

# treasurytoday

research | insight | analysis

# ASIA



## Derivative developments

With derivatives now assuming increased importance to treasurers here in the region as a means of risk mitigation, we take a look at the current state of play in the regulation of OTC derivatives and at the implications of these for treasurers.



### The Corporate View

**Kenneth Ng**

Director and Corporate Treasurer  
DFS



### Industry View

**Kheng Leong Cheah**

Head of Global Liquidity Sales, Asia Pacific  
J.P. Morgan Asset Management

### Cash Management

A closer look at money market funds

### Trade

Best practice supply chain finance

### What If...

Your treasury systems failed?

### Back to Basics

Commodities financing





# Adam Smith Awards **ASIA**

sponsored by **ANZ**

**BE THERE**

ADAM SMITH AWARDS ASIA  
GALA PRESENTATION LUNCH

November 17th  
The South Beach, Singapore

treasurytoday  
**ASIA**

**CONGRATULATIONS  
TO ALL OUR  
WINNERS**



treasurytodayasia.com  
Volume 4/Issue 5  
September/October 2016

Director and Group Publisher  
Angela Berry

Associate Group Publisher  
Sophie Jackson

Associate Publisher EMEA and Americas  
Meg Coates

Associate Editor  
James Hayward

Head of Operations  
Samantha Collings

Research Director  
John Nicholas

Editorial  
Tom Alford  
Chris Davis

Global Head of Events  
Lisa Bigley

Head of Circulation  
Sarah Arter

Circulation Manager  
Kerry Stamp

Head of Technology  
Luke Scammell

Digital Designer  
Joanna Smith-Burchnell

Creative Designer  
Robert Murray

Managing Director  
Richard Parkinson

Switchboard +44 (0)13 0462 9000  
Publisher +44 (0)13 0462 9012  
Memberships +44 (0)13 0462 9002  
Advertising +44 (0)13 0462 9018  
Editorial +44 (0)13 0462 9001  
Production +44 (0)13 0462 9019  
Fax +44 (0)13 0462 9010

Annual Membership Rate £285  
memberservices@treasurytoday.com

© Treasury Today ISSN 2053-9398

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

The entire content of this publication is protected by copyright. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means mechanical, electronic, photocopying, recording or otherwise, without the prior written consent of the copyright holders. Every effort has been made to ensure the accuracy of the information contained in this publication. Treasury Today Limited cannot accept liability for inaccuracies that may occur. Where opinion is expressed it is that of the authors and does not necessarily coincide with the editorial views of the publisher or Treasury Today. All information in this magazine is verified to the best of the author's and the publisher's ability. However, Treasury Today does not accept responsibility for any loss arising from reliance on it. No statement is to be considered as a recommendation or solicitation to buy or sell securities or other instruments, or to provide investment, tax or legal advice. Readers should be aware that this publication is not intended to replace the need to obtain professional advice in relation to any topic discussed. Printed by: Buckland Media Group Ltd.

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

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

Periodicals postage paid at Jamaica NY 11431.

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

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

Air Business Ltd is acting as our mailing agent.

The paper used in the production of this magazine is sourced from protected forests and sustainable raw materials.

# Looking beyond bank deposits

For corporates in Asia Pacific, bank deposits still remain the number one short-term investment option by some distance. Yet, this is not typical elsewhere in the world. In Europe and the US, for instance, corporate short-term investment portfolios are more balanced between bank deposits and money market funds (MMFs), and then supplemented with a handful of other investment options.

This is changing, however, as regulation, such as Basel III, is slowly forcing banks to have difficult conversations with their corporate clients about their cash deposits and how these may no longer be welcome in the new regulatory paradigm. At the same time Asia's asset management industry is gaining momentum as various factors converge, including further market liberalisation and the deepening of the capital markets.

Yet there is still some way to go. Many of the region's markets are nascent and there are significant hurdles to overcome before they become a mainstay of the investment toolbox. A large number, for instance, still lack a diversified underlying market of high-quality, liquid paper for funds to invest in. The low interest rate environment may prove another issue for the corporate investor and for the future development of MMFs.

In this edition, we explore the short-term investment landscape in Asia Pacific in detail, looking at the growth of the region's MMFs and how these may develop further in the coming years. We explore other developments across the region, including the regulation impacting the OTC derivatives market and the potential opportunities and challenges for corporates in China, India and ASEAN.

Nominations for our 2016 Treasury Today Asia Adam Smith Awards, proudly supported by ANZ, have now closed. We would like to thank everybody that entered and we look forward to hosting all winners and their partners and providers to the Adam Smith Awards Asia Gala Presentation Lunch at the South Beach in Singapore on Thursday November 17<sup>th</sup>. We will share full details of all winning entries online in early November with additional coverage rolling out in the first quarter of next year.

INSIGHT & ANALYSIS 6



### Many guiding hands

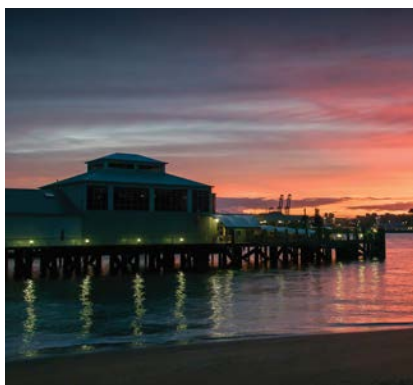
The current state of play in the regulation of OTC derivatives here in Asia Pacific is still one of slow but steady change. Indeed, the market in Asia is making serious noises around expansion with new solutions being offered by a financial and vendor community hungry for growth. What impact is this all going to have on the corporate treasurer? Treasury Today Asia finds out.



WHAT IF... 10

#### Your system is dead?

What are the implications should your TMS or ERP fail? As vital technology platforms in many of today's corporate treasury departments, how well are you equipped to bring these systems back online and how long could you survive without them?



COUNTRY FOCUS 13

#### New Zealand: small, but perfectly formed

Despite the relatively small size of its market, New Zealand has attracted international attention for some years now. Here, Treasury Today Asia takes a look at what it's like for treasurers in the easiest place in the world to start a business and why, despite the accolades, it hasn't always been an easy ride.

TREASURY PRACTICE 23



#### Adapting for purpose

"The evolutionary process gives rise to diversity at every level," one interviewee told Treasury Today Asia. Similarly, evolution in treasury has given rise to many different models which seek to deal with diverse problems. This article looks at the multitude of hybrid models, the issues they seek to address, and more.

PROBLEM SOLVED 9

Global supply chain manager, Li & Fung, traditionally fulfilled its trade financing needs through unsecured credit loans, which were both expensive and cumbersome. The company therefore required a solution that would enable them to more efficiently access credit, and at a lower cost.



SMARTER TREASURY 19

#### Mapping Asia: time to check co-ordinates

Despite recent challenges, Asia Pacific remains on an upward trajectory and there are still plenty of opportunities for the corporate community to take advantage of. In this article, three experts from Citi based around the region offer their views on the current lay of the land and what the future may hold for the region's key economies.





**CASH MANAGEMENT 29**

**Will Asia’s MMFs seize the Basel III opportunity?**

The MMF industry in Asia has already grown exponentially over recent years. And with cash stockpiles of multinationals in Asia continuing to expand and Basel III changing how a bank views its client’s deposits, there is a growing level of interest from corporate investors in what Asia’s nascent money market fund industry has to offer.



**TRADE 32**

**A healthy supply**

Supplier finance is often billed as being a win-win for corporates and their suppliers. Yet it has taken time for the solution to gain ground here in Asia Pacific. This is beginning to change however, and here we look at what it takes to establish a successful supplier finance programme.



**TREASURY ESSENTIALS**

Question Answered	4
Back to Basics	35
Point of View	38



**16 The Corporate View**

**Kenneth Ng**  
Director and Corporate Treasurer



For Kenneth Ng, Director and Corporate Treasurer at DFS, the treasury exists to provide the business with the financial tools that it needs to succeed. Yet, in an ever changing world, with rapidly evolving technology, treasury cannot be dogmatic in its approach. In this interview, Kenneth Ng explains how over the past decade he has built a treasury department that is fit for purpose today, but also able to adapt and change when required in the future.

**THE INDUSTRY VIEW 26**

**A new dawn for Asia’s cash investors**

With the Basel III deadline looming and the regulation set to dramatically alter how banks view deposits, changes in corporate liquidity management are on the horizon. Here, Kheng Leong Cheah, Head of Global Liquidity Sales, Asia Pacific at J.P. Morgan Asset Management, discusses what the impact will be and offers some advice for treasurers in Asia Pacific.





# Brexit

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



**Antony Eldridge**  
Financial Services Leader  
PwC Singapore

The famous British mantra of ‘Keep calm... and carry on!’ may be sound advice in the aftermath of the United Kingdom’s referendum vote to leave the European Union. After all, no-one yet knows what the UK and Europe will look like when more than two years of difficult negotiations come to an end. But for corporate treasurers the ensuing uncertainty presents a number of headaches that need careful thought, planning and action, over and above a simple phlegmatic approach.

