May/June 2016

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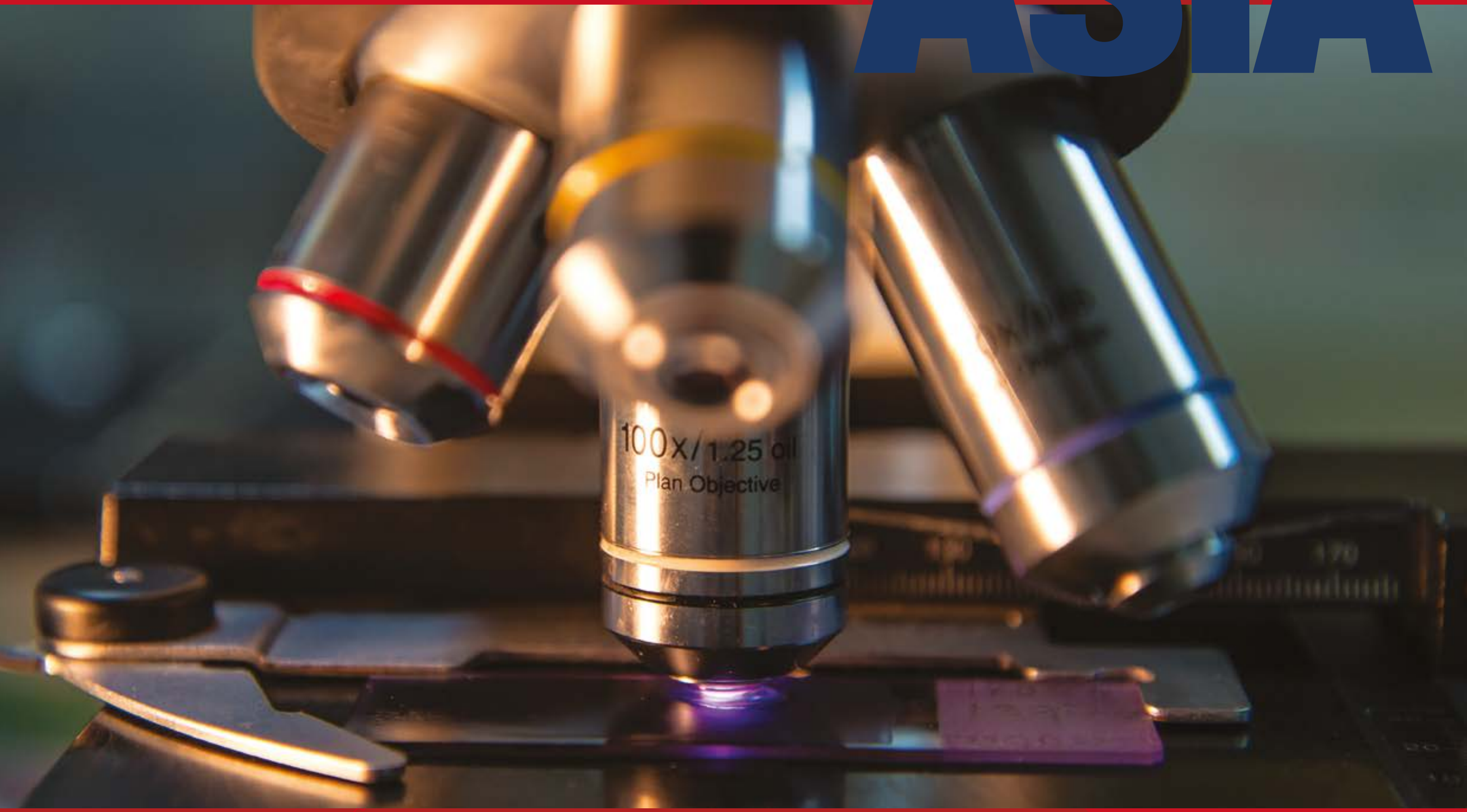

Selecting a banking partner

Requests for proposals (RFPs) being issued to banks across the region are becoming increasingly complex. But what are corporate treasurers looking for in a transaction bank today? We asked treasurers and bankers for their take on the current trends.

The Corporate View

Rakesh Kochhar

Senior Vice President, Global Treasury and Global Sales Finance, **Nissan**

Women in Treasury Asia Forum 2016

Treasury Today Asia's recent Women in Treasury Forum in Singapore debated the findings from our 2015 Global Study. Hear what our expert panel had to say.

Cash Management

Working capital optimisation

Trade

Asian trade corridors

Technology

Building a best-in-class treasury

Back to Basics

Treasury policy

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Voice of Corporate Treasury
Global Study

Please speak up now…

Our Corporate Treasury Benchmarking Studies have been leading the industry since 2009. Thanks to the 3,500 of you who have taken part, we have built up a very clear picture of the key issues and challenges affecting corporate treasury and, importantly, provided some of the KPI metrics against which you have been able to benchmark yourselves.

We have developed and improved our research with a new, exclusive 'Voice of Corporate Treasury Study' for 2016.

We are in a unique position to carry out this research and we sincerely hope you will continue to support us by participating again.

The primary aim is to build up a clear picture of what you are doing now and how you view the outlook for 2017 in the key areas of corporate treasury and finance. This will enable you to see how you compare to your peers and, importantly, deliver clear direction to your banks/service providers on the solutions you need to manage your treasuries more effectively and efficiently in the future.

The primary focus of the study will be to identify the hot issues, key trends, strategies and future solutions you require across the cash, liquidity, working capital management, trade, payments, collections, foreign exchange, funding, investments and cards solutions.

We are conducting the study concurrently across four key regions so we are well-placed to highlight any major regional differences.

So, whether you are based in Bangkok, Brisbane or Beijing and haven't yet completed the study, please do so now to have your voice heard and to receive your copy of the results when they are published.

Everything you need, including the online study form, can be found at:
treasurytoday.com/voice-of-corporate-treasury

Thank you for your continued support. Your participation will help us to serve you better.

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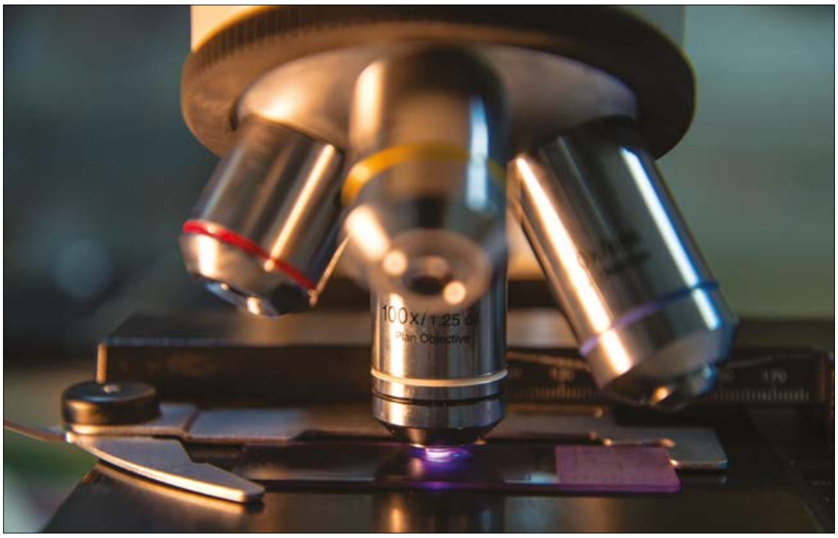

Selecting the right banking partner in Asia

There's been a lot of talk about regional bank strategies in the treasury community of late. But what is really important to treasurers is local capability and expertise. In this article, Treasury Today Asia finds out why.

WOMEN IN TREASURY 8

Striving for equality: Women in Treasury Asia Forum 2016

The most recent Treasury Today Asia Women in Treasury Forum took place in April and once again featured an eclectic range of opinions and a number of thoughtful views on gender diversity across the region.

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Myanmar

Myanmar is becoming a hot investment destination for international corporations; the country's underdeveloped business environment might prove something of a culture shock for their treasurers however. Here we take a detailed look at the country and find out what corporates need to know when doing business in Myanmar.

TRADE 22

Trade winds

Trade growth across Asia is slowing and the impact on corporate profits has been noticeable. Many are now refocusing their efforts to ensure the business can successfully navigate these choppy waters. In this article, Treasury Today Asia looks at what this changing landscape means for corporate treasurers and the steps being taken to develop the trade space.

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Optimising receivables efficiency through virtual accounts

As organisations of all shapes and sizes continue to face challenges in managing their accounts receivables many are looking towards virtual accounts, Standard Chartered outline how this solution works and the benefits corporates can expect.

Standard Chartered

treasurytodayASIA

Adam Smith Awards ASIA 2016

sponsored by ANZ

Corporate treasurers – is now your time to shine?

Nominations open June 13th

Our Adam Smith Awards Asia programme is now in its third year and we are delighted to announce our continued partnership with ANZ for these prestigious awards.

The programme recognises best practice and innovation in corporate treasury within the Asia Pacific region. Nominations open on June 13th 2016 and there are 17 award categories in total so there should be at least one category to capture the achievements of you, your project(s) and/or your team(s). If you believe your work has gone above and beyond the call of duty, now is the time to put yourself forward.

Why nominate?

The Treasury Today Group has been successfully running the Adam Smith Awards programme globally for nine years now. These awards are the pinnacle of best practice and innovation in corporate treasury and are an excellent way to demonstrate to senior management the value that treasury brings to your organisation.

The benefits of entering the Adam Smith Awards Asia extend far beyond collecting a prestigious crystal award in November. Here are just three reasons why you should be part of the action:

√ Raise your treasury team's profile.

√ Showcase innovation and thought leadership.

√ Demonstrate excellence to your peers, partners, clients and investors.

How to enter

Everything you need, including the nomination form, can be found at **treasurytodayasia.com/adamsmith**. It is a simple case of completing and submitting the short form online – which should take no more than 15 minutes of your time.

Any number of solutions can be entered for consideration. A single project can also be nominated in more than one category, where appropriate. Nominations can be made by any corporate, and banks and service providers can assist their clients in completing the nomination form. Banks and service providers are also able to submit nominations on behalf of their corporate clients (with the client's approval). Nominations close on September 9th 2016.

All winners will receive an invitation to the Adam Smith Awards Asia Gala Presentation Lunch on November 17th at The South Beach in Singapore.

Should you have any queries please do not hesitate to contact us at **awardsasia@treasurytoday.com**

Top tips

Above all, our panel of judges will be looking for solutions that showcase the industry's best and brightest and demonstrate exceptional best practice and innovation in the Asian corporate treasury arena.

There should be evidence of true effectiveness and of how you as a company benefited tangibly from the project. Have you implemented a solution that has delivered or leveraged any of the following for example:

- Outstanding cost savings.
- Above average ROI.
- Optimal account/treasury structure.
- Quantitative improvements in efficiency.
- Cutting-edge technology.
- Exceptional implementation (budget/time).
- Quality accreditation.

Testimonials, figures, and any supporting documentation can be included with submissions.

The Adam Smith Awards Asia are open to companies operating in Asia Pacific (regardless of their home base which can be within or without the region). The examples of best practice nominations should be deals and structures that have been implemented or are in the process of being implemented in 2015 and/or 2016.

Please don't be dissuaded from submitting a nomination in the event you feel your company may not qualify for whatever reason. You do not need to be a major multinational to qualify. Focus on the problem that the solution you have implemented, or are in the process of implementing, addresses. Quantify the benefits, both qualitative as well as quantitative.

Award categories

- Treasury Today Asia's Top Treasury Team 2016
- Best Cash Management Solution
- Best Liquidity Management/Short-term Investing Solution
- Best working capital management, AP/AR Solution
- First Class Relationship Management
- Best Trade Solution
- Best Card Solution
- Best Financing Solution
- Best Foreign Exchange Solution
- Best Risk Management Solution
- Best in Class Benchmarking
- Harnessing the Power of Technology
- One to Watch
- Best Solution in China
- Best SWIFT Solution*
- Treasury Today Asia Woman of the Year
- A Rising Star

**new for 2016*

treasurytodayASIA
Adam Smith Awards ASIA 2016

ANZ is proud to sponsor the Adam Smith Awards in Asia, continuing our commitment to our clients and the industry in this region. The awards recognise innovation, excellence and execution in Treasury. Success at the awards, and in business, requires the alignment of ideas, with execution. A great strategy alone won't win. It requires tenacity, talent and the willingness to be different. These awards recognise this and showcase the people and companies that have broken the paradigm, and challenged the status quo. Nominations for the awards are now open, and I encourage you to share your story.

Carole Berndt
Managing Director, Transaction Banking
ANZ

sponsored by ANZ

These pages contain edited versions of a few of the Treasury Insight pieces written in the last month. The full versions are posted on treasurytodayasia.com as they are ready. The Treasury Insights weekly email summarises the new pieces from that week plus other news relevant to treasury. You can register for this free service at treasurytodayasia.com

Streamlining payment processes in China – the Bosch way

Corporate treasurers dealing with China are well accustomed to the high demands with regard to accurately submitting documentation in the country, and for the most part these have been widely accepted – minus a few grumbles here and there at industry events. But in recent years it has arguably become much easier to conduct business in China. This has been typified by the evolving, and easing, regulatory environment which corporate treasurers are now operating within. It is in this setting that Bosch began taking steps to solve a long-standing challenge in regard to the onerous documentary burden around their cross-border transactions.

Bosch has been present in China for more than 100 years and today has a large presence in the country with over 60 legal entities and a turnover in 2014 of around €6.4bn. As a result of this activity, the company unsurprisingly conducted a large volume of cross-border payments. Each payment required regulatory approval through the provision of supporting documents: tax receipts and invoices, for instance.

"This was a labour intensive process requiring manual checking of documents and the physical movement of these by our finance teams in our legal entities before they could be sent to the bank for processing," says Christian Zeidler, Head, Corporate Finance and Regional Treasury APAC at Bosch. "Additionally, the balance of payment (BOP) information had to be manually entered into the payment flow as there was no automated mechanism to pull this information from Bosch's ERP system and to integrate it into the payment workflow."

Overall, Zeidler estimates that for each payment it took the team around five days to populate the documents, check these and make sure they were correct, before being able to initiate the payment instruction and authorise the bank to make the payment.

A digital solution

A move by Bosch to establish a shared service centre (SSC) in China further pressed the treasury department's need to find a more efficient solution. "The team analysed our processes in China and it was evident that there was a need to move to an electronic solution to accommodate the demands of remote and centralised operation," says Zeidler.

The idea that Bosch developed, working in conjunction with two banking partners including Deutsche Bank, was to develop a scan and save process, or sometimes just retrieve the existing image from the ERP, for the paper documentation and then allow banks to download from Bosch-maintained server. At the same time the BOP information would be automatically integrated into the MT 101 payment instruction. An identifier number would then be assigned to each supporting document associated with the specific payment instruction, and the bank would be granted access to the server in order to pull the required payment supporting information. Auto-reconciliation capabilities would also be included to ensure the process was automated end-to-end.

Achieving this, however, posed a number of challenges. Firstly, on a technical level there was a need to ensure that the files are clearly identifiable for each payment and that they matched the payment instruction sent through the electric banking platform. Moreover, as Zeidler explains, "not all entities were on the same ERP platform, requiring some reconfiguring work from our IT team".

The second challenge came from convincing the regulators that this digital solution would meet their requirements. "China has been very traditional in terms of requiring original documents to be provided to the regulators," says Zeidler. "We could see there was an opportunity to move to electronic documents because the regulator had already become more flexible by allowing banks to check the genuine nature of the payments on their behalf. In this instance, the banking community has done a great job communicating with the regulators that electronic documentation is valid and will meet their requirements, as well as the benefits that this can offer companies doing business in China."

Bosch and its banking partners overcame these issues and the solution went live in ten months. "The solution has addressed all the challenges that we had before and has reduced our payment processing time by roughly 80% and with less manpower," says Zeidler. "As well as saving time and effort, the solution is also highly efficient and human error has been mitigated significantly."

Streamlining payment processes in China

As Bosch's solution has proved, corporate treasurers are operating in a new China, where opportunities to implement best-practice solutions are becoming increasingly abundant. "Like elsewhere, companies have to be compliant with standards defined by the regulator when working in China, the framework that the bank works in and also your own guidelines and principles," he adds. "But this doesn't mean you cannot be creative and push for new and innovative solutions, even if the current business environment does not permit these."

