distelbrink, BofAML: We have a responsibility right now to educate our clients around cyber-fraud and cyber-security. Many clients just still do not have the understanding and the awareness over where and how cyber-fraud can enter into their systems. Moreover, some of the younger generation just don't care; they are digitising their entire lives and they have no issue with digitising money as much as they digitise their social life and everything else around them. I believe we have a responsibility to educate those who do not know or do not care. There is a responsibility to educate those who aren't yet fully aware. It's an ongoing effort. It's important.

Amol Gupte, Citi: While banks have taken significant steps to bolster cyber-security efforts, they will continue to be challenged by the speed of technological change and the increasingly sophisticated nature of threats. Acting quickly against cyber-crime is essential. One way Citi does this is through the use of the "cyber-kill chain" methodology. The methodology enables us to tag information as it is collected so that we can identify an attack in the earliest stages – when an attacker is trying to discover a vulnerable spot in a particular system. By identifying and countering an attack early, we are able to mitigate the threat before it fully develops, and also use the information gained to spot future threats.

There's a lot of advisory work going on here as part of the client relationship.

Di Challenor, J.P. Morgan: It's certainly one of the best parts of the job.

Carole Berndt, ANZ: And as our industry evolves, you have got a commodity product. You try and

add value. You try and move up the value chain. And that is what we are all doing.

Amol Gupte, Citi: But it is not a commodity product. I mean I always tell everyone, commodity industries you work at 2% and 3% margins. This industry is not working at 3% margins.

John Laurens, DBS: Proprietors and treasurers of SMEs are just as interested. There is a lot being done in terms of providing advisory through a number of different channels, such as through social networking to share information and best practices. Advisory at a large corporate level requires bespoke one-to-one engagement with the treasurer, but there's no less importance and demand from SMEs for mass market packaged advisory. This could range from online working capital advisory services through to networking events.

Di Challenor, J.P. Morgan: I would love to hear from the three of you about how important the advisory piece is down at MME/SME level. Is there that real desire for information around fraud?

Amol Gupte, Citi: Huge.

John Laurens, DBS: Absolutely.





the most was how normal it has become. It doesn't look or feel as different any more. Also in some of the key areas we have discussed – such as the mobility of cash and security of cash – it has become very similar to experiences found in other countries.

In Europe, you hear a lot of noise about the slowdown of China. But, we are talking about a slowdown to 6% in one of the world's largest economies. Europe's been living in stagnant growth for a long time. So despite this I don't think China is any less relevant than it was before. I think it is very important for corporates whose business requires them to be there and to be relevant there. I think the banking environment has changed a lot. But it is becoming, to a degree, mainstream and I think the story now turns to some of the emerging Asian countries and regions like the Greater Mekong.

John Laurens, DBS: Although given the extent of change and change that's to come, I do not think we can yet refer to doing business in China as normal.

Carole Berndt, ANZ:

Near normal. In the sense that it is clearly heading on that path in

terms of its structural changes and as it moves from a centrally controlled economy to a market-based economy and in the way in which it allocates capital in that market.

As we have seen in recent months this has created hiccups along the way, and it will continue to do so. In terms of working with customers in China, corporates need to be particularly aware of who their commercial counterparties are and be very rigorous in terms of selection.

Amol Gupte, Citi: I think China is at a very early stage of its journey. If you consider what is happening with the RMB and its evolution, it can be viewed in three stages. One is just making the RMB a trade currency. That box is checked and it has happened. A quarter of Chinese imports and exports are already denominated in RMB. The second stage is capital convertibility. That is still at an infant stage. The third phase is the currency becoming a reserve currency, and with the inclusion of the RMB into the SDR currency basket, this stage is also beginning to evolve.

More broadly, if you consider what is happening domestically, interest rates have been relaxed, and will slowly be liberalised in practice. Interest rate liberalisation will curb the shadow banking industry, which arose because companies couldn't get any yield on their deposits with banks.

Di Challenor, J.P. Morgan: Are you seeing it more in that space versus your large corporates?

Amol Gupte, Citi: I wouldn't say it is different but, I just think that the relationship value for advisory in that segment is significantly high.

John Laurens, DBS: And they are smaller, so they have fewer avenues, such as associations, available for them to access information. The role of a banking partner, therefore, is arguably more important.

Carole Berndt, ANZ: You can't just be advisory in this relationship. There are some basic capabilities you have to bring to the table and, when I think about our value proposition to clients, it really is to deliver mobility, security and value for their cash. And that's part transaction and it is part advisory.

We talked earlier about the need to stay abreast of developments in terms of regulations. Something that is particularly important in China. What would your advice be to companies operating in China?

Carole Berndt, ANZ: I recently visited China for the first time in a business context for eight years. And what surprised me

All of this is going to change, and to John's point, China is going to become a far more market-oriented economy and as all of that happens it has massive implications for our corporate clients. So I think it is incredibly important to stay very close and up-to-date on what you can do and what you cannot do in that market.

Di Challenor, J.P. Morgan: Yes, I agree, it is early stages. When you go through capital account convertibility with clients and begin to execute against that, the outcome can be very different to what you expected initially because the interpretation by various government circles around the country or the various agencies you deal with, can change. It is very complex.

Amol Gupte, Citi: It is a massive market, right? For many multinationals, it is larger than their home market.

Di Challenor, J.P. Morgan: They have got more cash there than they have elsewhere.

Carole Berndt, ANZ: Trapped cash.

Di Challenor, J.P. Morgan: But, in China, technology is not being applied as readily as in other markets such as India where we are seeing huge steps being taken around the clearing system.

John Laurens, DBS: The whole e-commerce environment in China is just exploding and the extent of payment flows and opportunities coming on the back of this is huge. So, in my view, we have seen a considerable amount of technology adopted in China and this will continue. I see China playing a leading role in that respect globally.

Overall, what is happening in China is remarkable. China is doing exactly what the world is asking of it, from progressing its export-led manufacturing industries to developing its services economy or building out its middle classes to further drive domestic wealth creation. Clearly, such progression drives structural changes and market volatility along the way, but the opportunity for corporates is very significant going forward. You have to take a longer-term view.

Also, on the other hand, something we must not lose sight of, is Chinese multinationals expanding out across the world. The 'One Belt, One Road' is a new phase of development for the transaction banking industry globally, as Chinese corporates head outside of China taking the so called

"redback" with them as they invest in and develop their businesses globally. It's a hugely exciting time to be working with Chinese MNCs.