Clearly corporate treasurers in the UK and Europe, many of which were caught by surprise with little contingency planning, have the greatest challenge. However, those in Asia, perhaps having undertaken no planning for Brexit, are having to deal with similar difficulties. Currency repricing and volatility is at the forefront, with around a 10% fall in the value of sterling and the political and economic Brexit spillover weighing heavily on the euro. Risk aversion ‘contagion’ has driven the yen and other safe haven currencies higher. The costs of hedging strategies and the wider impact on results and balance sheets, especially when dealing directly with UK and European markets, is significant. Credit and counterparty risks are also changing, with the economic impact scenarios for many UK and European companies being far from clear, though all against a backdrop of a downgrade of UK sovereign risk.

Asian trading relationships with Europe need additional monitoring. In the longer-term, Brexit and the European tariff and regulatory environment may limit Asian headquartered European subsidiaries or counterparties from the current full access across UK and European markets – possibly requiring a structural and governance rethink, as well as changes to budgets and forecasts. New trading relationships, and possibly tax treaties, between the UK and the rest of the world are likely to emerge, albeit in the medium term.

Asian MNCs’ European operations may also be impacted by Brexit induced changes in the European labour markets and impacts on the use of shared service centres across UK/European borders. The impact on banks and the financial services sector is also unclear, but certain banks may be constrained by macro-economics, or refocus, resulting in a changing financing environment for corporates.

The economic shock of Brexit, whilst epicentred in London, is rippling across the global economy; Asia will feel the impact. Whilst this is bad news for business activity, policy makers have shown determination to act despite a depleted arsenal of weapons post the financial crisis. One positive for corporate borrowers seems likely to be that globally interest rates are likely to stay lower for longer. Stock markets are buoyed by the prospect, but sight should not be lost on the fact that a slower return to normalisation cannot be a good prospect for international trade.

So whilst corporate treasurers should, indeed, keep calm and carry on, their jobs have just become considerably more difficult. With Brexit uncertainties set to linger for many years to come, on top of the plethora of other global risks, the life of a corporate treasurer is set to become more ‘interesting’, to say the least!



**Jacqui Drew**  
Director, Solutions Consulting  
Reval

The true impact of Brexit on corporate treasuries in Asia Pacific (APAC) is in its infancy and will develop and mature over time. Initially, many treasuries may have already felt the impact of the almost 10% volatility in the GBP exchange rate when it fell to a 32-year historical low. Significant analyses post Brexit indicate that most of the volatility was actually recovering from the inflated GBP rate leading up to the referendum based on the polls citing a “Remain” vote. However, either way, experiencing that kind of volatility on a portfolio of foreign exchange exposures is likely to have an impact on profit and loss. Volatility was not only experienced in the GBP exchange rate, but there were also knock on effects to JPY and CNY and impacts to commodity prices. Companies fled to safe haven assets (like gold) rather than property or bank stocks, which suffered as a result. Linked to the bank stock prices falling, is the reviews of both country ratings and counterparty ratings, hence we might see a surge in credit risk that will likely be passed on to corporates. For many large multinational corporations, at least one, if not all, of the above would have an impact on cash flows, profit and loss or even on pension stocks and reserves.

On a longer-term basis, if a company has treasury centres based in the UK, there might be reasons to relocate, depending on import and export requirements and new laws

that come into effect. Relocating a treasury centre will be a significant investment both in terms of financial and physical resources, but here is where companies currently undergoing treasury and risk management (TRM) system selection reviews will want to consider the ease of change that cloud-based solutions afford. No doubt there will be new treaty and exchange laws that will come into play, and these could have significant and far-reaching consequences for any companies outside of the UK and EU.

On a positive note, a low interest rate environment leads to a buyers' market for M&A and an attractive market for those looking to borrow money to invest. Not least to say, a negative interest rate environment comes with its own challenges.

So what can treasurers in APAC be doing now? Well most importantly, companies must be able to respond quickly and effectively to situations such as these. Talks of another ...exit are not unfounded, and so lessons can be learnt from those companies that were building out different scenarios and plans of attack depending on the outcome of the referendum. As an example, one company entered into binary FX options to hedge against Brexit and were significantly in the money on June 24<sup>th</sup>. Other companies had run cash flow at risk scenarios to ensure relevant facilities and buffers were in place. Global visibility and exposure identification across asset classes and across the enterprise is vital to enable companies to be agile, receptive and responsive to significant shocks in the market, and to be able to seize opportunities as they arise.



**Dauwood Malik**  
Partner  
Clifford Chance



**Matt Fairclough**  
Partner  
Clifford Chance

There are a number of questions for Asia Pacific (APAC) corporate treasurers following the UK's vote to leave the EU and the resultant uncertainty created. Across the region, treasurers and their advisors are still digesting the implications, process and timing of Brexit.

Given bank market uncertainty, companies should first conduct due diligence and consider: implications of ratings downgrades for financing arrangements; collateral requirements for hedging exposure or increasing the cost of borrowing; checking the availability of credit lines; ensuring they are committed; examining dependency on uncommitted lines of credit; the need, timing and ability to tap capital markets for needed liquidity; and the long-term implications of movements in exchange rates. Companies disproportionately dependent on uncommitted credit lines should consider whether to turn them into committed funding lines if they are critical for liquidity.

Companies may over time look to the non-bank funding market for alternatives to bank funding. The US private placement market is well-developed and extensively used. The European private placement market has not really been tapped so far for corporate financing. The Asian private placement market is (outside of Australia and Japan) at a far earlier developmental stage, but does also present a financing alternative. Availability is yet to be tested, however.

In addition, companies that have historically or were otherwise planning to tap into liquidity in the capital markets need to consider the timing of any such issuance of securities. While markets have stabilised in the immediate wake of the referendum vote, it is yet unknown the extent to which, in APAC, primary deals with a strong European/UK element involved can clear the market and at what price. Accordingly, companies' dependent on capital markets liquidity will need to carefully consider the timing and logistics of their financing needs.

For many APAC companies operating in Europe, there also remains the question: what will happen to our European relationship lenders? Currently many financial services firms rely on the EU "passport" regime to provide their services in other member states. Although the UK does not require lenders to be authorised to make corporate loans, some EU countries do impose such a restriction. Therefore, in the longer-term, a highly relevant question for APAC based MNCs with European operations is whether their financial services providers in Europe can still provide their services across borders.

It will be some time before it is clear what the nature of a post-Brexit UK/EU relationship will look like and therefore what regime(s) will allow cross border access. As things become clearer, companies can begin a dialogue with existing lenders and other financial service providers as to whether they can provide their services on an ongoing basis. This may be through their existing model or under a new model – for example, could a lender book loans through a local facility office?

Ultimately, if it did become illegal for a lender or financial service provider to continue its activities, illegality protections in contracts would apply and would likely require loans by that lender to be repaid or possibly transferred to another lender.

### Next question:

“What if your bank strategy no longer includes you?”

Please send your comments and responses to [qa@treasurytoday.com](mailto:qa@treasurytoday.com)





# Many guiding hands

*The current state of play in the regulation of OTC derivatives here in Asia Pacific is still one of slow but steady change. What are the implications of developments over the last year or so for corporate treasurers? Treasury Today Asia takes a look across the regulatory landscape.*

When it comes to the market for OTC derivatives, comparing the volumes and complexity of Europe, North America and Asia is perhaps unfair given the relative immaturity of the latter (it accounts only for around 8% of the current global turnover). But the market in Asia is making serious noises around expansion with new solutions being offered by a financial and vendor community hungry for growth. The corollary of expansion is, as might be expected, a moving legislative landscape.

With derivatives now assuming increased importance to treasurers here in the region as a means of risk mitigation, consideration of the changes required in the jurisdictions within which the company operates will be necessary. The key Asian derivatives markets are changing and these changes will impact corporates, not least because the regulators are on the case.

## State of play

Derivatives play an important role in the economy but are associated with certain risks. Recent financial crises have highlighted that these risks are not sufficiently mitigated in the

over-the-counter (OTC) part of the market, especially with regards to credit default swaps (CDS). Since the beginning of the financial crisis, regulators have been working to address these risks.

The well-developed European markets have already faced the European Market Infrastructure Regulation (EMIR) for OTC derivatives which tackles clearing, reporting and risk mitigation, and makes quite a significant demand on the gathering and collation of the right information for market participants. Progress in Asia is slow but sure.

In July 2014, four of the major jurisdictions in the region – Australia, Hong Kong, Singapore and Japan – began introducing regulations in line with the reform principles for OTC derivatives as set out by the G20 committee in 2009. The general objectives of these regulations are broadly the same as under Dodd-Frank (in the US markets) and EMIR. However, in Asia, it seems that each country is moving at its own pace and with its own priorities.

The region's regulators have each decided to take a more phased approach with different deadlines for different types



of market participants. A majority of countries seem to be leaning towards an EMIR-like reporting model in which both sides report, and most have begun with the creation of trade repositories (TRs) and reporting requirements before tackling centralised clearing. But, as we will see, that is more or less where the similarities end.

## The long arm of the regulator

Asia Pacific's corporates will almost inevitably keep taking a steer from the G20's 2009 market reform commitments to improve transparency, mitigate systemic risk, and protect against market abuse. Is this a good thing? By 2015 the globally operating Financial Stability Board (FSB) noted that the G20 authorities were still facing a range of implementation issues, though international work-streams had been set up aiming to address most of these issues.