And for those treasurers operating in China seeking new solutions to drive efficiency and cost savings, Zeidler offers the following words of advice:

- Think outside the box.
- Apply international standards.
- Challenge your banking partners.
- Do what is right for your company.

How Etihad Airways selected its transactional banking partners

Corporate treasuries do not tend to change banks very often. The Etihad Airways treasury team, who recently announced the signing of new deals with Citi and the National Bank of Abu Dhabi, are no exception. "This is the first time Etihad has done something of this scale," Adam Boukadida, Deputy Treasurer at Etihad Airways recently told Treasury Today Asia. Etihad's selection of a new transactional banking partner, part of a treasury transformation project, was therefore conducted with a very high level of care and diligence.

"We considered a total of 14 banks for this project, including Abu Dhabi and GCC-based institutions as well as the international institutions you would expect to see. And after a series of discussions, workshops and the team carrying out various types of analysis, we decided on the approach we would take," Boukadida explains.

The approach that was decided was to agree a new mandate with Citi to become its international transactional banking partner outside of the Middle East. This was shortly followed by a second deal with the National Bank of Abu Dhabi for the airline's Middle East business. Boukadida says that there were several factors that influenced the final decision.

Firstly, treasury were impressed by the products and services being offered by both the banks, especially around working capital and interest optimisation. Importantly, however, the banks were also able to demonstrate, through their client portfolios, that they understand companies like Etihad and have the right airline sector expertise – as well as solutions – to meet their particular needs. "In addition to the product and service, both of our partners have a wealth of experience in the sector," Boukadida says. "This was why, in the end, we decided to go with two banks globally, rather than regional partners."

The other area treasury were looking very closely at was technology. At the same time as selecting new transactional banking partners, enterprise resource planning solutions were also being overhauled across the group, while treasury itself were working on enabling SWIFT connectivity and bringing in a new centralised treasury and risk management platform to support the group's activities.

In the context of such an overhaul, it made sense for treasury to go with what it was already familiar with. Since Etihad had an existing relationship with Citi in some countries (India, Jordan and Nigeria among others) and for several specific services, introducing the bank's technology promised to be much more straightforward. "There was no need for us to familiarise ourselves with their platforms, technology and ways of working," says Boukadida.

Citi's cross-border capabilities were another big incentive to take global what they were already doing with the bank in several countries. Like many airlines, Etihad Airways manages group liquidity centrally out of their head office in Abu Dhabi. A key requirement was therefore for a global solution to bring liquidity back to head office. "The repatriation process for excess funds across our global network is a key factor to how we manage cash and liquidity."

Meeting in the middle

That Etihad's existing relationship with both banks stretches beyond the sphere of transactional banking, was also considered during the selection process. At a time when regulation means banks are having to be much more selective about where they extend their balance sheet, this becomes a very important consideration.

"We have close relationships across a wide range of products and services with both banks, not just the transactional bank," says Boukadida. "We spend a significant amount of time with our banking partners. As an airline our requirements are covered by all of the different areas across the bank from asset and structured financing to foreign exchange and commodity risk management, and of course trade finance and transaction banking capabilities."

As Boukadida's comments reveal, selecting a new banking partner is not only a once-in-a-decade decision. It is also a once-in-a-decade opportunity; a chance to put in place the right technology, processes and relationships to support treasury as the department in turn supports the growth of the business in the years ahead. And with this deal with Citi and the National Bank of Abu Dhabi, Etihad's treasury team are confident they have achieved exactly that.

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

Women in Treasury

Asia Forum 2016

DIVERSITY IN ACTION

Our recent Treasury Today Asia Women in Treasury Forum saw over 130 senior financial professionals gathered in Singapore to discuss what must be done to further drive diversity in our industry.

"Women are a formidable force in the workplace. As individuals, we can make a difference if we want one day to see as many women in top management positions as men."

Wei Ling Chong, Corporate Treasurer, Agoda

It is undeniable that in recent years the forces driving gender diversity in the workplace have gained real momentum. The numbers speak for themselves with many countries highlighting an increase in the amount of women now sitting at board level. Yet there is still much more to be done.

Treasury Today Asia are proud to be championing gender diversity in our industry. Since the launch of our Women in Treasury initiative, the response has been overwhelming and representative of the need for action. Now in its fourth year, the Women in Treasury initiative spans a number of platforms including our global study, webinars, corporate profiles, and our LinkedIn networking group.

Our annual Forums spearhead the initiative, the most recent taking place on April 14th at the South Beach in Singapore. Kicking off with a pre-lunch reception, guests came together to share and to learn from each other's professional experiences. Key highlights from the findings of our latest Women in Treasury Study were outlined by Sophie Jackson, Associate Publisher, Treasury Today Asia, in her opening address to our guests.

Gender equality – striving for more

The post-lunch panel session was facilitated by Jaya Machet, Founder and Managing Director of Coaching Tiger and former Regional Treasurer for Asia Pacific at Nokia. As in previous years, the dynamic discussion was honest, lively, insightful and inspiring, offering thoughtful views on gender diversity across the region, the progress that is being made and what more needs to be done.

Deepali Pendse, Head of Corporate Treasury Sales, Southeast Asia, Bank of America Merrill Lynch, presented her views on gender equality. In her opinion, although progress has been made in the workplace to foster gender equality at all levels, a lot more needs to be done to see the real benefit. It has already been proven that gender equality is more than just an added bonus; it actually provides businesses with a different perspective and a competitive advantage.

Quotas are often mooted as a way to build a more equal workplace, yet they remain a somewhat contentious issue. Highlighted by Deepali and picked up by the rest of the panel, there was a broad agreement that more structural changes within companies would provide a more prudent method of driving sustainable long-term gender equality in the workplace.

For Deepali, a large part of this structural shift will come from removing unconscious bias, which she believes we are all guilty of holding in one form or another. "Unconscious bias can come into play when we are hiring, promoting, or in our day-to-day interactions with other people, so it is important to be aware of these and try to find solutions that are better for the firm." Deepali's advice was to question and evaluate the decisions being made in light of the bias that exists. In doing so, it will help managers to understand their staff better and help them flourish in the workplace.

Whilst business, and society in general, needs to make more changes, Deepali was keen to point out that women also have a big say in building an equal and inclusive workplace. "These changes won't happen by themselves. I encourage women to engage their managers should they feel an unconscious bias exists, or if support is lacking," she explained.

Ultimately, Deepali believes that women have to want to move further in their career – it shouldn't be forced upon them. "You won't, and shouldn't aspire to become a CFO/CEO if you don't want to be one," she said. "We all need to understand our own aspirations and what drives us, and then work with the business to make sure these are met."

Team spirit

Treasury Today Asia's Woman of the Year, and also the leader of our Top Treasury Team – Vivian Peng, Asia Treasurer and VP of Treasury, Flex – was perfectly placed to pick up the next topic: building a talented and diverse team. There may be a

"A diverse team brings new energy and a fresh approach to the organisation. It almost rounds off the treasury: the ideas are more creative and free flowing, and it creates the value-add that so many treasury departments are looking for on a day-to-day basis."

Christopher Emslie, Country Treasurer, Singapore, ABB

plethora of information available on this subject, but Vivian was able to provide some valuable insight based on her own experiences.

In her view, the key to building a talented team lies in ensuring that its ethos and attributes match what you want it to achieve. Vivian, for instance, told the audience that she wants her team to work together to drive the treasury department forward. This relies on the team having three attributes at its core: team spirit; a willingness to take on a challenge; and the ability to deliver.

Of course, in practice this is not always an easy ask – these attributes have to be built into every aspect of how the team operates. Vivian discussed her approach when hiring a new team member. She looks to the attributes that she wants from the team and applies these to each candidate, looking beyond their CVs and the qualifications and experiences each individual has and instead focusing on their cultural fit within the team.

"I am looking for people that reflect the attitude of the team, work hard, who are up for a challenge and who can perform in a high-pressure environment – you can't always tell this from qualifications and experience alone," she explained. "But it is important that they have these qualities because it means they will buy into the ethos of the team that I have built."

At the heart of all of this is teamwork. "My staff are aware that I am more focused on team performance than that of individuals," she commented. "For me a successful person is somebody who helps the other team members and looks at more than just what they are doing. The ones that get ahead will be those who do this the best."

Making your way to the top

Building a dream team is also an effective way to push forward your own career, according to Lillian Sim, Head of MNC Regional Coverage & Sales, Singapore & Hong Kong, Global Corporate Bank, J.P. Morgan, who tackled the subject of career progression. "Surround yourself with people that are passionate about their job and their work," she advised. "If you do this then you will find that challenges quickly turn into opportunities."

"Women should challenge themselves more often," she continued. "In the current environment, where organisations and the world around us are changing, you cannot stick with the status quo. I like to encourage people in my organisation to be proactive. This is not only beneficial to the organisation, but it is a lot more exciting and will help individuals' careers to progress. People will sit up and take notice."

In doing so however, it is important to remain true to yourself. "Stand up for what you believe in," advised Lillian. "I always base my decisions on my principles and it is key that you do what is right for yourself." It can be good to say no from time to time – as long as you have a valid reason for doing so. "Be brave and speak up, this will help you achieve more respect within the organisation."

Lillian is aware that there is only so much guidance one can offer and that ultimately women need to take charge of their own careers. "I have had many people ask me what I think they should do next and I tell them it is what you want to do next that is important," she explained. A career should be viewed as a journey. It is important that there is a plan and a final goal that fits into what you as an individual want to achieve from life as a whole. On this journey it is important to celebrate the good times: "When you reach a milestone, make sure you recognize your hard work and mark it in some way."

Success at what cost?

Of course, to have time to celebrate you need to have time for yourself outside of the office. And, as always, striking a work/life balance was one of the most popular discussion points.

For Pratibha Advani, CFO, Tata Communications, who spoke on this topic, the key is to seek personal fulfilment. "While life

"We need to be brave to speak up. Our career is in our hands and we know better than anybody what we want."

Alice Chan, CFO, NETS

is all about the choices we make on a day to day basis, it is also about seeking fulfilment," she said. "I am personally not a believer that gaining success in professional life alone can be fulfilling."

Calling on her own career as a candid example, Pratibha explained that she has enjoyed her work as much as her personal life. "I have not had to compromise one for the other," she stated. True fulfilment has come by "striking a balance between being a responsible employee and playing the role of a spouse, daughter and mother".

Yet with 38% of respondents to our Women in Treasury study indicating that they still do not have flexible working arrangements in place, it seems that striking a balance remains difficult. And even when these working arrangements are available, there will still be times where the two worlds clash.

Yet for Pratibha this is not necessarily a problem. "I am a believer that it is the quality of time and not the quantity of time that you spend with your children that matters," she explained. "You should have the ability to find the time to be truly present with your kids when they need you and find things that unite the family."

She also advised people to plan for the times when they need to be away from work well in advance. "One of the things I would urge to you all to do is stand up for your rights, in just the same way that men can. If a male chairman or CEO can say,' sorry I am unavailable,' then so can you. Don't compromise your personal life for your professional life."

Women in Treasury: get involved!

We would like to thank all those who took part in, attended and supported our Women in Treasury Asia Forum and would like to invite all others in the industry who are interested in the initiative to get involved. Join our LinkedIn group, participate in the 2016 Women in Treasury Study. We hope to see you at our next forum in London on Thursday September 15^{th} in London.

For any general enquiries regarding the Women in Treasury initiative in Asia please contact Sophie Jackson, Associate Publisher, Treasury Today Asia – **sophie.jackson@treasurytoday.com**

Improving business ethics

Unethical business is increasingly in the spotlight. How can treasury help improve their company's ethics?

Chris Dark
President International
C2FO

> Late payment of invoices to SMEs is a huge issue globally, contributing to the liquidity crisis currently facing many SMEs.

There are certainly a number of overtly unethical practices that fall within the scope of finance and treasury, including bribery, money laundering, lack of accounting competence and transparency and high-risk investment strategies. These should all be regulated by internal corporate guidelines and codes of conduct, with fines and criminal charges as the ultimate enforcement for violations.

Some more subtle unethical behaviours that generally garner less media attention revolve around supply chain policies and payments. Late payment of invoices to small and medium enterprises (SMEs) is a huge issue globally, contributing to the liquidity crisis currently facing many SMEs. It has a significant impact on the ability of small businesses to grow and is considered to be a major factor holding back the global economy.

A recent Bloomberg Business article reported that China's unpaid invoices or late payments currently total $590bn. According to authors Ye Xie and Fox Hu: "The raft of unpaid bills…shows how cash shortages at the weakest firms threaten not only banks and bondholders, but also China's vast web of interconnected supply chains."

It takes an average of 83 days for the typical Chinese firm to collect on completed sales, and the average days sales outstanding for SMEs across Asia Pacific continues to increase year over year.

Also, there is the uncertainty of when the payment will come. If a buyer is consistently late in paying, the supplier may plan ahead, but the volatility becomes the crucial issue for cash flow.

When companies pay late, pay erratically or extend payment terms beyond what their suppliers can afford, the end result is that the SMEs risk being unable to fund the working capital they need to grow, or just to survive. In these situations, suppliers often have limited options to access adequate funds for working capital. Broadly speaking, they can either take on debt or monetise invoices before they are due to be paid.

Traditionally, banks have been the primary source of working capital funding for SMEs, either via loans or overdrafts. While this is still an option, lending to SMEs has declined since the start of the global financial crisis.

Treasury's role in improving company ethics can be demonstrated via programmes designed to support the SMEs that make up their supply chain. One model that offers early payment to SMEs is dynamic discounting, which allows a buyer and supplier to establish new payment terms, with the discount amount being calculated 'dynamically' based on the number of days left until an invoice is due.

C2FO, for example, has created the first market for working capital, allowing buyers and suppliers to collaborate to discover the unique price for early payment that's profitable for both.

When treasury actively solves the issue of late payments with a supplier-friendly solution, all businesses become more profitable as a result of fairly priced liquidity flowing down the tiers of the supply chain. The end result is increased trust between buyers and suppliers, reduced supply chain risk and an improved corporate reputation – all of which is thoroughly ethical.

Steven Wade

Global Project Director

Ethical Corporation

> The focus should be on a transparent approach when it comes to ethical matters particularly with internal decision-makers, and stakeholders such as investors.

The Volkswagen emissions scandal sparked a 70% fall in earnings per share, Brazil's Samarco Dam Disaster has resulted in $5bn payment of damages and #BoycottBlackFriday helped reduce retail sales by 11% at a crucial time of year for the sector. These very recent revelations of unethical behaviour are in the spotlight, and have a very serious risk to the treasury function of a business – one which isn't so well-addressed. Unexpected fines, investors pulling out and opportunity costs from customer policies can have a big impact on the bottom line and, ultimately, on business longevity.

Consider this example of the intersection between ethics and treasury departments: a mining company operating in Asia will save money and meet regulatory requirements by using local suppliers in their projects. However, the company's payment terms can conflict with the suppliers' capacity to deliver projects and cutting out cost-competitive local options.

Needless to say, the ethics employed by any organisation is the responsibility of everyone involved, but there are numerous ways in which treasury departments can make significant contributions, namely, by creating the right culture, engaging on ethical issues and reporting on performance.

The focus should be on a transparent approach when it comes to ethical matters particularly with internal decision-makers, and stakeholders such as investors. Obviously, there are some issues around competitiveness that will prevent complete transparency – but the more open conversations had around ethical issues enable treasury to view the biggest risks to the department.

The second bit of advice is concerning engagement. Each business is different and corporates need to engage stakeholders to be able to understand both which environmental, social and governance issues are most relevant to their businesses' success, and how best to assist different aspects of business units. Clear communication lines with internal decision makers, and also with those outside of the business with whom treasury frequently work, is key in ensuring this engagement is as efficient and effective as possible. Certainly, in our own research undertaken in preparation for The Responsible Business Summit Asia, we found that most business professionals in the Asia Pacific region are primarily concerned about stakeholder engagement, supplier collaboration and ethical business strategies.

You also cannot manage that which is not measured. Once treasury have an idea of the key ethical issues for the company, realistic KPIs need to be set in order to mitigate these risks, and then report upon progress and findings. It is similarly important to set up a monitoring mechanism to highlight risks before they gain momentum. Financial and non-financial reporting is becoming more integrated and most exchanges require non-financial reporting, so it is important to contribute to this data collection where possible.