Ivo Distelbrink, BofAML: I absolutely agree with that. There is still a lot of misinformation and misunderstanding around China. Chinese business, Chinese culture and the Chinese view are still poorly understood. But, the Chinese are very pragmatic and absolutely committed to the financial and institutional reforms required to continue to make this transition and the transition under way, as John mentioned, is massive.

For one, the way the Chinese are embracing technology and their digital economy is market-leading in many ways. Many of our traditional GDP growth measures are failing to capture the transformation that China is going through. I think China is doing all the right things and I believe that China will remain a very exciting growth market for very many years to come for our clients.

What about the trends in trade? Is there anything new to say?

John Laurens, DBS: For me, it would be the acceleration from traditional trade to open account trade and supply chain finance, which is gathering pace. The really interesting thing



that may happen in the trade space, if you like, the Holy Grail for trade, is its long awaited dematerialisation. Distributed ledger technology could open the way to finally grasp the Holy Grail of widespread digitised trade, something that has been talked about for decades with little substantive progress. But that's a subject in its own right.

Amol Gupte, Citi: I would say we need to look at a longer period of history, around the last ten years. You have had intra-Asian trade go from 40% to 60%. It is a big shift. So 40% of all Asian trade went into Asia, that 40% has gone to 60% which means a lot of Asian companies have gone global and in this process it is just natural to go to your neighbouring proximity markets first, rather than going far away. And that has driven this whole phenomenon of intra-Asian trade. On the back of intra-Asian trade, you have a lot of local and regional banks who have followed those clients.

And if you think about the transaction banking business, I think about it at two levels. One is the cash business with extremely high entry values, and you think about that plain vanilla trade business it has got incredibly low entry barriers. You can just walk in with a lot of cheap capital on the table, which is what a lot of banks have done in the last ten years, and built a lot of really poor returning trade books. My view is we will now see a transition in terms of where these banks get far more focused on returns. And I think to John's point, banks will focus more on the high value-added, the more intellectual property side of the business which is the whole understanding client ecosystems, doing more supply chain. We are entering a period of change in my view in the way trade is done in the region.

Carole Berndt, ANZ: We are a very large trade bank and very focused on the corridors that support our clients' activity. But if I was to say one thing about trade, I think Amol's point around returns is very important. I think we are seeing a fundamental shift from trade being used as a funding vehicle to increasingly being used as a risk management vehicle, and particularly as it relates to supply chains and business continuity.

As a corporate plans for the years ahead in APAC, what should they be doing and thinking? In a few words, what is your advice?

Ivo Distelbrink, BofAML: Think big. The world is old, indebted and unequal. APAC is diverse, dynamic, innovative and competitive.

John Laurens, DBS: We remain at the very beginning of the Asian century and, despite recent slowdowns and market volatility, Asia will remain the centre of global economic growth. This is driven by the size of population in the region, the demographics of that population, continued massive urbanisation, investment in infrastructure and the creation of wealth and the middle classes.

If you have a global growth strategy, you need to be in Asia. My view would be to pay close attention to these macro trends and invest in them. Asia is where the growth will continue to be. Corporates should choose their transaction banker carefully, and ensure it is one that is deeply committed and knows the region.

Di Challenor, J.P. Morgan: For me, the key is around embracing technology. The average age in India is under 30, so it's essential that you examine whether you have the right strategy in place to capture that wallet. You need to be conducting business in these countries if you are to have a long-term future in the region. I have been in Hong Kong almost 12 years and in this time, it is amazing how much it has changed and what our clients are now thinking about doing in the region.

Banks, however, do need to come together to deal with various threats in our industry around cyber-security and corporates should be challenging banks to work together on these matters. Corporate treasurers should also be challenging their banks to adopt new technology and drive SWIFT in a way that enables inter-operability, not just between banks but across countries. That is where I truly believe we have to go.

It is often asked if Asia will ever become like EMEA and I always answer 'no'. But, why have we not used technology to drive the same advantages that corporates have received in EMEA? I would say that corporates need to be pushing their banks to do more.

Carole Berndt, ANZ: All the points around Asia continuing to be very relevant and important to most corporates are absolutely valid. But, Asia is not just one homogenous group of countries; it is really three distinct regions. Greater China is one that we have talked a lot about. We have also talked a bit about India. I would also advise corporates to keep an eye on some of the emerging ASEAN countries. What was once made in China is now made in Cambodia, made in Laos, or other emerging economies. So it is vital to keep an eye on these.

The point about technology is also extremely important and it is vital to be nimble in that context, because it is the best tool corporates have to protect them against the headwinds. Treasurers need to work out who their best friends are and to build strong relationships with banks that are investing in the geographies that are important to their business. If corporates do that, I think they will put themselves in a safe place in terms of business continuity, and ensuring the mobility and security of their cash.

Amol Gupte, Citi: A lot of valid points have already been made but I would like to highlight that Asia follows a secular trend and it is well on the way in this respect. For example, in the 1980s Asia's contribution to world GDP was 15%. It is now 25%. In another 35 years, it will be half of the world's GDP; this is a vast development. So when I think of what is happening right now and the turbulence in the region, it is not a big air pocket and it will pass.

Overall, when I think about the change currently occurring – whether it is on technology, whether it is what is happening in terms of digital money, regulatory changes, currencies, buying behaviours, business models, e-commerce – I truly believe that it is a fantastic time for corporates to actually double down and invest for what looks to be a very bright future in the region.

Many thanks to you all for participating.

THE LOGISTICS COMPANY FOR THE WORLD



Delivering quality

Stephen Hogan

Stephen Hogan, Vice President, Regional Treasury Asia Pacific



Stephen Hogan, Vice President, Regional Treasury Asia Pacific at Deutsche Post DHL Group is not someone who enjoys being bogged down by mundane processes. In his view, the real value of the treasury department is in providing strategic support to the business and helping it to achieve its full potential.

Deutsche Post DHL Group is the world's leading logistics and mail communications company. The Group provides its customers with a comprehensive range of postal services as well as international express, freight transportation, eCommerce, and supply chain management services. The Group employs more than 480,000 people in over 220 countries and territories to form a global network that is focused on service, quality and sustainability.

In the past 20 years, trade has become a truly global phenomenon. Not only do companies now do business with a growing variety of counterparties from around the world, but individuals (thanks to the internet) are also able to purchase and sell items across borders with greater ease than ever before. Whilst the internet has without a doubt facilitated this

global marketplace, it is logistics companies, such as DHL, that make it happen.

Unsurprisingly, as the complexity of these companies has increased, so has the role and importance of the treasury function to be able to provide the financial support and keep

the wheels of global trade and commerce moving. It is this exciting and constantly evolving industry that has energised and invigorated Hogan for most of his career.