Of note, these were looking at steps to harmonise transaction reporting and to agree to a framework for uniform trade and product identifiers; further coordinated consideration of Central Counterparty Clearing (CCP) resilience, recovery and resolution, and central clearing interdependencies; and ongoing multilateral and bilateral discussions to address cross-border regulatory issues (with several additional steps recently taken by authorities in this regard).

For Asian players there is yet more external regulation to consider. Wherever Dodd-Frank and EMIR apply in any jurisdiction in which US and EU institutions operate, both require derivatives contracts to be cleared through CCPs approved by the US Commodity Futures Trading Commission or the European Securities and Markets Authority (ESMA) respectively. What's more, even Asian market participants will find Dodd-Frank and EMIR rules difficult to escape from if they are dealing with US or EU counterparties, since they will also be required to comply with the respective regulations regardless of where their transactions are made.

## Keeping up with the differences

Does the fact that the region is inevitably looking to learn from other regulators (as the voice of experience) mean that, somewhere down the line, we will see the same level of regulatory consistency as in Europe or the US? It seems improbable, given that it would require each jurisdiction in the region to surrender some sovereignty over their domestic markets to a pan-Asian regulatory organisation. With regulation bringing with it such great opportunities for arbitrage, it is a notion that is difficult to apprehend at this stage.

Of course, there may be a degree of harmonisation, but for some countries in Asia it is simply not in their interest. The whole point of China (in particular) launching six different exchanges is that it wants to become the centre for financial transactions. Taking a deliberately different approach may be about attracting business to the Shanghai markets and not regional market development.

The perceived lack of regional harmony could undermine the G20 push for transparency within these markets which was, after all, the fundamental goal of the reforms in the first place. With myriad regulations cropping up across the region – self-interested or otherwise – without one body having oversight of the 'big picture' this certainly has the potential to undermine the G20 goal.

In practice, market fragmentation could also pose a challenge for corporate treasurers and other end users too. There will be some jurisdictions in Asia where both corporates and banks will be required to report, but also some where only the bank has to, and some where all asset classes are subject to reporting requirements. Interpreting these rules will require time and diligence. For corporates, the need is to ensure they have read, interpreted and understood the laws and regulations correctly across every country in which they intend to operate. This effort hardly plays well to the desire for market accessibility.

## Listen and learn

Despite these macro-issues, the journey to match G20 objectives has been smoother, relative to the disruption seen in the US and EU where the introduction of Dodd-Frank and EMIR proved quite demanding. The better ride for Asian players might be accounted for, on the one hand, by the fact that derivative markets in the region are comparatively small. But some credit must also be given to the phased approach taken by the region's national regulatory authorities who, having carefully scrutinised how the G20 commitments were carried out elsewhere, opted not to take the 'big bang' approach.

Since implementation began several years ago, Asian regulators have moved step-by-step bringing trade reporting across different markets segments and asset classes. Last year, trade reporting was live for interest rates and credit only in Singapore. Five asset classes were live in Australia, meanwhile, but only for large institutions. Since then, the asset classes and market participants subject to trade reporting have slowly expanded. Singapore went live, for example, with FX products in May of this year. In Australia, the regulators changed their OTC derivatives requirements to include a much larger community of reporters.

So while banks, corporates and institutions faced a steep challenge in becoming compliant across all of their OTC derivatives activities in Europe, market participants in Asia have been somewhat less encumbered by the changes taking place, lessons having been learnt from the stress caused by ESMA's big bang. But ESMA has its purposes as far as Asian regulatory progress in concerned.

With respect to data needs, the Asian regulators have been very careful to adopt any measure that looks like it is evolving as a global standard. Already, DTCC estimates that, across the nine jurisdictions they are live in, there are some 40m open positions in its database, accounting for around 70% of the global OTC derivatives market. This provides a strong incentive for Asia's national regulators to look at the data standards being developed by the likes of ESMA.

In fact, Asia's regulators appear to realise that a lot of what they want to see has probably already been reported somewhere in some shape or form. They are seeing what they can leverage, looking at the fields reported by ESMA, these representing a large share of the reported volume.

## Careful listening

The regulatory burden may well, as many financial services professionals believe (anecdotal evidence accepted), continue to increase in Asia over the coming years. Yet the traditional characterisation of Asia as a strictly regulated region, relative to that of liberally managed economies in the US and Europe, has shown some real progress.

A matter of note, say industry experts, is that regulators in Asia have been more considered and thoughtful in the way they have planned and implemented their reforms. Unlike in the US or Europe where financial institutions and corporates alike have lamented time and time again that regulatory bodies have pressed ahead with regulatory changes with little consideration to the 'unintended consequences' those in the industry believe may emerge as a consequence of reform, Asia's regulators have paused, and listened carefully to the views of all affected parties.

Even when specific regulations – like the Basel Accord's capital ratios – have been set at a high level, they have, consciously, not been set so high as to be out of reach of those subjected to them. Likewise, the recent amendments to Singapore's AML legislation was only implemented after the Monetary Authority of Singapore went through a ten-month consultation phase. Financial services professionals in other regions could be forgiven, perhaps, for looking at how things have unfolded with a degree of envy.

Indeed, there seems to be an increasingly collaborative approach where regulators are very keen to have an open conversation with the market to understand the challenges and what can be done to address these without exposing the financial markets to regulatory uncertainty.

It is also evident, as we have seen above, that the regulators have learned from the mistakes – and successes – of their global peers. They are interested in gaining knowledge from the other regions as to what is best practice and what is not. Generally, the approach taken has been a sophisticated one; it's not about mirroring what has been done in Europe or America, but looking at all the issues and considering what makes sense for the local markets and what is economically proportionate. It is, to all intents and purposes, a highly researched approach to doing the right thing, rather than being overly political.

## Renewing the spirit of cooperation

Despite the efficacy of this more consultative model, as growth accelerates, it is natural that the emerging markets will continue to draw upon the know-how of more experienced players. In the spirit of cooperation, ESMA and the Securities and Futures Commission (SFC) of Hong Kong concluded a Memorandum of Understanding (MoU) in November 2015 allowing the exchange of information on derivative contracts held in TRs. The MoU allows ESMA and SFC to have indirect access to TRs established in the European Union and Hong Kong respectively. It became effective on November 19<sup>th</sup> 2015.

In November 2014 and February 2015, ESMA had already concluded MoUs with the Australian Securities & Investments Commission (ASIC) and the Reserve Bank of Australia (RBA) providing for a direct access to TR data. However, the ESMA-SFC MoU was cited as the first cooperation arrangement among authorities to establish an indirect access to TRs through exchanges of information. It followed the recommendation of the FSB to enter into this type of agreement to overcome legal barriers to accessing data on derivatives trades, for example when direct access by foreign authorities to TR data is not currently possible.

## Tech intervention

Emerging markets, and particularly those with weaker fundamentals like Vietnam, Malaysia and Indonesia, have experienced a fair degree of volatility lately. The derivatives

market in Vietnam, for example, is seen as an important step in creating qualitative change for the Vietnamese securities market after a long era of quantitative development. Technology has a role to play here and in March 2016 the GMEX Group entered into a joint venture agreement with FPT Information System (FPT) based in Hanoi, Vietnam to provide technology, global business and local operational expertise to launch the first derivatives market and fully integrated clearing house in the country.

Vietnam's Ministry of Finance (MOF) called upon the Hanoi Stock Exchange (HNX) (formerly the Hanoi Securities Trading Centre) and the Vietnam Securities Depository (VSD) to operate the derivative market's transaction activities. The project aims to provide a multi-asset, multi-language exchange trading system suite and market surveillance solution to HNX, which will operate the derivatives exchange. The project is expected to deliver a real-time clearing system to VSD, which will operate the clearing house.

The new market is intended to facilitate transactions based on stock accounts such as stock indexes, Government bonds and shares. Indeed, the first traded instruments will be share indexes (HNX30 and VN30) and Government bonds with five-year terms. The target go live date is Q416.

## Time to act

With the extraterritorial reach of regulations from elsewhere adding an extra layer of complexity to the web of new rules now emerging in the region, corporates really have no time to lose. The first step should be to perform a careful examination of the company's treasury technology and its capabilities when it comes to types of data that might need to be reported. As mentioned above, comfort may be taken in the knowledge that the scale of the problem will not be the same as that experienced by firms reporting under EMIR; this required a major effort in gathering all the right information and collating it.

Treasurers here in Asia won't have to climb that same, steep learning curve if they begin their preparations in good time, as the regulatory landscape unfurls. The progressive regional roll-out model will buy time but it will have to be tackled at some point. This might involve taking a report from one of the swap data repositories and then figuring out what, if any, gaps there exist. This should help in the understanding of what needs to be reported and in preparing for any future requirements.

Whilst Singapore is ahead of the Asian curve in this respect, for many countries, the necessary format to report in is still under discussion. For this reason, such a project is something that should be on any future project list for treasurers.

It is already known that International Swaps and Derivatives Association's (ISDA') work across Asia Pacific focuses on certain core topics such as documentation, public policy, market structure, market practice and research – so opening up the discussion now within treasury makes sense. Regardless of how the markets develop globally, it is clear that the Asian derivatives markets are changing and that there is an opportunity to increase scale and availability, guided by intelligent and considered regulation. Treasurers must familiarise themselves with the changes as they happen. Of course, this is not as easy as it sounds but help from banks, vendors, industry bodies, and other treasury professionals is out there.