Finally, whilst there's a lot of focus on the negative aspects of unethical business practice, it is important for treasury departments to spend a little time in considering the positives that ethical business can have on the bottom line. As a supplier, responsible business practices are an important differentiator when winning contracts. What's more, responsible business is a core value for the majority of millennials who as mega trends suggest will be your future customers and employees – it's important to make them choose your business.

The next question:

"What constitutes best practice in bank account management?"

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

Rise of the regional relationship

With bank strategies less certain in today's regulatory environment, the task of selecting a new banking partner has never been more demanding. But what are treasurers looking for in a transaction bank today? We asked treasurers and bankers for their take.

Selecting a new transactional banking partner will be on the agenda for many treasurers this year, and here in Asia the requests for proposals (RFPs) the banks are seeing are becoming ever more complex.

Just under half of the Asia Pacific treasurers that participated in the Association of Financial Professionals' (AFP) 2015 Transaction Banking Survey confirmed they plan to review strategy with their banks in the year ahead. One in five indicated that they will be renegotiating their banking contracts, while a quarter are either actively seeking new banking partners in key areas or have plans to move their business accordingly.

Some of this upheaval can be accounted for by organisations looking to benefit from economies of scale through consolidating their banking relationships. In the search for optimal process efficiency, many corporates in Asia – of all types – still aspire to introduce standard banking structures and move away from in-country treasury processes.

But treasurers know that uniformity cannot come at the expense of local operations; they need banks that can get the job done at the domestic business level too. In-country capabilities will therefore be figuring high on the list of considerations of those treasuries now moving to a regional model. And it's the tension between these two demands, in-country capabilities and global reach, which is seemingly giving rise to some of the more nuanced RFPs the banks have been seeing.

Local know-how

"I am seeing a bit more complexity in the RFPs coming through now as corporate treasury becomes much more involved in the day-to-day operating needs of the business," says Jason Batman, Asia Pacific Product Sales Head, Treasury and Trade Solutions at Citi. "Some of them are becoming incredibly complex and contain a large number of very specific domestic requirements."

The trend can be partly explained, says Batman, by reference to the evolving role of the corporate treasurer. With treasurers becoming more involved in driving operational efficiency initiatives, more attention is being given by companies tendering their cash management services to how certain services – payroll, tax, for instance – are delivered at the local level.

Review of strategic relationship with main banking partner

(Percentage distribution of corporate practitioners)

	Renegotiating banking contracts	Seeking new banking partners in key geographies	Will have to move business accordingly	Not reviewing strategy with main banking partners
All	23%	16%	9%	52%
Revenue less than $500m	24%	18%	6%	52%
Revenue between $500m-4.9bn	15%	23%	8%	54%
Revenue at least $5bn	28%	9%	13%	51%
Publicly traded	21%	18%	11%	49%
Privately held	25%	21%	8%	46%
Asia Pacific	20%	14%	11%	54%
North America	20%	15%	8%	56%
Western Europe	23%	18%	9%	50%

Source: 2015 AFP Transaction Banking Survey

The service received from a bank in one country, they often discover, is not the service provided in another. "There is much more specificity around what the bank can really do in the domestic market space," Batman notes. "Treasurers want to know a bank can do what it says it can do at the local level."

Sometimes banks with very sophisticated global structures simply do not live up to the treasurer's expectations – or the bank assurances – in certain markets. "Banks sometimes tend to over-promise their local capabilities based on high service levels in major countries," says Christopher Emslie, Country Treasurer, Singapore, at ABB. "Unfortunately a bank's capabilities and structures in smaller countries cannot always facilitate or replicate the needs of those countries."

That is why the most important question during the selection process, for Emslie, is delivery. The escalation process to resolve issues, should any arise, is key. "If the bank's structure has an ultimate responsible party to assist the customer and a clear process for guidance, a solution can be found."

Although a bank's ability to deliver new innovative solutions and, of course, the cost of those solutions remain important considerations when selecting a bank, Emslie says finding a bank that has a footprint that works for the company will always be paramount.

"We look for banks that can be aligned with ourselves and can service our needs," he says. "The usual parameters come into play such as price and value-add, but it also comes down to footprint and global compatibility for the organisation."

This focus may explain the current vogue amongst the treasuries of multinational companies (MNCs) in opting for regional banking strategies. As Carole Berndt, Head, Global Transaction Banking at ANZ, notes: "Treasurers are looking for best in breed in a geography – and nobody can be the best everywhere."

It is something Berndt has heard a lot since she joined ANZ in May 2015. She commented on this a few months into the role: "The first three client meetings I had here were all with MNCs who started the conversation by saying that they were talking to us because they were exploring a regional bank strategy," she says. "Historically we would have had to pull clients in that direction, but now there is a trend towards it – and it is one which we are ideally placed to leverage."

Testing the banks

For the treasury team at General Motors (GM), who recently implemented a regional bank strategy (for which it won an Adam Smith Award Asia), in-country capabilities are literally one of the first considerations of the selection process. It's not merely a question of solutions and connectivity, however; treasury is also keen to ascertain the competencies of the shortlisted candidates on matters such as the local regulatory environment.

"For us the main purpose of that first RFP round is to truly understand what the banks' local capabilities are in different countries," says Ying Cao, Treasury Manager, International Operations at General Motors. "We will look, for example, at whether there is SWIFT connectivity in certain countries, whether they can support different languages, different ERP versions."

Understanding what a bank can do at the local level is critical for treasury teams – including GM – because there are often limitations to what banks can do in countries, dependent on the bank's strategy and organisational setup. For instance, some services might require the bank to have a physical branch; indeed foreign banks that are not fully licensed in countries like India and China are restricted from providing certain services. It is important to fully understand banks' knowledge and expertise across different markets.

"We use the case study to test the banks' knowledge of such things as local regulation," says Cao. Although GM's treasury do not typically see a huge difference in the responses that come back, it is the degree of confidence with which the bank answers the question that can often be telling. "Sometimes there are banks that answer the questions very clearly, whilst other banks would need to check and come back to us. Eventually they all come back with the right answer – but you have a sense with some that they are not quite so certain."

RBS' exit continues to reverberate

When RBS announced last year that it would be dramatically scaling back its corporate banking network across the world, a large number of corporates were left searching for a new cash management provider. Today, it seems a few of those companies still are.

Responding to a recent Treasury Today article on how the bank's pullback has shaken the competitive landscape in transaction banking, RBS confirmed that some customers needing to switch – including corporates in Asia – appear to be behind schedule.

"We have clearly communicated the timelines for switching to all our customers, and they understand that our operations are scaling back," Jerry Pearce, Head of Cash Management, Global Transaction Services at RBS commented.

"With this in mind, we are encouraging clients to accelerate their exit well ahead of their final termination date. A large number of our clients have already found a new provider and many others are well on their way to doing so, with a few still having much to do if they are to meet the deadline."

Of course, RBS will have done all it can to assist those clients in the search for a new cash management provider. But even so, having to find a new bank and implement a new regional cash management solution on a tight deadline is not an experience many treasurers would like to go through often. Perhaps the desire to mitigate operating risk is another reason more treasuries are splitting APAC between two banking partners.

The bigger picture

A renewed focus on what banks can do from country to country means that the single-regional-bank aspiration must sometimes give way to a more pragmatic approach. Treasurers still wish to rationalise bank structures across different countries; eliminating inconsistent accounting and treasury processes where possible. But when a single bank cannot be found that aligns well with the corporate's structure and footprint, there is a tendency to split the region.

This ensures that the efficiency benefits of rationalisation are not offset by the loss of in-country capabilities. "It means that treasurers are now evaluating banks more extensively at the country level when making buying decisions in Asia," says Citi's Batman. "Depending on their business model and growth strategy, they could be picking different bank partners for North Asia or China, India, and ASEAN. Having said that, multinationals with a large, balanced global footprint continue to favour banks that are able to offer global connectivity with strong in-country capabilities. This provides the regional treasurer with optimal visibility and control to efficiently navigate the fast-evolving business environment across Asia's heterogeneous markets."

Splitting the region between multiple banks was the approach taken by GM when it began implementing a regional banking model several years ago. Before embarking on the project, treasury was using a handful of local banks for payments and cash management services across ten different countries in Asia. Multiple accounts were held with different banks in countries like Korea, Thailand, India and China; with a structure of such complexity core treasury activities had to be carried out by in-country treasury teams. Meanwhile, without a TMS in place, processes were largely manual, creating inconsistent accounting and treasury processes from country to country.

Despite the complexity of GM's footprint in the region, a high level of uniformity was ultimately established by replacing local banks with two regional partner banks. Many core treasury activities are now performed at the regional level, rather than in-country. Information, meanwhile can be accessed via a TMS instead of consulting a number of different systems and teams.

"Before we started the project, we had different bank account structures in different countries," says Niyant Shah, Manager, International Operations, GM. "Some countries had over 30 bank accounts with different counterparties. We wanted to make sure we were using a standard structure in each country."

Best of both worlds

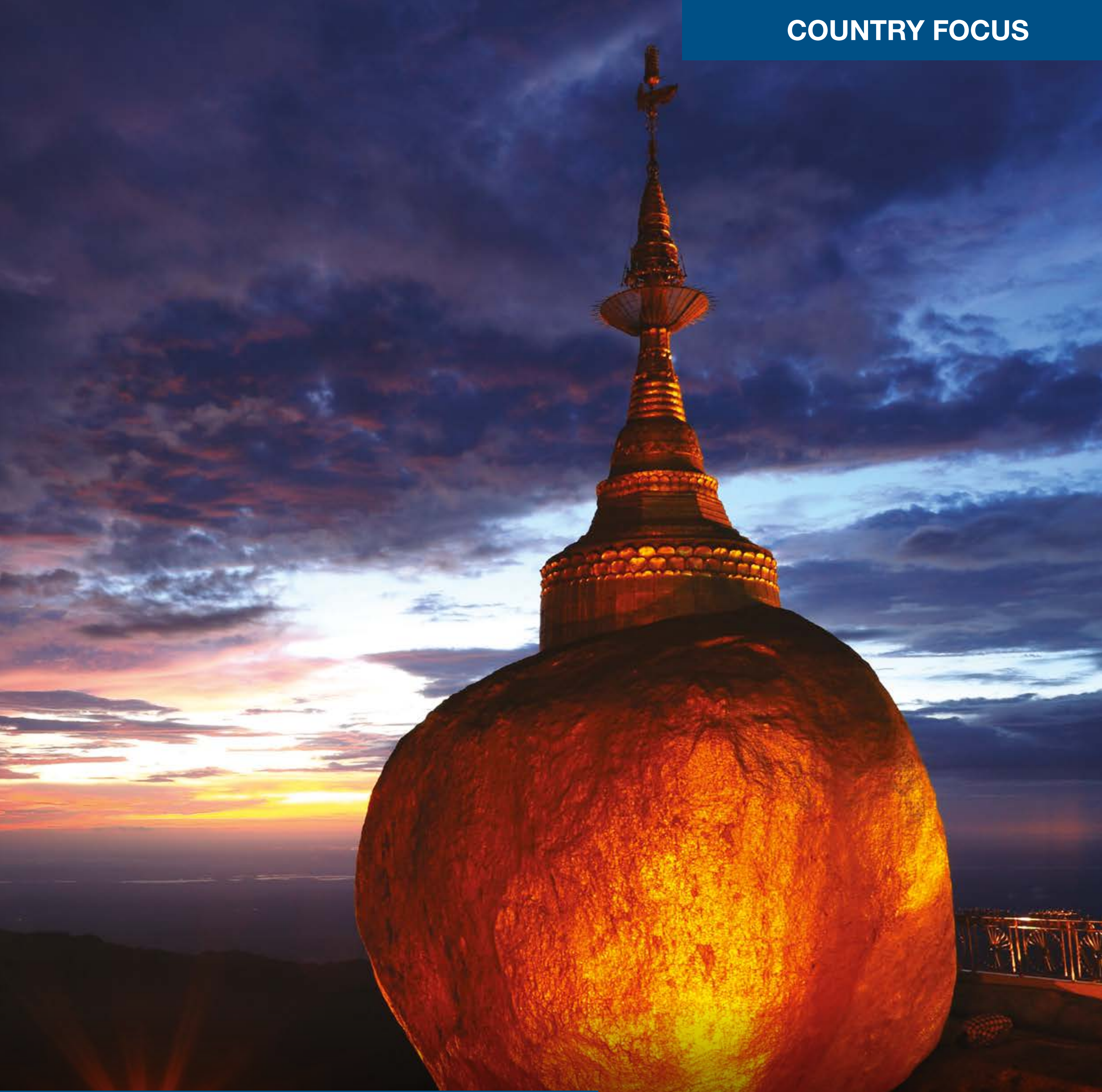
The story of GMs treasury transformation project in Asia demonstrates that a balance can be struck between the efficiencies treasuries can gain from having a global banking partner, and the flexibility and domestic competitiveness of a local bank. Regional banking arrangements often work well from a strategic standpoint for MNCs like GM because they mirror business organisations that are managed on a regional basis; regional management centres can, for that reason, serve as a natural point of contact for the bank. The model also avoids the fragmentation that can occur through local banking, while still offering a degree of counterparty risk diversification at the global level.

In terms of getting the implementation of a regional banking model right, there are a few things treasurers can learn from GM. First and foremost, when picking a regional bank it is vital to carefully assess the local, in-country capabilities of the banks, and the expertise of their teams. The service a bank delivers in one country is not always the same as it delivers in another country. Furthermore, should regulatory issues arise, treasurers will want a banking partner that knows the local market and can help them resolve the matter.

Secondly, look at the technological strengths of the selected candidates. As GMs story attests, it has become increasingly possible to have a one-bank-experience with several banks; and a TMS can serve as a single conduit to access reporting, payment services, credit and FX and commodities transactions across multiple banks.

Finally, in a region like Asia Pacific, made up as it is of a number of highly diverse markets and regulatory regimes, selecting one bank to cover an entire region may not be in treasury's best interests. No bank is equally strong in all markets, and treasurers will want the best fit for whatever country they are operating in.

Providing the treasurer remembers these key points, treasurers should find themselves in a position to combine, like GM, the synergies of centralisation with local banking capability and expertise. One global transactional banking partner may not be as practical an ambition as it once was for every company, but there are many variations and alternative ways to centralise treasury operations. A regional banking model is evidently one which is proving especially popular with corporates in Asia Pacific at the moment.



Coming in from the cold

Myanmar is one of the fastest growing economies in Asia and is becoming a hot investment target for international companies. But the country's undeveloped transport and banking infrastructure means corporate treasurers may be in for a bumpy ride, in more ways than one.

Key facts

Population: 56,320,206

GDP annual growth: 8.5% (2015 est)

GDP per capita: $5,200 (2015 est)

Ease of doing business rank (2016): 167

Index of economic freedom: 158

International memberships: Association of Southeast Asian Nations (ASEAN)

In late 2015, Myanmar held its first election since a nominally civilian government came to power in 2011, ending over 50 years of military rule. The result was a historic victory for the main opposition party, the National League for Democracy (NLD), led by the social democratic stateswoman and country's most eminent political figure, Aung San Suu Kyi.

Long considered a pariah state while under the oppressive rule of the former military junta, Myanmar's emerging political freedoms are mirrored by parallel reforms in the economic sphere. Both in political and economic terms, Myanmar is gradually ending half a century of isolation and central planning and becoming a more liberal country open to international investment. It is a trend which is set to open up a myriad of new opportunities for corporates in Asia, as well as a few challenges for their treasurers too.

A new era

Myanmar is one of the poorest and one of the most populous of the ten ASEAN member states. Yet the country, with its abundance of natural resources, including arable land, gold, timber, oil and natural gas, has much to offer growing international businesses.

The competitive advantages bestowed by these natural assets are strengthened by the fact that the country is now busy building industries almost entirely from scratch and, in addition, is seen as a gateway between Southeast Asia, China and India. No wonder foreign direct investment (FDI) rose to new heights during 2014-2015, as multinationals including Coca-Cola, Telenor, Colgate-Palmolive, and Mitsubishi laid bets on an emerging consumer boom. Overall, growth in Myanmar's foreign investment has exceeded that of any other ASEAN country in recent years, albeit starting from a very small base.