Public to private

Perhaps in stark contrast to his current role, Hogan – following his graduation from Manchester Metropolitan University with a degree in economics – began his career working in the UK public sector as an accountant for the National Health Service (NHS). “It was a fantastic role to begin my career in as the scope was broad, covering all areas of both accounting and tax,” says Hogan. “The NHS also has to manage incredibly large cash flows every month, so there was a significant cash management and treasury aspect to the role.” Hogan therefore, from a very early stage, found himself accumulating knowledge and skills in areas such as money market funds (MMFs) and bank relationship management.

Whilst this role was certainly interesting and provided a fantastic learning experience for Hogan, he knew that he needed to diversify and move away from public service. “Although the UK public sector is a vast organisation covering multiple areas, I found the various business units to be quite siloed. Therefore, it was my belief that if I continued with the NHS my options would narrow and I would likely be restricted to the health service on a linear path for the rest of my career.”

After two and half years with the NHS an opportunity for Hogan to diversify and move to the private sector arose with DHL Express, one he was very keen to take. “It was a very attractive proposition. DHL is a well-known brand with a vast global presence and I perceived that because of this the opportunities with the company would be greater.”

Hogan's first role with DHL was that of treasury accountant: “The role offered me a great chance to continue to utilise my core accountancy skills whilst also building my treasury skillset,” he says. Interestingly and perhaps fortunately – given the fact that Hogan was beginning to tire of the routine month-end accounting cycle – the role increasingly became more treasury-focused despite Hogan still sitting within the accounting team. “I was responsible for the treasury operations of three UK-based companies within the group and also supervised the treasury staff.” Given this increasing treasury focus, Hogan began linking up with the DHL Express treasury team based in Brussels, eventually joining the team as a treasury analyst.

Whilst Hogan was working in Brussels, there was significant change across the organisation after DHL was acquired by Deutsche Post. The treasury then had the big task of integrating the two departments. Once this was completed however Hogan received a surprise call from his soon-to-be boss asking him if he would lead a cash management project in APAC. “It seemed to me a perfect time to take on such a project as the whole dynamic in the company had changed since the acquisition,” says Hogan. “Initially it was meant to be just a 12-month project, but as soon as I hit the ground both the company and I recognised the importance of being close to the market. We therefore decided to set up a permanent regional treasury centre (RTC) in Singapore.”

A core business partner

Having established the RTC in APAC, Hogan and his team of four now oversee the financial matters of 140 legal entities,

spanning four business divisions and 42 countries. Aside from covering such a large number of countries and different legal entities, the regional treasury support them in a wide variety of activities. “We assist them with all the ‘typical’ treasury activities such as bank relationship management, cash and liquidity management, financing and debt management, and risk management,” he says. “But we are also responsible for the legal structure of our subsidiaries. In many respects we play the role of an internal shareholder concerned with issues around who the directors are and how the entity is managed.”

Hogan and his team are able to cover such a vast region and range of responsibilities because unlike other regional treasury departments which are separate from the global organisation, DHL is intimately linked to the head office in Germany and operates as a corporate function. “In many respects the only reason we sit in Singapore and not in Germany is because of the need to be close to our business units in the region and their regional management,” he says. “The treasury department in Germany manages all the treasury systems, they give us access to these and we get on with our work, avoiding some of the more mundane tasks that sometimes treasury can be associated with.”

“I like to see us as gatekeepers into the corporate function for our business units in APAC,” says Hogan. “They come to us and we can help them or send them to the team who can. Having this single point of contact dramatically removes the friction points which can often be found when trying to navigate through such a vast corporate structure.”

In being intimately linked with the corporate function, the DHL regional treasury is also reinforced by a well-equipped support team in Europe. “I like to see us as gatekeepers into the corporate function for our business units in APAC,” says Hogan. “They come to us and we can help them or send them to the team who can. Having this single point of contact dramatically removes the friction points which can often be found when trying to navigate through such a vast corporate structure.”

The power of networks

Of course, when a new central function is established, it can be a challenge at first to sell its worth and objectives to the on-the-ground financial managers. Given the wide remit of the DHL regional treasury function, earning this buy-in was critical from day one and something that thankfully Hogan and his team were able to achieve quickly.

“When I first moved to Singapore it was actually at the request of the regional management who noticed the need to have somebody experienced to focus on cash management and treasury – allowing them to focus on their core business responsibilities,” explains Hogan. “We therefore had a strong

working relationship established from day one – plus we were taking work from them and people always like that happening,” he jokes. He also cited unity and togetherness across the group as being something else that helped.

Hogan is acutely aware however, that relationships cannot be taken for granted and the regional treasury team are constantly seeking ways to add more value to the regional management and the local business units. As such he makes an effort to visit the various businesses regularly to not only understand their work more intimately, but also to understand the cultural nuances across the region and how business is done. “Asia is very varied in this regard and whilst it can be a challenge it also makes it an exciting region to operate in.”

In addition to these visits, Hogan has also utilised the power of modern communication channels, running regular training webinars. “This is in reaction to a major internal study where one of the key findings was that there is a real desire from employees to learn and understand what the various functions do and how,” explains Hogan. “We don’t force people to attend but if it is on a topic of interest then they can join the webinar and learn. It is just another aspect of our continuous outreach.”

New channels of collection

It is not just through relationship building and training that Hogan looks to add value to the wider business. Treasury is also constantly looking at new and innovative ways to ensure they collect cash quicker, something that he feels is particularly important given the rise of e and m-commerce.

As part of the group’s overall 2020 strategy there is a strong focus on e-commerce particularly across Asia and the emerging markets. “Many of these markets we operate in across Asia have a high percentage of customers paying cash on delivery and there is a portion that may not have access to traditional bank accounts. This is proving a challenge not only in regard to working capital, but also because we live in an age when banks do not want to handle cash because it is too expensive.”

A large portion of Hogan’s time today is therefore spent analysing the various digital collection mechanisms available, such as mobile and digital wallets. “Currently, we are in the early stages of this project, working with our banking partners and the business to define our core needs from the solution. What I have noticed during these initial stages is that the landscape is very fragmented and there is no market leader. Moreover, some banks have a clear strategy and others do not. There are then those that believe that banks can be disintermediated from the processes.” For the industry to really move forward in this space, it is Hogan’s belief that standardisation and consolidation is required.