**Denis Savastano**  
Group Treasurer



Li & Fung Limited is a global supply chain manager primarily for US and EU brands, department stores, hypermarkets, specialty stores, catalogue-led companies and e-commerce sites. It engages in product design and development, raw materials and factory sourcing and capacity building, vendor compliance and distribution. It has over 250 offices in 40 markets and connects some 15,000 suppliers with 8,000 customers through its services.

## Problem...

Given its position in the market, global supply chain manager, Li & Fung process a large number of trade transactions on a daily basis. The company had established host-to-host connectivity with Citi's payment factory, allowing it to automate the execution of many of these payments and alleviate much of the manual work that was previously required.

But while Li & Fung's payment process had been automated and made highly efficient, its trade financing activity was largely manual. "Traditionally, our working capital needs were largely bridged by unsecured credit facilities" notes Denis Savastano, Corporate Treasurer at Li & Fung. "These credit facilities are quite pricey and required substantial manpower to process."

## ...Solved

Together with Citi a solution was developed that leverages the host-to-host connectivity and enables Li & Fung to issue standing trade finance instructions linked to its trade transactions through the ERP system. These instructions then flow straight through to Citi, allowing the bank to approve and process these in accordance with the standing instructions pre-agreed by Li & Fung in a fully automated fashion.

Li & Fung also had to make sure that the solution met its governance requirements. As such, Citi ensured that appropriate authorisation protocols were put in place to guarantee that only key signatories were able to initiate any financing requests.

"Throughout this journey the bank proved to us that they are not simply a provider of solutions, but a trusted business partner."

From an efficiency perspective, the benefits of this approach are clear. "The cumbersome manual processes and heavy documentary burden that traditionally slowed trade financing was greatly alleviated," says Savastano. "The fact that the solution is fully automated, end-to-end, means that the risk of human error and fraud has been reduced."

Substantial cost savings have also been achieved for the group. "We benchmarked the pricing that different banks were offering for the various types of facilities that would cover our working capital requirements," he says. This innovative and highly customised global solution was implemented within a short timeframe of three months. "Given the tight deadline for the project it was vital for there to be close collaboration between ourselves and Citi for it to be successful," notes Savastano. "Thankfully, Citi already had an intimate understanding of our business and what we are trying to achieve, as well as the trust of key executives within our organisation."

But what was most crucial for Savastano was Citi's willingness to go above and beyond to make sure the project was a success. "Throughout this journey the bank proved to us that they are not simply a provider of solutions, but a trusted business partner. They offered excellent project management to make sure that it ran smoothly, as well as sharing their expertise and insights gained from a wealth of experience working on other similar projects at every stage of the process."

Having achieved these benefits from the import and export trade solution, Savastano and his treasury team at Li & Fung are pleased with the results. "We are always looking at solutions that can benefit the group and its shareholders. And the host-to-host connectivity that exists between ourselves and Citi is a great channel for us to use and we hope to be able to leverage this further in the near future."

# Your system is dead?

*When a core treasury system such as a TMS or ERP fails, either partially or catastrophically, you had better be prepared to take control. But how likely is this to happen? And even if it does, what can be done? Treasury Today Asia looks at what happens and what to do if your TMS or ERP goes down.*

You may believe that you have the most secure and dependable technology known to treasury-kind but the fact is, there are no infallible systems on the market. This sounds like a gloomy prognosis but system failures occur, sometimes without any warning. For treasurers, the key questions that should be asked are: 'are you aware of the risk, and will you be ready to deal with the outcome?'

Catastrophic system failure resulting in a significant and sustained loss of access, loss of data, or damage to hardware or its total failure is extremely rare, notes Alex Ellison, an independent consultant (and a former Director of Treasury Solutions Business Development at SAP). In the event of a catastrophic or partial failure, she believes most "mission critical" systems within a large organisation will be (or should be) capable of 'hot switching' between mirrored data centres to allow almost immediate take up and continued use of live data.

Unfortunately, notes Bob Stark, VP Strategy at technology vendor Kyriba, most treasurers will have previously made the assumption that their system is well-supported and, as such, do not necessarily have a recovery programme beyond their treasury system being available. As a result, he believes that many will be severely tested when the worst happens.

## Is it really likely?

But what are the chances of a modern ERP/TMS failing to perform either catastrophically or partially? Outside of substantial physical damage caused by natural disaster or terrorist attack, for example, the risk really is uncertain says Tim de Knecht, Head of Strategic Finance and Treasury for the Port of Rotterdam. "With standardised processes, a good and integrated testing procedure, and knowledgeable people, there should be a limited likelihood of this happening," he believes. "But real life experience shows us that system failure – including ERPs and TMSs – happens rather more than we might imagine in recent years."

One of the reasons that there is a reasonable chance of failure of a core system is down to the model of deployment notes Stark. Although diminishing in number,



an internally installed TMS is completely dependent on the configuration offered when it was deployed: if the in-house server goes down it will take the TMS with it and if IT has not built a fully redundant backup to take over, then treasury will be system-less for the duration. Similarly he says non-cloud hosted software runs the same risk with a single point of failure. “The risk is a lot higher than people realise because the majority of systems on the market are not true cloud and do not have the capability of behind-the-scenes disaster recovery and business continuity.”

In practical terms, the risk comes down to whoever manages the IT component: if it is installed on premises then it will be internal IT’s task to get it back. The majority of systems sold today are hosted and, states Stark, the vendor has 100% responsibility to ensure that their system is up and running and goes back online following disruption. “This is why many organisations are not choosing on premise any more – but then they must rely on the vendor having everything in order and having made all the right investments to be able to get you back up and running very quickly.” Service Level Agreements (SLAs) provide a commitment to delivery but if the business continuity and disaster recovery is not effective and downtime exceeds what is comfortable then Stark says it doesn’t matter whose responsibility it is, “ultimately treasury is made to suffer”.

## The immediate effect

Indeed, should the worst happen, there will be a number of immediate concerns to tackle and the absolute prerequisite is “to avoid, under every circumstance, panic and uncontrolled action”, warns Thomas Stahr, Managing Partner of Stahr Treasury Consulting and a senior treasurer of many years’ experience. This is where robust planning comes into force. In practical terms, the first task is to convene an emergency meeting with the most senior responsible personnel. “Designate an immediate task-force, ensure clear definition of tasks and responsibilities and enlarge it where appropriate and necessary,” he advises. This and all subsequent direction will form part of the business continuity plan (BCP), of which more later.

“Consider it as an opportunity to avoid it in the future by introducing a scenario-procedure guideline, keeping in mind that second time around it could be worse and have an ever harder impact.”

Thomas Stahr, Managing Partner, Stahr Treasury Consulting

Back in the here and now, with the sudden loss of a TMS or ERP, the impact on the daily treasury process will straightaway hit payments, the reconciliation of bank statements and related cash flows on all external and internal accounts. “Still having ‘old’ permissions to get immediate access to the accounts with individual banking software would be an asset,” notes Stahr. “If not – and this is mostly the case – at least an up-to-date contact sheet for your bank account managers, with their phone numbers and emails, is a must.” In such a situation, he adds that re-

learning how a fax machine works would be beneficial too. The same burden applies to all following procedures such as gathering information on exposures, maturities of trades, the need for new trades, and so on.

De Knecht immediately alights on the ability to make payments too and adds concern over how open futures positions are closed without a trading platform. He further notes that it will be necessary to somehow secure accurate market data and bank statements and to acquire cash forecasts from subsidiaries. The bad news in all this, he warns, is that the most probable immediate remedial action for treasurers will see them having to resort to a series of manual steps – typically calling upon spreadsheets and bank portals for essential activities – to make do until their workflows within the wider system are back online.

As events unfold in the minutes and hours following a major technical event, Stahr is adamant that not only is it essential to have treasury personnel with a solid grounding in all underlying treasury processes but also that a “good team-spirit” pervades the entire operation. “It must be clear to everybody that nine-to-five days are suspended as long the problem exist,” he cautions. As such, “serious but calm communication” with all stakeholders will be required of the senior treasurer. However, detail should be only as much as is necessary to avoid confusion. In the case of catastrophic system failure, all upstream process stakeholders – including accounting, controlling, the CFO and possibly even the Board – must be made aware of the situation without delay.

It is important too for certain downstream participants to be alerted: risk owners (business units bearing the underlying risk) should be clear that their orders for hedging need to be submitted now by e-mail or fax for the duration. Doing so by phone is not advisable says Stahr. “The phone line will be glowing hot anyway; avoid making the situation any more hectic than it is already.” Conversely, he warns of the need to keep awareness of the problem “at the lowest possible level” as far as external relations are concerned, avoiding reputational damage and stakeholder panic.

## After the fact

Once the worst has been contained there will be time for reflection. Post-event analysis should reveal any limitations. “Consider it as an opportunity to avoid it in the future by introducing a scenario-procedure guideline, keeping in mind that second time around it could be worse and have an ever harder impact,” notes Stahr. However, he advises treasurers not to wait for the worst to happen but to try instead to pre-empt worst-case scenarios and to present them alongside the usual risk-mitigation strategies to the risk committee.