Although the somewhat languid pace of political reform in the country has disappointed some commentators – last year's historic election notwithstanding – progress is clearly being made on the economic front. The floatation of the kyat in April 2012 kicked off the country's transformation in April 2012, followed shortly after by autonomy being granted to the Central Bank of Myanmar (CBM). Certain regulations around banking procedures were relaxed in the wake of this development. Just recently, in March 2016, Myanmar's first stock exchange, the Yangon Stock Exchange (YSX) officially opened its doors for trading, an event which Maung Maung Thein, head of Myanmar's Securities and Exchange Commission, said, marked a "great day" for the country. "We can now proudly and mightily proclaim to the world that we are no longer a backward country," he added in a speech to a crowd of business leaders.

The opening of YSX was but the latest development in a wave of economic changes that began under the presidency of the moderate reformist Thein Sein. These include new policies around anti-corruption, currency exchange, foreign investment laws and taxation. Meanwhile, the Asian Development Bank (ADB) formally began re-engaging with the country to finance the construction of new infrastructure and other development projects within the country.

Banking on reform

As of April 2015, Myanmar's banking system comprised of four state banks, 22 private banks (nine of which are classified as semi government institutions), 42 representative offices of foreign banks and foreign finance companies.

Myanmar's banking sector remains extremely underdeveloped and this naturally presents considerable challenges for the corporate treasurer. To begin with, the almost complete absence of modern banking infrastructure means the economy remains largely cash based. Transfers between businesses or individuals often require the physical movement of cash between branches of the same bank or branches of different lenders. Even something as simple as clearing a cheque requires a visit to the central bank, and verbal communication from the cheque writer's bank that the person in question has sufficient funds in his or her account to honour the cheque. For treasurers used to banking in more developed parts of the world, this way of doing business can come as quite a culture shock.

"Right now there's almost no interbank market in Myanmar," says Wan Chun Shong, Treasurer at Malaysian automobile makers the Tan Chong Group, a firm which has been aggressively expanding into Myanmar since 2012. "It means moving money around is often very difficult. Even last week when I was visiting the country I saw people carrying sacks of cash between banks. Most financial transactions are still conducted on a cash basis – it is really quite amazing."

But progress is being made on this issue, albeit gradually. The introduction of the CBM's new clearing and settlement system, dubbed CBM-Net, in January 2016 has been described by pundits as a significant milestone in the country's financial development, one which will make an "immense difference" to the day-to-day operations of banks. Under the new system, the central bank and Myanmar's local and international banks are connected electronically, meaning instructions to debit or credit different accounts in different banks can be carried out instantly and automatically. Cheques can be cleared through a mechanised clearing house, which is connected to the CBM-Net system.

CBM's long-awaited introduction is but the latest step taken towards establishing a more modern banking system. In 2014, the country began to allow a wider range of companies to operate in the country, awarding nine banking licences to foreign banks, including: ANZ, ICBC, Maybank and the Japanese mega banks. In March 2016, four more banks were granted licenses (Bank for Investment and Development of Vietnam, State Bank of India, Taiwan's Sun Commercial Bank and South Korea's Shinhan Bank) bringing to 13 the total number of foreign banks allowed to conduct business in the country.

"Allowing corporates like us to access the services of foreign banks is a very important development," says Chun Shong. "We are now having conversations with our banking partners around access to various types of instruments such as letters of credit."

The licences were somewhat limited in scope, allowing a bank to have just one foreign branch and only permitting activity with foreign corporates. Nevertheless, Asia's corporate bankers feel the move could be instrumental in attracting greater investment from foreign corporates in the years to come.

"It removes one of the key barriers to entry," Grant Knucey, former CEO Cambodia, Laos & Myanmar at ANZ Banking Group told Treasury Today Asia shortly after the nine foreign bank licenses were awarded in 2014. "There is a real feeling among the corporate universe that without foreign banks in the market they will be unable to grow and execute their long-term strategies. I have no doubt that the extension of these licenses will encourage more companies to investment in Myanmar."

Other industry experts agree with this assessment. There has been a significant wave of interest from foreign investors since 2010," Abdul Malek Mohd Khair, Country Head at Maybank's Yangong branch told Treasury Today Asia. "With the local banking sector remaining limited in its ability to fully serve the requirements of international companies, foreign banks are expected to play a more significant role, especially in the large scale project financing and foreign-related ventures. The dollar-based financing solutions from the foreign banks are one of the catalysts to the higher inflow of foreign investment into the country." But the benefits do not stop at what foreign banks can offer corporates: there is also the impact on the local banking sector to consider. "The entry of foreign banks also brought about the sharing and transfer of best practices to the country," he adds "especially to the local banks and Central Bank which will eventually level up the banking sector and bring about growth."

Inviting investment

Foreign investment already seems to be on an upward trajectory. The lifting of economic sanctions in 2013 began a flood of investment from foreign companies. In 2014, Myanmar received just over $4bn in FDI. By the end of the following fiscal year, that number had doubled to $8bn as foreign firms won oil and gas concessions and, reflecting the improving geopolitical environment, international hotel chains started moving in.

According to PwC's Myanmar Business Guide, the sectors currently seeing most FDI include infrastructure (roads, power plants, telecommunications and logistics, in particular). After decades of underinvestment, infrastructure is a sector the current administration is very keen to encourage foreign companies to finance. As highlighted by a recent report by the Asian Development Bank, Myanmar's underdeveloped transport infrastructure "provides poor access to markets and services" and "hampers business development". "This means increasing transport investments to the equivalent of 3% to 4% of gross domestic product from little more than 1% in recent years," says Peter Brimble, ADB Deputy Country Director in Myanmar. "Private sector resources will need to be mobilised given the immense funding requirements."

Recent political developments should ensure the upsurge in FDI continues to pick up steam in the years ahead. "FDI is expected to get a lift from the successful political transition following national elections in November 2015, with investment flowing into newly established special economic zones and rapidly expanding transport, telecommunications and energy sectors," ADB wrote in the report.

Talking to corporate treasurers working in Myanmar, however, one does get the sense that they feel the country is moving in the right direction. Much remains to be done, however, to reform an economy isolated for the best part of five decades. "We believe that outlook is promising," says Chun Shong. "The business environment is still in a sort of preliminary stage of development, and so it remains very challenging. But Myanmar has only just begun to open up and liberalise, so there are a lot of things that we are expecting to change and to improve."

Treasury's wish list

What areas are treasurers most keen to see improvement in? What do they regard as being the biggest impediment to them executing their responsibilities at the present time?

"I think that one of the biggest constraints facing treasurers right now are the rules around US dollar transactions," says Chun Shong. Although foreign companies operating in Myanmar have been permitted to transfer funds back out of Myanmar since the passing of the 2012 Foreign Exchange Management Law, bureaucratic obstacles remain in place for money being transferred in and out of the country. That means intercompany financing, relied upon by the Tan Chong Group in the absence of developed capital markets, can be especially onerous. "It is a challenge because when we are sorting USD funds for offshore out of Myanmar, approval is required from both the CBM and the Ministry of Commerce. Similarly, for my company here in Malaysia to lend into the company operating in Yangon in Myanmar, we have to get approval from the central bank because it involves capital restrictions."

Keeping idle liquidity in Myanmar to a minimum is very important though, given the dearth of practicable short-term investment options in Myanmar at the present time. Besides short-term bank deposits there are no instruments, like money market funds, for instance, that treasurers are known to use in more developed markets. "If your trapped cash here is too big, you are going to have a problem," Chun Shong observes.

With Myanmar opening its doors to international businesses, the regulatory environment around foreign exchange is developing quickly and sometimes changes – not always of a positive nature – are enacted at very short notice. Events late last year offer one such example of this. Fearing the destabilising economic effects of unchecked dollarisation, Myanmar's CBM has recently attempted to curb the use of US dollars. In October 2015, just a few weeks before the country's historic elections, the CBM announced the cancellation of foreign exchange licences to thousands of businesses, including hotels, restaurants, and airlines.

Naturally, such developments continue to make Myanmar a challenging place for corporates, and especially for those involved in managing the treasury operations. "At the end of the day, I need to do my job," says Chun Shong. "Faced with all these constraints it can be very difficult for treasurers in Myanmar at the moment – you end up doing pretty much everything on a cash basis. So I would like to see trade liberalisation – to allow us to buy US dollars easily."

But top of Chun Shong's wish list of reforms is further improvements to financial infrastructure and the regulation of institutions that operate within it. "The authorities need to build a functioning interbank market, and they need to improve the regulation of the banks operating in the country," he says.

Chun Shong knows that the prospects for seeing such changes largely rest on what happens in the political sphere. The economic reforms we have seen since 2011 are unlikely to have occurred without the political reform that ended both the country's international isolation and five decades of military rule.

Today, further reform seems only likely to take place if the country continues its transition to democracy. If that happens "everything else should fall into place," says Chun Shong. "There's a new government in place now, and we are expecting things to get better."

Optimising receivables efficiency through virtual accounts

Virtual accounts have been receiving substantial attention lately – and it isn't hard to see why. This solution offers flexibility for corporates to ease reconciliation, improve cash flows and strengthen credit control – particularly desirable outcomes for treasurers seeking working capital optimisation. Standard Chartered details how this solution works and the benefits corporates can expect.

Organisations of all shapes and sizes continue to face challenges in managing their accounts receivables, particularly around reconciliation. A lack of payment information on incoming receipts typically results in the process breaking down with substantial administrative time and cost spent investigating and resolving receivables matching. The resulting unapplied cash and open invoices routinely lead to compromised customer service and delays in shipment release. Closure of monthly financials and working capital management often suffer as a consequence.

A working solution in practice

The use of virtual accounts ensures unique and immediate identification of remitter details which facilitates straight-through cash application. Corporates seeking centralisation and optimisation will no longer need to manage extensive physical bank accounts and instead are able to draw the same advantages using one central account. Accounts receivable (AR) teams also save on time and effort previously spent investigating and reconciling open receipts.

Virtual accounts, as the name implies are bank-issued virtual bank account numbers that reroute payments to the underlying physical bank account they are linked to and ensure each remitter is uniquely identified. From a remitter perspective, virtual accounts look and function exactly like a real bank account number, and do not require any changes other than ensuring they pay into the new unique account number provided to them.

Virtual accounts offer a number of key benefits including:

- **Ease of management** – the solution does not require corporates to operate multiple physical bank accounts, eliminating the cost for opening and managing multiple accounts. Further, Standard Chartered offers flexibility by allowing virtual account numbers to be set intuitive to corporate's customers, which smoothens the transition, with minimal cost and disruption to the business.
- **Operational efficiency** – the solution eliminates issues around missing remitter information and subsequent manually-intensive tracking and investigation processes, enabling clients AR team to focus on more productive core functions and value-added activities.
- **Automated reconciliation** – automatic remitter identification allows for straight-through cash application in an AR system. This significantly reduces the processing float and enables faster release of remitter's credit line and booking of next sales.

Standard Chartered offers virtual accounts across its geographic footprint in Asia, Africa and the Middle East, where historically the quality of remittance data is poor. As such, the solution has been very popular with corporates across industry sectors. Table 1 below illustrates just some of the ways virtual accounts are used across industry sectors:

Table 1:

Industry sector	Reconciliation using virtual accounts
Consumer goods/manufacturing	Reconcile inwards receipts at a dealer ID, with an ability to utilise a dynamic virtual account structure for invoice number reconciliation
Insurance/fund houses	Reconcile inward receipts at customer ID or agent ID; dynamic virtual account structure allows policy level reconciliation
Airlines	Reconcile inward receipts at passport number/travel reference ID
Telecom	Reconcile inward receipts at a customer ID or at a mobile number
Utilities	Reconcile inward receipts at utility account number

Standard Chartered

Client case study

Unilever is one of the world's leading FMCG companies with unrivalled presence in the developing markets, especially in Asia. In Pakistan, Unilever has established an extensive dealer network covering several remote and rural locations, receiving a high volume of receipts in the form of guaranteed instruments, cash and electronic transfers, resulting in considerable time spent on reconciliation.

Client's goals

Unilever has always perceived automated cash application into their ERP as an intrinsic part of their business model, which is highly dependent on the efficient turnaround of orders received from their vast distribution network. It had been observed that shipment releases were often delayed whenever payers were not being promptly identified.

> Technology like virtual accounts gives us the flexibility not only to improve our cash flows but also to minimise our credit exposure. This is indeed a big leap forward in how businesses can manage their operations more effectively especially in volatile market situations. Unilever is proud of its partnership with Standard Chartered on this breakthrough initiative."
>
> Zahid ul Islam Malita, Corporate Finance Director, Unilever Pakistan Limited

This gave Unilever a compelling reason to seek an integrated receivables solution to help expedite release of shipments once payments had been received from their respective dealers. Additionally, Unilever wanted to reduce the time it was taking for them to receive payments from their dealers, especially those located in remote parts of the country. Unilever approached its bank to request a solution to this problem.

The solution

Working with Unilever across Asia, Standard Chartered were able to facilitate straight-through cash application by streamlining the payer identification process. Through understanding the client's existing processes, the bank was able to structure a virtual account solution to accommodate the dealers' preferences for a variety of payment types.

Whilst the bank collaborated with Unilever in promoting adoption of virtual accounts amongst their dealers, Standard Chartered simultaneously engaged with dealers' banks to seek their assistance in helping dealers remit funds electronically.

Paving the way with easy and non-disruptive transition for their client's dealers, the bank delivered an integrated solution that expedited the adoption of electronic payment methods to achieve straight-through cash application. This solution has also enabled the following:

- Early release of shipments to Unilever's dealers with faster payer identification.
- Operational efficiency with straight-through ERP update.
- Reduction in float costs that were associated with paper instruments and addressed with the adoption of electronic funds transfers.
- Enhanced dealer satisfaction.

The results of the solution are impressive. The move to virtual accounts has shortened the shipment release cycle and encouraged dealers to opt for electronic payment methods. Unilever benefits from same-day credit of funds into their collection account leading to working capital improvements (eg in days sales outstanding – DSO), as well as a considerable reduction in the manual work associated with ERP updates, monitoring and tracking of outstanding receivables. Most importantly, Unilever's sales organisation can now book successive orders from respective dealers without delay.

Looking ahead, Unilever is looking to gain further efficiencies in receivables management by driving higher adoption of virtual accounts amongst its dealer network. They are also exploring further automation of invoice level reconciliation while improving the analytics available on their paid and outstanding receivables.

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Trade winds

In recent years, trade growth has failed to outpace the rate of global economic growth, for the first time since 1985. The impact of this has been felt in Asia especially, as the world's most vibrant trading region, impacting both its economies and companies alike. In this article, we look at what corporate treasurers can do to navigate the business through these difficult times, and also how new technology is transforming trade finance.

The MSC Oliver – the world's largest containership – is a feat of human engineering. At just under a quarter mile in length and with a payload of 19,224 twenty-foot equivalent units (the standard size of a shipping container) – 39,000 cars in real terms – the liner bookmarks another chapter in the race to build bigger and better vessels. It was built partly to meet the expected increase in global trade volumes, or at least that was the expectation when the ship was ordered a few years previous in 2013.

At that point the Baltic Dry Index (an indicator of the cost of moving major raw materials by sea, and an index intrinsically linked to world trade volumes and the health of the global economy) had been steadily climbing, reaching its highest level since 2010. But since then, the index has fallen to its lowest level since the 2007-08 crisis (see Chart 1 below). The result: bigger vessels, but less cargo to ship.

The slowdown in global trade stems from numerous areas including the drop in commodities prices and the general malaise of the global economy. Asia's economic slowdown in particular is having a detrimental impact on global trade given its position as the world's most vibrant trading region. The impact on corporate profits has been noticeable and many are now refocusing their efforts to ensure the business can successfully navigate these choppy waters.