Digital delivery

Away from collections, Hogan and the wider DHL treasury function have worked endlessly in recent years to take advantage of the wealth of technology that is now available. For instance, the DHL treasury team have a global in-house bank and are currently implementing a global payments factory. “These projects are largely driven from the head office, but because of the complexity of the regulatory environment in Asia we play an important role in ensuring that these operate effectively in the region.”

Not ones to stand still, Hogan and his team are now working on further cash management projects including implementing a regional solution for Bank Guarantee issuance that seeks to improve bottom line costs as well as providing a standardised e-enabled process for applications. With currency volatility firmly on the agenda, the team is also working hard to optimise transparency on spot FX transactions through the use of e-FX solutions. What’s more, there is a continued a continued focus on supplier financing solutions across accounts payables.

Honest banking

In order to implement these solutions and achieve his role as the key financial support to the DHL’s regional business units, Hogan requires a quality stable of banking partners. “Whilst we have a group of global and regional banks that are linked to our overall financing structure, what is key for me is that these can provide us with the solutions we require,” explains Hogan. “Second to this is the relationship aspect. Of course, price is important, and we use TWIST reporting to monitor this, but when we enter into a banking relationship I always take the position that the bank has to make money out of it.”

Hogan is acutely aware however, that relationships cannot be taken for granted and the regional treasury team are constantly seeking ways to add more value to the regional management and the local business units.

Although this may seem a slightly controversial view, especially at a time when banking fees are under the spotlight, Hogan has a valid reason for this opinion. “I don’t want to enter into an agreement with a bank and for them to be losing money; this puts the service they are providing and the longevity of it in question. It is about being open and honest because if a bank can’t provide a service we will quickly find them out.”

Pushing the envelope

Hogan is also a believer in pushing his banking partners and also the rest of his team to think outside of the ordinary and try new things. “Treasury and finance is not about following a set of rules and procedures,” he says. “You need these, but you also need to be creative and challenge conventions. Sometimes people are too happy to just do things the way they have always been done, but it takes bravery to say this can be done better and see the change through. I like to think I empower my team, the business units and our external partners to do this for the benefit of all involved.”

This ‘can do’ attitude and the willingness to try things that perhaps break convention typify Hogan not only at work but also in his private life. “Aside from being a husband and father to two young boys, I like to travel and am also a bit of a thrill-seeker and have completed a number of skydives, bungee jumps and scuba dives.” And whilst Hogan remains very happy at a company he has been with for nearly two decades, he admits that he has priced up the cost of a skydiving instructor course.



Going steady

Market and currency volatility inevitably leads to interest rate risk. Where this threatens to impact profitability it has to be effectively managed. What does it entail for treasurers operating in Asia?

Just as there may be a whole new generation of bankers who have yet to work in a rising interest rate environment, so there must be a number of new treasurers who are yet to experience the vagaries of interest rate movement. But it will happen sooner or later and whichever direction interest rates take (China possibly downwards, the US possibly up), companies failing to take informed action (even if that means doing nothing) are taking a huge financial risk.

According to CPA Australia, the country's professional accounting body, interest rate risk should be managed where fluctuations in interest rates impact on the organisation's profitability. In its publication, 'Understanding and Managing Interest Rate Risk Finance & Treasury', it states that action should be taken "so that the focus of the organisation is on providing the core goods or services without exposing the business to financial risks".

In essence, interest rate risk arises from the exposure of a company's financial activities to negative movements in interest rates. The proper management of that risk by a business is not about trying to stop rate movements (because in general

this is not possible) but is instead about maintaining that risk exposure somewhere within the pre-agreed boundaries of what is acceptable. However, as with most variable factors in modern commerce, what is tolerable for one company may not be so for another. Because the influencing features of risk management (such as risk appetite, nature of business and capital structure) are different for each participant, there can be no one-size-fits-all solution. For a treasurer, this means having to understand exposures, grappling with the sources of risk and their possible effects, and then finding, implementing and maintaining the most appropriate means of its measurement and its ongoing management. For those without the experience it could be a bumpy ride.

The connection between interest rates and FX

The Asian markets exhibit a number of different micro-climates largely driven by political economies. But it is easy to forget that interest rates and FX rates are interconnected to the extent that one affects the other. Aside from Japan, China is the major

influence on its neighbouring economies. Where that tight interconnectedness of interest rates and currency measures steers the direction of economic movement, it is easy to see why China's recent profound meddling with yuan (CNY) is of extreme interest to many in the region (and indeed beyond).

Until the middle of last year, CNY was pegged to the USD (within a limited float-range) affording its currency relative stability. Its interest rates were correspondingly unwavering. However, with the devaluation of CNY last year (on 11th August) in response to continuing efforts by the central bank, the Peoples' Bank of China (PBoC), to shift to a more market-driven system of setting the currency's rate (as it tries to meet the requirements for the currency to join the International Monetary Fund's basket of reserves), there has been considerable speculation that China's currency may start to float with even more freedom against the USD in 2016.

Indeed, China's economic growth goal of 6.5% for the next five years will not be met unless CNY falls at least 8% against the USD by the end of 2016, according to Royal Bank of Canada and Rabobank Groep. China (like all other developed economies) will most likely use monetary policy (eg the manipulation of interest rates) to try to reverse the effects of its current economic slowdown, resulting in downward currency movement (against the likes of USD, GBP and Euro) and strengthening of its exports. If there is a shift in terms of CNY versus other currencies at the hands of monetary policy enacted by China, it will quite likely have an impact on other economies in the region. There are many overseas corporates with major business interests in the region and if interest and FX rates do move as expected, decisions will need to be made about the response: falling interest rates in China lowers prices, local revenues will drop accordingly and costs will have to be taken out somewhere.

Some sources of risk

It is obvious that companies with floating rate debt are negatively exposed to increases in interest rates, whereas companies with borrowings which are totally or partly fixed are exposed to falls in interest rates. However, bond prices always move in the opposite direction to interest rates, so any rise will decrease their value. This may seem counter-intuitive, but newly issued bonds will reflect the new higher rate so that pre-existing bonds will have to re-price downwards to offer investors the same yield. Although a non-financial firm will usually report its bonds on issue in financial statements at levels often different to their face value, early redemptions must be done at market value which may be significantly different because interest rates change the value of fixed-rate debt. It is the case too that a pension scheme also faces interest rate risk in that its liabilities act in a similar way to bond value, falling in value as interest rates rise (and vice versa).

Derivatives (such as interest rate swaps, futures or options) are impacted by interest rate changes, representing either an opportunity gain or loss (if the transaction is finalised on maturity). An FX forward, where rates are affected by the differential between domestic interest rates and foreign rates, may for example see an increase in the domestic rate relative to offshore rates in which case the cost of hedging imports will rise as the cost of hedging exports falls.