To help mitigate the risk of system failure, both Stahr and De Knecht refer to a ‘scenario handbook’ which should be one of the first ports of call for any treasury system failure. Creating this will come either from experience or from stress-testing various ‘what if’ situations for disruption of the different functions of a TMS or ERP.

When initiating steps to mitigate the risk of technical failure, Stahr urges participants never to be afraid of thinking “unpopular” thoughts. For a third-party system failure, this may demand serious questioning of the vendor’s capability under pressure. If its response was less than satisfactory, he says reflect carefully and consider finding an alternative; this may be an unpopular decision but a working and well-

supported system is an essential tool. “The risk of a fail is too serious not to take full control.”

Having a good relationship with a core system vendor is thus vital and it is a joint responsibility between the treasury team and internal IT not only to find the most suitable technology but, as Ellison notes, also to ensure that the vendor has continuity in terms of investment in R&D and its own financial resilience. The impact of ongoing consolidation in the TMS market and the issue of ownership is one that must be considered in the context of product longevity.

## It is your problem

“In essence, responsibility for uptime of systems lies with the IT department,” says De Knegt. “However, it is quite a bit easier for a CFO to place this responsibility with the treasurer to ensure they are on top of the game and that there is an understanding of the implications and which risks need to be mitigated.” For Stahr, responsibility begins with the treasury user and he believes all should be obliged to escalate issues to try to resolve problems, even though this may temporarily create more work. “Never try to resolve apparently simple problems with workarounds – that’s no solution at all, that’s just a risk-increasing action.”

Rewinding to a time before anything has actually happened, Stahr has a further, if unexpected, take on accountability. He believes that some treasurers may be storing up trouble for themselves should the worst happen. “Running a TMS is on the one hand increasing the efficiency and safety of treasury processes but on the other it can allow treasury to drift into standard processes where tight guidelines do not permit the treasury manager individual thoughts.” Some treasury staff, he feels, are “becoming the function of pressing the right button at the right time within a strict daily, weekly or monthly guideline”. The net result is that in the event of core system failure, treasury personnel who learned the business “mostly as a non-creative job” and who are suddenly thrust into an emergency situation “are often not able to think in an alternative way”.

There is another issue to consider here concerning the level of treasury understanding. “What can be difficult for some is that maybe before treasury invested in a TMS the requirements were less complex,” says Stark. When investing in such a system, he notes that treasuries are not necessarily trying to recreate what they did before; they naturally want to take it to the next stage. “As they adopt the capabilities of a treasury system, there will be an expected increase in complexity. Suddenly it becomes that much more difficult to replicate advanced processes for anything more than a couple of hours at a time.”

Regardless of the origin of such difficulties, in the event of a major system failure, Stahr asserts that of necessity there may need to be a “quick and dirty education” on treasury fundamentals. “Assuming that there is anybody in the treasury department who has good practical experience working without a TMS, then only now will some staff learn those pure underlying treasury processes,” he comments.

## Continuity planning

Of course, as a general guide to maintaining treasury operations under emergency conditions, a Business Continuity Plan (BCP) – which should also include a Disaster Recovery (DR) plan – is an essential tool for any business.

This should be clearly documented, easily accessible and regularly tested. BCP should cover likely emergency scenarios and provide the broad means of keeping critical business functions running following such an event – the emphasis being on ‘critical’, states Ellison. It will include input from multiple functions and cover the direction of people, locations and technology. The role of DR is that of a subset of BCP and is typically an IT-driven set of procedures that focus on the recovery of software, hardware and data.

A number of key BCP elements are noted by Michael Baum, Senior Manager, KPMG, in his December 2015 Insight piece in KPMG Corporate Treasury News. There are two determining factors that are the guiding principles for the generation of a treasury-specific BCP, he writes: availability and efficiency. The key enquiry when devising an approach to availability is to pinpoint the maximum tolerated period that any given process can be forgone. Importantly, identifying critical processes must primarily be the responsibility of treasury: all other steps – in particular IT technical steps – must be based on the outcome of this analysis. “Issues of possible threats, risk mitigation and security needs, particularly for time-sensitive treasury processes, logically lead to greater investment needs to protect availability,” suggests Baum. “This is where the second guiding factor comes into play: the efficiency of requirements needs to be ascertained to achieve the best possible balance between investment and risk tolerance.” In short, he contends that an exercise in prioritisation is essential not just for operational needs but in terms of economic effectiveness too.

## Know your system

Of course, the best protection is never to let your system fail in the first place. If the right decision is made when selecting core technology, treasury dramatically reduces the chances of having to face a major disruption, says Stark. Indeed, under such circumstances, he feels total failure becomes “extremely unlikely”. If, however, treasury has made some incorrect assumptions around the capabilities of its technology, it could find itself in a situation where workflow cannot be brought back online as easily as needed. If service is not resumed within a comfortable timeframe then resorting to manual operations is almost inevitable.

To reduce the likelihood of a major technology fail, treasurers should therefore in the first instance ask their supplier (internal or external) what the backup plan is, should the system go down. Be sure to clarify what ‘backup’ actually means, warns Stark. Simply backing up a database to ensure data is not lost is one thing, but a treasury system is a vastly more complex platform requiring a whole new approach. Indeed, questioning and understanding whether a core treasury system is suitably protected may not necessarily sit within the skillset of the typical treasurer and there is a wide range of details within this line of enquiry which must be dealt with satisfactorily. Unless fully conversant with the likes of SOC 2 Type 2 evaluation reports and the new Trusted Service Principles, Stark urges “bringing your experts into the room to make sure you are asking the right questions and making the right decisions”.

Ultimately, treasury must not be on an island from an information security standpoint, let alone one that meets all the needs for hosting, disaster recovery and business continuity. For Stark, the reason for adopting this viewpoint is simple: “It is not a pretty situation to go back to a manual workflow”.





# New Zealand: small, but perfectly formed

*The easiest place in the world to start a business and the second best generally to conduct business, New Zealand sure sounds like somewhere corporates should take note of. What it lacks in the size of market, it sure makes up for in growth opportunities, stability and transparency.*

The country may have been the backdrop to many of the Lord of the Rings' most dramatic landscapes, but the reality of doing business in New Zealand is no fantasy. The country repeatedly receives praise from various industry bodies for its ease of doing business (second globally, World Bank Group's Doing Business Guide 2015), free economy (third freest globally 2015 Index of Economic Freedom) and lack of corruption (fourth least corrupt, Transparency International's 2015 Corruption Perceptions Index).

Indeed, the country's open economy is in its seventh year of expansion and looks set to carry this momentum throughout 2016 and beyond. ANZ forecast growth of 2.8%, 2.5%, and 2.6% for this year and the following two respectively. As Mark Butcher, Chief Executive at New Zealand Local Government Funding Agency, says: "Most countries around the world would love to have the low inflation, 3% forecast economic

growth, a government in fiscal surplus and historically low interest rates that corporates in New Zealand enjoy."

The country's domestic credit ratings as of this year from Moody's (AAA), Standard and Poor's (AA+) and Fitch Ratings (AA+) all have a stable outlook and corporate balance sheets are in reasonably good health, Butcher adds. As such, international interest has been growing in recent years. The amount of foreign direct investment (FDI) in New Zealand has almost doubled since 2001 from NZ\$55bn to NZ\$100bn in March 2015, according to the New Zealand Institute of Economic Research's Foreign Direct Investment in New Zealand report.

But, due to the fact that New Zealand is relatively small in the global context, the question for investors is "whether they want to spend the time getting involved in this part of the

world when there are some major problems drawing attention throughout the rest of the world”, says Butcher. “Nevertheless, it is a well-managed economy and there are opportunities for investors.”

## A proven track record

For those who demonstrate willing though, what welcomes them is a stable opportunity with a proven track record. Although the current volatility in global financial markets, in addition to posing a threat to the country, is a reminder of how quickly sentiment can change, New Zealand has demonstrated its resilience to shock and aptness for endurance.

Since the global financial crisis (GFC), the Reserve Bank of New Zealand says a “partial” list of the threats faced includes: the tightening in global liquidity in the immediate aftermath of the GFC; the Canterbury earthquakes; 2012/13 drought; terms of trade that have fallen considerably from a 40 year high; the 70% peak to trough movement in dairy prices; the 75% fall in oil prices; record net migration and labour force participation; sizeable movements in the real exchange rate and annual house price inflation in Auckland that reached 27%.

Overall, the economy has come out the other side of all these exposures reasonably well. As such, it comes as little surprise that New Zealand is often hailed as one of the world’s top safe-haven economies.

And this track record is something which the country may need to rely on in the future, in order to bring further success. Several surveys have indicated varied outlooks for New Zealand, dependent on the sector and region. The agricultural sector, particularly dairy exports, for example, is extremely susceptible to external conditions such as deteriorating trade and therefore has faced headwinds in recent months, a consequence of which is a drop in business sentiment. For example, in Southland, a region with many dairy farms, 38% of consumers had a negative perspective towards the economic outlook in H215. Construction in urban areas, on the other hand, has seen widespread growth; this is mainly due to the major pipeline of construction work, particularly in Canterbury and Auckland.

