July/August 2016

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Think like a fintech

Fintech has the promise to completely revolutionise finance. It is not a question of if, it is a question of when and how. We look into the future to see what this brave new world might look like and the impact of fintech on both corporates and banks.

The Corporate View

Fulvio Barbuio

Head Corporate Treasury & Risk

The Australian Broadcasting Corporation (ABC)

Treasury strategy for a modern Asia

A senior executive roundtable with Thomson Reuters, MAS, Johnson & Johnson, AkzoNobel and Lenovo assesses the challenges of operating in APAC.

Cash Management

Cash flow forecasting

Financing

The role of treasury in an IPO

Technology

Fintech impact on banks and corporates

Back to Basics

Cross-currency liquidity management

NOMINATIONS NOW OPEN

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Stake your claim…

Nominations now OPEN

On June 13th the 2016 Adam Smith Awards Asia opened for nominations, giving treasury departments across the region the opportunity to gain vital recognition. A number of submissions are already in.

These awards, now in their third year in the Asia Pacific region, shine a spotlight on corporate best practice and innovation. Taking part will allow you and your team to highlight the many benefits you have delivered to your company.

The programme is firmly established as the ultimate benchmark for true treasury talent and our highly respected judging panel will be looking for innovation, creativity, outstanding insight, thinking outside the box and, of course, real business impact.

Corporates are able to submit under a variety of categories covering all aspects of the treasurer's busy agenda from cash management, financing and risk to technology, working capital, benchmarking and more.

By putting yourself, and/or your team forward, you have an opportunity to join a stellar list of alumni that includes Flex Group, Hindustan Unilever, Microsoft, Bharti Airtel, Huawei, Larsen & Toubro, General Motors, eBay, Cargill and many more.

> "It is a great honour for the Flex Asia treasury team to receive this year's Top Treasury Team Award, especially considering the premier calibre of the Adam Smith participants and the industry forum created by Treasury Today Asia," said Vivian Peng, Asia Treasurer, VP Treasury at Flex Group after receiving her award in 2015.

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.

Good luck!

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Against a backdrop of the many changes and challenges being faced by corporates operating across the APAC region, this roundtable, comprising senior treasury representatives from three major companies and the Monetary Authority of Singapore recently debated the issue of centralisation and the position of Singapore as a regional treasury centre.

THOMSON REUTERS

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Head Corporate Treasury & Risk
The Australian Broadcasting Corporation (ABC)

Fulvio Barbuio has witnessed much change in his 30 plus years working in finance and treasury. He spoke to us recently about the role technology is providing in helping treasury perform the role as a strategic partner at ABC. He is also a strong advocate of treasury personnel spending time in an operational role to better understand the business it is supporting.

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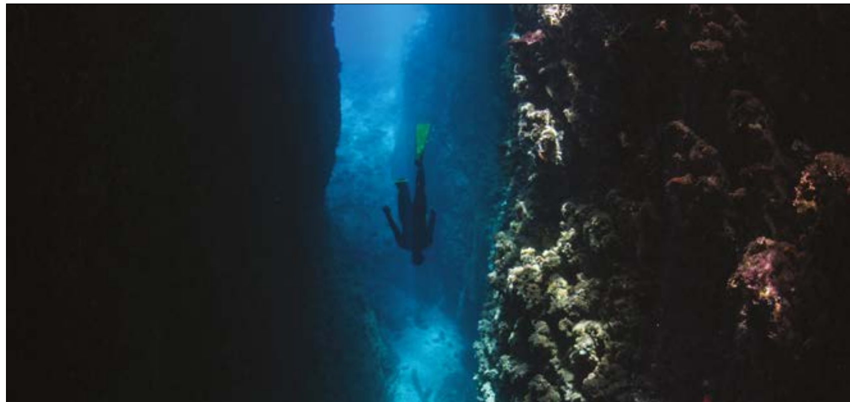
In the absence of a single global currency, treasurers have to optimise their liquidity structures whilst retaining visibility and control at all times. Is the cash pool concept really the best solution in a volatile economic environment?



Best practice bank account management

"What constitutes best practice in bank account management?"

Chye Kin WEE
Head, Transaction Banking APAC
BNP Paribas

Bank account management (BAM) is a key preoccupation for corporates. Opening and closing accounts, and maintaining updated mandates throughout the whole lifecycle is both time consuming and costly, as well as a primary source of risk of error or fraud. It has to be handled in a structured manner to support compliance and audit requirements – particularly in Asia Pacific where local bank relationships are still required which results in a large number of bank accounts, thus increasing BAM-related challenges.

The set-up of treasury centres (TCs) has allowed corporates to have global visibility on their liquidity through the consolidation of all accounts in their web banking or treasury management systems (TMSs).

The next step involves getting control of the end-to-end payments and collections process through a payments and collections factory. This can be achieved through a central ERP, which drives the harmonisation and standardisation of internal processes, associated with a central connectivity solution with all their banks. This set-up allows the TC to monitor the usage of local accounts while the corporate subsidiaries can keep their financial independency. Some corporates create shared service centres (SSCs) to streamline these processes further, starting from the invoice approval stage.

The ultimate control level is the in-house bank (IHB) which holds all accounts and acts on behalf of the other group legal entities. This type of structure requires full intra-company accounting and implies the financial disintermediation of the subsidiaries.

In Asia Pacific, some corporates have established a TC and some have initiated a centralisation process but very few use IHB as most of the countries do not allow 'on behalf of' instructions. This leaves open the challenge of BAM.

BAM begins with account opening, which is often considered a cumbersome process by corporates. In order to simplify and facilitate this process, BNP Paribas has harmonised its legal documentation across Asia and designed a web interface, 'My Accounts', accessible through its global centric portal, which facilitates the completion of requested forms, sign-ups to transaction banking products as well as guides on the documents to be provided for KYC requirements. This user-friendly solution can be used both by the treasury centre and its affiliates.

BNP Paribas is also addressing the corporate treasurer's concern on mandate management through electronic bank account management (eBam) solutions adapted to the connectivity solution chosen by the corporate. These solutions are currently being piloted in Europe and include:

- Connexis eBam: a module of BNP Paribas international web banking, which allows corporates to request paper mandates changes across countries and download detailed reports for internal audit purposes.
- eBam File Transfers: leveraging XML messages newly designed by the Common Global Implementation (CGI) for corporates using SWIFTNet to communicate with all their banks.

eBam can only be achieved with collaboration among the treasury community (corporate, banks, vendors, consultants) for the benefit of all stakeholders. BNP Paribas is very supportive of eBam, bringing its strong expertise in XML formats as well as its long-standing culture of standardisation to the initiative.

Tony Singleton
Managing Director, Asia Pacific
Reval

In Asia it is not uncommon for companies to have several hundred if not thousands of bank accounts and many different bank relationships. This somewhat unique circumstance presents geographically unique challenges brought about by the number of countries that are in varied states of economic development, each with its own regulations governing the flow of cash across borders, making it difficult to be serviced by just one bank.

Furthermore, given the volume of M&A activity in the region bringing more bank accounts, more bank relationships and new connectivity issues into the mix, the complexities financial professionals face are compounding. For these reasons, it seems like a good time for growing companies to take stock

of best practices in bank account management and the value that a common treasury management system in the cloud provides companies that want to operate easily and securely across all of their banks and all of their bank accounts.

M&A activity is a driver of better bank account management. By the end of 2015, the total value of M&A deals in Asia was up 49% year-over-year, with Japan up 48% during that same time period, according to Dealogic. While this activity demonstrates tremendous growth, it also paints a picture of post-merger treasury operations, where teams grapple with integration issues, increasing bank relationships and accounts, broken processes, and increased opacity of cash positions and exposures. It becomes more time consuming and risky to move from bank portal to bank portal, using several different dongles to piece together a cash position, which then is dangerously out of date. More bank connections and lack of controls increase the risk of financial fraud, most of which happens internal to the organisation. This issue is currently front and centre in the minds of financial professionals.

All of these challenges impact bank account management, but they can be addressed by implementing best practices and standardising treasury on a common cloud-based technology platform, accessible from any location where treasury and its subsidiaries operate. Fast-growing companies can implement the following best practices:

Centralise bank account management. Deploy a systematic approach to managing company-wide bank accounts and centralise bank account administration, including bank account activities, such as openings, closings, and signatories.

Create an authorisation matrix. Define signatory and approval workflows to control bank account activity. Implement an appropriate segregation of duties, a clear policy for the use of local and foreign currency bank accounts and audit trails to prevent internal and external fraud.

Review bank connections. As banking relationships are managed centrally or through regional treasury centres, the finance team can do a thorough review of the entire bank portfolio and decide how to best connect to bank partners.

View cash and risk positions in real time. Consolidating cash positions and obtaining a clear picture of the cash on hand can be time-consuming and error-prone. However, treasury technology can provide intra-day visibility into cash positions and related exposures, while optimising working capital at the same time.

Analyse cash flows. Analyse the consolidated cash data in order to make short-term investment and financing decisions. Do this by entity, currency, country, cash-flow category and business unit.

Implementing best practices in bank account management will bring increased visibility and control to cash, liquidity and operational risk management as companies adopt a systematic approach. Furthermore, it will reduce bank fees from transactional and operational costs as companies rationalise bank accounts and relationships.

As companies continue to scale their treasury operations to support future growth and M&A activity, using a cloud-based treasury management system will bring more value to the bank account management process. Companies will gain efficiencies by automating bank statement collection instead of manually logging into multiple bank portals to oversee bank accounts in different geographies. This not only improves security and compliance, but because software delivered as a service is always current and continuously monitored, it mitigates the threat of cyber fraud.

Bob Stark
VP, Strategy
Kyriba

Best practices in bank account management deliver visibility into and control of global bank accounts.

The challenge for most treasury teams is when organisations expand internationally and control of the opening of accounts becomes decentralised to non-treasury users in local markets. Without a single system of record for all accounts and signatories on those accounts, there is no centralised control over how accounts are opened, closed, and maintained. This introduces risk for the entire organisation, as funds within those accounts can potentially be at risk as well as the possibility of new accounts being opened, unknown to treasury and finance. While the most serious scenarios involve fraud, the issues for the organisation may be as simple as treasury not having visibility into idle cash balances because they didn't know the bank account existed.

To solve these issues, organisations will use a central technology platform – often in the cloud and in many cases part of their treasury management system – to ensure that details of all accounts are centrally managed in addition to a separation of duties for opening, closing, and making changes to authorities on bank accounts. It is this separation of roles – into front and back office functions – that offers the requisite control so that treasury can confidently say they have complete control over bank accounts and the funds within them.

The next question:

"What are the implications of Brexit for treasurers based in Asia Pacific?"

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

Suresh Chettiar

Vice President – Treasury

Headquartered in Mumbai, India Lupin is an innovation led transnational pharmaceutical company producing and developing a wide range of branded and generic formulations, biotechnology products and APIs globally. The Company is a significant player in the Cardiovascular, Diabetology, Asthma, Pediatric, CNS, GI, Anti-Infective and NSAID space and holds global leadership positions in the Anti-TB and Cephalosporin segment. Lupin is the fifth largest and fastest growing top ten generics player in the US (IMS Health) and the third largest Indian-pharmaceutical company through sales globally. The Company is also the fastest growing top ten generic pharmaceutical players in Japan (ranked ninth) and South Africa (ranked fourth – IMS Health).

Problem...

With the business growing very rapidly, Indian pharmaceutical giant Lupin was finding the administration around marketing spend for the various promotional events it hosts increasingly complex and time consuming. Traditionally, administration around such payments was conducted manually. Marketing personnel across various departments and regions would reach out to the central administration team for payment of the required hotel arrangements, which would then be paid in advance or with a credit card number belonging, more often than not, to a senior representative of the admin team.

The process created a heavy workload across the company. Treasury had to ensure that the account for making these payments was funded on a regular basis. Reconciling transactions, managing vendors and attempting to gain visibility and control over spend for promotional events was also proving increasingly time consuming for admin staff.

"Our traditional methodology worked while the company was still relatively small," says Suresh Chettiar, Vice President – Treasury, Lupin Limited. But with the company averaging 20 to 22% CAGR in revenue over the past ten years, marketing spends were also growing. A new way of working was evidently required. "As the company grew over a period of time, handling our marketing spend in this way became quite tedious and difficult," Chettiar explains. "And that is why we started looking for a solution."

...Solved

A solution was required that would meet the demands of each of the three main internal stakeholders: marketing, administration and treasury. The company's marketing executives wished for a solution allowing staff to simply make a telephone call to colleagues in the admin team with details of the booking required to get a budget assigned. The admin team, on the other hand, wanted something offering simpler reconciliation and greater visibility and control over payments. Finally, given the very large value of the sums being spent on events, treasury required a solution that would allow it to extend payment terms to improve working capital metrics.

After carefully considering the problem, Citi suggested a virtual card solution to be integrated into Lupin's internal workflow. Using Citi's Virtual Card Platform, a unique 16 digit card number is generated every time there is a request for payment. These card numbers can be generated for specific values, validity dates, merchant categories or even suppliers – thereby eliminating risk of misuse or fraud. The vendor, having received the card, then accepts the payment and the bookings are confirmed.

A company-designed authorisation matrix is accessed on the platform providing controls on the issuance of credit card number. Citi's solution gives Lupin's team capability to input up to 30 fields of enhanced data at the time of card generation including department information and invoice details, amongst others. A consolidated management information system (MIS), including the enhanced data and payment information, is shared back with the designated administrators within Lupin.

The whole process around event payments is running much more smoothly now. Marketing executives can select a venue for an event without any time constraints, coordinate payment for the event with the admin team, and have a wider choice of event hotels and venues to the dealing teams, thanks to Citi's Virtual Card Platform. In essence, they have all the information they need to process the transaction at their fingertips. Working capital blockages have also been removed since payments for events no longer need to be made upfront. Finally, reconciliation is greatly simplified thanks to the additional data elements captured with each payment request and offers convenience to marketing, administration and accounts teams.

Of all the solutions on the market, Lupin felt Citi's Virtual Card solution was the best fit. The strength of the company's relationship with Citi and its confidence in the bank's support staff were identified by Chettiar as important factors in that decision. "We have a lot of experience working with Citi and that provides great trust and comfort," he says. "Because of that we know if something does go wrong, Citi has a very strong backup team". Chettiar says, "the solution represents a landmark shift for Lupin, and the company is now looking to increase the coverage. We are extremely satisfied with the solution," he says, "and that is why we wish to expand it into new areas."

Agents of fortune: the value of a credit rating

A credit rating is generally a requirement of public bond issuance and for some companies is an essential means of accessing debt markets. We look at what it means to be rated.

A credit rating is the considered forward-looking opinion of a professional independent credit rating agency (CRA) concerning the relative ability of an entity to meet its financial commitments. The overarching aim is to provide necessary transparency, independence and consistency to the capital markets to help investors assess and price risk. The rating could be either international or national with ratings running in parallel. The latter concerns only issuers in their home market, meaning a higher rating could be achieved nationally than internationally (see the case study overleaf) but giving access only to the domestic markets and currency.

The aim in all cases is to bring transparency and consistency to the assessment of creditworthiness, aiding the accurate pricing of credit risk. Once attained, the chief benefit of a rating is the increased comfort that independent analysis gives to investors, potentially opening up a wider pool of investors. To achieve a rating, a corporate will have undergone a high level of disclosure and evaluation and, so for investors, although prudence suggests other sources of information should be added to the mix (not least the more detailed 'personal' story of the corporate issuer), ratings are commonly seen as a benchmark for helping to make investment decisions.

When rating a corporate, CRA analysts will source and sift a wide range of public and private qualitative and quantitative data. Once issued, public credit ratings are thereafter continually monitored and assessed in terms of issuer performance, providing stakeholders with as accurate, timely and consistent a picture of relative creditworthiness as is possible. Of course, it is up to the market to decide if that rating is useful or not.

For companies that have slid down the scale, even if it has moved into 'junk' territory (junk is predominantly an investor term, CRAs prefer 'high-yield' or 'non-investment grade'), CRAs will continue rating it all the while there is debt outstanding, although if the information required to maintain the rating is not available (such as if the company is in liquidation) the rating can be withdrawn by the CRA. "Generally, regardless of rating level, investors would want and need a rating on all outstanding debt," says Anjali Sharma, Head of Business and Relationship Management for EMEA Corporates, at Fitch Ratings.