Made to measure

In seeking to mitigate interest rate risk, first of all, it should be understood that regardless of the system of measurement,

the results achieved – and thus the efficacy of that system – hangs entirely on the validity of the underlying assumptions and the accuracy of the basic methodologies used to model interest rate risk exposure. This observation from the Basel Committee on Banking Supervision, from its publication, 'The Principles for the Management and supervision of Interest Rate Risk', is aimed principally at banks subject to Basel II, but is nonetheless wholly relevant for treasurers.

The document (currently under discussion for Basel III enhancement) stresses further that when designing an interest rate risk measurement system, those responsible "should ensure that the degree of detail about the nature of their interest-sensitive positions is commensurate with the complexity and risk inherent in those positions". As an example, when using gap analysis to explore exposures, "the precision of interest rate risk measurement depends in part on the number of time bands into which positions are aggregated". The aggregation of positions/cash flows into broad time bands implies some loss of precision and, in practice, the organisation using this system "must assess the significance of the potential loss of precision in determining the extent of aggregation and simplification to be built into the measurement approach". The integrity and timeliness of data on current positions is, it adds, a key component of the risk measurement process.

Risk management and more

In the context of interest rate risk management, the role of the treasurer is to focus on possibilities – asking what can possibly happen and how can the company protect itself and secure an acceptable degree of certainty in the circumstances. Treasury therefore needs to be prepared for any possibility so that the business is not seen to be gambling with the turn of events. In the first instance, such preparedness requires the ability to know and understand exposures in all entities, including subsidiaries. The use of simple spreadsheet tools may provide a broad measurement of the impact of small changes of interest rates on a firm's accounting income, but might not be the optimal approach when attempting to understand more fully what the impact is of rate changes on those exposures.

For this reason, it may be prudent for an organisation to deploy a more technologically advanced assist, integrating their ERP systems with their TMS perhaps to gain more automation of processes and thus more certainty around the accuracy of analysis of interest rates (and of course the interlinked FX movements). The actual tools used will depend on the level of exposure but it can be an arduous and inefficient exercise if treasury is spending a lot of time trying to recreate formulae and testing spreadsheets to assess the potential impact on a variety of factors and variables of movement in interest and accompanying FX rates; this may be a driver for the acquisition of new technologies.

If the appropriate sensitivity analysis models are in place, the right data is readily available and the business knows its exposures, then the process can be relatively straightforward for most operations. It may be desirable to implement more advanced means of measurement of the impact of multiple hypothetical interest and FX rates changes on cashflow, capital and future earnings. But as long as the organisation understands what is going to happen to it if interest rates shift then its vulnerability potentially decreases. It must therefore measure that vulnerability under stressed market conditions. A part of this process is to analyse the effect of the breakdown

of core assumptions around the market, creating a number of stressed 'what-if' scenarios. Whether the rate shift is immediate and sustained, gradual, parallel (all maturities on the yield curve change by the same amount) or whether it shifts more at the back end of the yield curve where there may be less exposure, the key always is to understand at different points in time what the effect of change is. Large organisations with exposures going out months and probably years must undertake proper analysis covering all points in that period.

Instruments of protection

There are many ways that interest rate risk can be managed. The simplest method is when the borrower requests its lender to fix the interest rate of its loan for the period of the loan, although this has its own inherent risk if rates fall. Natural hedges may be used where interest rate exposures are created that are offset by elements of the company's natural business cycle (a construction firm, for example, will see a rise in business activity when interest rates fall, as investors build more when the cost of projects is lower). Also many companies that wish to hedge macro-level interest rate risk will use instruments such as interest rate swaps. These are simple to understand and tend to be favourably treated from an accounting perspective making them relatively easy for treasury and accounting to comply with from a regulations standpoint.

The kind of action to be taken will come about following the determination of the appropriate risk appetite for the organisation and its stakeholders. Every business should have drafted and implemented a guiding policy.

Slightly more complex is optionality within instruments such as swaptions (the right but not the obligation to swap), bond forwards (where the short position agrees to deliver pre-specified bonds to the long position at a set price and within a defined time window), interest rate futures (allowing the buyer and seller to lock in the price of the interest-bearing asset for a future date). Caps, floors and collars are commonly used 'over-the-counter' (OTC) products. Caps fix the interest rate payable by a borrower over its life and below the cap level, the interest rate payable is floating. The main use is by borrowers who need to avoid covenant breaches that would otherwise be caused by sharp rises in rates. A floor is an option that fixes the minimum interest rate receivable over its life; treasurers with cash invested might buy a floor that is lower than current interest rates to set a minimum return. Collars set a corridor of possible interest rates between a maximum and a minimum. As with FX options, it is also possible to start combining different derivative positions into larger strategies.

Arguably interest rate management does not need to be complex and that the plain vanilla instruments work when protecting against macro-level interest rate exposure. And whereas FX management tends to require a more reactive response because it constantly changes, interest rate changes are fewer and further between and are more predictable, giving time for a considered response. But whilst treasurers will not be constantly putting swaps on and taking

them off in response to events, rate movements can be more impactful when they do occur and cannot be ignored.

A matter of policy

Managing interest rate risk suggests that certain actions must be taken, but of course it may be that doing nothing is the best approach. This can only be confirmed if the business has the right analysis, drawn from the most appropriate and timely information. Treasury does not necessarily need to hedge to protect against interest rate movements, it just needs to know what to expect and to set those expectations with the company's senior executives, board and shareholders. It is also the case that every set of financial statements (for IAS, IFRS et al) ask for the kind of analyses that can show the impact of certain percentage changes in interest and FX rates as a demonstration of risk management visibility and transparency to the investment community.

The kind of action to be taken will come about following the determination of the appropriate risk appetite for the organisation and its stakeholders. Every business should have drafted and implemented a guiding policy – certainly where the use of financial instruments is required to manage interest rate risk – and this will hopefully be an informed decision based on close study of the variables that the business is affected by. Of course, the decision points will be different for each organisation based on circumstances and stakeholder expectations but a heavy borrower will be more sensitised to changes in interest rates than one which tends to invest more.

According to the Basel Committee, policy should define those responsible for managing interest rate risk and should ensure that there is adequate separation of duties in key elements of the risk management process "to avoid potential conflicts of interest". Additionally, it advises that interest rate risk should be monitored on a "consolidated, comprehensive basis, to include interest rate exposures in subsidiaries".