## Ample opportunity

Of course, New Zealand is renowned for its agriculture, but there are also opportunities in other fields. Information and communications technology, tourism, film and special effects production, biotechnology, agricultural research, and wood-based technology, for instance, reports New Zealand Now, an online government guide to immigration.

“New Zealand is moving towards a more balanced economy, away from a large reliance on agriculture. At the moment, there is a strong domestic demand – particularly through

construction. Tourism continues to grow too, and there is a desire by government to drive high-value service industries such as software design,” says Todd Voice, Treasurer, Holcim Australia & New Zealand.

Indeed, the country has demonstrated innovative spirit. Entrepreneurs are in abundance; the country’s top 100 high technology companies contributed NZ\$9bn to the economy in 2015, with record growth of NZ\$609m (up 7.3%), according to a Technology Investment Network report. New Zealand’s collaborative research and development (R&D) environment is backed by a government that actively supports science and innovation as one of the core pillars of its formal Business Growth Agenda.

The government also actively encourages foreign investment as there is a light-touch approach to regulation (consent is only required for a limited number of investments, including assets of more than NZ\$100m). Certain growth industries – like the film industry – are also supported with incentives and tax credits.

In general, New Zealand’s overall tax system is also supportive for corporates. In 2014, the US-based Tax Foundation ranks it as second in the developed world for its competitiveness, partly in recognition of the 2010/11 budget, reducing its corporate income tax rate to 28%, down from 30%. The thin capitalisation rules for foreign-controlled or owned companies are worth bearing in mind, though. As Voice explains: “There is a maximum level of debt to asset ratio that has to be complied with. If a corporate doesn’t comply, the interest on any debt in excess of that ratio is not deductible for tax purposes.”

## Treasury environment

In terms of managing any such controls, treasury teams in New Zealand are without a doubt hard-working. According to PwC’s New Zealand treasury management survey 2015 many organisations (83%), particularly in the small and medium-sized categories, have one or less full-time equivalent treasury staff member. The report notes that this finding came as “somewhat of a surprise” given the increased emphasis on risk management following the global financial crisis, but offers one possible explanation. A “unique treasury advisory and outsourcing services environment”, PwC says, exists in New Zealand where specialist external advisors and treasury outsourcing functions are available to fill any void in talent.

Other findings further suggest some perhaps unique treasury behaviour in the country. A significant portion (66%) of respondents have a single banking partner and, what’s perhaps more revealing, are comfortable with this position (91% see this arrangement remaining unchanged). In addition, 78% of respondents are still using spreadsheets as their treasury management recording and reporting tool. Thirteen percent use a TMS, and 11% use a system provided by a treasury outsourcing service provider.

**Table 1: How does your salary compare to those working in New Zealand?**

	Treasury Manager (turnover up to NZ\$50m)	Treasury Manager (turnover NZ\$50m-NZ\$500m)	Treasury Manager (turnover >NZ\$500m)
<b>Auckland</b>	80,000- 90,000	90,000-110,000	100,000-140,000
<b>Wellington</b>	80,000-120,000	110,000-130,000	120,000-180,000
<b>Christchurch</b>	80,000-100,000	85,000-110,000	100,000-120,000

Source: Hays 2016 Salary Guide



There are no hard and fast rules in terms of the number of banks corporates use nor their technology preferences, however. And Voice presents a somewhat different picture. “Whilst it is largely basic cash management techniques that are used – cash pooling, offset sweeps and supply chain finance, for example – most corporates are of a smaller size, so tend to keep it simple because the cost benefits of more complex structures don’t always stack up,” he says.

“New Zealand is moving towards a more balanced economy, away from a large reliance on agriculture. At the moment, there is a strong domestic demand – particularly through construction. Tourism continues to grow too, and there is a desire by government to drive high-value service industries such as software design.”

Todd Voice, Treasurer, Holcim Australia & New Zealand

Butcher concurs: “The average New Zealand corporate is typically New Zealand-owned or owned by an Australian entity or possibly a multinational. New Zealand isn’t the home base for many companies with large numbers of foreign subsidiaries, so there isn’t a lot of complex cash management that takes place.”

“Corporate treasury as a profession and discipline in New Zealand is very mature, though,” says Voice. Most medium to large corporates recognise the value that can be added by a good treasury function. Owing to the fact that the country is both an exporter and importer and exposed to exchange rate risk, even the smaller companies, Voice says, will require some level of treasury services. “It’s just that as a general rule, because the size of the corporates tends to be smaller, the treasury teams will be smaller. The activities could even be carried out as a combined role – by the financial controller, for example,” says Voice.

The size of the country can also impact expected salaries, as Voice explains they are typically lower than can be expected in high-demand places like London (see table 1 for a guide).

## All the best things come in small packages

The country’s small size isn’t much of a problem, however. New Zealand enjoys proximity to Asia’s biggest economies and currently has free trade agreements in place with: China, Australia, Vietnam, Philippines, Cambodia, Brunei, Indonesia, Hong Kong, Myanmar, Thailand, Malaysia, Laos, Singapore and Chile. In particular, New Zealand over the years has been boosting symmetry between financial markets, tax policy and the broader regulatory environment with its closest neighbour, Australia, to assist businesses operating across the two countries.

To put the country’s size into context, Butcher says, “New Zealand is an open economy and relatively small in size on a global scale. But the financial markets are actually mature and deep, relative to their size. The corporates and domestic markets here are very well-serviced”.

The capital markets “really punch above their weight”, he says, particularly when it comes to the debt capital markets.

“You can get good volume transacted in terms of your debt issuance. It is also a really cheap place to borrow because while we’ve still got relatively high nominal and real yields we have tighter credit spreads relative to other markets.” This has resulted in New Zealand achieving a record year of corporate bond issuance for every year for the last four, he says. “The actual tenor of corporate bond or corporate debt issuance has moved longer as well.”

In terms of the banking sector, there are the four Australasian majors (ANZ, Bank of New Zealand, Westpac and Commonwealth Bank of Australia), a small number of Chinese and Japanese banks and two major international banks, HSBC and Citi. “This has shrunk considerably in the last 15 to 20 years,” notes Butcher. The domestic banks are full-service banks with all treasury products, but often have joint venture arrangements with some of the global banks to provide offshore services to corporate clients.

The presence of Japanese and Chinese banks is relatively new. “They tend to focus on trade finance, providing access to global networks and cross-border banking platforms,” he adds. “Some of them are mainly here to service their offshore domiciled clients back in their own jurisdictions and participate in domestic activity, but it is a bit selective.”

## In the know

Treasurers in New Zealand certainly don’t have the luxury of being selective though, especially when it comes to up-to-date knowledge about what is going on in the global economy. Proximity to Asia, the country’s open economy and the fact it is very export-driven (exports account for around 30% of GDP), doesn’t come without issue. The country is exposed and vulnerable to changes elsewhere. A persistent slowdown in China, for example, is a concern for corporates. “Treasurers in New Zealand have to be very aware of events which unfold in other countries that can have a larger impact on the exchange rate, interest rate and commodity prices here than domestic factors do,” says Butcher.

This is, in fact, one of the biggest challenges in the country. “Keeping on top of everything, being across lots of different countries and markets and ensuring segregation of duties is difficult when, because of the small scale, treasury functions tend to be one or two staff. Everyone has to become generalists and keep an eye on everything,” he says.

Of course, this is something that the banks can help with. Working in the countries favour, however, is that it is relatively straightforward for corporates. “I would characterise New Zealand as a very easy place to do business,” says Voice, who also has experience working in Europe and Africa. “It’s also worth noting that New Zealand is internationally recognised as a place where you have a great lifestyle with access to numerous outdoor activities and an advantageous life/work balance.”

And quality of life is something which shouldn’t be overlooked. Nor is a country’s track record. Despite its exposure to the global economic climate, New Zealand weathered the GFC well, amongst other threats in recent years, and could be a place to take shelter in what looks set to be a stormy future. Contrary to the thought that major problems elsewhere in the world may draw attention away from the southwestern point in the Pacific Ocean that is home to New Zealand, these issues may actually draw corporates towards a country that is a rare stable offering.



## Core beliefs

**Kenneth Ng**  
Director and Corporate Treasurer



With over ten years at the helm of the DFS Group's treasury operation, Kenneth Ng has seen the profession go through some changes in his time. Yet, his alignment with the company's core beliefs and values has ensured that he has not only been able to build a function that is fit for purpose, but also one that goes above and beyond to ensure that it provides the business with the tools to succeed.

---

*After more than 50 years in the travel retail industry, DFS Group, a group company of Louis Vuitton Moët Hennessy, is recognised as a leading luxury shopping destination for the world traveller. The group offers products across three pillars of luxury: fashion, watches, jewellery and accessories; spirits, wine, tobacco, food and gifts; beauty, fragrances and well-being. DFS operates across three continents and employs more than 9,000 people.*

Hong Kong-based luxury retailer DFS Group is a company founded on a number of core beliefs and values. It encourages its people to be curious, embrace change, work collaboratively and value each other, and also to act with integrity and humanity. Combined, these beliefs facilitate a culture akin to that of a 'family', enabling the organisation, which is spread around the world, to work as one in order to deliver on common goals.