The reality of deriving a credit rating is complex for the CRA not least because it must put its view into a very broad commercial context. "By assigning a rating, we are not just providing an opinion and a rationale about a company but we are also comparing it to all the other companies that we rate," explains Moody's William Coley, SVP Credit Policy, EMEA Corporates. Using a common language to discuss credit quality thus means an individual rating from one CRA allows an investor to compare relative creditworthiness regardless of the class of debt it is applied to. Although not all CRAs will take the same view of that creditworthiness, well-known equivalency amongst their ratings make for easy comparison.

The Big Three and the competition

The first ratings agency was effectively created in 1900 by Wall Street errand-boy, John Moody. Poor's Publishing Company (the precursor to S&P) climbed on the bandwagon in 1916, and both were joined by Fitch in 1913. Today, the so-called Big Three issue an estimated 95% of the world's ratings. However, there are 94 other credit rating agencies and organisations spread across 44 countries globally.

> By assigning a rating, we are not just providing an opinion and a rationale about a company but we are also comparing it to all the other companies that we rate.
>
> William Coley, SVP Credit Policy, EMEA Corporates, Moody's

The obvious power of the three main players has created a desire to break that stronghold. Scope, an agency with offices in London, Paris, Madrid and Frankfurt, vowed to become an "alternative to the status quo", taking on the Big Three in its European homeland. It first offered corporate ratings in 2012 following its merger with PSR Rating, a Germany-based firm specialising in the analysis of mid-size automotive companies.

In November 2013, credit ratings organisations from five countries (CPR of Portugal, CARE Rating of India, GCR of South Africa, MARC of Malaysia, and SR Rating of Brazil) formed a joint venture to launch ARC Ratings, a global agency

> A rating advisor can be invaluable for a company considering a rating for the first time.
>
> Anjali Sharma, Head of Business and Relationship Management for EMEA Corporates, Fitch Ratings

that also had its sights set on the Big Three. Today it has 18 offices and about 400 ratings staff. By way of comparison, Moody's alone employs 10,400 people worldwide and maintains a presence in 36 countries.

Concern that the Big Three credit ratings were not meeting the needs of emerging economies saw the rise of Hong Kong-based Universal Credit Rating Group (UCRG). 'The only international credit rating agency based in the Asia Pacific area' was officially founded in 2013 as a partnership between China's biggest ratings agency, Dagong Global Credit, the US-based investor-funded Egan-Jones Ratings, and Russia's privately-owned RusRating. Its inception was hailed by former senior World Bank vice-president Ana de Palacio as an "invaluable asset" that can take on companies which now dominate the global industry.

More choice for corporates means more transparency of opinion for investors but also perhaps increased confusion for corporates. Ratings advisors can guide companies through the selection and subsequent processes. This role is often taken by the lead bank employed by the corporate to bring its bonds to market. "A rating advisor can be invaluable for a company considering a rating for the first time," notes Sharma, adding that more than one CRA may be used at one time and that changing agency is possible.

From top to bottom

Issuers will normally be given a rating as a business (Fitch for example refers to this as the issuer default rating). In addition, all its debt issuances can be rated separately (for Fitch, this is the instrument rating). If, for some reason, the company does not agree with the rating decision it can appeal to the CRA if it provides materially new or additional information, but there is no specific right to do so.

Broadly, ratings range from investment grade (where, for example, S&P's AAA is at the top, down to its BBB- at the bottom) to the non-investment or high-yield grade, which for S&P ranges from BB+ down to D (D being a state of default). For all but defaulted ratings, or (in Fitch's case) very lowly rated issuers where default risk is already very high in the 'C' to 'CCC' rating categories, the CRAs also offer a 'rating outlook' to guide investors on the likely direction of the rating over a one- or two-year period. This dynamic but self-explanatory assessment ranges between 'positive', 'stable' or 'negative', with the option of placing the issuer on a shorter timeframe (three to six months) 'rating watch' where events dictate, again citing a negative or positive stance based on the expected outcome of a major event (such as an M&A).

A ratings watch can be applied when something material is expected to change the credit profile, explains Sharma (a debt-funded acquisition that might materially affect the leverage metrics, for example). A rated company will already have, she adds, "rating headroom" at its existing rating level whereby it has a degree of latitude before it would become necessary to consider changing the rating.

Although a low rating may be seen as undesirable or even "insulting", the high-yield end of the spectrum it opens up for corporates still has an important role to play. "There really should not be a stigma attached to a lowly-rated company because ultimately a corporate can choose to operate at a capital structure that provides an optimal return for its shareholders," explains Sharma. Indeed, it could decide to operate as a more highly leveraged company which may result in non-investment grade status. "Ultimately it is the company's decision as to what capital structure it feels is appropriate for itself and for its shareholders," she notes. And clearly there is an investor base covering all ends of the ratings spectrum.

Building an accurate picture

"When a company is thinking about getting a rating, the sooner they engage with the rating agency the better," advises Sharma. The reason is simple: at the time a bond is being launched, the company will be going through many different concurrent processes including bond documentation, meeting with lawyers and bankers, and organising roadshows.

The first step forward with the agency in the (typically) two to six-week process, is to create a formal ratings presentation of key facts and figures. This also entails a detailed Q&A session with the CRA. Because CRAs do not give advice, the presentation may be prepared in-house by the company or with the guidance of its ratings advisor.

From here, methodological analysis will call upon a broad sweep of qualitative and quantitative data. It will include aspects such as financial profile, cash flow, earnings, capital structure, financial flexibility, corporate governance and group structure. To achieve a rounded view, typically a CRA would start with the previous three to five years' of audited accounts giving it a base in terms of historical performance of the company. The base analysis will be supplemented by details on the business plan including its market position, anticipated transformative events (such as major M&A), product portfolio, geographical presence, operational scale and flexibility and so on.

Ultimately, a rating must be forward-looking, so history is never going to be the sole source, says Coley. Forecast information will therefore be required and it is likely that once all data has been aggregated, stress testing certain scenarios will help create that view.

It may be that a company wishes only to dip a tentative toe in the credit rating pool, in which case it may opt for a private, rather than public rating. This, Coley explains, allows the company to develop a relationship with the agency and industry analysts in a private setting. The advantage is that it enables the company to understand the way in which external parties view its credit status, how the agency rates it relative to its peers, and also to understand the key ratings drivers in terms of its ongoing ratings performance. It will then be the decision of the company – not the CRA – to choose when it wishes to make its rating public.

Taking the plunge: Mahindra & Mahindra — Case Study

When in October 2015 India-based multinational Mahindra & Mahindra (M&M) was assigned a Baa3 issuer rating with stable outlook by Moody's (matching India's sovereign rating) the company – which was already AAA-rated by a number of domestic credit rating agencies (CRISIL, India Ratings, ICRA and CARE) – it joined a select group of Indian corporates with investment grade status.

M&M is a $16.9bn multi-sector business headquartered in Mumbai, with a presence in more than 100 countries. K Chandrasekar, the group's EVP of Corporate Finance & Investor Relations, says the international rating not only enhances the "finance brand" of M&M but also adds credence to its Mahindra Rise programme which aims to place the company amongst the top 50 'most admired global brands' by 2021. "The initiative to get this rating was a step in tune with this aspiration," he comments.

The decision to go with Moody's was based on M&M's pre-rating evaluation of the agency's philosophy and rating methodology, coverage and industry understanding. This starting point led to "meticulous preparations involving data room, details and presentations". A "crack team of finance professionals" researched, assembled and presented their findings to Moody's. "The team undertook to understand Moody's ratings of various industries and companies and the underlying drivers for ratings, linking this to our businesses," explains Chandrasekar. Preparations were both "challenged and enriched" by the nature and structure of M&M and the team sought help from M&M's relationship banks "whose interactions assisted us in appreciation of the process and enhanced our level of preparedness by practising shadow-rating exercises".

Prior to this exercise, M&M had been "mulling about the ratings for quite some time," notes Chandrasekar. The team was aware of the resources it had to dedicate to create the right outcome but once engaged, although demanding, he says the process was also exciting. "It was in a sense, also a deeply reflective exercise and at the end of it, despite the toil and sweat, the leadership and the team felt enriched."

With the rating secured, the importance of dialogue "at good and bad and in fact at all times" is acknowledged says Chandrasekar. "Sticking to agreed information sharing is a hygiene but ensuring a constant level of engagement is the real key. We have now started implementing this in our relationship with all our rating agencies."

Although having an investment grade rating "gave the entire ecosystem of the group a boost", Chandrasekar points out that the most "visible and immediate" impact is on treasury activities. "It improved our international access to capital and credit lines – and now even the most conservative of international banks have made a beeline to us," he notes. "Today we are known not only as a sound treasury but also as an externally benchmarked treasury."

Having been through the process, Chandrasekar is ready to impart his wisdom to other corporates seeking a rating. For any business aspiring to become a global company "it is an obvious thing to do", but it is better to be done much in advance of raising capital, and then not just to fulfil a rating requirement. The exercise itself is "a long drawn-out one" in which business and finance functions "have to tango together". As such, he feels it pays to have a team approach "and to take it in all earnestness as a self-discovery for the company". However, he adds, the three most important elements for success are "preparation, preparation, preparation".

Managing the message

All ratings are subject to regular reviews by the CRA's rating committee, typically annually, although awareness of any grounds to examine it will call the rating committee to action at any time. Unlike price-based market-implied ratings, which may change from day to day, the purpose here is not just to provide ratings accuracy but also deliver a degree of ratings stability for investors and issuers. "Part of the essential role of managing a rating relationship and having the right rating out there is that it should be at least somewhat resilient to everyday volatility," explains Coley. Ensuring this requires the identification and setting out in advance of the key drivers that could influence a rating. Such events might relate to a planned M&A or divestment, or the publication of the annual report.

Of course, as ratings need to be forward-looking, all CRAs value a transparent relationship with their corporates. And, says Coley, wherever possible if a company is announcing a transformative event (such as an acquisition) "it is helpful for us to know what is coming, giving us an opportunity to form our view in advance of it happening". The alternative is to run the risk of being placed on review, possibly for a downgrade, at least until the CRA has had time to formulate a full opinion and response.

Sometimes though events take on a life of their own. A company that has had an otherwise successful recent history may suffer a negative blip in a run of otherwise good fortune. CRAs must try to assess and calibrate such an event rather than having an automatic reaction. The recent events that led to the Moody's A3-rated Volkswagen putting aside over €16bn to cover its diesel emissions crisis is a case in point. Because the lines of communication were kept open and management remedial plans were discussed, the firm's rating was able to be maintained. "There is a lot of interaction and judgement applied," states Coley. "It is certainly not a mechanical process, we don't just look at historical figures or react on a hair-trigger basis to results as they come through."

Coping with a scandal

When news of a scandal hits, much of the focus gathers around the main offenders, but what about those left holding the reins? Managing the short-term reputation is just the start, as the treasurer is relied upon to keep on top of the reverberations in a rapidly changing environment. Here, Treasury Today Asia takes a closer look at how companies can prepare for the worst.

As the recent plight of German automobile maker Volkswagen reminds us, the potential financial consequences that can be wrought when a scandal erupts are very severe. When the company admitted, in the autumn of 2015, that it had falsified US emission tests the headlines looked bad and the numbers even worse. In just a matter of days, the company's share price had plunged by almost 20%, the company's credit rating outlook was cut by Moody's to negative leading to higher borrowing costs, and anticipating weaker cash flow and higher leverage metrics.

What began as a scandal emanating from Volkswagen's research and development (R&D) function, therefore, soon became a matter the company's CFO, treasurer and other financial executives had to address. As Shannon Wilkinson, CEO of Reputation Communications, a leading online reputation management firm comments: "Reputation impacts every area of a company's value from profits to opportunities."

But while, in such circumstances, corporate finance teams may feel as though they are at the mercy of events, history tells us that how they and the rest of the corporate leadership respond will play a big role in determining the company's fate. When scandals hit, the outlook in the near-term is inevitably gloomy. Companies can – and do – bounce back though. In this article, we will look at a few of the things that can make the difference.

Who is at fault?

Often transgressions come to light in business which are confined to the actions of a few, culpable individuals. Clearly, the onus then falls on to the rest of the company to show that this behaviour is not widespread and will not be tolerated. This means cooperating with authorities to ensure the efficient prosecution of those involved. As Ed deHaan, Assistant Professor at Stanford Graduate Business School, tells Treasury Today Asia, in scandals where senior executives find themselves implicated,

"getting new leadership at the helm is critical in setting a new tone for the company." It does not always work. American Apparel has just gone bankrupt in the US over a year after ousting Dov Charney as the CEO.

Naturally, the corporate workforce often find their working world turned upside down when those at the top are stripped of all authority amongst claims of malevolence. Re-establishing lines of trusted communication, uniting departments and maintaining brand value, each present challenges. "Scandals create internal turmoil which can in turn prevent action. The longer an organisation takes to address this, the more likely it is that they will see a hornet's nest forming," says Reputation Communications' Wilkinson.

The aim is for the whole company to avoid being defined by the mistakes and offences of a few 'bad apples'. All eyes will be on the top executives' first public appearance; Michael Horn, Volkswagen's Chief Executive in the US, took the opportunity to admit that the company "totally screwed up" by cheating on vehicle emissions tests, for example. Expressing genuine contrition and setting out, unambiguously what measures will be taken to redress the situation goes a long way to restore public confidence – something which holds true even in scandals that don't originate from within the company itself.

Restoring trust

There have been countless examples down the years of companies whose reputations have been undermined by events beyond their influence. Back in 1982, for instance, the leading pain-killer (Tylenol) Johnson & Johnson (J&J) were selling in the US at the time had been tampered with; an unknown suspect or suspects having added 65 milligrams of cyanide into the capsules. Seven people in Chicago died, allegedly as a result of taking extra-strength Tylenol capsules. Once the connection between these deaths and Tylenol was made, J&J were left to solve the crisis, in a way they hoped would minimise any financial or reputational damage.

Following prior-established guidelines, the company assumed responsibility for the product, ensuring the safety of consumers and medical professionals using its products as well as the employees and stockholders by conducting an immediate product recall. This amounted to around 31m bottles and a loss of over $100m for the company. That may have been a heavy financial burden to bear, but the measures were key to the restoration of public confidence in the brand.

Indeed, the influence trust levels between companies and consumers have on commercial success should not be underestimated. "There is asymmetry of information where the general public doesn't know what type of people the managers are, what their intentions are and whether the company intends on following through with the things they've committed to – whether it be delivering high quality products or financial statements. We have to trust companies on these sorts of things," says deHaan. If that company is highly reputable and the public believes it will ensure the delivery of its commitments – whether this involves third parties or not – then they get a premium in the market, he explains.

The weak link

J&J managed to re-introduce the Tylenol product by having triple-seal tamper resistant packaging, offering promotions and conducting presentations to restore confidence within the medical community. The tale does highlight, however, the need for corporates to take a proactive role in ensuring products that are associated with their company meet international safety and quality standards.

This isn't a problem of the past, as numerous examples from within the last ten years attest: lead paint found in Mattel's children's toy in the US, Nike's association with sweatshops, illegally-sourced plywood produce sold in Wickes and B&Q UK stores and contaminated milk in China. Supply chains today are increasingly large and opaque and, as such, reputational risks are increasingly elevated.

Wherever products are manufactured, it is the corporates' responsibility to understand the origin of products and minimise the risk of supply chain scandals. Knowing who your partners, suppliers and employees are is a necessary part of due diligence and taking every precaution when evaluating prospective business partners is essential.

When operating in countries which are less transparent, a heightened awareness about the potential pitfalls to avoid and local practices and laws is going to be necessary. Knowing what is (and isn't) required within a country will eliminate the chance of unwelcome surprises. In other words, the potential of product scandal necessitates greater vigilance and active management at all points of the supply chain. "To the extent that you can take steps to avoid having a scandal to begin with, clearly that is going to produce a better outcome. Prevention is the best medicine," explains deHaan.

Riding the storm

Should the worst happen, investors will be weighing up the costs of staying in or joining the stampede that could be destroying their assets. Not only that, but the larger public will be rapidly forming opinions which could create a much broader fallout. Acting responsibly during this time is crucial for businesses. A 2014 study, 'Reputation Repair after a Serious Restatement', by Jivas Chakravarthy, Ed deHaan and Shivaram Rajgopal explored the financial importance of repairing a company's reputation with what the report calls "softer constituencies" – customers, employees and local communities, for instance. The results: people care when a tarnished company attempts to rebuild its reputation with goodwill gestures.