Shifting Asian trade

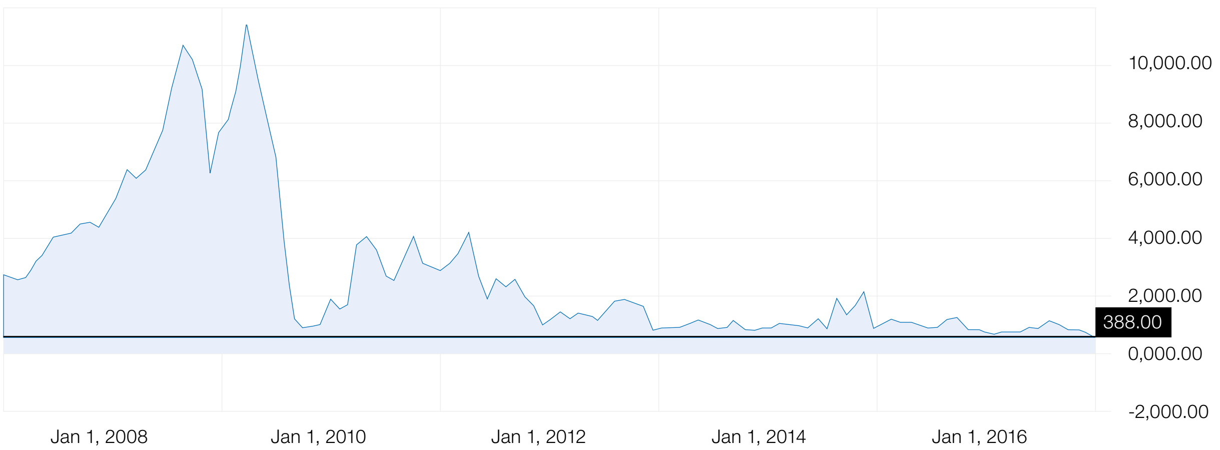
Since the late 1980s trade has undergone a seismic shift, the likes of which have not been seen since the industrial revolutions in Europe and the US. Central to this has been Asia and its emerging markets (EMs), which have opened up their economies to trade and looked to leverage technological advancements to allow their businesses to grow. Many have specialised in certain areas, to become a vital part of global supply chains – particularly around low-value areas.

Corporates around the world have been incredibly receptive to these developments, and the low cost of labour offered in EMs. They have transformed their supply chains, adopting the vertical supply chain model. In this model the basic functions of the production cycle are outsourced to countries with low labour costs, whilst the higher-skilled functions are kept in traditionally more developed countries.

Apple's world famous supply chain provides a good example of this method. Its products are designed in the US, the components and materials are sourced from various countries around the world including, Thailand, Malaysia, the Philippines and Japan, to name but a few. These are then shipped to China where the product is assembled before being shipped around the globe.

China, with its vast population, has been at the heart of this trend. Corporates from around the world, like Apple, have therefore extended large parts of their supply chains to the country, seeing it now produce nearly 25% of global goods and account for roughly 11.5% of global exports. The rise of China as a trading behemoth is staggering: in the 1990s the country produced less than 3% of global manufacturing output by value. However, since joining the WTO in 2001, which proved to be the catalyst for economic

Chart 1: Baltic Dry Index 388.00 0 (0%)



Source: Investing.com

and trade policy reforms, China has propelled itself into being the world's biggest exporter and third largest importer.

But, with the vertical supply chain model being built on low-cost labour and materials, an interesting phenomenon has been created where manufacturing shifts once a country reaches a certain economic level. This has already seen Korea and Taiwan, for instance, morph from low-cost manufacturing centres, to developers of sophisticated products and services.

China is now arguably at this stage as it looks to reinvent itself to a country focused on investment and domestic consumption, subsequently reducing its reliance on manufacturing and trade. We may therefore begin, and in some cases are already, seeing trade flows gradually shift east towards ASEAN and the Indian-subcontinent and perhaps eventually even out of Asia and into Africa and Latin America – in some instances, there is already evidence of this with Nike being one of many businesses to move some of its manufacturing to Vietnam from China.

Corporate cover

Although corporates have undoubtedly reaped many cost benefits from the vertical supply chain model, it has also increased their complexity and risk, especially when dealing with companies in EMs. Non-payment, fraud, corruption, geopolitical disruption and natural disasters are just a handful of the potential threats a company can be exposed to. As a result, corporate treasurers have placed an increasing emphasis on understanding their trade flows and counterparties and the trade instruments that they use both to finance trade and to mitigate risk.

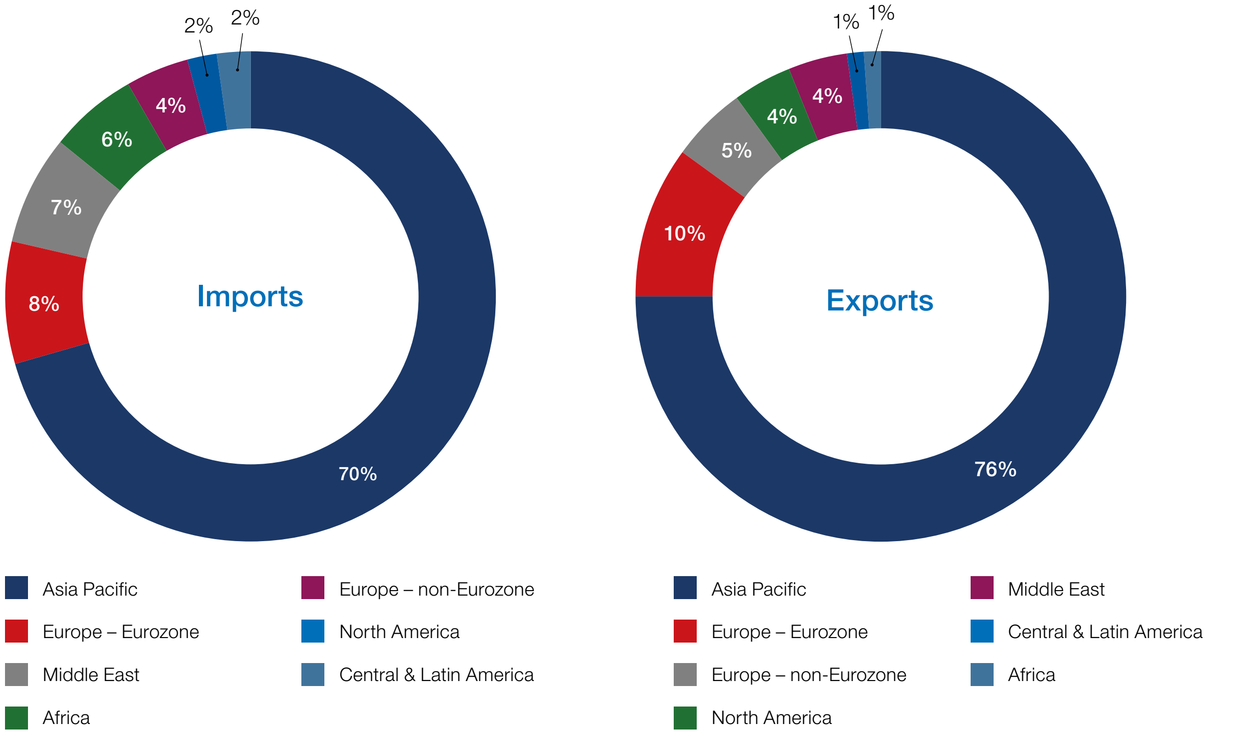
Although globally speaking trade is moving towards the open account as a result of the strategic nature of the supply chain, in Asia, the letter of credit (LC) remains a fundamental tool to mitigate the risk. This is especially true, according to Shivkumar Seerapu, Regional Head of Trade Finance, Asia Pacific at Deutsche Bank, when one leg of the trade involves an EM company and is of significant value. "If there is a big commodity company exporting its product to a Chinese company which they are unfamiliar with, then they would likely use an LC," he explains. "This enables the exporting company to mitigate any counterparty risk and also put financing structures in place if required. In doing so, corporates can bridge the credit risk but also mitigate any financing or working capital issues."

SWIFT data, as outlined in the ICC Global Trade and Finance Survey 2015, confirms this, highlighting that LCs are used in Asia more than any other region, accounting for 70% of global LC imports and 76% of LC exports. The countries that used the LC instrument on SWIFT the most are Bangladesh, China, South Korea, India and Hong Kong (see Chart 2 below).

But LCs come at an operational cost and can be burdensome for the corporate treasury – one of the reasons that many have shifted to open account. However, for those deals that require the cover offered by an LC, a more efficient option is available, the Bank Payment Obligation (BPO). These instruments provide the benefits of an LC, but with the efficiency of digital solutions due to data being matched electronically using ISO 20022 messages and SWIFT's Trade Services Utility (TSU).

Asian banks have been leading the charge in this space, including ANZ and Westpac who were the first banks involved in a BPO+ transaction – a BPO that utilises straight-through electronic documentation end-to-end. Despite initial growing pains, it is hoped that the solution will gain more traction and

Chart 2: SWIFT MT700 import and export traffic by region



Source: ICC Global Trade and Finance Survey 2015 and SWIFT data become more relevant to corporates of all shapes and sizes in the coming years.

Shortening the supply chain

Away from paying close attention to the instruments that are used to mitigate the risk in trade transactions, corporates are additionally ensuring their supply chains are not creating unnecessary risk for the business. Over recent years in Asia, there have been numerous events that have caused disruption to the supply chain for businesses including the political uncertainty in Thailand and also the devastation caused by Typhoon Halong, which reportedly impacted corporates to the sum of over $10bn.

As a result of the increased risks, some firms have begun to question whether the costs of outsourcing certain essential stages of the production process may outweigh the benefits. "Counterparty risk and ensuring the integrity of the supply chain has become a major focus area for businesses," says Seerapu.

To counteract this, Seerapu sees some corporates implementing strategies to mitigate the risk. "Some clients are looking to consolidate the supply chain and focus on one, or a small number of key suppliers," he says. To date this has been a prominent trend in the technology sector, but "other sectors have begun to follow suit allowing them to focus on their key suppliers and affording them the ability to better manage these relationships and the risk associated with them."

Improving supply chain efficiency

That being said, a supply chain can only be shortened so far. And for many businesses the benefits of a virtual supply chain far outweigh the costs – it is estimated by Forbes, for instance, that it would cost Apple $4.2bn to onshore iPhone manufacturing to the US. But, with the current market environment increasingly forcing corporates to focus on the top line, something has to be done.

"If you assume that the current downturn is here to stay, for the short term at least, operating efficiency becomes even more critical to business operations," says Vishal Kapoor, Asia Pacific Regional Trade Head, Treasury and Trade Solutions at Citi. "Corporates need to focus on improving efficiency, particularly around cash flow and working capital management (WCM)."

A prudent way to achieve this, according to Kapoor, is through implementing a supplier finance solution – which many in the market refer to under the generic banner of 'supply chain finance' (SCF) – as a way to improve WCM efficiency whilst also helping to maintain the health and integrity of the supply chain.

Whilst these solutions appear in many guises and with slightly different names, their primary aim is to be a win-win for both the buyer and supplier through utilising the buyer's credit rating (which often tends to be stronger than that of the supplier) to extend finance from the bank to its suppliers. As a result, the seller agrees to an extension in payment terms – thus helping improve the buyer's days' payables outstanding (DPO) metrics without financially impacting the supplier. It also offers the opportunity for the corporate to be much more strategic in their approach to supply chain management and often fosters stronger relationships.

Asia at present, however, is in a unique position. Despite the economic downturn and the slump in demand the region is awash with liquidity, as banks that are having limited opportunities in their home markets are turning to Asia. And trade, being one of the most familiar products that a bank can offer, is where banks are focusing their efforts, compressing spreads and allowing corporates of all shapes and sizes to access cheap bank funding.

On-boarding onto SCF solutions may therefore not be a top priority for a supplier at present. But Kapoor suggests that this should not deter corporates. "The value of these solutions will become even more prominent when the liquidity dries up because SMEs will find it hard to access cheap funding." Act now is the message. "These programmes take time to set up, you have to build the solution and get internal and external buy-in to the programme. There needs to be a long-term vision when developing trade financing solutions," adds Kapoor.

Trade goes digital

It is not only market realities that are boosting the usage of SCF solutions. The broader digitisation of the trade space is also having a significant impact. "Real-time visibility over cash flows across multiple jurisdictions has become a key requirement for corporate treasurers," says Michael Lim, Head of Trade at ANZ. "Corporates have therefore invested in digital products that provide this visibility, primarily over their cash and payments, through a single window." Lim points out however, that the heavy use of paper in trade finance means that, for the most part, treasurers are unable to view their trade activity in the same way, requiring the data to be manually uploaded and managed.

As a result of this, banks and corporates have only been interested in offering SCF solutions to their key counterparties. The remainder, which are dealt with in lesser volumes, were excluded, as the benefits did not outweigh the costs. To bridge this gap a number of fintech companies have developed digital platforms enabling corporates to manage their trade finance and deal with multiple banks through a single window – making it easier to penetrate further into the supply chain.

Lim advises that corporate treasurers look to leverage this technology to create further efficiencies and reduce risk. "Corporates who have adopted digital trade solutions have been able to reduce payment cycles by a significant number of days," he says. "Moreover, adopting these solutions and pushing them down the supply chain will drive down the associated costs, making them more accessible to the mid-market and small and medium enterprise – ultimately benefiting the industry as a whole."

Banks, according to Lim, also need to focus on this space more broadly. "These fintech companies are rapidly evolving their solutions which can potentially reduce the amount of direct interaction between banks and their customers," says Lim. "As an industry, banks are beginning to understand that only by investing in digital trade solutions, will they continue to play a significant role in intermediating international trade. Digital trade solutions also offer banks increased visibility over the end-to-end physical and financial supply chain, making it possible to intermediate in the chain at a much earlier stage than they do today, thereby giving them a greater role in the process."

Whilst this is digitisation that corporates can take advantage of now, there may be further even more revolutionary products entering the market soon. As Lim explains, "Distributed ledger has the potential for banks to settle trade transactions on a real-time basis. This will be a game changer in trade finance – making it more efficient for corporates. However, this technology is still nascent and we are at least a couple of years away from a working large scale solution."

On the right track

Rakesh Kochhar
Senior Vice President, Global Treasury and Global Sales Finance

To be given full responsibility for a treasury department just four years into your working career is no small feat. But Rakesh Kochhar, Senior Vice President, Global Treasury and Global Sales Finance at Nissan, has demonstrated his capabilities in two continents and is evidence that self-motivation – with the ability to learn from experience – is key to success.

Nissan Motor Company Ltd is a Japanese multinational automobile manufacturer headquartered in Nishi-ku, Yokohama, Japan with over $120bn in revenue. Nissan's Global Sales Finance business unit has assets of around $80bn and makes over $2bn of profits.

In having dual responsibility for Nissan's global treasury and heading the company's global sales finance business unit, Senior Vice President Rakesh Kochhar certainly has a busy schedule. But for him, this is nothing new. After studying to be a chartered accountant in his home country of India, he went on to have a job in this arena for three years at GE Capital Transportation Finance (called SRF Finance Ltd prior to acquisition by GE). "The qualification only helps you to get the first job and after that, it's how well you excel in the role," he explains. And although he was successful, accounting wasn't the end game for Kochhar. "I realised I was more of a strategy, big picture and finance person than an accountant, so when the opportunity came up to work in treasury, within the same company I held an accounting role, I jumped at it."

And it wasn't long before Kochhar was faced with his first challenge in treasury. The treasury department's Head quit, along with his own boss, so Kochhar started handling treasury on his own at an early stage of his career. Yet, what could have thrown up numerous problems actually gave Kochhar a huge step up the career ladder as he excelled with the additional responsibility – such that the Managing Director of the company thought he didn't need to replace those who left. "I achieved a lot during my time as treasurer of GE Capital Transportation Finance – bringing in cheap financing from International Finance Corporation (IFC), a world bank affiliate, and loans from multinational institutions, for instance."

Global experience

Further challenges were to follow as Kochhar started to look for opportunities in other regions around the world. "The experience gained heading a treasury department in India helped me get a role in Singapore to work in a regional treasury position for Delphi automotive systems," Kochhar recalls. Here, he was responsible for regional treasury operations in Asia Pacific and China, including financing, cash and risk management for the region.

It was in this role that Kochhar developed his working philosophy. "In this regional position, I thought that head office was sending us a lot of requests which weren't necessarily value-add. They were simply asking a lot of questions." Therefore, after around four years in Singapore – when Kochhar moved to Delphi's global treasury in Troy, Michigan (where he eventually became "the number two person" in Delphi's global treasury) – he made it a priority to ensure his team weren't just asking questions of the regional controllers, but also adding value to the business. "From my perspective, for anyone who is in a global role it really helps to have also worked in at least one of the regions. The reason: you understand their outlook and can take that regional thought process into consideration."

Further down his career path and after several years at Delphi in the US, Kochhar moved to Nissan to work in a regional role once again. As treasurer of Nissan North America, he was based in Tennessee when the financial crisis of 2008/9 rocked the markets and although he describes the time as "tough", Kochhar was sure to learn from the experience. As a result, when he moved to his current position as Global Treasurer for Nissan (based in Japan), Kochhar made sure that the company had adequate liquidity lines for longer durations. "I worked with the financial institutions to make sure that the terms and conditions are improved so that lines can be drawn in a severe economic climate."