The efficacy of the policy document should be reviewed on a regular basis. If analysis highlights company exposures at a macro and micro level for each component of the business, then it will enable the treasurer to make the best possible decisions. This level of understanding should also be seen as an opportunity for treasury to proactively engage in continued discussion with the rest of the business and its key stakeholders, helping to steer future policy direction.

A stale policy – one that has not been appropriately updated – around any form of risk management puts the company in a position where it may not be aligned with the reality of the market place: this is a dangerous scenario. But in the context of interest rate risk it is not just the actual rate movements which could negatively impact a business: any expansion into new territories or markets that have different interest rate profiles from existing market activities could upset the validity of existing underlying assumptions and the modelling accuracy of interest rate risk exposure. It is important to understand that the realities of the business and where it operates will determine what its overall exposure is and thus what its risk management policy should be.

The response to rate movements is therefore not just about the making of assumptions but also about validating those assumptions, being prepared with an accurate view of what the outcomes will be across the business and, ultimately, taking the appropriate decision to ensure the business is protected.

In a decent proposal...

When the time is right to introduce or replace a key part of your treasury technology or to establish a major new banking or service relationship, the selection process can be demanding. Treasury Today Asia considers a key part of any major project: the Request for Proposal.

Regardless of the driver for change, sometimes the choices available to treasurers when selecting new technology or service relationships can be bewildering, particularly when considering a complex proposition such as a Treasury Management System (TMS) or a multi-country banking partner. The difficulty often lies in the fact that the differences between offerings may be subtle but nonetheless important to the success or otherwise of the outcome.

In such a case, a well-managed RFP (Request for Proposal) can be a valuable tool in helping to ease the selection process whilst the drafting process can potentially alert treasury to any other issues that should now also be addressed. A good choice at this stage may well obviate the need for yet another project down the line.

In essence, an RFP is the governing document that contains all the key business requirements based around the new solution that treasury is looking to implement. The importance of developing a document that will allow treasury to obtain the information it needs to make an informed decision cannot be overstated.

Requirements definition

No matter where an RFP is carried out in the world, a coherent and managed requirements definition is essential beforehand. This is the foundation stone of the entire project and may call upon input from other functions within the business to highlight some of their specific requirements and to give an indication as to how any new system or process will affect others up and downstream.

However, it should be understood from the outset that a degree of flexibility on the part of both client and vendor (used in this context to mean technology vendor, bank or other service provider) is desirable as to the means of arrival at the final destination because as the project progresses new ideas are often revealed. In a complex treasury setup, a fully-scoped project may not even be possible until the core functions have been implemented and the ancillary requirements become apparent. There may also be the need for a discretionary trade-off where the lack of a certain aspect may be outweighed by the presence of another more important one. A suitably researched and worded RFP may go some way to revealing the preparedness of the vendor to accommodate the client in this respect.

Project manage

The consultation process, though hugely beneficial in the long term, will run the risk of developing 'scope creep' (continuously

adding to it) unless from the outset there is a coherent and simple project definition, a means of deflecting unnecessary diversions, and of taking firm and intelligent decisions. Scope creep can confuse and confound the end-result and add substantially to the final cost. For this reason, the backing of a project sponsor (in the form of an executive with higher status than anyone else involved with the project) and a strong project manager (PM) are essential.

The importance of developing a document that will allow treasury to obtain the information it needs to make an informed decision cannot be overstated.

However, scope creep should not be confused with the controlled and planned modification of the project in the light of acquiring more detailed understanding of the capabilities of the technology. This can add new benefits that had not been previously thought of – but even here the change process must be managed.

Consider your initial options

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

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

Building an RFP

It is vital from the treasurer's point of view to ensure that the same document is issued to each prospective supplier and that it conveys precisely and clearly what is required, according to the circumstances underpinning the project. A complex treasury will probably generate a larger RFP

document and this should be broken down into manageable sections for the benefit of the vendors and for your own team when it comes to assessing the responses.

The actual layout of the RFP can vary but be aware of the importance of laying it out clearly, with a logical progression between each section, and giving sufficient space for suppliers to respond if it is intended to be a physical document. And just as it is possible to fail to explain your needs clearly, or to provide too little information for the vendors to be able to respond in depth, it is also possible to

over-burden suppliers with information; providing an in-depth view of the group's entire business operations may not be required if it is only relevant to the project to offer a view of the structure of treasury and where it sits within that operation.

Incorporating functionality

A major part of building the RFP concerns functionality. This is where the work that went into creating the requirements definition comes into play: the requirements definition states what you want so that when translated into the RFP it enables

Checklist of RFP processes

- Before starting on a major project, secure the support of a senior executive sponsor.
- Appoint a strong project manager. Consider a third party for the role if no suitable internal candidate is available.
- Always establish a requirements definition.
- If an internal appointment is made, ensure they can remain objective. Consider having them dedicated to the role for the duration.
- Factor in all resources likely to be required for the duration of the project.
- Think carefully about which functions and individuals within the group should be involved in the consultation process. Document any agreements in advance.
- Establish 'rules of engagement', allowing vendor-contact only with this liaison person (probably the project manager). Log all interaction. A single point of contact avoids confusion and conflicting information. This rule should be extended to cover the implementation process.
- Ensure you clearly understand and have documented what your main issues are, why you are doing this and what you expect to achieve. Refer to this document often.
- Be flexible regarding your plans and add a contingency allowance (for cost, time etc.) for project expansion as awareness of the chosen solution increases.
- Do not confuse beneficial project additions with unwanted scope creep.
- Don't change anything in the project plan without managing and documenting it.
- Consider issuing a Request for Information (RFI).
- When building an RFP keep asking if it conveys precisely and clearly what it is you require.
- Ensure questions are clear, understandable and have been tested and proven as such.
- Do not ask unnecessary or unreasonable questions.
- If multiple departments are involved proper coordination and documentation is required at all times.
- Ask open questions where detail is necessary and closed questions where a simple yes or no is sufficient. Remember that open questions are more difficult to compare.
- Lay out the RFP clearly, in logical order and with sufficient room for a full response.
- Complex requirements should be broken down into logical, manageable sections.
- It is in your interest to provide sufficient information to enable the vendor to give the fullest answer possible.
- Do not over-burden the supplier with unnecessary background information.
- Read the final document before sending it to vendors to ensure it is fit for purpose.
- Weight each question according to your own values and agree upon weightings before sending the RFP to suppliers. Resist the temptation to adjust weightings to get the answer you want.
- Clear your mind of any bias for or against suppliers.
- Don't send it to too many vendors: it makes analysis difficult.
- Read all responses carefully.
- Look for added-value in vendor responses eg raising new but useful points.
- Learn to distinguish between fact and sales talk.

the treasurer to assess which vendor is best placed to deliver. But whilst some RFP responses may call for a simple 'yes' or 'no' answer, others may need more in-depth explanations of how certain functions are supported and processed and, if it is a technology project, how this relates to the way in which your treasury operates (including its connectivity with third parties, such as banks and/or SWIFT).