After announcing intentional accounting misreporting, the 94 companies in the study sharply increased the amount of reputation strengthening actions aimed at investors. This included: improving internal controls, a change in incentive programmes and announcing replacement of senior executives. But what the study found was that companies also reached out to non-financial stakeholders – in fact, 51% of efforts were focused on these softer constitutions. And the rewards were substantial; the researchers estimated that announcements of actions to repair and enhance the reputation of companies lifted share prices by 2% on average. "You must take a multi-stakeholder view of your company. A common mistake is focusing too narrowly on satisfying the regulators, investors and lenders," says deHaan. Researchers describe 'reputation capital' as a genuine – albeit intangible – financial asset that is embedded in a company's market value.

Reputation Communications' Wilkinson says that 'transparency' and 'authenticity' are the key when it comes to

protecting one's reputation in the midst of a scandal: "Immediately acknowledge the scandal and share as much information as you can. Investigate what led to the crisis and share your findings with the public, as well as the steps you are taking to resolve the underlying issues. According to her, there are lessons to be learnt from the examples of the past. "Study the strategies of companies who have successfully navigated a major crisis, as well as common downfalls." Whereas J&J quickly responded with a plan of action, Exxon was very slow and inefficient in its management of the notorious 1989 Exxon Valdez oil spill in Alaska and it had a (well-reported) devastating effect on the company. Exxon's chairman at the time, Lawrence Rawl, didn't fly to Alaska until two weeks after the event. He sent a succesion of lower ranking executives and efforts to help the local community were delayed. Such occurrences suggest to the public that a company doesn't consider an incident a genuine concern. As corporate scandals go, this is often referred to as one of the worst. The problem for companies seeking to avoid similar damage to reputation is: "Even very large organisations that have communications departments don't necessarily have five or six crisis managers sat around waiting for the next crisis. They are not going to have the current knowledge of how a scandal is best managed," says Nigel Pearson, Global Head of Fidelity at Allianz Global Corporate & Specialty (AGCS).

In the public eye

Part of the problem is that companies are often slow to react, then. And, in a digital age where news spreads like wildfire, quicker and quicker responses are necessary. This is evidenced from research from legal firm, Freshfields Bruckhaus Deringer, which revealed that news of more than one-quarter of crises – including senior employee misconduct and bribery and corruption – spreads to international media within an hour and over two-thirds within 24 hours. As Kweku Adoboli, a trader convicted of fraud after losing $2.3bn at UBS, remarked in a letter dated June 2014 to a journalist at the Financial Times: "No-one in finance ever realises how close they are to the imaginary, transitory red line until they cross it and get smashed in the face by a million camera lenses."

Behavioural crises (illegal or questionable by the company or employees, like the Adoboli example) were the fastest to spread through social media, over 40% within the hour. And because, as Wilkinson explains, "consumers, investors, prospective partners and journalists now conduct their research about companies, products and industry leaders online," the role the media plays has an increasingly immediate knock-on effect on the value, revenue and operations of business which can be felt for a considerable time afterwards. According to Freshfields, 53% of companies had not seen share prices regain pre-crisis levels.

"If you wait until the media are leading the charge then you are going to be playing catch up when what you should be doing is establishing the message, rather than responding to it," explains Stanford Graduate Business School's deHaan. The interest in crises is certainly growing too as The Wall Street Journal's 'Crisis of the Week' column illustrates only too well. Here, experts comment on current high-profile crises stories.

The recent TalkTalk scandal in the UK inovolved financial details of subscribers being hacked. There was zero transparency in the immediate aftermath and this is a good proof of the effectiveness of Wilkinson's advice – had they have been more open more readily with their consumers it would have lessened the crisis.

Counting the cost

For the treasurer, the direct impact of a scandal means there is a need for tools to assess levels of financial impact, and, ultimately, to work out where the money will come from to cover legal fees, damages incurred, the potential use of other external experts, severance packages and so on.

When these sums become very substantial they can wreak havoc on cash flow and forecasts. Referring back to the recent example of Volkswagen, it is reported that the company has set aside €6.5bn to cover the costs of the scandal. Some analysts have claimed it could cost more, however. Credit Suisse's most conservative estimate, for instance, is around €23bn – and according to the company's latest earnings statement, it has €21.5bn cash on hand. It has been suggested that the group may sell off some brands (for instance, its supercar brands, Bugatti and Lamborghini) to raise capital; although Volkswagen has a fairly robust balance sheet, a capital raise is likely. What's more, companies embroiled in scandal must brace themselves for a hit to sales and prices.

Referring to deHaan's earlier comment that prevention is the best medicine, for some companies with the resources to do so, it may be possible, to an extent, to prepare oneself in advance for a scandal. Allianz, for instance, offer a stand-alone reputation insurance product. Pearson describes the approach as "aggressive mitigation." Rather than trying to value a reputation, discover how much it's been damaged and then indemnify for the damage. "The solution tries to deal with the reputational crisis as its developing and aggressively manage it in such a way that we can limit the downside," he says. "There's no consensus on how you value a reputation globally anyway." Allianz Reputation Product works with global partners who are professionals at managing crises (expertise which can be of value since crises, by their very nature tend to be intermittent, isolated events and therefore those responsible for dealing with are often inexperienced). "Large media organisations that have reputational management divisions will help our insureds when crisis happens and we are looking for them to do that within the first 24 hours." The value being, that corporates gain access to people who are used to managing ten or more crises a year, as well as a €10m limit towards media spending.

Although by and large they are unpredictable events, corporates can also take steps to think about the risks their company faces. "BP, for instance, could imagine the possibility of another major oil spill so they can produce a contingency plan including information such as who will be leading the recovery. There is some amount of pre-emptive work that can be done when it's an obvious risk," explains Stanford Graduate Business School's deHaan. It does depend on the nature of the company's business however, but can you afford not to explore the possibility?

As Pearson concludes, "if companies genuinely stress tested their response plan, they might be surprised and they might also look at what's available for them in terms of aggressive mitigation." Forces beyond our control have a habit of manifesting themselves, from time to time, but we can still determine how well we respond when such nightmare scenarios become a reality.

Randy Ou
Vice President, Treasury

The Alibaba Group, a global leader in online and mobile commerce, provides the fundamental technology infrastructure and marketing reach to help merchants, brands and other businesses that provide products, services and digital content, engage with their users and customers through the power of the internet.

Problem…

With a strong renminbi (RMB) cash position in onshore China, Alibaba's treasury team were looking for short-term liquidity investment tools that would give them a better yield without compromising liquidity. Yet at a time when China had not begun to liberalise its interest rate market, higher yielding cash investment products meeting Alibaba's corporate investment criteria were very few and far between. Alibaba's treasury team needed not only a short-term investment solution offering higher yield with liquidity, but also one that would meet their expectations in terms of transparency and credit rating.

As Randy Ou, Vice President, Treasury at Alibaba Group explains: "A few years back when China's interest rate market was not as market-driven as it is now, our options were limited. What's more, the choice of investment tools with a satisfactory credit rating was even more restricted back then."

…Solved

Then Alibaba's treasury team began to familiarise itself with the RMB money market fund (MMF) offerings distributed by J.P. Morgan Global Liquidity (JPM GL)[1]. "Investing with JPM GL gave us a new perspective," Ou says. In 2013, Alibaba's treasury team first began investing in the JPM GL's RMB MMF offering in relatively small amounts. These amounts gradually increased in scale over the space of two years as the RMB MMF offering steadily gained the confidence of Alibaba's treasury team. "For us it was really straightforward," Ou says, "at that time we had real business needs and JPM GL had the solution that met our requirements". Such requirements met by JPM GL's RMB MMF offerings included:

- The T+1 feature meets the company's daily liquidity needs.
- The MMF's transparency and AAA rating by an international rating agency means it can be accepted by both internal and external stakeholders. The fund's AAA rating is important, Ou explains, because Alibaba, like many companies, has minimum rating requirements for different types of investments.
- The dividends paid by the MMF are exempt from corporate income tax, something which is not always the case with investment products in China.

But the investment solution's benefits extended far beyond the immediate benefits of achieving a better yield and highly flexible RMB liquidity. Working with a global partner improved options for Alibaba's offshore liquidity too, helping their treasury team meet its liquidity demands globally. The relationship has also helped Alibaba benchmark investment decisions against those of its industry peers through the opportunity to participate in the annual J.P. Morgan Global Liquidity Investment PeerView℠ survey. This flagship survey captures the investment behaviour of CIOs, treasurers and other senior decision makers around the world to identify critical trends in the money market funds space, with the 2015 survey attracting over 400 participants.

Ultimately, Alibaba's treasury found in JPM GL all the qualities they were looking for in a liquidity solutions partner: the ability to achieve balance between international standard and local specialty, risk management capability, dedicated client service and, last but not least, the capability to deliver good investment return.

Ou expects many more corporate cash investors to follow Alibaba's example and begin investing in RMB MMFs especially at a time when banking regulation is making banks more selective about the liquidity they accept from companies. "Compared with US and Europe, the percentage allocated to MMF by cash investors is still small," he says. "Though the MMF market is not well developed in Asia yet, I can see an acceleration and progress is certainly being made. That also means it has room to grow, particularly if more banks start to have concerns on taking deposits because of implementation of Basel III."

The regulatory environment around interest rates and deposits in China is changing rapidly. But for Ou that only underscores the importance of having a liquidity solutions partner that can demonstrate, in his words, "a proven track record", and has the expertise to help the corporate treasury function identify and navigate through important regulatory developments.

Thanks to the implementation of a successful short-term liquidity strategy provided by JPM GL, Alibaba can now enjoy the flexibility of daily liquidity for its ever-growing RMB cash balances, in addition to JPM GL's invaluable liquidity expertise and robust risk management capabilities.

[1]The RMB Funds are for qualified China domiciled investors only. The Funds are managed by China International Fund Management Co., Ltd. (CIFM). CIFM is a joint venture between J.P. Morgan Asset Management (UK) Limited and Shanghai International Trust Co., Ltd.

Going public

China's economy is slowing, commodity prices are up and down, and a political crisis is brewing in the European Union. No wonder companies in Asia Pacific are adopting a 'wait and see approach' when it comes to their first stock listing. Treasurers, however, will have a key role to play when the right time eventually does come to go public.

Few decisions in the life of a company are quite so monumental as the decision to go public. Once a private company's directors have agreed to do an IPO, the business will never be the same again. New sources of capital may need to be considered, new bank relationships nurtured, new reporting duties executed. And all of this, naturally, puts the work of the corporate treasurer very much in the spotlight.

More companies in Asia Pacific will be undertaking a first public offering this year than in any other region in the world. But before all these firms head to the Hong Kong, Singapore or Shanghai Stock Exchanges, a great deal of preparatory work will need to be undertaken. Here we take a look at what's likely to be in store for the corporate treasurer.

Timing it right

Once the IPO process has been set in motion one of the most crucial jobs for a company's financial executives will be deciding at what point market conditions will be right to achieve the best result.

Right now it would seem that many firms in Asia have looked at the markets and concluded that the stars are not quite yet aligned. Although Asia Pacific continued to lead other regions for IPO activity in Q116, with 102 deals raising US$6.6bn, this represents a marked decline against the first quarter of last year. According to figures from EY, deal numbers in Q115 were 31% higher and the total capital raised was 55% higher.

"Lately IPO activity has been relatively muted in the Asia Pacific region," says Max Loh, ASEAN and Singapore Managing Partner, EY. There are no shortage of external factors to blame: concerns over the condition of the global economy, volatile oil prices, and uncertainty in the capital markets. For all these reasons, Loh says, a "wait and see approach" has become the preferred strategy for many companies.

Aurizon's IPO journey

When the Queensland State Government announced plans to sell off QR National Ltd in 2009, Erin Strang, then the rail freight operator's treasurer, knew she would have her work cut out.

The company would be split into two businesses, with Queensland Rail's commercial activities to be separated from the government's passenger services and eventually floated in late 2010. For the company's treasury, there would be a lot to do in a very short space of time. "Once that decision had been made treasury had an involvement," says Strang. "The equity market was a bit up and down in the lead up to the IPO but the end result was that we successfully listed."

Raising funding

The success of what would become Australia's largest IPO in 13 years was in no small part due to the hard work of Strang and her colleagues in the treasury department. Amongst other things, the company would need to consider how historical funding arrangements would be replaced with new ones. New bank relationships would also need to be formed.

"We had been government funded up until that point, so we had to think about how that existing debt structure was going to be resolved," she says.

Even though there were no immediate plans for a bond issue, Strang says the company chose to solicit two credit ratings given the greater flexibility this would provide them down the track: "The initial debt was a bank facility, because of the timing and the ease of execution. But from the start the intention was always to diversify that and get greater diversity and tenor, which is what we have got today. Since then we've gone into the euro MTN and A$ bond markets."

Building relationships

Forming and fostering the relationships with the credit ratings agencies and new banking partners the company needed post-privatisation was also high on treasury's agenda during this time. A regular meeting framework was established and the half-yearly and annual updates were provided to give the credit ratings and banks the same transparency as enjoyed by its equity investors. "The value of that has really been seen since then as refinancing has been relatively straightforward. I think that is really because we've had a good relationship with our banks, as well as being done through fairly good times from a business perspective."

Advice for treasurers

Asked what advice she would give to a treasurer of a company now planning its own first listing, Strang says it is all about balancing the end goal with the practicalities of the time available to execute the transaction. "Treasurers need to think about where it is the company needs to be and the stepping stones towards that," she says. "They need to determine the absolutely critical dates from an IPO perspective, and consider how they will manage those dates."

To that end, working out how one will respond if something does not go to plan can be beneficial, she adds. As anyone who has dealt with debt capital markets will know, rapidly changing conditions mean it is always good to have a backup plan. After all, the last thing any treasurer would want is that the company's IPO doesn't go ahead because they have not been able to get funding in place.

However, Strang cautions, the long-term consequences of an IPO leave little room for mistakes. "Whatever funding arrangements you put in place you are going to be living with them for some time, so it's important that treasurers give themselves some flexibility."

"We think companies are holding off for better valuations," he says, "especially for the bigger transactions. A lot of the activity is supported by private equity and venture capital, and those companies can afford to wait and ride this volatility out."

What a contrast with the previous year. In 2015, the Asia Pacific region dominated global IPO activity with Hong Kong, Japan and Mainland China topping the global leader boards by capital raised. Overall, 673 IPO deals (55% of listings globally) were made and nearly half the global capital raised last year emanated from the region.

Understanding what drove the record issuance we saw last year may tell us something about why companies are currently biding their time. "A lot of the companies that are listing in Hong Kong are actually mainland Chinese companies," says Loh. "I think the the PRC (People's Republic of China) will remain a key pillar of IPO activity in the short to medium term. But, of course, there is some softness in the market at the moment given increased investor concern over China's economic fundamentals."

Where to list

At the same time as finance executives monitor market conditions and ponder the timing of their IPO, the small matter of where to eventually list the business will also need to be considered. Here in Asia there are no shortage of options for international companies.

Hong Kong, in particular, had a bumper year in terms of new companies listed and funds raised. "We saw a lot of activity last year," says Doris Ng, Of Counsel, at Norton Rose Fulbright in Hong Kong, a global legal firm that assisted in some of the region's biggest transactions last year. "HKEx ranked number one in terms of funds raised last year worldwide, ahead of

some major exchanges like London and New York. The Hong Kong exchange is the clear leader of the two. In fact, last year HKEx saw the most activity of any exchange not just in the Asia Pacific but the world, with 38 new companies listing and an enormous HKD 260bn of funds raised."

There are a number of reasons for the popularity of HKEx. To begin with there is the investor base. Norton Rose Fulbright's Ng says that the exchange's strong base of institutional investors are a big part of the attraction for Chinese companies. "Traditionally it has been the PRC businesses driving IPO activity in Hong Kong," she says. "The other exchanges in the PRC tend to be dominated by retail investors. That's why companies looking for a strong shareholder base often come here to access international institutional investors such as the pension fund and private equity fund investors."

The legal system is another perceived advantage. Previously a British colony, Hong Kong has a commonwealth legal system in which the rule of (Anglo-Saxon) law prevails and an established regulatory regime that, though not a full democracy, operates in a multi-party environment, meaning that companies listed on the island's stock exchange are always closely scrutinised.