As Director and Corporate Treasurer at the company for over ten years, Kenneth Ng and his treasury department are the embodiment of these values. In his role, Ng and his team

provide the full scope of treasury services including financing, cash management and FX risk management to its stores located around the world. The treasury also works as an internal advisor, on hand to help the management teams of each store to better understand treasury matters. All of this is achieved with a lean team of three, including Ng, a Treasury Analyst and a Treasury Manager, as well as the support from the company's global Shared Service Centre (SSC) housed in Singapore.

As a qualified accountant, Ng began his career working at one of the major CPA firms before moving onto work as a



financial controller for the subsidiary of a blue chip in Hong Kong. "In both of these organisations I was primarily focusing on accounting matters," he explains. "But I was curious to explore other areas of finance and put myself forward to work on numerous projects and found myself working on tasks associated with corporate treasury, such as being involved in a syndicated loan project, for example."

It was whilst making this move away from accounting that Ng realised that corporate treasury was a perfect fit. "Accountancy, whilst a vital function in any business, is very process driven and does not require you to work with many other stakeholders within the business," he says. "Treasury on the other hand is a more dynamic role that is not only driven by processes, but also requires you to think strategically and work with a wide variety of internal and external stakeholders."

## Working collaboratively

Indeed, it is this latter point that Ng says particularly drew him to the role. "Whilst I am more than happy to be working with numbers, it is interacting with people and communicating that I really enjoy," he explains. And because of what is expected from the DFS treasury team, Ng spends a large portion of his time communicating, and more importantly collaborating, with both internal and external stakeholders.

As previously mentioned, the DFS treasury team is housed at corporate level, providing each store and the SSC with treasury solutions and funding, as well as acting as a quasi-advisory function to the Group's management teams around the world. "There is a real requirement to work closely with the people on the ground in each store, as well as the SSC to fulfil this mandate," he says. "It is important to ensure that we understand their pain points and the solutions, or financing they require to overcome these."

This partnership flows both ways however, and Ng makes sure that he continually communicates what the treasury needs in return to be able to fulfil its duties proficiently. "It is vital that they understand how the treasury function works and the importance of providing us with accurate cash flow forecasts, for instance. Only by doing so are we able to fulfil our role and ensure that they are able to operate smoothly from a financial point of view."

Armed with an understanding of what the business needs, Ng and his team are then able to reach out to external parties to obtain this. Again, it is communication and collaboration that is vital. Ng highlights the club loan deal, which DFS closed last year, as a prime example of this.

"The nature of a club loan means that we act as the syndication agent," he explains. "I therefore had to approach the different banks that we wanted involved in the deal to ask them to provide funding." Of course, with credit conditions as they are, banks are not as readily able (or willing) to part with their cash. Consequently, Ng had to put the work in and communicate clearly the strategy of the company and the nature of the deal. "It was important to ensure they understood that by being part of the deal, that they would be one of our preferred banking partners moving forward."

Of course, communicating with other financial professionals, namely the banks, has been a requirement for treasury since the dawn of the profession. However, the need to outline, often complex, treasury matters to non-financial professionals



Soft skills, such as the ability to effectively communicate, are vital tools for the modern treasurer. You need these to earn the trust of your internal stakeholders and ensure that they feel comfortable with the advice and solutions that you are providing them.

requires corporate treasurers in 2016 to have a different set of skills.

"Soft skills, such as the ability to effectively communicate, are vital tools for the modern treasurer," Ng says. "You need these to earn the trust of your internal stakeholders and ensure that they feel comfortable with the advice and solutions that you are providing them. Increasingly, the same can be said for external stakeholders as well, because you need the banks to trust your operations so they will feel comfortable to provide funding. These skills are not necessarily inherent for a treasurer however, and from my experience have to be learnt and built upon throughout your career."

## Embracing change

What Ng is touching upon here is just one part of the broader change that corporate treasury has undergone post-crisis, which has seen the role expand and become more strategically important. Indeed, even within his own company, Ng has seen a significant change. "Treasury is now heavily involved in many C-level conversations; this wasn't typical pre-crisis," he says.

In his view, even before the crisis treasury was seen as an important function, but there was perhaps a lack of understanding within the business about the risks the department was exposed to. "After all, the departments chief counterparty is the banks, who before 2008 were seen as being quite safe," he says. "As a result, treasury largely operated in the background with little C-level focus. It was apparent that everything changed from the onset of the crisis, however.

"As soon as events began to unfold, everybody within the organisation honed in on treasury and started to pay a greater interest in what we were doing," he adds. "The questions were largely around our banking relationships and the number of banks that we should be working with. And it was agreed, by both C-Suite and treasury, that we should diversify our counterparty risk more and as a result began looking to work with more banks."

From this moment in time the profession changed, perhaps forever. C-level interest in the function hasn't abated and treasury has a more strategic role to play in the company, assuming the position as a trusted advisor to the board. Moreover, Ng has seen treasury increasingly become more cross-functional as the role has grown in complexity. "Ultimately, the financial crisis has fundamentally changed the role of the treasurer, making it more visible and crucial to the success of the organisation," concludes Ng.

## A volatile environment

It has not just been counterparty risk management that has tested corporate treasurers in the wake of the financial crisis, however. Rather than levelling out and returning to prosperity, global markets, on the whole, have become increasingly volatile. And with retail operations spread out around the world, using different currencies, FX volatility has been a particular focus for the Ng of late.

"We have consciously begun to take a more active approach to managing our FX risk exposure," he says. Historically, the DFS treasury, which centralises cash at corporate level in USD, were able to carry out wholesale FX transactions and then provide these funds to the local procurement teams when required.

However, the recent volatility has rendered this approach obsolete. Ng and his team now split these large trades into smaller numbers – a \$5m currency swap, will now be conducted as five individual \$1m currency swaps. "This ensures that we are able to achieve the best pricing and it also enables us to manage our exposures more carefully." But as the number of transactions increased, so did the work load on the treasury team.

"As a result of this, we have worked hard in recent years to automate our FX processes," explains Ng. After scouring the market for different solutions, the company decided to leverage Thomson Reuters FXall to do this. "Before beginning to use the solution I would need to call the banks to put in the trade, they would then call me back and settle the deal. Fund transfer would also need to be made manually after this was complete. This was fraught with risk and delays could often occur if I was in a meeting or unable to make the call."

With the automated solution, Ng is able to input a large number of trades in the system and achieve the best price. Additionally, settlement and deal completion is completed automatically. "We have also programmed the system so that once the deal is settled it creates a payment instruction, meaning that there is no need to manually make the fund transfer either. This has enabled us to plan our deals in advance and leave them to run with little to no human intervention, removing a large degree of the risk and ensuring that our time can be spent on more value-add activities."

## A curious nature

Examples such as this, where Ng is willing to explore new technology and processes in order to guarantee treasury is able to deliver on its objectives is something that he believes is crucial to the continued development and effectiveness of the function. Indeed, being curious and exploring new ways of doing things is one of the DFS Group's core beliefs and is actively encouraged across the organisation. But in treasury this is especially important as Ng is acutely aware that

technology is transforming the profession and believes that it is vital that treasury stays abreast of and embraces these changes.

Of course, it is well understood that innovation typically occurs first in the consumer space, before permeating into the corporate space. So whilst corporate treasury departments around the world arguably haven't yet felt the full force of the disruption that is currently occurring in the financial services industry, those treasurers working in the retail space are on the front line, particularly in respect to payments. "In China, consumers want to use Alipay to make payments, we spoke to our businesses in China and worked to ensure that they were able to accept this form of payment. We are now exploring the possibility of also accepting payments over WeChat (a popular Chinese messaging app)."

Adoption of this technology makes sense for the business; it should drive more sales and make it easier for customers to pay. And whilst Ng is curious of new technology, DFS will not adopt something unless it makes business sense.

"When evaluating any new technology there is a need to ask some fundamental questions, such as, will it lower our costs? Will it help drive efficiencies? Will it enable the business to perform better? If the answer is yes, then we will investigate it a bit further."

Looking ahead, Ng doesn't see the proliferation of technology and the changes it is forcing abating any time soon. Indeed, he holds the belief that these changes may only become more acute. "At present, we are very comfortable leveraging the offerings of banks and established technology companies," he explains. "But this may change in the future as the current wave of fintech companies and their products mature. It is fully plausible that in the near future a technology company could handle our cash management business. Whether this occurs in reality remains to be seen, however."

## Acting with humanity

For the modern treasury professional, carrying out all the 'traditional' treasury duties, acting as a strategic partner to the business, and keeping one eye on future developments, not only in the markets but also across the technology space, can be a demanding task. Spare time is therefore a precious commodity. It is admirable then that Ng donates some of his precious spare time to a good cause, keeping in line with the DFS Group's belief of 'acting with humanity'.

Hand in Hand for Haiti is a charity that was set up following the devastating earthquake that hit the country in January 2010. Its objective is to build a sustainable school complex for the neediest children of the city of Saint Marc. "Our then CEO was heavily involved with the project and invited me to provide accounting and treasury support to the operation. It is a fantastic initiative and one that caught the imagination and provided a wonderful opportunity to give back to those less fortunate. And even though we have had a change in CEO who helped launch the project, I still provide support for the organisation today."