Banking relationships and beyond

But many years later, as is well known, it's far from smooth sailing for global businesses. There are new concerns and new obstacles for treasury to overcome on a regular basis. Off the back of the financial crisis, for instance, Nissan started to pay more attention to counterparty risk. "We look at our counterparty risk with a bank and ask 'how much deposit should we place?' We have rules that if the bank's rating is below a certain level, we cannot place deposits. Also, in terms of us taking credit lines from the banks, we are diversifying to avoid over-exposure to one bank." This does not mean any of Nissan's banking relationships suffer, however. "We have a healthy group of banks supporting us – around 17 with whom we have grown relationships over the last ten years or so," says Kochhar.

Being a global company, Nissan needs expertise in different countries and having diversified – but well-established – banking relationships allows this. As Kochhar explains: "One bank will be very strong in one country versus another bank whose strengths lie elsewhere, so we try to marry our needs with their capabilities. We are also very focused on making sure the fee-based business is shared among banks in a fair manner not only based on their capabilities, but also on the credit they are able to provide to us. It's a win-win relationship between banks and Nissan and we ensure it stays like this."

In addition to heading automotive treasury for Nissan, Kochhar is also responsible for the company's Sales Finance Business Unit (SFBU), including the treasury side of this sales finance business. Here, the priorities are slightly different. "We have a lot of debt and cannot depend solely on bank loans. As a result, our debt structure is diversified among bank loans, capital markets and securitisation products." The reason: "Our needs are increasing every day and the banks are not able to keep pace with us."

Best practice treasury is not forgotten amongst this increased pace, however, as this side of the business aims to raise money in the local markets where it is doing business. "We have sales finance businesses in 11 countries so we tend to avoid raising money in Japan, for instance, to lend to the US. Instead, I try to raise money for the US business out of the US capital markets and banks. Having local access to credit is best way to ensure adequate availability of competitive financing for business growth." This is also beneficial for the banks, who, as a result of mounting regulation, want to do less and less balance sheet lending. "But they want to help us raise money in the capital market because this is where they can make their fees," says Kochhar.

Managing dual responsibilities

Against this backdrop, it proves useful to clarify the distinction between Kochhar's roles. Apart from being Corporate Treasurer for Nissan where Kochhar is responsible for automotive and sales finance treasury, Kochhar, as briefly mentioned above, is also head of SFBU which has over ten sales finance companies globally making vehicles loans to customers as well as doing dealer financing.

For Kochhar, treasury on the financial side is more dynamic and fast paced. The finance leasing part is "deal-driven" as the business unit needs to raise a lot more money. "What's more, we pay a lot of attention to term-matched assets and liabilities because you have debt (liabilities) in the market on one hand and, on the other, the loans (assets) you have made to your retail customers and dealers. We must manage the liquidity risk and interest rate risk by term-matching assets and liabilities." This is a contrast to Nissan on the automotive side which is cash-rich and doesn't require money to be raised.

However, treasury on the automotive side has its own challenges. For instance, a concern arising from operating in different parts of the world is how volatile the global environment has become in terms of currencies. "Given more than 90% of Nissan's sales are outside of Japan, we pay a lot of attention to emerging market currencies, how they are moving and managing the risk associated with those.

"Throughout 2015, the US dollar became very strong against certain currencies – the Brazilian real, Argentinean peso, Mexican peso and most of the Asian currencies, for instance." Therefore, limits need to be in place on how much cash can be kept in these countries and decisions made on how the company's FX exposures will be managed, Kochhar explains.

And although this is a process taking up much of his time, Kochhar doesn't believe hedging currency exposures is a long-term strategy; hedging works in the short term only. "It's largely about risk management in a natural way. If the company imports a lot of material into Brazil, for instance, that's not good because the local currency has been depreciating and we are selling vehicles to local customers in Brazilian real. We therefore try to naturally hedge FX exposures by localising more and more in Brazil to minimise exposure to the currency." Localisation is a long-term strategy which can reduce FX exposure, according to him.

Lessons to learn from

With comprehensive experience in different regions of the world, cultural diversity, perhaps surprisingly, isn't something Kochhar has encountered problems with. "For the most part, I have worked in multinationals. There could be differences in terms of how people approach work or how many hours they sit in the office, but it's typically a multinational culture which is above and beyond the region you are working in," he says. What this means is that people will have developed a similar mind-set on delivering the corporate objectives. "You can fine-tune that mind-set over a period of time when working with different teams of diverse cultures."

> "I believe everyone has the power within themselves to succeed. You shouldn't rely on others to motivate you; if you are self-motivated then you will do a fantastic job. Always believe that you can do better than you are today."

In terms of personal strategy, according to Kochhar, you must choose a career based on what you enjoy in order to succeed. Around ten years into his career, he made the decision to add an MBA in Finance to his impressive resumé. "I delivered a lecture at a US college recently and was asked what advice I had for students and the guidance I shared was to avoid going into a career based on the fact it is in demand or you feel there are more opportunities. Rather, do what you enjoy and more opportunities are likely to come your way." Kochhar's further advice – to never shy away from additional responsibility – is applicable to professionals of all ages. "Always raise a hand when your boss asks who wants to do this project." You also must be very diligent in what you deliver, he hastens to add.

Tuned into technology

Certainly for Kochhar taking on responsibilities and diversifying his skill set has paid off. Therefore, it is interesting to note what treasury trends he is keeping his eye on. "Treasury uses a lot more technology today than treasury of five years ago," he says. Not only is Nissan investing a lot in their own treasury systems to ensure it is able to meet its needs today and those of the future, but the company's expectations of the banks are on the rise. As Kochhar explains: "Those banks which are able to provide innovative solutions and advanced technology to make it easy to work with are the ones that are going to win business with corporates."

These solutions could be to do with improving supplier financing, access to the capital markets or cash management for net exposure management in different countries – depending on the needs of the corporate. "At the end of the day, we keep our cash with the banks and we work with them for different financing alternatives. The better technology they have, I think the better the banks' probability to win business – and satisfy the corporate – is."

There is also the issue of risk management, for which technology could be the answer. In terms of supplier counterparty risk management, Kochhar is working on projects to analyse the capability and credibility of suppliers. "As an automotive company, we rely to a great extent on the capability of suppliers to deliver the right parts at the right quality." For the quality part, the capability of suppliers is assessed by the purchasing organisation. But the financial credibility is assessed by treasury. Even if a supplier has the right technology to meet company demands, Kochhar explains, in order to prevent product lines being delayed, or prices going up, the financial position of a supplier must be good. It isn't hard to think of recent examples where a collapse within the supply chain has affected the profitability of all counterparties involved. "What you don't want is a distressed supplier which could potentially bring your vehicle assembly line to a stop for not being able to deliver parts."

As part of his role in sales finance, Kochhar is also looking at a project for asset liability risk management. As a result of a huge company balance sheet – loans to dealers and customers of different maturities, as well as debt on the other side – mismatch risk must be counteracted. "If we are not term-matched, the business would carry mismatch risk which could also throw up liquidity, interest rate and profitability concerns."

Keeping up momentum

With all of these projects running in tandem, Kochhar's workload certainly appears daunting. There is also, he notes, the onerous matter of documentation due to increasing regulation. "The banks' need for KYC is growing which means that our data submission to them is mounting. What's more, the disclosure requirements when we raise money in the securitisation market in the US have gone up significantly. Regulators want more data disclosures in the public deals." Although this is encouraging the company to use enhanced technology, Kochhar also cites concern over the costs. "As a result of Basel III, the overall cost of capital has gone up, as well as the increased regulation on access to the capital markets making costs slightly higher there too." But against this challenging backdrop, Kochhar enjoys coming into the office – perhaps because he has the experience and attitude necessary to tackle the volatility of an ever-changing landscape.

Given that it was very early on that he decided treasury was the career path for him, the fact treasury remains an enjoyable profession is inspiring. As he explains, he finds this continued motivation from within: "I believe everyone has the power within themselves to succeed. You shouldn't rely on others to motivate you; if you are self-motivated then you will do a fantastic job. Always believe that you can do better than you are today."

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On the crest of a wave

Wherever they may be located, every treasurer likes to feel they run a tight ship but there is always room for improvement not least because the world is constantly changing. Treasury Today Asia looks at how 'best-in-class' can be achieved and, keeping one eye on the horizon, how it can be maintained.

'Best-in-class' is a well-worn term often bestowed on technology but when it comes to treasury, no matter how good the tools, if the strategy, structure, processes and people are not similarly at peak performance then the function may be found wanting. In today's volatile global environment just 'getting by' is unlikely to be good enough.
Indeed, despite the term 'best-in-class' being somewhat subjective, there is something of an imperative to fulfil the notion that what is being delivered really is the best it can be.

"Best-in-class is about doing your utmost to make sure that you serve your corporate strategy as close as possible," comments Ingmar Bergmann, Corporate Treasurer & Head of Corporate Finance at publicly listed real-estate investment company, NSI. In a similar vein, Denis Ecknauer, APAC Regional Treasurer at global engineering firm, ABB, believes that a best-in-class treasury must be seen as "a key internal function capable of adding value and supporting the company's business portfolio".

Given that no two companies are exactly alike, finding a suitable yardstick by which to measure 'best' is not always easy.

Notwithstanding this difficulty, the key to improvement lies first in being able to fully understand the company's internal processes, and then always being open to new ideas, of which Bergmann suggests looking to the market – at conferences, seminars and your peer group, for example – "to try to understand where necessary improvements can be made".

Cost pressure is often at the root of any change but finding new ways of optimising the cost and effort underpinning standard processes will enable the shift of energy towards the more strategic involvement of treasury: automation of standard processes frees up skilled personnel for more cerebral tasks. It is thus vital in this model to have the right people on the ground: for Ecknauer it should definitely be a case of "people driving numbers, not numbers driving people".

In practice, KPIs and internal and external benchmarking are often used but should be broad enough to include soft factors and behaviour targets that demonstrate where additional value is created by treasury far beyond the simple executional model. For ABB, by measuring and equating diverse multiple factors against its many different locations, it is possible to understand the relative weighted value of even the smallest outposts and the same applies to the comparison of external partners. "It allows us to compare apples with pears," explains Ecknauer.

To set a good benchmark, keeping treasury ears and eyes open for the ever-changing regulatory environment, business conditions and evolution of technology is essential. For Kenneth Ng, Director & Corporate Treasurer for luxury travel retailer, DFS, and his team, it is also important to learn how treasury peers address business issues. This does not need to be a complex process: in addition to obtaining a quote from at least three different banks for forex trades, it also benchmarks the market average to ensure that the prices quoted are close to the market price. "DFS is constantly audited by internal partners and we need to prove we have the tools and capabilities to get the best deal in the market. That is our main KPI." By using these tools it saves costs and time as well as complying with audit requirements. Having perfected the process for funding and investments, DFS' treasury is now able to access information on peer deals across syndicated loans and corporate debt markets. As Ng comments: "We have a view on where the market is going and an understanding on how we can position ourselves to better negotiate long-term funding with our dealer banks."

Of course, uprooting established processes for the sake of it will win few friends and may even, at the hands of resultant instability inherent in any major change, present increased risk. However, with a solid business case, a best-in-class project will demonstrate the capacity to "enable and facilitate" as Ecknauer puts it.

Making it count

Regardless of the origin of change, the bottom line focus for any business is on the money – "for the shareholders to make profits but also for the employees to make their living". For Ecknauer, a best-in-class treasury must be one which "always contributes to the value chain of the core business". For it to be "recognised and embedded as an advisor" not just at a transactional level but also amongst senior management, it must be ready, willing and able to counsel their strategic views and decisions in areas such as M&A, geographic expansion, changes in business portfolio and regulatory matters.

However, although closer involvement across the business brings increased credibility to treasury, this is not about paying lip service to the notion of added-value, but must instead be an active and ongoing process. To this end, Ecknauer ponders just how many treasurers are willingly involved at the sharp end of industry and understand how their end-products are manufactured, or how many sit down with their salespeople to understand their issues and competitive disadvantages where, for example, competitors are offering financing.

Risks differ from company to company but where in the past senior management may have been content with believing 'no news is good news', as far as treasury was concerned, this evidently is not the case today. It matters how deep treasury's involvement is in the rest of the business and it is important to understand that treasury cannot just be seen as a cost efficient operation when it comes to achieving best-in-class status: it also needs to demonstrate levels of performance beyond numerical studies of headcount or transactional costs, for example.

A considered approach

Where the move to best-in-class suggests a significant change for the organisation of treasury, and its banking processes and relationships, its systems and infrastructure or workflows and processes (or any combination thereof), it behoves treasury to put in place a formal system to manage the process. Of key importance to the process of building best-in-class is to formally analyse, understand and to map what needs to be achieved and why, before making decisions on technologies, partnerships and people.

Of course, in an ideal world, any shift to best-in-class would be sanctioned without reference to the price tag. But effectively balancing the needs of operational treasury with those of cost control is essential and it is not always an obvious choice where to cut and where to spend.

In a small in-country treasury unit, a limited number of personnel is often expected to fulfil multiple roles. Whilst this may satisfy a general business need for cost savings, this approach can create internal operational risk where critical staffing situations can quickly be reached (if annual leave clashes with sick leave, for example). Delaying investment in technology will also save costs but may also see skilled staff wasting time carrying out basic 'number crunching' tasks just to provide standard reporting. Automation may attract a cost but it will prevent such inefficiencies, allowing personnel to focus on "intangible value-added activities". But, as Ecknauer points out, this will only be possible if there has also been a notable emphasis (and expenditure) on quality and training on the ground (wherever treasury is present), developing the skills and knowledge to provide robust and intelligent cross-functional support across the organisation.

Bergmann too adds a dash of relativism with any comparative approach he uses. When negotiating the terms and conditions of NSI's new corporate facility, it took to benchmarking against comparable real estate companies. But many of these businesses have been listed for far longer, have a more international outlook, better ratings and so on. When this is understood, he says the discussion about differences ceases and benchmarking becomes a matter of "keeping aligned with the trends and being able to admit when matters are not on track". In this way, he feels that the business not only knows where it stands today in terms of best practice, but also can realistically manage the outcome of its strategy relative to its competitors.

One company which has used best practice to its advantage when reshaping its treasury function is American multinational General Motors (GM). Having been through a project to implement an ambitious treasury transformation project across Asia (part of a global initiative to optimise treasury operations), there is still more to come as it continues to respond to the changing environment.

Before embarking on the initial project, GM was using several local banks for payments and cash management services in different countries across Asia. Core treasury activities were carried out by in-country treasury teams and without a TMS in place, processes were largely manual, resulting in inconsistent accounting and treasury processes from country-to-country. The goal of the project was to improve GM's treasury operations by automating and streamlining processes. "The first step that we took was selecting our regional partner banks," says Niyant Shah, Manager, International Operations at GM. "We invited some of our global partner banks to participate, and then selected two banks following a comprehensive evaluation process focusing on a variety of different criteria including technical and SWIFT capabilities, in-country capabilities, pricing structure and geographical coverage."

Having selected the two banks, the next stage was to switch payments and receivables activities from existing local banks to the two regional partner banks. GM also standardised bank account structures across the region which included a concentration level account used to carry out treasury activities, the use of dedicated operating accounts for activities such as payables, receivables and tax and also a two-way zero balancing structure was put in place to move funds between the operating accounts and the concentration account. "It is crucial that we do not disrupt daily operations when we transition bank activities," says Ying Cao, Manager of International Operations at GM. "In order to achieve this, we adopted a staggered approach to transition only one type of activity at one time and a new service only went live with the regional bank partner after successful test and pilot runs." A single TMS deployed across the region will act as a single source for the company's global debt position, letters of credit, fixed income, FX and commodities transactions, the platform also being used to execute core treasury activities such as investments and FX trades.

Taking action

When a rapidly worsening economic climate was threatening to destabilise the Dutch real estate market Bergmann took this as his cue to instigate a change to a best practice financing model. In order to avoid the worst of the coming storm, the company had set about developing a new corporate strategy. "I made a point of inviting myself to the discussion table just so that from a treasury perspective I could understand where we wanted to go to and why," he explains. With necessity very much the mother of invention, Bergmann concluded that treasury strategy "should as close as possible be linked to corporate strategy". The ideas and information that flowed from these meetings offered treasury invaluable input to the new strategy created in their wake.