Such scrutiny offers much comfort to investors, Ng says: "Also in its favour is the fact that HKEx regularly reviews its rules and policies to ensure that they reflect international best practice," she notes. "The stock exchange has run for many years too. It offers a transparent and well-regulated market for companies of all types and background, and it's well respected for corporate governance standards and the quality of the companies that list here."

One final explanation for the salience of HKEx is the China-link. For near three decades Hong Kong has been the most popular destination for share listings from Chinese state-owned and private enterprises, and the exchange has for that reason grown rapidly with the Chinese economy averaging double-digit growth during the same period.

That Hong Kong is a sovereign territory of China has evidently been a factor in the favour HKEx receives from Chinese companies. As EY's Loh explains: "With everything else remaining equal the home exchange is usually the most favoured destination," he says. "That's because the market already recognises and understands the company, meaning its financial executives do not need to spend a lot of time and money convincing investors of the business proposition."

The Singaporean market, meanwhile, is much smaller than that of Hong Kong. According to the latest figures, Singapore's total market cap currently stands at $107.18bn, nearly nine times smaller than HKEx's total market cap of $4.105trn according to Bloomberg data.

But the Singaporean exchange (SGX) does have advantages for certain companies, and is particularly attractive to companies in the APAC region that don't have bourses in their own countries. With more than 40% of its listed companies hailing from outside the island, the SGX sells itself to investors and issuers as an 'ASEAN gateway' bourse.

"The domestic market is small in Singapore, so it has to be augmented by overseas companies wanting to list there," says Loh. "It's seen more as a pan-regional exchange – their value proposition has always been on the flow of financial capital for South East Asia, and it continues to attract overseas companies from around the region to list on it."

IPO and beyond

While external conditions are often critical factors in companies' decisions around when and where to go for that first stock listing, internal issues can also have a strong influence on what is decided. In many of these the corporate treasurer has a very important role to play.

First and foremost the company must be suitable for listing on the exchange of its choice. Suitability for listing is determined by a range of different factors, including legal compliance, commercial conflict and reliance issues. Not only must the business ensure it is in line with every local law and regulation governing its business. It must also be sure to avoid falling foul of conflicts of interest (parties involved in the IPO holding a stake in the company for instance) or over reliance on one or two customers or suppliers. Neglecting to do so might turn off investors or invite fines from regulators.

> "We think companies are holding off for better valuations, especially for the bigger transactions. A lot of the activity is supported by private equity and venture capital, and those companies can afford to wait and ride this volatility out."
>
> Max Loh, ASEAN and Singapore Managing Partner, EY

Ng adds that treasurers and other financial executives will also need to be cognisant of how any acquisitions in the run up to an IPO might influence the outcome. "For any company that is preparing a listing in Hong Kong we would look at its trading record for the last three years before it applied for a listing," she says. "Since any material acquisition, or significant corporate or business changes might have an impact when the regulator considers an application, companies planning an IPO need to be very careful of how they structure such transactions." The work around an IPO does not end once all the above internal issues have been considered, underwriters and sponsors appointed, roadshows conducted and the launch successfully executed. On the contrary, for the treasurer little will remain the same going forward.

"An IPO is a momentous exercise," Loh says, "one that I always compare to getting married." What he means by that, he adds, is that when two people get married, it is indeed a significant milestone but the work does not stop there. "There are a lot of things that the treasurer will need to get in order – processes, systems, controls and governance – that perhaps people do not pay as much attention to at a private company."

And given that investors are, at the end of the day, looking for returns, the spotlight tends to fall upon the treasury department like never before. Companies need to be able to show a solid set of books on an ongoing basis and cash and risk management, therefore, become increasingly important. "This is where the treasury department has a really important role to play," says Loh. "How the treasury manages areas such as liquidity risk, FX risk, and credit pricing risk can give a lot of comfort to investors. Above all they want to know that the company they are investing in has a strong treasury function and is able to sustain itself going forward."

The ABC of treasury

Fulvio Barbuio
Head Corporate Treasury & Risk

Fulvio Barbuio, Head Corporate Treasury & Risk at Australian Broadcasting Corporation, has seen many changes in his 30 plus years working in finance and treasury. The biggest of these being the evolution treasury has undergone since the global financial crisis (GFC). Here, Barbuio outlines his views on this transition and offers his advice on what treasury should focus on to ensure that it maintains its strategic mandate.

The Australian Broadcasting Corporation (ABC) is a state owned public broadcaster that provides television, radio, online and mobile services throughout Australia and overseas. The company was founded in 1932 and today reaches millions of individuals weekly through its various channels.

The corporate workplace has provided an excellent setting for many of the world's best TV shows. Mad Men, for instance, is set in the high-pressure world of a 1970s media agency, while The Office proved a hit comedy with its light-hearted look at the modern workplace. But, there are none that focus on the treasury function.

Yet the profession has a great story to tell, having evolved from finance into a discrete function in its own right. The role has since expanded beyond the back office and into the forefront of the business, seeing treasurers around the world become trusted and strategic advisors to the board.

Having played a key role and also been a keen observer of this evolution, Fulvio Barbuio, Head Corporate Treasury & Risk at Australian Broadcasting Corporation (ABC), has seen plenty of change in his time working in the profession. And he is of the view that there is still more that treasury can, and may have to do, in order to ensure it maintains and expands its strategic mandate.

Making an impact

It was this opportunity to be more strategic and add value to the business which first attracted Barbuio to the treasury

profession – although fate certainly helped push him in this direction as well. "My first role after graduation was as a financial accountant," he explains. "By chance they needed somebody to undertake treasury duties as well. The role also required me to report on Australian economic, corporate and political matters for the head office. So together that gave me a broader view and appreciation of corporate activity beyond that of a traditional accounting job."

With this solid foundation in place, Barbuio then looked to obtain a wealth of experience by working in various corporate finance and treasury roles, as well as trying his hand at planning, business development, strategic planning, and supporting financial pricing in a sales team – or "working at the coal face," as he describes it. His career has also spanned a number of industries, including mining, energy, technology, utilities and media, in both the public and private sector.

"I have had a broad financial career as a result," he says. "But treasury has always been the mainstay. The extensive nature of the role with its internal and external relationships, engagement with fast moving financial markets and having a helicopter view of financial risk and how that can impact business value, have combined for a varied, interesting and satisfying career."

Somewhere on the strategic journey

Whilst the treasury profession had always proved an interesting challenge to Barbuio, it wasn't until the global finance crisis (GFC) of 2008 that the function truly stepped out of the shadows. "The focus on liquidly since the GFC has generally moved treasury a little closer to the 'main tent' given that senior management and the board saw this area as crucial for riding out the financial storm," he says. "This highlighted the need for a sound liquidity management policy and framework to fund business opportunities and growth in the most cost effective, sustainable and financially responsible manner."

More recently, Barbuio has seen the greater volatility in the markets further elevate the risks posed to businesses, requiring an even better management of liquidity and risks for which treasury has played an important role. "In numerous areas, treasurers have had to step up and promote their cause and abilities."

That being said, not all organisations have moved at the same pace and from his position as a member of the board at the Finance and Treasury Association in Australia, Barbuio sees treasuries at different points on the strategic journey.

"The strategic penetration of treasury has certainly not been universal," he says. "And in Australia there remain companies that still view treasury as a back office function." He believes there are numerous reasons for this: "This is typically driven by a mixture of the size of the corporation, its complexity and geographical spread (those with operations offshore may tend to be more strategic), the treasury 'awareness' of senior management and the board and also the attitude and skill of the treasurer to deliver value and sell themselves."

Building trusted relationships

However, for Barbuio, no matter how well develop the treasury is, there are always opportunities to add more value to the organisation. He highlights large-scale transactions, such as M&As, as being a prime example of this. "In situations such as these treasury can put its hand up and act as a financial advisor to the M&A team – thus going above and beyond and offering added-value."

Nonetheless, these transactions are not everyday events and Barbuio stresses that treasurers need to find ways to add visible day-to-day value. "I believe treasury should help the various business units in the organisation achieve their objectives by funding their activities, managing their financial risks and supporting their customers and suppliers."

> "In numerous areas, treasurers have had to step up and promote their cause and abilities."

But, speaking from experience, he understands that this takes time. "To be successful, treasury needs to gain an intimate understanding of the different business units and their pressure points. Only then can treasury begin building solutions to help them be more successful in meeting their aims and objectives."

And at the heart of this lies communication and relationship building. "To be an effective strategic treasury there is a requirement to build strong, respectful and trusting relationships with key business managers," he says. "This shouldn't just be the treasurer's responsibility, but the whole treasury team. This provides multiple touch points with the business and enables problems to be solved with the knowledge and knowhow of treasury." As an example of this, in his own organisation treasury staff are encouraged to work with project managers to help identify FX exposures and how best to handle them be it by way of better contract terms and conditions or through financial market solutions.

Measuring the strategic value of treasury

To guarantee that its work is fully appreciated Barbuio has learnt that treasury needs to ensure senior management and the board are fully aware of the value it is having across the organisation. To do this, Barbuio has looked to quantify this value-add into information that is meaningful for the senior management and the board. This helps avoid talking in the abstract and gives senior management and the board something tangible by which to measure the value treasury is adding. But, he issues caution in respect to what metrics treasurers use.

"Treasury should be benchmarking itself on a regular basis by using traditional metrics and comparing its performance against external benchmarks or internal targets for funding costs, investment returns or risk mitigation," he says. "This can be done within themes, which is my approach, such as, liquidity, investments, funding, financial risk management, operational risk and adherence to treasury policies.

"Treasury can also attest to the efficient and controlled running of its operations through treasury specific metrics around throughputs and the application of appropriate controls. This is again something that myself and my colleagues in our shared services centre do regularly," he adds.

But from Barbuio's experience, he has recognised that these areas, while important for treasury, do not typically speak the same language as senior management and the board. Treasury may therefore be better served translating the financial value it has added, or plans to add, into what this means for past and future cash flows. In doing so, treasury will be speaking about the key determinant of enterprise value and the impact its actions are having directly on shareholder value – one of the key concerns for the board.

"The mindset of treasury needs to pivot towards this paradigm and should use the tools and concepts available to it as a means of delivering enterprise or strategic value," he says. "Of course some of the activities of treasury will have more direct cash flow effects than others. I have learnt that it is up to the treasurer to skilfully draw these less obvious linkages for senior management and the board to appreciate."

Evolving external relationships

The evolving role of the corporate treasury has, in Barbuio's opinion, forced the entire ecosystem around treasury to change also – in particular the banks. "As treasurers have become more involved in assisting business operations in areas once not universally in their privy, such as shared services and working capital management, banks have had to react to this and provide more related services and solutions than in the past," he says.

As a result, he has seen the need for banks to continuously step up their liquidity and cash management services. "The relationships have morphed towards more partnerships on an operational level in which the parties are more intertwined," he says. "For me it's about banks delivering the core services I need at a competitive price and then for them to know my business and put forward options and opportunities to help me solve business problems. The challenge for banks is in keeping pace with the demand and change and not ceding this to the growing fintech sector."

Yet, for Barbuio, the responsibility to maintain this relationship doesn't just lie at the feet of the banks; it is a two-way street. "I look for my treasury operation to maintain an excellent profile and relationships with all our core banking panel," he says. "There is a need for treasury to deliver a share of wallet that allows these banks to fairly participate in our business while maintaining that competitive tension."

Technology providing a strategic advantage

As well as leveraging banks as strategic partners, Barbuio and many of his peers in Australia have also invested in cutting edge treasury technology to further help them on the strategic journey. He has seen this enable treasuries to transition from focusing on repetitive, mundane and voluminous work to more analytical, strategic, partnering activities higher up the value chain. "Technology will both facilitate efficiencies and improve the quality, accuracy and value derived from core activities and data, while at the same time allowing for higher value-adding initiatives to claim some of the resources and limelight. This will, in my view, add to the vibrancy, status and satisfaction of the treasury profession."

But technology can only go so far and, to become truly strategic, a treasury must invest in its people. "The application of strategic value add, while assisted by technology requires smart, business attuned, treasury skilled and confident people to create and sustain the business relationships needed to be seen as business partners and problem solvers," he says.

Even the technology itself, in his view, requires the human touch. "While technology may be an enabler to becoming more strategic in focus, there are perennial issues which treasury faces around getting the core settings right, such as achieving visibility over cash flows and exposure forecasts from the business," notes Barbuio. In his view, these again show the need for relationships between treasury and the business – without it technology may not be as effective as it should be.

In fact, good soft skills are often required to ensure that treasury even gets the technology that it needs. This is particularly true today with innovation being made across the broad spectrum of business operations seeing different functions competing for resources. "In my experience, to win resources treasury needs to ensure that it understands the strategic context it operates in and identifies the value that it can bring to this strategic context," he says. "It goes without saying that it should also focus on flawless execution of mandatory treasury activities. These are the key components to having a shot at securing the resources needed to play a leading role in the organisation."

Strategic aspirations

And for those looking to build a successful career in the profession he has some sound words of advice. "First it is vital to ensure you have the core financial and treasury knowledge and to attain some professional financial and treasury qualifications," he says. "These signify a level of expertise and experience that sets these specialised financial professionals apart from generalists practicing in treasury and while not universally mandated should be keenly sought after by CFOs."

Joining a treasury group is also another way to ensure that professionals get access to further specialist knowledge through training and networking. In doing so, it may be possible to obtain a mentor which Barbuio believes can be a key ingredient in forging a successful career.

The final attribute that Barbuio believes is needed from a 21st century treasurer is to have spent some working in an operational role. "This may be as a financial advisor or business advisor," he explains. "But the key point is to get that coal face experience and this will help in relationship building and developing commercial acumen. I encourage my staff in this respect and ask them to take the lead in communications with the business to ensure they create strong and trusting relationships so that they get the information they need at the level of quality that they require," he says.

"If you do these things it will help you achieve the goal of not only becoming a treasurer but a strategic treasurer," he concludes.

The opinions of the author are his own and do not represent those of the Australian Broadcasting Corporation.

Defying gravity: financing growth strategies in a declining market

A strategic approach to financing growth is essential in today's fiercely competitive global environment. What strategies are most successful for scaling up when the markets are falling?

When economic growth stalls, businesses must react quickly or face an uncertain future. Whilst in many cases Asian economies are still exhibiting growth levels that their European counterparts can only dream of right now, the slowdown in growth is palpable.

China's headline growth rates in recent years have often been in excess of 8% (they even scaled above 14% in 2007 following on from the all-time high of 15.40% in Q1 1993). Whilst its economy grew by an annual 6.7% in Q1 2016, compared to 6.8% in the previous period, this is still the weakest growth it has shown since Q1 2009. Indonesia's GDP grew by 4.79% in 2015 but although this was slightly above expectations, it too marks the country's slowest growth since 2009. Likewise, Vietnam's economy expanded 5.46% year-on-year in the three months to March 2016, but this is slowing from the 7% growth seen in the previous period.

This story continues across many other countries in the region and the apparent slow reversal of growth expectation is enough to worry the markets. This creates a knock-on effect that only serves to exacerbate the commercial gloom. For the treasurer, the time is now to make some strategic changes and, for the wise incumbent, these changes should not only cushion the effects of slowing revenues and trade flows now but also act as a buffer for future market fluctuations.

Taking a new approach

Where companies got rather used to the high-growth environment, many allowed this to drive their corporate structure, with strong growth funding the business and the pressure on delivering operating efficiencies somewhat lower. Moreover, given the benign interest rate environment, most corporates took on more debt not only to fund higher growth but also to meet other strategic priorities including acquisitions, share buybacks and dividends. As growth stagnates, the expenses of running the business may no longer be in proportion with actual growth, explains Vishal Kapoor, Asia Pacific Trade Head, Treasury and Trade Solutions, at Citi. He urges businesses to acknowledge that it is unlikely that their 'good-times' structure, including potentially high debt levels, can be sustained as growth slows. Kapoor also advises that preserving debt capacity – which is curtailed in a weak growth environment – and finding alternate ways of improving cash flows becomes paramount in order to maintain the company's overall financial flexibility.