Certainly any integration and reporting requirements should be defined in sufficient detail to avoid ambiguity, to enable vendors to have a sufficient understanding of the implementation scope to propose the implementation effort accurately.

In addition to pure functionality, a key objective for a technology project is to configure sets of functionalities into workflows that fulfil the project's business process objectives. This is where 'how' questions can help, as the buyer needs to understand how effectively the solution can automate a specific treasury activity. Be aware that open questions may be necessary to unearth how a supplier intends to meet some complex, potentially deal-breaking issues, but too many open questions will push the analysis phase into overdrive, making it difficult to draw accurate and fair comparisons between vendors.

In all cases, the questions set out in the RFP have to be considered – and tested – carefully, to see if they are understandable, unambiguous, and likely to yield the answers sought. You are, after all, asking for and should expect more than just a cut-and-paste response from the vendor.

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

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

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

It may be that treasury knows what it wants but does not know how to achieve it; the level of detail in the RFP can be

used to provide vendors with the opportunity to deliver a creative response, mindful that it is not good form for companies to use it as a free consultancy service. It is also worth noting that unless the RFP conveys precisely what is required, the pricing is likely to be inaccurate; resist adding elements merely out of curiosity or as a demonstration of your depth of knowledge (it does happen) as these will frustrate a genuine comparison.

Whilst some aspects of treasury may be commercially sensitive, it should be borne in mind that conveying sufficient detail for a vendor to be able to provide the most appropriate response is beneficial to all parties, both in terms of getting the best solution and in getting the job done in the most efficient manner. It is important to realise too that RFPs that are the product of multiple departments are prone to duplication of questions. Care should be taken to remove any such instances from the final document. Read the whole document before sending it: a final sanity check will ensure it is fit for purpose.

When it comes to distributing the RFP, by all means send it to all those vendors that closely meet your requirements, but always bear in mind that the more vendors the RFP is sent to, the more analysis you will have to do when the responses come back. Typically a shortlist of three or four will be called upon to respond (and be aware that some vendors may fail to respond: it is unprofessional but it happens).

Making a judgement

An RFP response should give a clear demonstration of a vendor's capacity to add value and differentiate itself from the others. Over and above what is sought by treasury, a good RFP response may also provide relevant supplementary answers. In any case, read all submissions carefully and if something is not clear ask the vendor to clarify.

The information you receive will have to be compared on an equal footing. Depending upon factors such as project complexity and the number of vendors approached, a well-crafted set of questions should enable the project team to consolidate answers on a single spreadsheet set up to allow a quick view of scores for each aspect. However, before scoring responses, it is common practice to 'weight' each section and component according to the relative value the team places on it. This ensures that the overall score reflects those values, and that the outcome is not unduly influenced by an aspect of lesser importance.

The weighting process must be discussed beforehand. The process is arbitrary and therefore must have direction from the project manager to avoid endless re-working. Resist the temptation to adjust weightings until you get the answer you want as this voids the entire exercise.

The degree to which scoring is broken down within each component will depend upon time available and the relative importance of that component. Deep questioning and subsequent scoring of the minutiae of a certain function will in theory better reflect the view of that function. Whilst this may be appropriate for some aspects, doing this for every component will generate unnecessary extra work. In the end, the decision may come down to which vendor team you feel most in tune with, or even the best price, but a good RFP will provide most of the technical and service information to be able to take such a decision comfortably.

KYC is killing your customers

The burden of complying with unclear and fragmented KYC regulations is having wide reaching impacts on banks and global finance. It has also been a growing inefficiency for corporates which is intensely frustrating because meeting the authorities' aim of transparency should not be difficult.

Regulators are wary of Know Your Customer (KYC) requirements, the global efforts to prevent anti-money laundering (AML), becoming box ticking exercises so they generally make banks liable for knowing their customers and customers' customers (KYCC) without specifying what they consider to be adequate due process for KYC. Since this liability has amounted to considerable fines over the last few years, the banks are understandably anxious. Compliance departments are therefore showing surprising creativity in trying to manage KYC and AML liability. The result, however: corporates end up facing fragmented KYC requirements.

The corporate view

Corporates respect the authorities' need for KYC and AML, and have nothing to hide; they would just like to see their needs met in an efficient manner. Currently, there is frustration with the lack of progress with electronic bank account management (eBAM) and electronic bank services billing (eBSB). On eBAM, banks seem to be slowing the process because their IT budgets, post the global financial crisis, are heavily skewed to compliance, despite the considerable savings that banks themselves could enjoy with better BAM processes. On eBSB, interfacing seems to be an issue as well, but we cannot help wondering if the opaque status quo is just too juicy a profit centre for banks.

The confusion around fragmented KYC cannot be beneficial for banks. It is bad enough that each bank invents its own (overly elaborate) wheel. It gets increasingly burdensome when different branches and departments within banks ask for different KYC documentation. This represents a huge workload on corporates at a time when macro-uncertainty, as well as slowing growth, severely limits resources. Burning time on zero value added work does not improve customer satisfaction.

The bank view

Bankers do not like the current state of play either; compliance departments continuously up the ante with regard to KYC in their search for a safe haven from billion dollar fines. It is a Sisyphean task because no one knows what next year's regulators will consider sufficient effort. The travails extend to the inter-bank space too. Previously, banks would tend to trust that their peers, being regulated entities, would be safer than non-banks. Western regulators' AML zeal and appetite for fines has changed this. Problems with inter-bank KYC have become so fraught that KYC is threatening the global correspondent banking system, potentially leaving some developing countries unable to execute cross-border payments.

The regulator view

Regulators, keenly aware of the banking scandals of the last decade, have little time for banks' challenges. They do however fear that if they set out clear guidelines as to what constitutes adequate KYC, such guidelines will become an alternative to deeper KYC – whatever that might be. This has resulted in a deliberate withholding of guidance while maintaining the threat of massive fines to terrorise the banks into trying to do thorough KYC, which they are arguably unable to do in reality. It does sometimes feel like this is a lazy solution to the lack of clarity in law and in regulation of the real economy that is being foisted unfairly on the banks. On the other hand, maybe it is fair to attach such burdens to rent extraction licences, but they weigh heavily on the real economy too.