In another demonstration of financing best practice, engineering firm, Larsen & Toubro in India initiated an internal discussion on how significant cost savings might be achieved by replacing high-cost bank debt with bonds and commercial paper. "Financing a power generation company in India was a difficult proposition when the company was being formed around five years ago," explains Vipul Chandra, the firm's Head of Treasury. "The debt required was about $1.2bn. There was thus a large banking consortium, comprising 23 banks, the management of which was onerous and also the debt was at relatively high cost."

The corporate finance team went to work on a plan to replace bank debt with bonds and commercial paper. The debt issue achieved pricing efficiency by breaking up the size into multiple tranches, and closing each on a bilateral basis with multiple market participants, including Indian banks, Foreign Institutional Investors (FIIs) and mutual funds. The valuation methodology used for the call option exercise was an innovation in the Indian capital markets. By structuring the bank loan prepayment on specific dates, the team was able to completely avoid the prepayment charge. "Under the solution, the entire banking consortium was replaced with a few deals in the capital markets space, thus improving process efficiency and resulting in productivity gains for the finance team," says Chandra.

Thinking ahead and using innovative solutions resulted in the reduction of interest rates by 3.5% on the entire $1.2bn debt. The team's message is clear: keep reviewing the portfolio for potential improvements, and understand that innovative solutions can and should be tried out for meeting business requirements and must not be discarded just because they haven't been previously tried out in the market.

The triumph of treasury

Success with building a best-in-class treasury may be defined when "everyone is happy with what they have for the cost paid", comments Ecknauer. "But as humans we will never be satisfied and happy enough with what we have," he continues. This is where the role of benchmarking and KPIs comes into play but Ecknauer also urges a practical response, stressing the importance of not missing the boat on technology investments and also of asking the right questions, from top down and bottom up, "so there is the understanding of expectations in both directions". Indeed, he adds for good measure that to become a best-in-class treasurer it should never be forgotten that whilst it is not possible to make all of the people happy all of the time and that the true professional is driven to constantly seek improvements, business is all about people and that treasury "cannot be seen as playing an isolated, execution-only role".

> "I made a point of inviting myself to the discussion table just so that from a treasury perspective I could understand where we wanted to go to and why."
>
> Ingmar Bergmann, Corporate Treasurer & Head of Corporate Finance, NSI

Indeed, teamwork has played a crucial role in the success of the treasury revamp at GM. There has been considerable cross-functional and cross-geographical involvement right across the group, with Shah's international operations team working closely with the corporate team in the US as well as with the local teams, in-country. "From a core functional perspective, the treasury team was driving this – but there was also involvement from accounting, IT, legal and other functions. At the same time, we were working very closely with our regional banking partners to make sure that we were all aligned."

The key to success for Bergmann lies in closely linking treasury strategy with corporate strategy. But he encourages treasurers to keep up with developments and understand where adjustments or refinements may be needed. For this to be effective, he urges senior treasury personnel to "make sure that you invite yourself to strategy meetings because normally treasurers are not invited".

Indeed, proactivity is vital when seeking best-in-class. For treasurers who are often required to work with heads of other functions, Bergmann states that is essential to ensure you are not just waiting for them to contact you. "I call it management by walking around. It could be seen as a lazy approach but it always generates information you can use in your own work – and it always gives rise to discussions that can lead to new ideas." In pursuit of a best-in-class treasury, "don't be afraid to walk the floor!"

Unlocking the ties in working capital

Not to be confused with simply releasing trapped cash, working capital optimisation is a dynamic process that can add value to the whole supply chain. With shrinking profit margins across Asia, corporates are focusing on the bottom line and looking at ways in which they can manage the cash conversion cycle to optimal effect.

Working capital (short-term current assets minus short-term current liabilities) is essential for a company to meet its obligations. Should the calculation result in a negative number, this could mean the company is illiquid – in other words, it has insufficient short-term assets to meet its obligations. Some organisations do operate with negative working capital where the business model means cash can be generated quickly because customers pay upfront, for instance. This enables these companies to collect cash normally but delay payment to suppliers. Dell Computers and Walmart are well-known examples of this model.

Generally speaking though, corporates want to optimise their working capital. This means that an excess of working capital could represent a wasted investment opportunity and the cost of carry may even be detrimental. Whilst holding onto cash certainly may increase a company's flexibility in dealing with 'stress' events, it is a short-term strategy.

However, treasurers can extend their sights further by bolstering their supply chains with prudent investment in supply chain finance (SCF) programmes. By doing so, both short-term and long-term benefits can be felt, for example by unlocking trapped cash in emerging markets and securing the financial supply chain.

In order to enable the optimisation of working capital in this way, it is necessary for a business to measure the efficiency of its processes across the supply chain. This performance is typically measured by the number of days its cash is tied up in the different elements of the cash conversion cycle (CCC). There are three main metrics for treasurers to manage:

- **Days sales outstanding (DSO).** The average number of days taken by a company to collect payment from a sale.
- **Days payables outstanding (DPO).** The number of days a company takes to pay its creditors.
- **Days inventory outstanding (DIO).** The number of days a company takes to convert inventory into sales.

With a solid understanding of these metrics, treasurers can hope to measure their working capital processes. As Percy Batliwalla, Global Head of Trade and Supply Chain Finance, Bank of America Merrill Lynch (BofAML) says: "Although we hear a lot in the market around shrinking trade volumes and how we are moving out of a benign credit environment, there are significant opportunities for working capital optimisation ahead."

Technology, for instance, brings numerous efficiencies to working capital management, says BofAML's Rakshith Kundha, Managing Director, Trade and Supply Chain Finance, South East Asia. "If you look at the impact of technology on the working capital cycle in a holistic manner, the benefits include efficiencies across processing, management and balance sheet."

Indeed, in recent years specialist financial technology (fintech) companies have been increasing their presence in the traditional bank-dominated SCF space, offering platforms and software-based services. For treasurers, success in working capital optimisation will partly depend on their ability to determine which solutions are fit for their individual companies' purpose.

First and foremost: the key stages

As part of any review of working capital management, business consultancy The Hackett Group identified five areas on which to focus. Firstly, key stakeholders must be identified. These include local and corporate stakeholders including finance, procurement, accounts payable, supply chain, customer credit, order placement and billing, cash collection and dispute management.

Appointing working capital strategy leaders can help the organisation address the impacts of shared working capital issues. "Getting in front of all the stakeholders, explaining the value proposition to them – along with their suppliers – is critical because everybody needs to know what the end objective is," Batliwalla says. "They need to know that any implementation is not something that is going to disrupt their business but increase the efficiency for them as well."

Having this collaborative dialogue, more often than not, is the key to implementation of a successful working capital programme. Consideration should also be given to suppliers: every action is met with an opposite reaction thus it is not advisable to artificially adjust working capital levels by simply delaying payments to suppliers, for example, because whilst it may drive improvements over the short term, this practice is likely to damage price and relationships over the long term. Dynamic discounting, explored later, is one solution to this.

Next up in any review, treasurers should benchmark their current performance. The Hackett Group advises going back five years to benchmark working capital performance against a shortlist of appropriate industry peer organisations. Meanwhile, understanding which best practices and capabilities are making the difference in performance, in both your company and peers, is critical.

Aptly, the third of The Hackett Group's key priorities is to understand your company's environment – the processes,

Astro Malaysia Holdings Berhad

Case study

Since 1996, Measat Broadcast Network Systems Sdn Bhd (MBNS), a wholly-owned subsidiary of AMH, has been providing satellite solutions to customers across Asia Pacific. It now has a reach that covers over 150 countries across Asia, Africa, Europe, the Middle East and Australia.

The challenge

MBNS offers satellite pay television services to consumers in Malaysia and the revenue is realised over the life of the equipment. Consumers will typically be bound by a contract for pay television with monthly fees via a commercial package lasting two or more years.

MBNS signed major contracts with its vendors to procure a full range of the latest set-top box technology and content licenses. These contracts were relatively significant amounting to around $100m payable over short tenors. Charles Chen, Vice President, Treasury & Strategic Contracts explains: "This effectively created a fundamental mismatch between the purchases from these major vendors and the repayment source from our consumers."

The key objectives for treasury included matching the financing with the life of the equipment, improving liquidity and avoiding the need to use its own funding to make the procurement payments, and meeting their KPI objectives to extend payment terms to its vendors and achieve the treatment as desired. This would result in the company's payables aligning with its subscriber/consumer agreement packages.

The solution

Deutsche Bank provided a first-of-its-kind solution to MBNS. It effectively allows the company to expand its payment terms on significant procurement contracts to compliment the revenue stream from subscribers and receivables, usually under commercial packages lasting two or more years.

Deutsche Bank provided a three-year account receivable purchase (ARP) solution, backed by promissory notes with recourse to MBNS, for the procurement of set-top boxes and satellite dishes for the reception of cable pay television (ASTRO) services in Malaysia.

The sales and purchase agreement between MBNS and its vendors clearly outlines the option of the promissory note as one of the instruments of payment between buyer and seller with a maturity date of up to three years from the purchase date.

Deutsche Bank's implementation of this structure is an 'off balance sheet' solution, with recourse on the client, backed by a legally binding promissory note and factoring agreement. The solution created liquidity for MBNS while avoiding leverage. This improved the firm's overall financial picture and indirectly helped MBNS to keep its financial ratios in-line with expectations while providing extended payable tenor of up to 36 months.

Key benefits included:

- Risk mitigated.
- Revenue enhancement.
- Cost savings.
- Interest cost efficiencies.

management framework and board objectives, for instance. "At the end of the day, different corporates are driven by different objectives," says Batliwalla. There is "no one-size-fits-all solution" to optimising working capital and a lot will depend on the nature of the business model and the profile of the company's cash flows.

This exploration should lead treasurers to determine the potential for improvement – The Hackett Group's fourth stage. At this point, accurate and real-time information is essential to ensure that treasury is focused on the right actions.

The fifth process to focus on is for key outputs and the next steps to be identified using all of the knowledge that has been assembled. Again, it is important that the desired outcomes are articulated to all stakeholders. This allows the company to begin making informed – and tailored – choices about what strategies to implement next, which providers to contact and how much effort will be required to embed the changes throughout the supply chain.

The banks' role

Banks, of course, can provide some support here. BofAML's Batliwalla emphasises the importance of "ensuring solutions are not concepts thrown at corporates but clearly something that meets their value expectations". This means the bank elicits feedback from clients in terms of product development and how they would like to see the product evolve. “It always helps to understand, one, where the industry is going and, two, where the clients would like you to go,” he adds.

Currently, the client-centric approach is leading integrated developments in working capital products. Kundha says: “Corporates are realising that there is a lot of value in terms of looking at it in an end-to-end manner, not only in terms of cost savings and efficiency but also in terms of liquidity management, as well as from the perspective of risk management.”

Indeed, the current liquidity environment is emphasising not only the importance of optimising working capital, but the additional benefits, including strengthening of supply chains, which can be achieved. Value chains are becoming more integrated from a financing perspective, says Vivek Ramachandran, Global Head of Product and Proposition for HSBC. “Large companies are looking at working capital optimisation as a means to secure their supply chains and to mitigate risk so it is not just releasing capital, or the financing of the cash flow, it is more to mitigate risk on the balance sheet or to inject capital into the supply chain”.

A liquidity failure?

For Andrew Burns, Director of C2FO, an online working capital marketplace, it is important to understand why the current economic situation has led to an increased interest in large buyers looking to support suppliers through supply chain finance. “It’s a bit of a paradoxical situation because on the one hand there is too much liquidity and on the other hand, too little,” he notes. Central bank initiatives are, he says, putting more liquidity into the system but this is going towards the bigger buyers because the banks are doing their jobs through Basel III and pushing cash towards the less risky companies. “Which are, of course, the larger ones.” This he believes is failing the SMEs and the longer tail of the supply chain.

Whilst smaller suppliers wait for receivables, they might go to the banks to get a bridge loan. “They are finding it very difficult because there is a smaller pool of loans – and that pool of loans is at a higher cost for them.” The situation is particularly problematic in Asia with average payment terms of 120 days. “In the shadow banking market, it costs suppliers 30% to bridge those loans. In Europe, it’s around 60 days and can cost between 5-15% for those loans,” says Burns.

Ramachandran has seen a rising number of local corporates in India, China and Indonesia looking at supply chain programmes. His colleague, Stuart Tait, Head of Global Trade and Receivables Finance, HSBC adds: “In Asia, as the number of large conglomerate rises, there is more opportunity for them to arbitrage price.”

It is perhaps unsurprising that C2FO’s recent Supplier Finance Survey found that 96% of treasurers believe the role of supplier finance is growing. “Everybody recognises that there is a systemic failure of liquidity in the marketplace,” states Burns.

How treasurers can help suppliers (and themselves)

Of course, banks have offered SCF in the form of reverse factoring for a long time. They allow suppliers to be paid early by “essentially taking ownership of accounts payables and paying it earlier, taking the credit risk of the buyer to reduce the risk”, explains Burns. But this doesn’t reach into the longer tail because of the time and cost involved in on-boarding suppliers, not least due to KYC and anti-money laundering checks required by banks.

Ninety percent of SCF programme activity typically comes from about 20% of a corporate’s suppliers, says Tait. “If a corporate has this 20% on-boarded, the reasons for going through the bottom end of suppliers – such as your paper supplier – are limited.” Therefore, the bank has positioned itself to view the supply chain slightly differently and “supports all the segments, from some of the world’s largest companies right down to sole proprietorships in China or Japan”. This includes supplier pre-shipment financing, for example, and benefits larger buyers who want a stable and financially sound supply chain.

An alternative for treasurers may be found in the rising number of fintechs entering the SCF landscape. A McKinsey report, titled ‘Supply-chain finance: The emergence of a new competitive landscape’, noted that some have been offering innovative business models (C2FO; Taulia), others have improved the digital interfaces and tools on offer (PrimeSCI) and some have simplified implementation and on-boarding (Orbian).

Considering 67% of treasurers in C2FO’s survey believe their supply chain is currently suffering cash and liquidity challenges, solutions such as C2FO’s own marketplace, for example, offers voluntary models with potentially higher returns, Burns says, than the “narrowing options corporates have to invest”.

Finding the right fit

One problem, however, is the tendency to rely on legacy working capital metrics. If you relied on these in isolation, Burns says, you’d actually avoid dynamic discounting – despite the advantages discussed. “Metrics in working capital need to catch up with modern day,” he adds. “Because what early payment would do is slightly decrease your DPO and increase your CCC in terms of extending it – which doesn’t look good.” But quite clearly there is profitability in accelerating payments. Burns’ advice: “You can generate discounts, strengthen the supply chain and increase profitability but must make sure that it is offset as a separate metric.”

He believes there is an opportunity to be had that treasurers are waking up to. “But working capital optimisation needs to be done in a way that’s collaborative with the rest of the organisation, understanding how they can work together in order to modify the metrics and open up the opportunity to generate income and turn treasury into more of a profit centre.”

For BofAML’s Batliwalla, the potential is obvious. “Most corporates don’t treat metrics as the sole source of truth and look at the impacts of any SCF programme on working capital metrics, as per their individual situations.” This affords corporates with different priorities to select solutions, from fintechs or banks, which optimise working capital in a way that suits. There are exciting times ahead in terms of collaborative product development, he argues. But it remains vital for treasurers to make a consistent effort in working capital management – even in times when it feels there is less immediate need to do so.

Treasury's companion

A treasury policy allows the treasury team to conduct activities with the level of flexibility needed, defined by accepted parameters. At least, that is what's meant to happen. In this article, we look at the importance of exception handling and regular reviews to ensure harmonisation with market and business developments, amongst other priorities, to explore the fundamentals of what a good treasury policy should cover.

No treasury department should be without a treasury policy. The document is typically divided into a body (including the overall approach to treasury management in terms of scope, objectives, roles and responsibilities, the management of transactions, balance sheet and liquidity, and risk) and annexes detailing specific execution minutiae.

Having a well-defined treasury policy ensures treasury staff have written guidelines on their responsibilities and, more importantly, how to fulfil these. It will also detail their boundaries and how the department's performance will be measured, minimising the risk of internal fraudulent activity due to the failure of suitable policy. "The most important part of the policy is the fact it needs to be adhered to at all times," says Aashish Pitale, Group Treasurer, Essar Services India.