However, he warns that the necessary response to a slowing of growth may not always be one that can be enacted at the press of a button. A company in the middle of a capital expenditure project, for example, will not easily be able to stop or reverse plans which were commenced during the economic heyday. Because operating costs are not generally driven by the same economic principles as sales growth, Kapoor observes that key metrics such as EBITDA may start to drop rapidly at the hands of the lag that exists between the implementation of improving measures, and those measures taking effect. Furthermore, where a high-growth environment has been assumed, support of the cash cycle has perhaps seen less of a focus – but as the outlook weakens and the top line becomes more volatile, pressure to revisit the working capital cycle increases.

Mutual support network

As the realisation hits home that growth is slowing, Kapoor strongly advises companies to embark on a strategic review of processes and operations, with the aim of re-aligning their business models to cater to the new normal. With cash flow falling away and reliance on cheap debt no longer sustainable, the need is to find new ways to rebuild and sustain growth, he says. The first major constituent of this undertaking is to eke out improvements in operating efficiency, looking at the entire working capital cycle. The second is to find new models of growth stimulation which, he suggests, may not come via traditional methods but instead be derived from the support of the company's clients.

A fundamental change is proposed here: treasurers need to work a lot closer with the sales function and vice versa. The two are seemingly at the mercy of conflicting purposes: finance managers may feel that the issue of timely payment is never given enough importance in client discussions, whilst conversely sales managers may argue that credit constraints adversely impact relationships with clients – and seemingly never the twain shall meet. However, Kapoor believes and stresses that closer alignment between these two functions is possible and indeed beneficial. Treasury even has an opportunity to intermediate between sales colleagues and external banking partners, with treasury positioning itself as the means of facilitating revenue growth.

As an example of how this co-operation might be made concrete, Kapoor cites the formation within some forward-thinking companies of hybrid 'sales finance' teams, motivated to steer working capital and revenue issues in a new and positive direction.

Ideas in action

The customer benefit with such a setup may manifest directly through the in-house financing of purchases. However, suppliers could also exploit internal sales/finance collaboration by offering longer terms to customers, mitigating the risk of those terms by selling the receivables to its bank. By working in partnership with the finance team, Kapoor explains that the sales function can extend terms of payment without damaging cash flow. Companies can look to deploy these terms in conjunction with or in lieu of 'other' volume or price discounts to drive higher sales from its buyers. Such a move incentivises the buyer to purchase more as it reduces its working capital and also positively impacts its return on capital.

With the trend of extending terms taking place across most industry segments, Kapoor also notes that many industrial companies are purchasing high-value goods and services and pushing out payments for as long as 24 to 36 months. Corporates wishing to sell into this environment clearly face a dilemma. The desire – and even the policy conditions – that would allow a company to take such a risk would be unlikely in a buoyant market. As revenues begin to slip, the company has to decide whether to forgo that sales opportunity or find a way to mitigate the risk.

In order to mitigate the risk, Kapoor says that depending on the credit worthiness of the buyer, various forms of payment and credit enhancements can be considered – for example through purchase of credit insurance or asking the buyer to make payment under a letter of credit (LC) or even through the provision of a stand by LC. As a result the company is able to mitigate tenor extension risk and make the structure more bankable thereby allowing it to seek financing and actively manage its cash flows. There are, he further notes, a number of examples of industrial corporates successfully adopting this approach including for medium to large value sales.

For smaller-value trades such as in FMCG, although currently experiencing less of a sales slow-down, Kapoor says growth can be sustained and even increased through portfolio financing solutions. Here, for example, a large corporate supplier can partner with a bank to sell receivables due from a large number of buyers on a programmed basis. Such solutions typically benefit from either a credit wrap, provided by a large insurer that covers commercial and political risks related to the buyers, or some sort of credit risk sharing arrangement between the corporate and the bank.

However it is achieved, the onus to seek out models of growth enablement is clearly about partnership, says Kapoor. The needs of all internal parties must be identified but it is also important for the bank to engage with its client on the business side, not just on the finance side, "to better understand how best to facilitate that growth".

Partnering for success

It is apparent that the slowing down of growth has seen the increased collaboration of two sides that historically have not always been quite so communicative. With the banking community having also stepped up its involvement in both corporate finance and business matters, it has been necessary for banks to ensure all points of contact have the right skills and understanding to meet the advanced (and advancing) needs of clients. "The tools are the same, but it is how we use those tools in the context of growth to solve some of the challenges that our clients face that makes the difference," notes Kapoor. Banks need to "better understand the needs of corporates in this changing environment" for this partnership to yield positive results.

The current climate is such that the intelligent adaptation by a bank of its product portfolio is well-received by corporate clients. But for banks to deliver real value, Kapoor believes lateral thinking about its own products and processes, and its clients' strategies, tactics and policies, should benefit the recipient as part of a sustained, and sustainable, programme of support. "Through good times and bad we continue to assist clients in supporting their business growth and helping to set some new best practices," he comments.

But Kapoor points out that this usually requires a customised approach. As each client's circumstances are unique he says it is "more solution-oriented than product-oriented and we need to find the best fit for the client's need".

Ultimately, all stakeholders – both internal and external – are called upon to react to the demands of a dynamic growth environment, eking out advantage wherever possible. It thus behoves the quick-witted treasurer to collaborate with those other stakeholders to establish what Kapoor calls an "evergreen" response – one that will outlast any short-term buffeting by the markets, providing security long into the future. The root of success in this instance may be a declining market but, as he asserts, "adversity creates opportunity".

Vishal Kapoor

Asia Pacific Trade Head, Treasury and Trade Solutions, Citi

Vishal Kapoor is the Trade Head for Asia based in Hong Kong, working with the Banking Group to expand trade business. Prior to this he was a part of the Leverage Finance and DCM team. He has a Bachelor of Technology from India's National Institute of Technology, and a Master's Degree in Business Management from City University, New York.

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Think like a fintech

Fintech has the promise to completely revolutionise finance. And whilst we are seeing plenty of examples of this in the retail space, in the corporate world, revolutionary change is less forthcoming. That doesn't mean it's not happening though. Here, we explore the impact fintech is having on banks, regulators and corporates and peer into the future to see what finance may look like in the years to come.

Twitter's 140 character limit has not only changed how we communicate and consume information, it has also shown how complex, emotional and important matters can be communicated simply and succinctly, without losing any meaning or importance.

This is arguably the real impact that digitisation has had on our lives. It has brought efficiency and the ability for us to access information, communicate, and act in ways that we perhaps could never have done before. And it is this promise that has driven the rapid pace of technological development in the financial services industry, widely referred to as fintech.

New dynamics

It is important to note that fintech is not a new phenomenon, although it is often reported as such. Individuals and businesses have been able to leverage the technology offered by banks for decades – banks by their very nature are fintech. What is different about the current wave of fintech however, is the pace of change and the sources of innovation. Banks are no longer the only innovators in town.

"The internet and the proliferation of mobile devices has provided the tools for fintech start-ups – sometimes just one person and a laptop – to begin looking to fix some of the problems that exist in the financial services industry," says Antony Eldridge, Financial Services Leader at PwC Singapore. And sometimes these nimble and focused companies can ignite quite dramatic change.

Take the consumer cross-border payments space, for example. This has been a particular area of focus for fintech and has received a substantial proportion of the $19bn invested into fintech start-ups around the world in 2015. As a result of this focus, there are now numerous companies that have developed tools that enable individuals to transfer money across borders, instantly and for little cost. Many of these solutions also utilise mobile wallets which has driven a more dramatic change, extending the reach of financial

services to meet those who would normally fall out of the banks purview.

In doing so, not only have these solutions made finance more democratic, they have also disintermediated the banks in some areas. "Fintech companies big and small are picking off aspects of the banking business, typically the profitable areas," says Eldridge. "And whilst the banks are not being completely disintermediated given the money often flows through them at some point, to the user of the solution it certainly seems like the banks are being bypassed entirely."

Friend or foe?

No bank wants to be losing business of course, especially in profitable areas, so the growth of fintech outside of the bank poses an interesting question – are the current wave of fintech firms a friend or foe to the financial establishment?

"We generally see fintech as a friend," says Morgan McKenney, Head of Core Cash Management for Asia Pacific and Singapore Innovation Lab at Citi. "Collaboration with fintech start-ups is an important strategy for the bank because these companies are able to bring different skills and way of thinking to the table. These companies are incredibly focused on the customer and their pain points and are building solutions to alleviate these, whilst banks in the past arguably have not approached solutioning in this way. We believe this new approach will help us build on our strengths as a bank and help enable us to deliver innovative solutions to our clients."

To provide an example of this collaboration, Citi have recently announced a strategic investment in blockchain-as-a-service firm chain.com. "They are now a strategic partner of the bank and we feel that this company has the skills and expertise that don't already exist within the bank to help us develop and commercialise the blockchain," adds McKenney.

The focus on collaboration is a point echoed by Singapore-based lender DBS, and their Head of Global Transaction Banking, John Laurens. "At DBS, we have had extensive engagement with the fintech community, by both partnering and mentoring." For Laurens, following this strategy will not only ensure the bank is able to utilise the solutions developed by these start-ups, but also continue to drive a change of culture within the bank itself. "Working with these firms is playing an important role in shaping how we think as a bank, how we design our products and the impact that these can have on our clients."

This change in mind-set was also picked up by Citi's McKenney, who identified the threat of disintermediation as being a key motivation behind the change. "The competition offered by fintech has proven to be very important from a leadership point of view and in driving more open-mindedness across the institution," she explains. "Within transaction banking we have spent a lot of time embedding a more innovative culture into the organisation which is very different from the traditional structured bank thinking."

Going it alone

Despite being classified as disruptors, to date many start-ups have had the objective of either being bought by, or partnering with, a bank, according to Steven Tong, Managing Director at Startupbootcamp Fintech Singapore. "The vast majority of fintechs are small start-ups that have little to no reputation and no customers," he says. "This is why it is a myth that fintech is there solely to disintermediate established institutions. They want to partner with these to piggy-back off their reputation in the market and reach their customer base."

Of course, the danger of this approach is that fintech may get lost in the monolithic structure and architecture of a bank and suffocate. And for PwC's Eldridge, this is a real concern and one that may change the thinking of many fintech start-ups, pushing them to look away from banks and offer their solution to other market players – most notably the big technology firms.

At present, Eldridge believes that it is these companies, many of which have already made skirmishes into financial services, which pose the biggest threat to the financial establishment. "The question is not can they replace banks," says Eldridge, "it is do they want to? These companies are very happy to be picking off the profitable areas of financial services but once you become a fully-fledged bank you step into a quagmire of regulation and compliance."

There may need to be a change in approach therefore to ensure banks maintain their position. "Banks are often asking the question what can fintech do for us?" says Eldridge. "But I am increasingly of the belief that banks need to be asking what can we do for the fintechs." In his view, the landscape is changing so quickly and these firms are developing highly sophisticated technology so readily that a situation could exist where banks end up as simply a utility service behind fintech, providing compliance and risk management.

However, it would be fair to say that corporate treasurers probably shouldn't expect to be buying their next cash management solution from a well-known technology firm anytime soon. But looking further in the future, it is not a completely unrealistic scenario to imagine banks playing a diminished, yet important role in the background.

Digital regulators

Back in the present day, perhaps one of the most unique characteristics surrounding the current wave of fintech is its widespread regulatory support. In Asia especially, the regulators have been very vocal in outlining their support for the fintech industry. Hong Kong, for instance, has developed a Fintech Facilitation Office that looks to support the sustainable development of the fintech industry and to keep the public confidence in fintech services and the banking system.

Singapore is another country looking to lead the way with its Smart Financial Centre initiative, led by the Monetary Authority of Singapore (MAS). And this has given the mandate for banks in Singapore to begin ramping up their experimentation with new technology. "Regulatory involvement in the fintech space, particularly in supporting the development of cryptocurrencies and distributed ledger technologies, is critical," says DBS's Laurens. "The MAS has suggested to banks to 'just do it' when it comes to experimentation with new technologies, whilst introducing a 'regulatory sandbox' that offers controlled boundaries for banks to conduct experiments."

In the view of Startupbootcamp's Tong, this liberal regulatory approach is a must for the industry to thrive in the region. "The easiest way to sink the fintech industry is through over regulation," he says. "So it is encouraging to see this liberal regulatory approach that many of the countries in Asia are taking. That being said, there are some regulators in the

region's less developed markets that are still feeling their way around the space and there will inevitably be some countries where fintech fails to take off because of over regulation."

But Tong is also acutely aware that a paradox exists in respect to fintech also needing regulation to thrive. "One of the big challenges that fintech has is its perception," he explains. "One way for companies to gain this reputation is to be regulated, this will put individuals and companies using the technology at ease. It is smart regulation that is needed from the regulators."

And just as fintech may have the potential to revolutionise the financial services industry, it may also, in the view of some, revolutionise regulation. "Today, regulators regulate institutions," says PwC's Aldridge. "But fintech is about products, not institutions, so I believe that regulators need to start thinking about regulating products if they are to keep abreast of all these changes."

In some cases this has already happened, but only after the hand of the regulators was forced. Aldridge offers the example of peer-to-peer (P2P) lending in China. "P2P lending as a product is now regulated in China, but this is only because the market expanded to such a scale where it could no longer be ignored as a product," he says. "So it is about scale of the industry for regulators as well." As a result of this, Aldridge believes the majority of fintech companies fall into a regulatory 'grey zone' and that this could pose a problem going forward.

This 'grey zone' only expands when one considers the cross-border nature of many fintech solutions. "Cooperation between regulators around the world will become increasingly important because of this trend," says Aldridge. "But, this need comes at a time where there is an increasing balkanisation of regulators, so it remains to be seen how this will play out."

How are you impacted?

It is undeniable that the current wave of fintech is impacting the financial industry. And as we have explored, banks, regulators, individuals and SMEs are all seeing some change. But are large corporations and their treasury departments?

At present, it would be fair to say that the impact has been limited when compared to some other areas of finance, a view supported by both anecdotal and quantitative evidence. Of course, corporates are now able to utilise numerous digital offerings from banks and sit in their impressive innovation labs while big data is sliced and analysed to show how trade flows can be better managed, for instance. But the brave new world promised by the explosion of fintech is not here yet for corporate treasury.

A recent study by PwC titled 'Blurred Lines' highlights this, showing that the digitisation of cash and treasury management, whilst being reasonably important for banks and something they are likely to act on, remains less important than other areas which have a more board focus for the banks. Interestingly, it seems that there are also fewer fintech players in the market focusing on treasury and cash management, relative to other areas such as P2P lending, for instance.

For PwC's Eldridge, these results are consistent with his own view. "In transaction banking there has been little major change, apart from maybe in the payments space," he says. "There is a lot of talk at present, especially around the blockchain and this will continue to gain momentum as banks look for cheaper and more efficient ways of doing things. I think blockchain will revolutionise transaction banking in the next ten years – but how remains to be seen."

The fact that corporate treasurers are seeing little tangible change being driven by fintech has divided opinion in the treasury world. Some treasurers that Treasury Today Asia have talked to speak of a future where a technology company can provide fully automated solutions without the need for a bank. Others, meanwhile, dismiss the subject and simply want banks to deliver solutions today that fit their requirements.

"Corporate treasurers typically possess a healthy degree of scepticism when it comes to fintech," says DBS' Laurens. "They want to see practical, value-adding solutions that they can apply to their financial and commercial business processes. They expect banks to be close to and drive innovation in financial technology, and in the process deal with the complexities inherent therein, so they don't need to spend an undue amount of time looking at what's 'under the hood', beyond necessary due diligence."

That being said, interest certainly exists – especially around the more innovative technological developments, like blockchain – and banks such as DBS and Citi are now seeing digital advisory blossom as a function of the bank in its own right. As Citi's McKenney explains: "We are fielding numerous questions from corporates on a daily basis around emerging technologies, the future of payments, what can be done with data and, interestingly, how we as a bank innovate and how treasury can look to embed this into their corporate culture. There are also lots of questions around how businesses might evolve more broadly, because this of course can potentially have a fundamental impact on treasury in the future."

Keep abreast of the change

For any cutting edge treasurer that wants to be at the front of the queue once this technology becomes widely available, it is important to keep abreast of the changes in the space and see what really can make an impact. But how can this be achieved?

For DBS's Laurens, corporates should engage with fintech in the same way as banks do. "Mentoring fintech start-ups has been an enriching experience personally," he says. "It's a great way to contribute to and be part of driving change, whilst learning about new and alternative ways of thinking and approaches to business and proposition development. Involvement with the fintech community also provides opportunities to network and engage with like-minded companies and banks that possess the leadership and aptitude to invest time and money in pushing innovation forward."