“Corporates respect the authorities' need for KYC and AML, and have nothing to hide; they would just like to see their needs met in an efficient manner.”

Current reality

Using the US environment as an example, there are multiple layers – and levels of clarity – in KYC regulations. The first level is the customer identification process (CIP), which “enables the bank to form a reasonable belief that it knows the true identity of each customer.” This is reasonably well spelled out, but with the proviso that “bank must implement a written Customer Identification Program (CIP) appropriate for its size and type of business that, at a minimum, includes each of the requirements.” Hence some of the variations that frustrate corporates seeking a consistent process.

The second level is customer due diligence (CDD), the objective of which is “to enable the bank to predict with relative certainty the types of transactions in which a customer is likely to engage.” This is minimally detailed, and more in terms of objectives than methods, so here the banks get even more creative. And corporates get even more frustrated.

The third level is enhanced due diligence (EDD) for “customers that pose higher money laundering or terrorist financing risks present increased exposure to banks.” Determining which customers are “higher risk” is a judgement call left to bank compliance officers and their legal advisors, and it is open season when it comes to what is appropriate EDD.

In all this, the bank has to reach an understanding of the expected flows across its accounts, and thereby be able to identify potentially suspicious activity. There is also an obligation to ensure that CIP and CDD are kept up to date – another source of corporate frustration when they are in any case providing financial statements and regular business updates to their banks.

The reality amongst MNCs is that banks would not be banking them without commercial due diligence in the first place. So whatever the regulators’ intentions, with respect to MNCs, this is box ticking. In some ways, it feels like the regulators would like to turn the clock back 100 years to a time when your banker knew you because he lived next door and knew your parents and grandparents. Furthermore, it also seems like banks are being lumbered with responsibility for policing money flows to make up for society’s failure to properly identify people and businesses.

Pathing the way

Some possible solutions might include:

1. **Clear regulations.** Regulators have a conscious – and (ironically) globally consistent – policy of leaving the details vague to avoid the risk of box ticking by the banks.
2. **Handing responsibility to more appropriate (public) authorities.** Beefing up public registries to handle the responsibilities currently foisted on banks will be politically tough. As long as the banks are perceived to be doing an adequate job – and contributing generously to public coffers when they don’t – there is little motivation to change the status quo.
3. **Banks come up with a consensus position.** In response to the threat of fines and the challenges to the correspondent banking model on which international flows are based, banks are working on standard platforms – notably SWIFT’s KYC registry. This is a solution that will help SWIFT’s 7,000 correspondent banks to streamline their 1,300,000 annual KYC requests – and hopefully reduce their use of the current expedient of closing correspondent relationships. Unfortunately, the banks are showing a distinct lack of KYC – or at least customer care – by refusing to let corporates join the KYC registry, even though corporates now account for 20% of SWIFT members.
4. **Corporates come up with standards.** Corporates are generally not good at collective action, perhaps because they are a diverse bunch, whose goals may differ. Some notable successes in the past decade, including derivatives regulation et al, give reason for hope.

Based on recent evidence – including BCG’s corporate treasury survey, EuroFinance International in Copenhagen and SIBOS in Singapore – it seems we are close to a high enough pain threshold to trigger action. Some corporates have already started putting their data on a registry and telling banks to visit the registry rather than their offices. It can be made even better if corporates agree on common standards for corporate KYC data. This need not be complicated since the registries have already reached some degree of commonality with banks covering wide geographies. It would then be much harder for banks to insist on their in-house compliance requirements – and a strong corporate standard will make banks’ position with the regulators stronger as well.



David Blair, Managing Director

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

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INSIGHT AND ANALYSIS

Sustainability and the treasurer

Despite slow economic growth and lingering volatility, investing in sustainable business practices is beginning to become an attractive prospect – one that can add value, rather than just cost money. With an increasing number of corporates beginning to feel the benefits, from cost savings, to efficiency improvements and a better working environment, Treasury Today Asia asks: what is the role of the treasurer in embracing sustainability?



RISK MANAGEMENT

Managing commodities risk

Last year saw commodity prices plummet and ensuing hedging strategies tended to be industry, and often entity, specific. Treasurers from different sectors have a tricky task managing the sea of change but, as Treasury Today Asia explores, there is a lot that can be done to manage ongoing volatility.



CHINA

What does the future hold?

The recent pace of growth in China has been slower than in previous years. For those corporates who were expecting higher growth, and there are many, they will be looking to align business strategies to the new norm. Against this backdrop, this article will look at what the future holds for China and corporates operating there.

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

Dhiraj Bajaj, Head of India Corporate Sales, Bank of America Merrill Lynch; Harish Barai, Senior Deputy Manager, Corporate Finance – Treasury, Larsen & Toubro; Carole Berndt, Head, Global Transaction Banking, ANZ; Di Challenor, Managing Director and Head of Treasury Services, Asia Pacific, J.P. Morgan; Joel Cheah, Treasurer, Cambridge Industrial Trust Management; Sonia Clifton-Bligh, Director, Regional Treasury Service Centre, Asia Pacific, Johnson & Johnson; Ivo Distelbrink, Head of Global Transaction Services, Asia Pacific, Bank of America Merrill Lynch; Devesh Divyia, Associate FX Strategist, FICC Research, Standard Chartered; Ian Farrar, Corporate Treasury Leader, PwC China & HK; Amol Gupte, Region Head, Treasury and Trade Solutions, Asia Pacific, Citi; Stephen Hogan, Vice President, Regional Treasury Asia Pacific, Deutsche Post DHL Group; Priyanka Kishore, Senior Economist, Oxford Economics; John Laurens, Head of Global Transaction Services, DBS; Tony Marrinan, Head of Financial Sales, APAC, OpenLink; Robert Minikin, Head, Asia FX Strategy, FICC Research, Standard Chartered; Vicky Münzer-Jones, Lawyer, Norton Rose Fullbright; Leonard Ng, Director of Asia Debt Capital Markets, ANZ; Muzammil Patel, Partner, Deloitte India; Keith Pogson, Senior Partner, Financial Services, Asia Pacific, EY; Carli Renzi, Director, Financial Institutions, ANZ; Gourang Shah, Treasury Services APAC, J.P. Morgan; Bob Stark, VP Strategy, Kyriba; Alessandro Theiss, Researcher and Analyst, Oxford Economics; Marie Tyndall, Regional Treasury Manager, Johnson & Johnson.

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