Making the right call

The processes treasury carries out are not areas in which to be vague; the value of a policy is largely dependent on the extent to which detail is provided. It is insufficient, for example, for a policy to simply state 'forwards should be used to manage FX risk'. Rather, it is important that the treasury policy sets out what strategy should be used, and why, relevant to the particular business. The eventuality to avoid, according to Dana Laidhold, Treasurer of The Carlyle Group, is a "policy for the sake of policy mentality without a clear link back to the business".

A Chinese manufacturer will have different priorities to the electronics company in Europe that buys parts from them, for instance. As a hypothetical example, in regards to currency transaction exposure, the latter's policy might state something such as: 'We import electric components from China (priced in US dollars), to sell in France (priced in euro). We pay the Chinese manufacturer 30 days after invoice date. We typically get paid within 14 days of shipment. From the point at which the obligation to make a payment from the Chinese company arises to the point at which the supplier is paid for those goods (in US dollars), the euro equivalent of the payment will fluctuate in accordance with movements in the USD/EUR exchange rate. Treasury's aim is to hedge this risk to ensure the products can be sold at the profit margin forecast when the goods were purchased.'

The acceptable hedging instruments, exposure limits, approval process and use of any natural hedge will then be set out, based on this initial justification. It should have a fair amount of flexibility. As Pitale says: "When decisions are made by the treasury's risk management committee on how to execute the policy, they respond to market conditions – but crucially within the framework of their policy. The policy document itself is not meant to change habitually in response to market conditions."

Key considerations when establishing a good treasury policy are, therefore, to focus on the document's compliance with local and international regulations as well as conforming to the objectives of the organisation. Taking a reactive approach, or deviating from policy because of volatility, Pitale says, can lead to treasurers "burning their fingers badly". He highlights the current oil price volatility as one area which has caught out some international treasuries in this regard. It is worth emphasising that treasury is there to achieve its objectives, not to 'win' (or 'lose') on a particular hedge. Therefore, Pitale advises: "Stick to your policy during all times of market volatility."

Risks to address:

- Market risks: interest rate risk, FX risk, commodity price risk.
- Credit risks: counterparty and settlement risk.
- Liquidity risks: cash flow risk, market liquidity and funding risk.
- Operations risks: human resources risk, fraud risk, business continuity risk.
- Legal risks: covenant risk and other legal risks in the mandates a company has with banks and other financial suppliers.
- Systems risks.
- Appetite for risk should also be addressed.

The first (and ongoing) steps

For this to be possible – and to avoid the occurrence of poor market-based decisions – policies should be tailored to the individual company's business model. The starting points are largely the same, however, and the creation of a treasury policy can be split into three key stages:

1. The identification of all the activities which routinely take place in the treasury – and all of the risks which the company faces from a treasury perspective (see box above). This is an aspect where the finance director and the other departments which regularly work with the treasury (eg tax, accounting, and internal audit) should be involved.
2. Developing the set of procedures and strategies for managing the risks identified in the first step. This analysis and decision-making should be the responsibility of the treasurer and finance director.
3. Approval from the board. This approval process will vary from company to company, of course, depending on who was responsible for drafting the policy. Ideally, this approval should take the form of a formal vote of confidence at a full board meeting.

As Laidhold says: "What's most important is to balance risk management with effective business operations. Policies should be underpinned with effective and executable processes." To ensure this, her treasury team alongside writing the policy also drafts the operating procedures in narrative form and often use visio charts to ensure they will be efficient and "to plug any gaps".

After which comes approval – but by no means is this the last step. "Every business is organic," says Laidhold. Periodic reviews are a necessary part of ensuring a treasury policy matches developments within the business and in the industry – and therefore guarantees the department can operate in the relevant manner, without the constraint of an outdated policy. Reviews are typically annual but "to the extent that something material happens in the market or business, we may look at them more frequently than that", Laidhold explains.

Factors that should be addressed in any policy review include: changes to regulations, changes in key personnel, and changes in the company's business due to mergers and

What if… policy isn't adhered to?

The policy should outline sufficient checks along the way "so something damaging can't reach a point of material impact late in the game", says Laidhold. Proper segregation of duties, levels of review and checklists, therefore, are essential "so that you minimise the risk a policy won't be adhered to because you have a lot of cooks in the kitchen managing that process".

She continues to say that to the extent which a treasury department writes a policy, implements it but doesn't provide "training, ability for input or guidance for all affected stakeholders," problems are bound to be encountered.

acquisitions, divestments, any relocation of operations, adding new business lines or products and major changes in the operating/reporting currency(s).

There are also external factors to consider, which are equally as driving. Laidhold provides the current example of changing factors in the short-term investment landscape – Basel III, Fed moves, prime Securities Exchange Commission (SEC) money market reform, for instance. "That influences treasurers to go back, look at their policies and make sure the department is equipped to effectively operate in that new environment."

Having an up-to-date policy is not only vital for control, consistency and the assessment of new risks, but also the assessment of new opportunities. Reviews can ensure the department is utilising current best practice. This is particularly relevant to technology enhancements, says Laidhold. "It is important to stay abreast of technological developments, as new tools can make your operations more efficient and/or add controls."

Do note, however, that not every area of a policy changes year-on-year. "It doesn't have to be a monumental exercise and you don't need to reinvent the wheel," advises Laidhold.

Beyond the basics

Most departments will have these basics covered, but there are areas worth emphasising. Exceptions to the procedures set out in the policy, for instance, are bound to occur and therefore warrant inclusion. A comprehensive policy will contain guidance on exception handling with resolution methodology – but from the start, it clearly cannot contain every exception. With each new exception, new knowledge can be included in the policy to ensure resolution can be achieved quicker should it happen again.

Whilst being an overarching document then, a balance needs to be struck between a policy containing necessary and comprehensive restrictions and one that is practical enough for the day-to-day operations of an individual treasury department. "This too shouldn't be seen as daunting, however," says Laidhold. It's about bringing together stakeholders from within and outside of the treasury department that will be impacted by policy and the supporting operating procedures. "By doing so upfront, you get that buy-in and make sure you are striking the right balance between governance and risk management, and allowing procedures to remain efficient in impacted operations," she says. "Turn over every rock together."

A focus on risk

As the need to manage liquidity and risk has become more pressing during recent times, the importance of clearly defined conditions for some operations should not be overlooked – limits for market-related transactions, for instance. Again, this is an aspect which will not achieve equilibrium from the outset, emphasising for another time the importance of regular reviews. Limits set maximum and minimum levels of exposure for market factors. Examples include: no more than $8m of crude oil exposure to remain unhedged, no more than 1% of spare cash to be retained in RMB and no less than €5m of investment in money market funds.

When review time comes around, cause for change on limits could be, for instance, extremely large unutilised limits or regular limit breaches (from the perspective of operational and/or trader discipline and the adequacy of the limits in that market factor). Scandals in recent years reveal that it is these basic controls which are typically breached.

In addition to complying with limits, some of these (larger) transactions may require approval from senior members of the company. These people, however, are frequently travelling for meetings and conferences and are unlikely to be immediately available in all instances – consequently requiring the policy to cover the procedure in these cases (markets cannot wait for CFOs to return to address pending transactions). For most companies it will be pertinent to have pre-approved ranges so, should those people be out of the office, transactions can still go through on a case-by-case basis.

A matter of detail

Treasury policies need to reflect the risk appetite of the company. But, as alluded to, it is a fine line to tread when trying to establish a policy with sufficient detail to be a document relevant for serious use, but one without an overbearing amount of different elements to fulfil.
For example, a statement such as "our objective is to maximise our return on liquid investments at minimum risk" is of little value as a policy on the treatment of cash deposits. At the other extreme, however, a treasury policy which lists the names of appropriate counterparties for cash deposits provides too much detail. Whilst the policy should specify the criteria for an appropriate counterparty, this would be too inflexible.

The key concept to bear in mind is parameters. If a policy doesn't provide clarity of the acceptable margins in which to respond to such questions as 'what conditions on borrowings is the company prepared to accept?', 'how is data held and stored on the systems and for how long?', 'what is the ideal maturity profile of the company's borrowings?' and 'how will the company measure exposure to interest rate risk?', then it's time to revisit.

It is worth noting that the aspects covered here – such as appetite for risk, frequency of review, market limits – will be influenced by company-specific factors such as corporate philosophy, extent of natural hedges, volatility in cash flows, volatility of the business sector, what competitors are doing and what advisors say, for instance. That is why it's important when answering questions like those above to not rely on a one-size-fits-all approach, but to focus on your specific operating model. What's more, individual treasurers will bring their own beliefs, standards and expertise to the table.

Liquidity management

Following queries on my 'Cash management tools compared' article, it seems useful to follow up with another view of liquidity management. In the previous article, I analysed how different cash management tools can help treasurers. Here I will look at the issues facing treasurers around liquidity management, and show how the different tools address those issues.

One global investable balance

Broadly the goal of balance management (aka liquidity management) is to concentrate cash balances across the group and around the world with the end goal being one global investable balance.

Treasurers want their cash in one place. They want all their cash under their control. They want to invest all their cash according to their investment policies. Of course, the specifics may differ (Americans will often have cash onshore and offshore separated to avoid Subpart-F issues), but the principle remains the same.

Certain business models (reinvoicing, principal structures, etc) tend to concentrate cash in a single legal entity, but in practice material cash balances will always be dispersed across the foot print of the group. This is an inevitable consequence of global business.

Dispersed cash

Cash is dispersed on different dimensions, each creating different challenges for treasurers (and thus requiring different tools). The three main dimensions are:

1. Legal entities: at a minimum, cash will be in one legal entity per country. Concentrating cash across legal entities will have tax and possibly regulatory consequences.
2. Bank accounts: different legal entities will have their own banks accounts (except in an effective in-house bank (IHB). In an international group, these bank accounts will be with different banks. Even when mono-banking, the accounts will be with different branches of the bank, which creates many of the same issues.
3. Currencies: entities are likely to have balances in their operating currency, and often in other currencies as well. One global investable balance must somehow be in one currency; preferably a currency with deep liquid money markets.

Now that we have clarified the three dimensions of the cash concentration problem, we can look at the specific challenges in each dimension and explore which tools best address these challenges. Before looking at how we can address these three issues, it will be helpful to clarify the tools we can apply – sweeping and notional pooling and IHB.

Sweeping

Sweeping means moving cash from one bank account to another. The bank accounts may belong to the same legal entity or to different legal entities. For example, cash may be swept from a legal entity's operating account (often onshore) to the same entity's pooling account (often offshore).

When used in conjunction with multi entity notional pooling to create an overlay, sweeping does not create intercompany balances (because cash is swept from an operating account in the name of the legal entity to a notional pooling account in the name of the same legal entity; thus the cash stays in the same legal entity). Sweeping between legal entities creates intercompany balances. Typically operating entities sweep to a treasury or head office entity. As stated above, intercompany balances create tax concerns including transfer pricing on resulting intercompany interest and related BEPS issues.

A pure IHB does not require sweeping, because operating entities do not have any bank accounts since the IHB handles all their payments and collections on behalf of the operating entities through the IHB's bank accounts. In some countries, for regulatory or commercial reasons, the IHB may use local bank accounts in the name of the operating entity; in this case, the IHB will use sweeping to concentrate cash. In both cases, the IHB creates intercompany balances, so from a legal entity perspective the IHB has the same effect as sweeping (intercompany balances) even if from a bank account perspective there may be no sweeping (because the operating entity has no bank account).

Sweeping can be done in various ways – manually, by standing order, by corporate systems and by banks. The difference between these is in the degree of automation and the service provider. The result from both legal and cash management perspectives is substantially the same.

Sweeping can be one way and two way. One way sweeping typically moves excess cash from operating accounts to a pooling account, so that the operating entity is always depositing cash in the pooling account. Two way sweeping allows the operating entity to have an overdraft, so when the operating account is short of cash the sweep is from the pooling account to the operating account. In many arrangements, the previous night's sweep is reversed the following morning so that the operating bank account reverts to its original balance during banking hours.

Even in mono banking, there will still be sweeps between the different branches and entities of the bank to concentrate funds. One advantage of mono banking is that the bank can sweep funds across its network at close of business with good value – this means that the cash is 100% concentrated with no leakage (not every bank will offer this to every corporate, the bank needs globally integrated liquidity management itself to do this cost effectively). Cut off and other technical issues mean that sweeping between different banks can never be 100% effective.

> “Multicurrency notional pooling is the only (cost effective) way to concentrate cash across currencies.

Sweeping cannot address the currency issue because the cost and complexity of the overnight FX swaps that would be required is prohibitive.

Notional pooling

Notional pooling is fundamentally different from sweeping in that there is no movement of cash, and therefore notional pooling results in bank balances whereas (legal entity) sweeping results in intercompany balances.

Notional pooling has two facets. Multi-entity notional pooling avoids the problem of intercompany balances. Multicurrency notional pooling addresses the currency problem. Multi-entity multicurrency notional pooling is common.

To the extent that groups have a requirement to concentrate cash from different countries, notional pooling is combined with bank account sweeping in what is often called an overlay. Since cash is swept from an operating account to a pool account both owed by the same legal entity, no intercompany balances are created.

Multicurrency notional pooling is the only viable way to address the currency issue (because the overnight FX swaps required to do so in a sweeping arrangement are too expensive and complex). Because of this, single entity multicurrency notional pooling is often used to address the currency issue when sweeping or when an IHB has been used to concentrate cash across legal entities and bank accounts. In this scenario, the single entity multicurrency notional pool will concentrate cash across multiple currencies which belong to the pool master or IHB.

1. **Legal entities**

   Concentrating cash across legal entities may create tax and, depending on the country, regulatory issues.

   Since the regulatory issues are country specific, they are too diverse to address in this article. One key point is that regulatory issues are often less intractable than they seem when analysed with granularity.

   The tax issues relate to possible intercompany balances and the tax treatment of interest (or even the lack of interest) thereon. Intercompany balances will generate transfer pricing and BEPS concerns.

The two common tools that address cash concentration across legal entities are sweeping and notional pooling.

Sweeping between legal entities creates intercompany balances, which have tax and regulatory consequences. Notional pooling results in bank balances. The distinction is fundamental. The decision about which is preferable depends on the tax position and corporate culture. Corporate practice seems to be roughly equally spread, with a mix of hybrids as well. One common practice is to use multi entity notional pooling for day to day liquidity combined with intercompany balances in the form of term loans for structural borrowing.

2. **Bank accounts**

   Bank account sweeping is required for all but the simplest liquidity management. If all the operating accounts are at one branch of one bank, then bank account sweeping can be avoided. Since most groups cover multiple countries and use multiple banks, bank account sweeping will be required.

   Notional pooling can only operate effectively (ie be capital efficient) in one branch of one bank.

   It is practical to arrange an end of day sweep of the concentrated cash balance to an appropriate interest bearing instrument – commonly a money market fund or bank deposit.

3. **Currencies**

   The currency issue can only be addressed by notional pooling. Cross currency sweeping requires overnight FX swaps that are too complex and expensive to be effective.

   Without notional pooling, treasury will have to manage the concentrated currency balances manually – either by choosing to trade FX spots or swaps (which will not be cost effective) or by investing each currency separately (which is a lot of work and negates the scale benefits that cash concentration aims for).

   Notional pooling can address both the legal entity and the currency issues. These can be decided separately. So an IHB might use intercompany balances for the legal entity issue combined with a single entity multicurrency notional pool to address the currency issue. Other corporates use multi-entity multicurrency notional pooling to address the legal entity and currency issues combined with bank account sweeping to address the bank account issue – the result is often called a liquidity overlay or overlay structure.

Review and conclusion

Pulling this all together, there are two key decisions for treasurers.

1. Intercompany balances or bank balances?
2. Manual or automated currency management?

The answer to the first will determine whether to use sweeping or notional pooling to address the legal entity issue. The answer to the second will determine whether to use multicurrency notional pooling.

The two decisions are entirely separable as we have seen in the examples above. An IHB can also be adapted to any configuration of decisions.

The three issues in corporate balance management are to concentrate cash across legal entities, across bank accounts, and across currencies. Across legal entities the decision is between sweeping (resulting in intercompany balances) and notional pooling (resulting in bank balances). Sweeping is the only way to move cash between bank accounts, and is required in all but the simplest arrangements. Pure IHB does not require sweeping but results in intercompany balances and does not address the currency issue. Multicurrency notional pooling is the only (cost effective) way to concentrate cash across currencies. All of the above can be combined to suit the needs of diverse corporates.

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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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