This point is echoed by PwC's Eldridge, who recommends that corporate treasurers seek out their local fintech accelerator programmes and attend the demo days to see what is being developed and by whom and how this may be able to help with treasury operations.

But perhaps, for now at least, the best place for a corporate treasurer to look for new and innovative solutions remains their banks. Fintech certainly has lots of promise and its impact is already being felt in numerous areas. Nevertheless, in the corporate treasury space there remains a big question mark over how this story will unfold, both in Asia and globally. One thing is for certain however, change is and will continue to happen. The financial services landscape will look very different in the years to come.

Participants

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Treasury strategy for a modern Asia

Corporates operating in Asia Pacific (APAC) have been faced with many changes and challenges of late. Take, for instance, the numerous regulatory changes taking place across the region's diverse economies, the slowdown in China, or the changing strategies of many international banks.

Whichever way one looks at it, the demands being placed on corporate treasurers have never been greater and new innovative strategies and approaches to treasury management are needed in response. But corporates cannot be alone in this endeavour. To overcome these challenges there is a need to work with best-in-class partners and also operate in an environment that offers the full spectrum of treasury solutions and expertise.

Here, three highly experienced treasury practitioners, the Monetary Authority of Singapore (MAS) and Thomson Reuters, discuss the treasury landscape in Asia and whether a centralised operation based in Singapore might help corporates meet the challenges of both today and tomorrow.

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Let's start by asking the corporates – why have you centralised and why are you based here in Singapore?

Jarno Timmerman, Head of Treasury Asia Pacific, AkzoNobel: There have always been discussions around the centralisation and regionalisation of treasury activities and how processes can be automated centrally using various systems. And there is lots of value to be had by empowering a hub, be it here in Singapore or elsewhere, to support business operations in the region. It has enabled us to develop an

Sanjeev Chatrath

> "What seems to be different now, is that alongside that focus on growth is an equal focus on it being sustainable growth."

in-depth understanding of the difficulties faced in each country across the region.

Sonia Clifton-Bligh, Head of Regional Treasury Centre Asia Pacific, Johnson & Johnson: Whilst Johnson & Johnson's treasury function (J&J) is centralised and primarily run out of Europe, there is huge benefit to us being in APAC and here in Singapore. The country has numerous benefits including its well-developed infrastructure, the talent pool and ability to access experts across all areas of finance. Moreover, there is core business leadership based in Singapore as well. Treasury is very much an advisor to the business so we really do need to be close to the business.

Damian Glendinning, Corporate Treasurer, Lenovo: We have taken a slightly different route in that we are highly centralised and don't operate regional hubs – everything is done out of Singapore with very few exceptions.

Why Singapore? When Lenovo bought IBM's PC division 11 years ago we ended up with a business structure where all of the international flows, and of course in our case international flows means flows outside China, were all going through Singapore. So Singapore was the logical place for treasury to be located.

It continues to be here primarily because we have found that it works very well. There is a deep talent pool and also there is a huge pool of resources in terms of banks, service providers and so on.

Sanjeev Chatrath, Region Head and Managing Director, Asia, Thomson Reuters, Financial & Risk: From a Thomson Reuters perspective, we have been in Singapore for more than 100 years and given its position as a financial hub it is really important for our business to be present here. We have nearly a thousand people based here, as well as operating data centres which again is testimony to the infrastructure in Singapore, and this supports us across the entire region.

So there are various factors that make Singapore an attractive hub. But it seems that treasury also has to be close to the business?

Bernard Wee, Executive Director, Financial Markets Development and Payments & Technology Solutions, Monetary Authority of Singapore (MAS): The treasury function follows the business. And Singapore has traditionally been a regional hub for MNCs doing business across ASEAN. But today, being located in Singapore is not just about being in ASEAN or even selling into ASEAN, it is about selling to emerging economies such as India and China as well and as the business grows, and its regional functions grow, it just makes sense to put that treasury in Singapore to manage FX risk and cash flows.

Chatrath, Thomson Reuters: Adding to what Bernard said, Singapore certainly has a lot to offer. It must be remembered however that for treasury centres it really depends on where the weight in that organisation is. If you have got relatively small business in Asia and are heavily weighted towards US and Europe, maybe London is a good alternative to consider, as opposed to having an outpost sitting in Asia.

Clifton-Bligh, Johnson & Johnson: Yes, I would agree with that, but I think it is not just about what a business is doing today, it is about how it will grow and where this growth will occur. Treasury needs to be close to this growth and help support the business in navigating the various nuanced rules found across the region's markets. And when you take on an advisory role to the business I think that being close to the geographies you are dealing with makes a lot of sense.

Glendinning, Lenovo: I completely agree. Also, I think a lot depends on the business and how it has chosen to organise itself. Empowered regional hubs are great, provided the organisation can sustain the cost that it brings and get a benefit from it.

Obviously, treasury is there to support the business and not the other way round. But technically, you can actually do everything from everywhere. The issue is what additional benefit you get from having people in a certain place rather than another.

What can Singapore do to encourage more corporates to come as well as maintaining its current position?

Wee, MAS: When we look at various surveys, Singapore typically emerges as the number one location for those companies looking to establish a treasury centre in the region. But close behind are Hong Kong and Shanghai.

So how is Singapore looking to maintain its position? If you look at how Asia is developing, you have the large economies of Japan and China. But there are also other huge emerging economies, most notably India and Indonesia. Both these countries have tremendous growth potentially and for businesses the growth potentially comes from being able to do business in these two big economies.

The challenge for Singapore is to maintain access and be conducive to developments in these diverse markets in Asia for those corporates domiciled here. Moreover, we have to understand the difficulties that companies face when doing business in these countries and help treasury centres manage this risk. To do this effectively, treasurers require access to a comprehensive ecosystem of financial services. Essentially, we are positioning Singapore to be a node amongst these diverse markets, be it as an offshore RMB hub, a yen FX risk management centre, or an offshore rupee bond raising venue.

And how are you looking to develop this ecosystem?

Wee, MAS: Singapore is taking a broad view and I am not just speaking about creating an ecosystem of treasury services. Take, for example, insurance. Corporates need access to trade credit insurance, political risk insurance, or even marine hull insurance. These products enable trade, which allows investment to be safeguarded in difficult markets.

There is a good ecosystem of providers of insurance who are able to offer these solutions. But also we are working on developing new solutions for new types of risks. For example, countries in Asia Pacific sit on the Ring of Fire, where roughly 90% of all earthquakes occur. And if you look at the past ten years, there have been numerous incidents that have not only impacted the location of the disasters but also the wider region. One of the things that we are therefore working on is enabling natural catastrophe insurance protection.

But back to the original question on 'how are you protecting Singapore's role as a leading financial centre and as a leading location for treasury centres?' For me we are doing this by not just looking to be a good treasury hub, but by being a centre that offers complete financial solutions for all parts of the business.

Glendinning, Lenovo: You were talking about India and Indonesia. Obviously those are two countries which present a lot of challenges, and one of the challenges is a slight tendency towards protectionism, particularly in the financial services area. So how do you see that one playing out?

Wee, MAS: Protectionism occurs in different ways and this is occurring across the region. If you look at Singapore however and its network of trade agreements, we have 21 free trade agreements, and the ASEAN Economic Committee is only something that you can only participate in if you are in ASEAN.

In addition, we strike strategic partnerships with our neighbours. We have a comprehensive economic cooperation agreement with India which is highly favourable. So whilst some markets

> “When I look at which of the countries give me the most concern from a regulatory point of view, it's not Asia. It's not the emerging markets. It's the United States and it's Europe, where frankly there's a complete avalanche of regulations.”

Lenovo

Damian Glendinning

Sonia Clifton-Bligh

> Treasury needs to be close to growth and help support the business in navigating the various nuanced rules found across the region's markets. And when you take on an advisory role to the business I think that being close to the geographies you are dealing with makes a lot of sense.

are turning inwards, we are working very hard to build bilateral access channels for all companies that are operating in Singapore.

Are these new challenges or more of the same?

Chatrath, Thomson Reuters: What seems to be different now, is that alongside that focus on growth is an equal focus on it being sustainable growth. I think that sustainability is becoming critical especially in terms of risk and compliance.

The second thing is the quantum of volatility in the markets. It has been fairly unprecedented if you think across every asset class. That poses its own set of challenges to many of the treasurers.

A third challenge that jumps up is the point Bernard made around risk management. A number of risks that most of the companies are exposed to – whether it is operational risk, FX risk or regulatory risk – tend to be very high. A lot of these risks are perhaps even extraterritorial. The quantum of the regulatory network and the implication of that tends to be far reaching.

And the last change is the advent of new technology, which has forced a lot of companies to actually look at offshore centres but it means that data is actually being stored outside of a particular jurisdiction. This means cyber security is becoming a bigger concern. Your need to stay agile is very high. But how do you do that if you don't have a treasury or a finance person on the ground?

Timmerman, AkzoNobel: What you also see happening is that because the technology is there and you can do everything from everywhere, everything also needs to happen faster. But, when everything is automated and real-time, it creates additional risk and increased volatility.

Further complexity is added because in Asia regulation means that we cannot optimally use the technology at our disposal. For instance, we have our electronic trading platforms integrated into our daily operations, but sometimes it is very difficult to apply that in different countries. Not technically, but because you still need to have the discussion with the regulator.

So it all needs to happen today. Complexity and uncertainty and the fact that it all needs to go quicker adds to the volatility already in the market. And that is the biggest struggle I see today for us as a regional centre: how do we manage that?

Clifton-Bligh, Johnson & Johnson: I think there is a lot of risk. We have core policies and globally we'll manage those policies but you have to balance that with the agility that's often warranted in markets where you do have to move a lot faster. The balance is the biggest challenge and that's where you need the expertise in the market. And the closer you are to the market, the deeper that expertise.

Timmerman, AkzoNobel: And often it is not only the in-country regulations. The bank says you need to complete EMIR documentation which is coming all the way from Europe or Dodd-Frank coming from the US. How on earth am I going to explain to a local controller what EMIR is about?

Chatrath, Thomson Reuters: That's a great point. Last year we tracked about 600 different regulators around the world and there were 50,000 regulatory changes just in 2015. That is 150 regulatory changes every single day. Now perhaps the vast majority of those don't directly impact a particular corporate, but they might impact your financial institutions that you do business with, and hence in turn it impacts you because their view of you is going to evolve. It is not static.

Glendinning, Lenovo: You raise a very good point. When I look at which of the countries give me the most concern from a regulatory point of view, it's not Asia. It's not the emerging markets. It's the United States and it's Europe, where frankly there's a complete avalanche of regulations. And you can be regulated and in compliance with one and not with the other.

We are beginning to see the same thing here in Asia however. For example, when it comes to trying to manage FX risk, one of the most important tools in the international treasurer's toolkit is the offshore NDF (non-deliverable forward) market, particularly if you're dealing with a regulated currency. Yet, a lot of the rules around derivatives have had a negative impact on liquidity in these markets and therefore a negative impact on pricing, at least from the corporates' point of view. The regulations which are designed to protect the system are in fact increasing the cost of risk management and making it much more difficult to do it.

Can I ask you, Bernard, to respond on these regulatory points? Does over-regulation worry you?

Wee, MAS: No. When it comes to regulation, it is about striking a good balance between meeting international standards, being a responsible international financial centre to avoid regulatory arbitrage and yet catering to our own market characteristics.

It is also about keeping regulation flexible enough so that business can continue to operate. We are a small country with a strong financial centre and we do what we can to keep regulation sensible for companies. When you look at, say, setting thresholds for companies to clear derivative transactions like interest rate swaps, I think you have to be very sensible about what sizes of companies you really want to include.

And while there is an international trend in the years since the financial crisis, towards more transparency, more reporting, and more regulation, we have to also strike a balance to the value add of the increased transparency and use of these reported information.

Glendinning, Lenovo: You have also got the Volcker Rule which means that in the past they could warehouse the risk and now they can't.

Wee, MAS: Exactly. And many of these things are really outside of our control. So what can we do within our control to provide alternate solutions to companies to manage FX risk. As an example, we have worked with the exchange to launch a suite of Asian currency futures as a transparent and well-regulated alternative for risk management. The suite is not all comprehensive yet but we are building it up.

What else is on the corporate wish list?

Timmerman, AkzoNobel: For me, there are two things on the wish list. Fintech and the ability to access even more cutting edge technology is one.

The other is that there has been lots of work done to develop ASEAN as an economic community that includes initiatives around the standardisation of bilateral activity when it comes to trade. But it still remains a very difficult environment and the countries and their currencies remain individual and it is not unified region.

Given Singapore's position as a financial centre for ASEAN and Asia more broadly we would like to see it play a driving role to ensure that there can at least be the free flow of capital within ASEAN, this would help a lot. Then if the financial flow and invoicing goes through Singapore this will allows us to fine tune the FX flows, which permits us to lead and lag internally when it comes to working capital flows.

Chatrath, Thomson Reuters: I see a lot of interest around KYC. The cost of compliance at the end of the day is borne by the corporate treasurer either directly or indirectly. There is clearly a lot of demand and a desire to move to a utility-like model, such as Thomson Reuters' Org ID solution. I am also seeing a lot of those tools around KYC being deployed around supply chain and counterparty management. We've seen a huge amount of interest around solutions for due diligence

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Bernard Wee

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within supply chain. How do you know you are doing business with people who are who they say they are?

Thirdly with the rise of fintech, a lot of focus is around payments. Clearly there is an opportunity for disruption in that particular space but this will take time to develop.

Glendinning, Lenovo: That is a good point. You can now do transactions with a number of non-bank providers who often have much better technology than the banks. These companies are often not regulated and that can be a blessing, a plus as well as a minus.

Bernard, what else is Singapore doing to respond to these ideas and maintain its position as an attractive treasury hub for corporates?

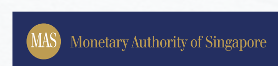
Wee, MAS: The key area is documentary trade: we talk about invoicing through Singapore. The next generation national trade platform aims to on board the financial institutions (FI) as well. FIs need to be able to see to all the documents from the freight forwarder. If your bank can streamline its collection of documents through a single portal, it really enables the bank to provide more streamlined services to companies, to treasurers, without having to collect paper documents. And as you are able to digitise more invoices, you are actually also able to create a marketplace for invoice financing.

We are also enabling banks to recycle their balance sheets so those invoices that have already been financed can be accrued in alternative capital from non-banks and banks which are not currently participating in trade financing, to securitise those invoices they already finance. That is how we see the national trade platform, building out over the next three to five years.

The final area is around payments. Faster payments are an important development in ASEAN. Singapore has built the real-time 24/7 faster payments platform. We know that Thailand and Malaysia are building their own faster payments platforms. If you can make real-time payments around the clock in each market in local currency that enables interoperability between faster payments in different markets.

A competitive advantage

Singapore has recently announced a number of enhancements to its Finance & Treasury Centre (FTC) scheme. The original FTC scheme was set to lapse earlier this year, this has now been extended for a further five years. Moreover, the concessionary rate, which previously sat at 10%, has now been reduced to 8%. Bernard Wee, Executive Director, Financial Markets Development and Payments & Technology Solutions, Monetary Authority of Singapore (MAS) says: "The extension and enhancement of the FTC scheme demonstrates Singapore's commitment to offering a business-friendly environment for regional and international companies to expand their business and footprint in Asia. In doing so, we reaffirm Singapore's role as the leading global treasury centre in the Asia Pacific, and we welcome companies from the region and beyond to be part of our story."



A smooth flow

An accurate cash flow forecast is a must for every treasury organisation. In fact, it is the fundamental piece of information on which all treasury decision making is based, and an inaccurate forecast can (and probably will) have a detrimental impact on treasury and business performance. Nevertheless, corporates around the world frequently cite cash flow forecasting, and achieving sufficient visibility over their cash more broadly, as being a key challenge.

For many organisations, the inadequacies around cash flow forecasting were brought to the fore in the wake of the global financial crisis (GFC). At this time, corporate boards turned, in the midst of the market chaos, to their finance function to find out how much cash they had and their exposures. Unfortunately, many treasury and finance functions simply could not deliver this information quickly and accurately.

Since then, the focus on liquidity management has grown as corporates in the region have looked to effectively manage the significant cash piles that were built up in the aftermath of the crisis. In more recent years, the economic uncertainly, evolving regulatory landscape and the growing scale and complexity of businesses across the region has made achieving an accurate and timely cash flow forecast a mainstay at the top of the treasurer's priority list.

Where is my cash?

"Achieving an accurate cash flow forecast is the Holy Grail," says Jeffrey Ngui, Head of Regional Sales, Cash Management, BNP Paribas. "But attaining this remains elusive for many of the region's corporates." At a fundamental level, this is because simply gaining visibility over cash on hand can be challenging – let alone predicting future cash flow.

There is a good reason for this. "Banking in Asia Pacific (APAC) is more fragmented – due to disparate infrastructures and regulatory environment – when compared to the US and Europe," adds Ngui. "Banks like ourselves have invested to ensure that we are able to utilise all the data we have for the benefit of our clients'. For instance, we can provide information around our clients account balances across the world, in real-time and through a single channel which is flexible to match their technological capabilities."

But this isn't the case with all financial institutions. And whilst corporates may be able to obtain real-time visibility from the global and regional banks, this is not often possible when dealing with the smaller, less technologically advanced local banks – some of which do not offer basic tools such as an online banking platform or SWIFT connectivity.

In fact, the Cashfac Operational Cash Index, which recently surveyed corporate treasurers in APAC, supports this comment, as almost two-thirds of the corporates interviewed were unable to view their cash positions in real-time. "Of those who said they have a real time consolidated view of their cash, only an average of 54.8% said that all of their cash was visible in real-time," says Alastair McGill, Managing Director, Global Business at Cashfac. "This leaves the rest of the cash to be consolidated manually in order to achieve a complete view of cash positions."

Echoing Ngui's comments, McGill highlights that the main reason for this is that the "number of transactional service relationships represents a complex management challenge for treasury functions." That being said even those corporates with less complex banking arrangements – like those in Malaysia, who on average only use three banks, also struggle – and in the case of Malaysia have less visibility than their peers in Singapore and Hong Kong.

Seeing clear

To overcome this challenge, some corporates have looked to centralise their treasury activities, pooling cash into core operational accounts where possible and in some cases establishing in-house bank and on-behalf-of structures.

Cashfac's McGill also outlines virtual accounts, or to be more accurate, virtual bank technology platforms, as being a potential solution to this challenge. "Virtual accounts have historically been one mechanism that corporates have used to inject accuracy and timeliness into their cash management processes," he explains. "Today, virtual accounts have been surpassed by broader and more complete virtual bank technology platforms which harness advances in workflow, integration, matching, analytics and real-time reporting via functionally rich virtual accounts to provide greater flexibility, customer self-service."

In this set-up, expectations of payments and receipts can be pre-populated against individual accounts so when money movements occur they are automatically reconciled against the expectations and an accurate real-time view maintained. This can also be connected to multiple banks through various channels to again enhance visibility and accuracy around cash flow forecasting – albeit around a limited scope of data fields.

Communicating the importance of cash flow

Yet, with these solutions still not widely used, corporates continue to have a lack of visibility over their current cash positions. As a result, treasurers are already at a disadvantage when it comes to creating an accurate future prediction of future cash flow. Unfortunately, the task doesn't get any easier and as many treasurers can attest to, obtaining the required information for predicting future cash flow can be even more challenging than getting visibility over current cash. The key to this being that the necessary information resides in

other business units and, all too often, these functions sit in siloes where communication with treasury is minimal.

This is a challenge that Russell Phillips, Head of Treasury, Asia Pacific at British American Tobacco (who outlines how his treasury has created a robust cash flow forecasting process see page 34) knows only too well. "There are many moving parts and stakeholders involved in the process – and it becomes more complex the larger and more diverse the business," he says. "Also, many of these stakeholders in the individual business units do not see delivering a direct cash flow forecast as a key competency and deliverable in their role." And if inaccurate or incomplete information is provided then this will lead to inaccurate forecasts and a subsequent incorrect assessment of cash needs by treasury. This can be a major risk for the entire company.

There is a requirement from the treasurer therefore, to make sure that the business units understand what the treasury is asking for and why it is so important that it is done correctly. "Education and clear communication is vital in achieving this," explains Phillips. "Treasury needs to go out into the end market and ensure that they are very clear about what treasury is asking them to do. A benefit case will also have to be presented because without it you won't change behaviour." Phillips also highlights that senior management buy-in can also be key in changing behaviour across the organisation.

The role of technology

Whilst it is important that treasury communicate the significance of cash flow forecasting to the business, this is only one step on the way to improving the accuracy of the forecast. Once the information is received from the business units it needs to be consolidated. This, historically, has been a highly manual and cumbersome task which ultimately leads to errors.

"Cash flow forecasting, for the time being at least, still requires some manual work given that data collection involves multiple stakeholders – even with best-in-class systems," explains BNP Paribas' Ngui. "But, technology can add efficiency to the process." He outlines that corporates can use their TMS or ERP system to improve the cash flow forecasting process. "Work for the treasurer will be greatly reduced if data input can be automated," he adds. "The analysis, modelling and continuous management of the process becomes more effective as a result."

Even if a company has constraints in technology investments, Ngui believes a well-constructed, well-defined and well-managed spreadsheet can still be an effective tool for treasurers to manage the information. "This data can then be uploaded into a TMS or ERP system which can automate the consolidation process and check this against the data that already sits in the system to eliminate errors and flag up anomalies," he adds. "The analysis, modelling and continuous management of the process becomes much easier as a result."

However, most corporates in the region still rely on spreadsheets as the sole tool to compile their cash flow forecasting and have very little automation. A recent study on FX by Deloitte highlighted this fact. "Thirty-five percent of corporates in the region didn't use a TMS to manage their FX," says Koh. For those that did, the vast majority focused on the operational elements and very few invested in technology to capture exposures. "Corporates need to reconsider this focus and spend another dollar to more effectively forecast and capture exposure," adds Benny Koh, Managing Director – Treasury Advisor at Deloitte.

> Cash flow forecasting, for the time being at least, still requires some manual work given that data collection involves multiple stakeholders – even with best-in-class systems.
>
> Jeffrey Ngui, Head of Regional Sales, Cash Management, BNP Paribas

Guessing games

When the complexity around gaining visibility over cash is combined with the difficulty in receiving accurate and timely information and added to the burden of consolidating this, cash flow forecasting turns into somewhat of an (educated) guessing game.

"As it stands, many treasurers are faced with a poor set of numbers that they can't operate effectively on," says Koh. "Treasury, by its very nature, is a risk aware business and as a result, it is typical for it to use conservative estimates around cash in hand and utilise buffers around predicted cash flow." And this can come at a cost. "A treasurer may not invest all its cash on hand, leaving idle pools sitting in low-interest bearing accounts around the world," he explains. "Alternatively, they may invest too much and then have to draw on credit lines and incur interest charges. Consequently, treasury is left with a forecast that lacks clarity and contains numbers that cannot be trusted."

Whilst, on an individual basis, these may be minor costs, sizeable and unexpected losses may also occur as a result of inaccurate cash flow forecasting. Take large FX hedging contacts, for instance. If the forecast is significantly wrong, treasury may be hedging a position that does not exist. This will expose the business to trading and open positions that are not backed up by real business flows.

Of course, achieving 100% accuracy in a forecast, especially for the longer-term view, is probably unrealistic. But that being said, it is clear that treasurers need to do more to increase accuracy and they need support from their banking partners, technology providers and the business units to do this.

Nevertheless, as British American Tobacco's Phillips outlines on the previous page, with a mixture of internal endeavour when communicating with business units and the smart, yet not always complex use of technology, corporates are able to achieve high degrees of accuracy over their cash flow forecast.

Best practice cash flow forecasting: The British American Tobacco way

Here, Russell Phillips, Head of Treasury, Asia Pacific at British American Tobacco (BAT), outlines how his treasury have been able to tackle the discussed challenges and achieve greater accuracy over its cash flow forecast.

When the global financial crisis hit in 2008, BAT was one of many companies that found their cash flow forecast, and the process that supported it, was not good enough to deliver the information required in a timely fashion. Back then, data had to be pulled from numerous sources, all of which used different Excel templates. This was then manually consolidated before being presented to senior management.

A solid process

After 2008, BAT were given the mandate to deliver a more accurate and timely forecast. The treasury set about developing a robust process that would deliver a medium-term (18 month) monthly multi-currency forecast and a short-term (one month) daily forecast. "The short-term forecast is for daily cash management purposes, and all companies will need this," he says. "The medium-term is for forecasting our funding needs and supporting our FX risk management."

With the objectives clear, and standardised forecast templates created, treasury then had to tackle the challenge of conveying the importance of an accurate cash flow forecast to the business units. "Education, communication and achieving management buy-in is critical at this stage," say Phillips. "Those providing the reports need to be very clear about what you are asking them to do and they also have to see the benefit for putting in the extra work."

When doing such a project it can be easy to get quick wins. But, as Phillips points out, it can be just as easy for business units to slip back into bad habits. To limit the risk of this happening the treasury implemented a feedback loop to ensure that standards are maintained and to continuously drive for improvement. "It is vital to transform the perception of cash flow forecasting (CFF) and make it a key deliverable for the business units," adds Phillips. "The aim is to create a cash conscious culture in the business."

Treasury must not to be dogmatic in its approach. This was a key learning for BAT who initially set out to achieve 95% accuracy over its one month forecast. "Very few business units were able to achieve this despite the work they were putting in," he explains. Not only was this discouraging, it also caused some unintended consequences, such as payments being delayed in order to hit the forecast target. As a result of these factors, BAT reduced the accuracy target to 85%. "We concluded that for what we wanted to achieve, the difference between 95% and 85% accuracy was an acceptable trade off versus the extra effort and resources required to get there."

The technology factor

Once the information has been received it has to be consolidated and transformed into actionable intelligence. And Phillips is keen to highlight that complex technology is not always needed to do this.

"Initially we used a basic consolidation tool to complete our CFF," he explains. "And we were able to achieve numerous value add benefits." Phillips explains that on the FX side the treasury was able to copy and paste the information into an Excel model which calculated the data and suggested what hedges should be used in accordance with target hedge ratios within BAT's FX policy. In more recent years BAT have migrated its CFF to SAP. "We have been able to take the standardisation and automation of our CFF to the next level as a result," explains Phillips. "Our short-term forecast has been fully automated, whilst the medium-term forecast is now consolidated in SAP. We are then able to execute hedges using an online dealing platform which is integrated with SAP."

Central benefits

The benefits of this project for BAT were multiple. Primarily the treasury was able to use the forecast for more effective decision making. "More confidence in the forecast allows the treasury to make bolder decisions in terms of group financing, for instance issuing less debt can lead to substantial interest savings," says Phillips. "We can also be confident that we are reducing volatility by hedging currency exposures."

In addition to this, the ability to create an accurate cash flow forecast allows the treasury to make a more fundamental change. "Treasury has been leading the way centralising and standardising over the past decade, and now the rest of the finance function is also aggressively standardising," he says. "This has included leveraging financial shared services to do the transactional activity, allowing the business units to focus on their core function. We now have a centralised treasury shared service centre based in Bucharest. Without the accurate and automated cash flow forecast giving visibility to the centre, we would not have been able to achieve this organisational structure."

Plunging into the cash pool

Multicurrency liquidity management in a volatile economic environment is a challenge but tools are available to help mitigate risk, lower costs and maximise efficiency. Treasury Today Asia goes back to basics with the notions of pooling and sweeping.

If there was just one single currency for international trade, life would be so much easier. Instead there are around 167 official national currencies recognised as legal tender. Of course, in global trade many of these are little used, if at all. But even amongst the world's core currencies, for an international business, having the funds available to meet all commitments in the right place, at the right time and in the right currency can be a challenge, especially considering the trade-off between maintaining readily available cash and the costs of maintaining this asset.

In order to optimise the corporate cash structure, affording a stronger degree of visibility and control, the practical response to this essential balancing act commonly boils down to the use of a cross-border cash pooling structure. This may include a number of options around the concepts of physical pooling (also known as cash concentration) and notional pooling (sometimes referred to as virtual pooling).

Physical pooling sweeps funds into a central and (preferably) tax-efficient location. A notional pool calculates interest on the combined credit and debit balances of accounts but there is no physical transfer of funds between accounts. Combinations may be used and a multi-banking corporate may choose an overlay provider (based perhaps on convenience, footprint or share of wallet).

From the outset it should be understood that some forms of pooling or automated sweeping are not permitted in certain jurisdictions.

Overlay structure

An overlay cash pool is the top layer of a cash pooling structure in which liquidity is concentrated. It provides a mechanism to enable the physical concentration of cash across borders to a central liquidity pool. Liquidity and interest can be offset through this top layer, which operates as an umbrella-type structure above a network of underlying regional and local accounts or account pools, which can be with the same bank as the overlay pool or with different, local banks. The aim is to have one top-layer per group and then under this have a network of other structures. This allows the treasurer to connect to any other accounts in the structure below, more or less anywhere.

Cross-border cash pooling

A cross-border cash pool is a cash management structure that allows a business to concentrate the cash it holds in different countries, across separate bank accounts, in one location. This technique provides corporates with an effective way of interest optimisation and improved liquidity management. Excess cash from one subsidiary can be moved (swept) to offset debit balances in another. Periodic sweeping to a central account typically uses a 'zero balance account (ZBA)' approach where the account is completely emptied (see below for alternatives). Physical transfers of cash are treated as intercompany lending for tax and regulatory purposes.

Pooling per legal entity

When a subsidiary maintains multiple bank accounts in different currencies and countries, pooling the bank balances in each country on a legal entity basis can offer benefits to the group treasury. Cross-border sweeps are delivered to a pool in one country – concentrating all the subsidiary's cash into a single position and providing visibility and control over all accounts.

Pooling per country

If the decision is made to set up pooling per country, each pool will see the various subsidiaries' bank account balances swept to a master account in each country. These master account balances are then swept cross-border into a central pool in the main country of operation. Depending on factors such as the scope of operations and type of business, the corporate will have to weigh up the benefits of potential locations, as well as carrying out a thorough evaluation of the tax and legal issues that may exist in each.

There are a variety of ways in which a cross-border sweeping arrangement can be set up:

- **Cross-border sweeping by legal entity**

  Automatic sweeps from the subsidiaries' bank accounts in the different country branches of the concentration bank go directly to the master account at the central pooling location. Should the subsidiary have multiple bank accounts in the same country, the balances need to be consolidated or netted to one account to limit the cross-border sweeps to one per country. If a corporate uses cross-border sweep by legal entity, it needs to be aware of the tax issues that can arise from cross-border inter-company loans being created between the master account holder and the operating companies.

- **Cross-border sweeping with initial domestic sweep**

  If the corporate has a number of subsidiaries in each participating country, a two-step process can reduce the number of cross-border transfers involved in the sweeping arrangement. In this case, the master account holder would open a non-resident bank account, or target account, with the concentration bank in each participating country. The purpose of this is to enable cash

concentration to take place on a domestic basis within each country first, prior to a second cross-border sweep from the target account in each country to the master account held in the final pooling location. Once again, the tax status of cross-border inter-company loans must be considered.

- **Cross-border sweeping with domestic notional pooling**

  In this set up, the subsidiary balances are notionally pooled in each country first. The cross-border transfer is made from a master account in each of the domestic notional pools to the master account in the central pool location, reducing the balance of each country's notional pool to zero.

  In most cases, the group treasury is the master account holder in the pool in each country, as well as at the central pool location. This solution allows local subsidiaries to maintain ownership of their cash balances and removes the need for inter-company loans.

Sweeping options

There are several variations on the sweeping theme beyond the simple ZBA model:

- **Constant balancing**

  Constant balancing operates on the same principle as zero balancing but a pre-defined residual amount is maintained in the sub-accounts as opposed to a balance of zero. The advantage to sub-account holders of this method is that a balance is immediately available at the start of the trading day to action payments, and interest is accrued on the sub-accounts.

- **Target balancing**

  Target balancing differs from plain ZBAs in that transfers are made from the master account to the sub-accounts in the opposite direction to which the zero balancing transfers were sent, so the sub-accounts keep a target balance. As the target transfers have a book date of 'today' but a value date of 'tomorrow', the sub-accounts always have a credit book balance but a zero-value balance.

- **Trigger balancing**

  Trigger balancing is when upper and lower amounts are set on sub-accounts. Balances that exceed these amounts trigger the zero balancing process to take place, but only on those sub-accounts that meet the limits (these limits may vary for each sub-account). Trigger balancing can eliminate the need to sweep insignificant balances and lower the number of sweeps that take place, which in turn can reduce banking costs.

  Some banks also offer the possibility to execute zero-balance sweeps at intervals other than the standard end-of-day frequency. This may benefit companies when activity on certain sub-accounts is low during certain periods.

Cross-border notional pooling

A cross-border notional pool allows corporates to optimise interest across a number of accounts in a variety of countries. In this case, the debit and credit balances of the participating accounts in each separate country are pooled for interest purposes. This may or may not involve cross-border transfers. Multi-entity notional pooling is treated as bank lending for accounting purposes. Structuring notional cash pools on a cross-border basis thus can be problematic because the bank will require cross-guarantees for each participant. This means entities in the pool provide guarantees for each other's liabilities. The bank also has the full legal right of set-off over pool accounts. It must retain this for reasons of capital adequacy but it also means it can use a client's funds in one account to settle debts in another and has the option to terminate that agreement. It is rarely invoked but remains a possibility with which some treasurers will not be comfortable.

Once it is established that a cross-border notional cash pool is the corporate's preferred option, and their chosen bank can provide this in the countries (and currencies) required, an assessment by treasury of the structure being offered is required. Some of the main structures for cross-border notional pooling are outlined as follows, using the zero balancing model:

- **Cross-border notional pooling with domestic zero balancing by country**

  In this structure, a domestic zero balancing cash pool is set up in each participating country. The balances on the master accounts for each of the domestic zero balancing country pools are then swept cross-border to accounts in the same name in the central notional pool. Sweeps can be two-way or one-way, depending on treasury's requirements. The country accounts in the central pool are notionally pooled for interest purposes. Using this structure, inter-company loans can be created in country, but not cross-border.

- **Cross-border notional pooling with cross-border zero balancing by legal entity**

  This structure removes the need for a domestic cash pool to be established, as cross-border sweeps are made on a legal entity basis. Within the cross-border notional pool, separate accounts are opened for each subsidiary using the structure. Sweeps are set up from all accounts held by the subsidiary in every country directly to its notional pool account in the ultimate pooling location. In some circumstances, the subsidiary may have multiple bank accounts in any one country. In this case, it can be beneficial to zero balance on a legal entity basis within the country first.

  Cross-border notional pooling with cross-border zero balancing by legal entity ensures that there is no co-mingling of funds between subsidiary balances. The subsidiaries themselves retain control of their operating accounts, while their balances are simultaneously used to improve the group's interest charge. If subsidiaries require funding at the local level, the two-way zero balancing sweeps also enable them to be funded indirectly by the master account holder in the cross-border notional pool.

- **Cross-border notional pooling with domestic notional pooling**

  In-country notional cash pools are established for each country that the corporate requires in this structure. The master account holder for each of these then arranges transfers to an account in their own name that resides in the cross-border notional pool in the main pooling location. These accounts are then notionally pooled. The main benefit of this structure is on the legal

side, as the number of participating accounts in the cross-border notional pool is streamlined.

Multi-bank cross-border solutions

Cross-border pooling solutions can also be categorised according to whether multiple local banks are used in each country, or a single network that covers the region (or indeed the world) is employed. Using local banks in each individual country may be advantageous if the corporate operates in a relatively small number of countries, especially if it requires highly specific local expertise and services.

Using a larger regional network bank offers the advantages of harmonised services and documentation and the possibility to execute true end-of-day-based cross-border zero balancing. In order for a regional network bank to be a viable option, it must of course have branches or operating subsidiaries operating in all the countries in which the corporate is active.

Certain banks offer multi-bank sweeping services that automatically transfer balances between local bank accounts and the main cash management bank. Since cross-border multi-bank sweeps go through the correspondent banking process, the sweeps usually happen before the end of the business day allowing next-day use at best. Corporate SWIFT connectivity may be used to implement a bank-agnostic in-house pooling structure so that processing and use of the cash within the group is intraday.

This is clearly an advantage but will require the relevant entities to be incorporated into the technical infrastructure of a centralised treasury operation, and the establishment of a base with at least one major bank. The SWIFT network allows connection to almost every bank using various message types (typically MT940s in this instance), the aim being to achieve as much message standardisation and thus automation as possible. Issues with 'non-standard' SWIFT messages (in terms of defining the required fields) are common between different banks. SWIFT's ISO 20022 .camt messages, once fully adopted, will play a crucial role in developing this opportunity.

Trapped cash

In strongly regulated financial jurisdictions there may be tax implications, restrictions on inter-company lending and limitations on foreign currency convertibility and transfers. So-called 'trapped cash' creates a challenge for companies looking to optimise global liquidity. Although balances in some restricted jurisdictions can be used to offset borrowing elsewhere using interest enhancement/optimisation products, the rules vary.

China in particular is making inroads into the internationalisation of its currency but only recently has it been possible for wholly Foreign Owned Entities in the Shanghai Free Trade Zone to take advantage of renminbi (RMB) cross-border pooling. The success of such a scheme will almost certainly be predicated on access to in-depth local knowledge.

Legal framework

Because specific statutory frameworks often do not exist in relation to cash pooling, the framework in which it may operate will largely consist of rules imposed by domestic banking regulations and corporate and insolvency laws which also vary between each jurisdiction.

Parties to a cash pooling arrangement may therefore need to devise a legal structure based on conventional legal instruments and concepts such as inter-company loans or those relating to local foreign exchange regulations, in order to establish the parameters in which cash pooling may operate. Matters such as distribution of profits, liabilities, capital maintenance and liquidity protection requirements must be investigated on a case-by-case basis.

Taxation

According to the Treasury Alliance Group consultancy, almost all liquidity management structures will need to comply with the following three basic requirements from a tax perspective:

- Arm's-length interest allocation: all financial arrangements between participants should reflect market price.
- Business purpose: the entire structure must have a valid business purpose other than tax avoidance or the circumvention of non-tax regulatory restrictions.
- Economic substance: the participants must have formal, legal responsibilities surrounding their participation in the pool.

Specific tax issues likely to be encountered include interest deductibility, withholding tax, transfer pricing and thin capitalisation rules, business tax and surcharges and stamp duty. Perhaps the most interesting initiative of the moment in terms of physical pooling is the OECD's Base Erosion and Profit Shifting (BEPS). This addresses concerns that the profits of multinationals are being allocated to locations different from those where the actual business takes place in order to reduce their overall tax liability. In response, treasurers should expect to revisit documentation and practices around liquidity, foreign exchange and intercompany financing amongst others.

Decisions

The suitability of pooling must always be part of a discussion with specialist banking, accounting, taxation and legal partners. Of course, not all banking systems are equal and not all entities within a group have the same needs.
A centralised approach to treasury may not even be the best approach to multicurrency liquidity management, especially where complex firms come up against tax inefficiencies and difficult local banking and exchange controls. However pooling is approached, regular review is essential to ensure processes remains fit-for-purpose.

Cash is reality

Despite mountains of academic literature, clear evidence of corporate performance, and professional investor behaviour, firms are often managed – and employees rewarded – for accounting results. Why is cash flow so neglected?

When I started my career in treasury, my boss at the time had the quote "cash is reality; profit a matter of opinion" on the wall behind his desk. Having recently qualified in audit, I both understood the joke and also the truth of the quote.

As a treasurer, and therefore obsessed with cash, I might be accused of bias in the matter. But reams of academic literature bolstered by extensive research on corporate performance, as well as the behaviour of professional investors, make it very clear that cash really is what matters.

And this has been proven both in practice and theory. Management consultancy firm Stern Stewart, for instance, has conducted studies that show that those firms which use economic value added (EVA) performed almost four times as well as the market in general (EVA uses twenty year total shareholder return, 220% compared to the market's 67%). To paraphrase SAP, the best firms manage cash flow.

Why cash matters

A recent Economist article on the history of business analysis puts it very clearly (emphasis added):

> "Valuation, and a few books like it, offered new tools. Cash flow, not easy-to-manipulate accounting profit, mattered. An activity only made sense if capital employed by it made a decent return, judged by its cash flow relative to a hurdle rate (the risk-adjusted return its providers of capital expected).
>
> "Optical changes to accounting profits don't matter; cash flow does (a lesson WorldCom and Enron ignored). Leverage boosts headline rates of return but, reciprocally, raises risks (as Lehman found). Buy-backs do not create value, just transfer it between shareholders. Takeovers make sense only if the value of synergies exceeds the premium paid (as Valeant discovered). Pay packages that reward boosts to earnings-per-share and short-term share-price pops are silly."

McKinsey's base model for valuation analysis and performance management is Return on Invested Capital (ROIC), which like EVA forces a focus on cash flow.

Their conclusions are the same as those of the Economist, as a recent article on how share repurchases boost earnings without improving returns highlights (emphasis added):

> "The empirical evidence disproves this. For while there appears to be a correlation between total return to shareholders (TRS) and earning per share (EPS) growth, little of that is due to share repurchases. Much of it can be attributed to revenue and total earnings growth – and especially to ROIC, which determines how much cash flow a company generates for a given dollar of income. All else being equal, a company with higher ROIC will generate more cash flow than a similar company with lower ROIC. But without the contribution of growth and ROIC to TRS, there is no relationship between TRS and the intensity of a company's share repurchases.
>
> "That's because it's the generation of cash flow that creates value. Regardless of how that cash is distributed to shareholders. So share repurchases are just a reflection of how much cash flow a company generates. The greater the cash flow, the more of it a company will eventually need to return to shareholders as dividends and share repurchases."

In my experience, professional investors focus on cash flow. They know that accounting measures like EPS drive short-term share price volatility because of herd reactions to news flashes. But for long-term investing, only cash flow matters. They use tools like Credit Suisse Holt cash flow return on investment (CFROI) rather than accounting measures.

Why ignore cash flow?

Since the evidence from academics, market data, and professional investors is so overwhelming, why are so many firms managed on accounting numbers?

You don't need to hire McKinsey to work out that it is much easier to get customers to sign a sales agreement or take delivery of product than it is to get customers to pay. Smart managers will – quite rationally from the perspective of paying for their kids' education et al – favour performance measures that maximise their bonuses.

It is unclear whether the best efforts of the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have made accounting data more reliable. As a treasurer (and an ex accountant), I naturally think they should focus on accurate cash flow reporting rather than increasingly complex accruals and adjustments.

It is possible that the increasing complexity of accounting requirements, coupled with the more severe tone on management liability for accurate (accounting) reporting, makes it harder for managers to find bandwidth for cash flow.

Cash flow works

Unfortunately, many firms come to a position of cash consciousness only through near death experiences. This can be a brutal way to learn that "cash is reality". For instance, I have seen great firms lose half of their workforce and suffer 60% dilution. Seeing half your colleagues fired focuses the mind more than academic studies and market research. But it is a very painful way to learn.

Cash consciousness comes in different forms. Integrated performance management models – like McKinsey's ROIC and Stern Stewart's EVA (and many others) – provide an attractive and consistent methodology. The minimum required is to elevate cash flow – with metrics like net working capital rotation (NWCR) and the cash conversion cycle (CCC) – to at least equal weight with sales and profits, both in terms of performance communication and remuneration. The exact methodology matters less than taking cash seriously.

There is however, a significant minority of firms who take cash flow seriously. These companies provide clear evidence, built up over decades, that cash consciousness produces better performance. This is not new, not bleeding edge, not in doubt – nor a matter of opinion. It is just a matter of breaking the denial inherent in the accounting mind set.

Treasurer's role

Cash consciousness vastly improves the life of the treasurer. Some form of cash flow forecast is the critical basis for all core treasury functions. We cannot fund efficiently without a decent estimate of future needs. We cannot manage cash and position accounts properly without forecasts (though this can be radically simplified in payment factory and in-house bank models). And we certainly cannot hedge properly without forecasts.

In cash conscious firms, treasurers are helping management to meet their cash targets, rather than wasting everybody's time with obscure cash flow forecast requests. Management needs forecasts to manage their bonuses – if cash flow is a major part of the bonus, management will ensure that cash flow forecasting is an integral part of business planning.

It is a platitude that projects and the like need senior management support. Cash consciousness really must come from the board and the CEO, and it has to permeate the whole firm – which basically means cash must be prominent in everyone's bonus calculation. This kind of decision is unfortunately not within the treasurer's remit.

In some cases, cash consciousness can come from the firm's owner. Here is an enlightened quote from Bill Priestley, partner at PE fund manager Electra Partners (emphasis added):

> "If I came to you and asked you what the balance was in your personal bank account, I would expect you to roughly know. I want the management teams of my portfolio investments to roughly know how much cash they have and whether they are broadly on track. That goes for the whole team, including sales, marketing and manufacturing. If the CEO has to ask the CFO and suggests cash flow is a finance problem, then that is a real concern, since the CFO is not responsible for all the levers that drive cash flow."

Take it seriously

Firms that take cash seriously perform better and make much more productive workplaces for treasurers. Unfortunately, they are in the minority. Over decades, as the evidence mounts even higher, and as managers who understand this move around and become more senior, cash consciousness will spread. Hopefully, some of this spread will come from second-hand experience rather than painful near death experiences.

David Blair, Managing Director

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

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COMING NEXT ISSUE

INSIGHT AND ANALYSIS

Derivatives developments

To what extent have reform promises made by Asian regulators around OTC derivatives been delivered? What are the implications of changes to date, and those in the pipeline, for corporate treasurers who rely on these products to manage financial risks?

CASH MANAGEMENT

Money market funds in Asia

With the cash stockpiles of multinationals in Asia continuing to expand, there is a growing level of interest from corporate investors in what Asia's nascent money market fund industry has to offer. We take a look at some of the important recent developments.

RISK MANAGEMENT

The impact of currency movements on treasury

Amid the volatility triggered in global currency markets by the recent UK referendum result, we take a look at the implications of currency movements for corporate treasury.

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

Fulvio Burbaio, Head, Corporate Treasury & Risk, ABC; K Chandrasekar, EVP of Corporate Finance & Investor Relations, Mahindra & Mahindra; Sanjeev Chatrath, Managing Director, APAC & Japan, Financial Risk, Thomson Reuters; Suresh Chettiar, Senior General Manager, Treasury, Lupin Limited; Sonia Clifton-Bligh, Head of Regional Treasury Centre, Asia Pacific, Johnson & Johnson; William Coley, SVP Credit Policy, EMEA Corporates, Moody's; Ed deHaan, Assistant Professor, Stanford Graduate Business School; Antony Eldridge, Financial Services Leader, PwC Singapore; Damian Glendinning, Corporate Treasurer, Lenovo; Suzanne Janse van Rensburg, Regional Head of Liquidity, GTS EMEA, Bank of America Merrill Lynch; Vishal Kapoor, Asia Pacific Trade Head, Treasury and Trade Solutions, Citi; Chye Kin WEE, Head, Transaction Banking APAC, BNP Paribas; Benny Koh, Managing Director - Treasury Advisor, Deloitte; John Laurens, Head of Global Transaction Banking, DBS; Max Loh, ASEAN and Singapore Managing Partner, EY; Alastair McGill, Managing Director, Global Business, Cashfac; Morgan McKenney, Head of Core Cash Management, Asia Pacific and Singapore Innovation Lab, Citi; Doris Ng, Senior Associate, Norton Rose Fulbright; Jeffrey Ngui, Head of Regional Sales, Cash Management, BNP Paribas; Randy Ou, Vice President, Treasury, Alibaba; Nigel Pearson, Global Head of Fidelity, Allianz Global Corporate & Specialty; Russell Phillips, Head of Treasury, Asia Pacific, British American Tobacco; Anjali Sharma, Head of Business and Relationship Management for EMEA Corporates, Fitch Ratings; Tony Singleton, Managing Director, Asia Pacific, Reval; Mark Smith, Head of Global Liquidity, GTS, Bank of America Merrill Lynch; Bob Stark, VP, Strategy, Kyriba; Erin Strang, Treasurer, Aurizon; Jarno Timmerman, Head of Treasury Asia Pacific, AkzoNobel; Steven Tong, Managing Director, Startupbootcamp Fintech Singapore; Bernard Wee, Executive Director, Financial Markets Development and Payments & Technology Solutions, Monetary Authority of Singapore; Shannon Wilkinson, CEO, Reputation Communications.

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