It has certainly been an interesting and exciting journey in treasury thus far for Ng. But despite the challenges, his enthusiasm and passion for the role has not abated and he is ready for more. When asked what the future holds he said: "My focus for the coming years is to continue to expand the role of treasury in line with the ever changing needs of the business."



# Mapping Asia: time to check co-ordinates

*When someone stops to look at a map they are seeking not only directions from where they are now but also the best possible route to their destination. For a country to gain such insight, it takes a skilled observer. Some of the best-positioned in this context are the bankers that serve the corporate community. The views represented here reflect this experience.*



**Melvyn Low**  
ASEAN Head  
and Singapore Country Head,  
Treasury and Trade Solutions, Citi



**Sandip Patil**  
Asia Pacific Head,  
Global Liquidity and Investments,  
Treasury and Trade Solutions, Citi



**Debopama Sen**  
India Country Head,  
Treasury and Trade Solutions, Citi

## ASEAN: standing at the crossroads

Consisting of ten countries, ASEAN presents corporate opportunities and challenges in virtually equal measures. With almost 50 years of co-operation, primarily to sustain regional peace, the focus today is increasingly on economic development. When the ASEAN Economic Community (AEC) was formed in 2015, one of its tenets was for the richest member nations to facilitate the growth of their emergent partners, eventually bringing all to par. But then ASEAN has always been about co-operation, says Melvyn Low, ASEAN Head and Singapore Country Head, Treasury and Trade Solutions, Citi. “This has now become an officially stated aim.”

To expedite this desire, the trade development agenda, led by AEC, has two clear angles. The first is the development of intra-ASEAN trade. Much had been achieved pre-AEC so that today, most of the tariffs placed on the trade of goods, for example, have been removed. This has gone a long way towards driving intra-regional flow to its current figure of \$2.4trn, explains Low.

The second angle of approach concerns the ASEAN’s relationship with the rest of the world. Again, the background work was already underway before AEC took up the mantle so that now free trade agreements (FTAs) have been negotiated with the likes of China, Korea, Australia, New Zealand and Japan. The next step for AEC, as Low sees it, is to create a broader reach across Asia, where current multiple bi-lateral agreements assume more of a regional trade bloc feel, this being executed under the auspices of the Regional Comprehensive Economic Partnership (RCEP).

Two further items on the trade agenda are worthy of mention here, says Low. The Trans Pacific Partnership (TPP), an FTA between the US and 11 other countries including ASEAN members, Singapore, Vietnam, Brunei and Malaysia. TPP’s survival is largely in the hands of the US electorate as the presidential candidates take differing views on its merit. The second item is the continued longer-term development of China’s ‘One Belt, One Road’ initiative which seeks to promote both land and sea-based connectivity and cooperation between the People’s Republic and an extended family of Asian and European nations. It encompasses a strong maritime and overland stretch across ASEAN, suggesting the development of a logistics infrastructure which, notes Low, “will help ASEAN become more connected to the rest of the world”.

As infrastructural and economic developments are enhanced, so too is capacity for ASEAN to play host to international corporates. MNCs are entering the region looking to boost their supply chains, manufacturing here and exporting onwards. But, Low notes, they are also motivated by the prospect of selling to a growing consumer market, itself driven by a burgeoning, 170 million-strong middle-income population.

Seizing opportunity is not often achieved without first meeting basic needs and, says Low, the lack of financial integration in ASEAN is a downside. ASEAN is characterised by different regulations, dislocated payments infrastructures and “vastly different” monetary policies. This

will pose a challenge for corporate treasurers seeking to fund in-country investments and maintain cash flows. “The obvious first approach is to look for an ASEAN bank,” says Low. It must be able to operate in multiple markets and capable of supporting treasury needs on the ground.

In response to the clear need for domestic institutions with pan-regional capacity, ASEAN finance ministry representatives recently signed a new framework agreement laying the ground for the creation of Qualified ASEAN Bank (QAB) status. Open to all based in the region, the scheme allows domestic clients to expand cross-border in the company of a familiar partner.

However, the broader goal is to achieve deeper financial integration within ASEAN by 2025. This, says Low, will see the emergence of multi-national and global banks as key facilitators. Citi's 100-year history in the region gives it a profound local knowledge of corporate and consumer requirements, enabling it to compete head-to-head with domestic players, helping incoming MNCs set up and establish operations.

But, he adds, Citi also has the power of its far-reaching branch and correspondent banking network, its single platform and a broad range of finance solutions to aid in-country, cross-border and, ultimately, global corporate trade. In addition, he says Citi is able to extend to clients, the advantages of its position as one of the region's largest foreign bank tax payment agents.

ASEAN is on an upward curve, sustaining an average growth rate of 4.5%. Whilst other markets across Asia are strong competitors, Low states that ASEAN provides "a very welcoming environment in which to grow". The traditional manufacture and export model is strong but fast-growing mobile and internet usage is placing ASEAN as "the next frontier for e-commerce". Chinese giant, Alibaba's recent \$1bn takeover of ASEAN competitor, Lazada Group, speaks volumes about market expectation.

Indeed, the pace of development will quicken alarmingly, warns Low. This will open the floodgates for many more corporate opportunities. Treasurers operating in ASEAN need to be thinking and operating at "lightning speed": for a foreign corporate, having the right global banking partner in place has never been more appropriate.

## China: further on up the road

China is still going through changes. It has been aiming for the top spot as a trade nation for some time but what we see today is still a 'work in progress'. The Peoples Bank of China (PBoC), alongside its foreign exchange regulatory agency, State Administration of Foreign Exchange (SAFE), continues to oversee internationalisation of the country's currency and trading environment and it knows that to be the dominant global trading nation, its currency must be global too.

In recent times, RMB has gained significant ground. It is now easier to use for import/export transactions, enabling companies to bill in RMB for international trade. But, says Sandip Patil, Asia Pacific Head, Global Liquidity and Investments, Treasury and Trade Solutions, Citi, it is important from a regulatory standpoint to promote RMB not only as a trade currency but also as a currency for investment and liquidity, and as a reserve currency, "so that it can attain true global status".

It is making solid progress. Chinese authorities have, for example, created a number of experimental Free Trade Zones (FTZs) such as in Shanghai. These, notes Patil, give the full experience of free trade for all stakeholders and counterparties but also allow for rapid learning in a controlled environment. Such a move has gone a long way to making the international corporate community comfortable with trading in and out of China.

In a broader context, Patil observes many MNCs are keen to test China's changing trade environment. They have started using RMB in their trade settlements and setting up RMB-denominated entities, using it as a working capital currency. Some have even set up netting centres, in-house banks and treasury centres.

"There has been a lot of successful experimentation," comments Patil. "At Citi, we have many clients transacting on a daily basis, settling in China using sophisticated centralised treasury models." These may be based in Singapore, Hong Kong or London, but their China business requirements, from a treasury, funding and FX perspective, are now being met. This, he declares, "is a dream come true".

There are some key steps that will take this journey to the next waypoint though. Improving availability and access to both onshore and offshore liquidity is vital to make sure the markets remain stable. There is also a pressing need for deepening offshore markets – bond markets, in particular. "The deep, liquid onshore RMB market does not necessarily help foreign participation," says Patil. An increase in the number of offshore players in the onshore market is desirable. A structure thus capable of providing significant liquidity will give corporates who want to use RMB "peace of mind".

The offshore market exists because China's capital account is not fully convertible. This means two versions of the same currency exist: official onshore yuan (CNY) and its offshore proxy, CNH. The payment exchange conversion rate is at par but differs when converting to another currency. This can create arbitrage and, for some, is unsettling. For Patil, co-mingling will limit disquiet.

Regulatory liberalisation is ongoing though and recent PBoC changes related to interest rates are a positive indicator. "As we see free market interest rates on both the liability and asset side, it will present a major boost to the money market infrastructure," he notes. This will not only create further confidence amongst market participants but will also translate into more efficient products.

It is sometimes easy to forget that China is still an emerging market. Occasionally when exposed to such a risk, market jitters can shake corporate confidence. But look beyond this to China's long-term sustained line of growth and a core strength that is "extremely positive" is seen. Furthermore, the anticipated changes in China will build upon current market confidence "taking RMB to the next level".

When viewed in the context of a global slowdown, the strategic importance of China to many of Citi's customers remains intact. Whilst the short-term 'red flags' consistent with operating in an emerging market must be managed, working capital management must remain in focus. In an effort to optimise funding and performance, he observes companies seeking to digitise cash flow cycles, deploying cash flow forecasting tools and improving their response to liquidity issues (in particular trapped cash). A move to cross-border lending, automated pooling in RMB, 'on-behalf-of' and netting structures, and offshore financing of mainland operations are also increasingly observable trends.



A number of international banks have, to a greater or lesser degree, the capacity to service corporate clients in this market. And whilst China has introduced the SWIFT-like Cross-border Interbank Payment System (CIPS) to tackle some of the fragmented offshore clearing seen today, Citi of course can boast an enviable clearing presence within China. But there is more to it than flexible technologies and a broad product set.

Indeed, given that the market is volatile and subject to many significant regulatory changes, there needs to be a connection between the client's business on the ground and its strategic thinkers and key decision-makers. This comes from a well-developed advisory function. For Patil and Citi, having the depth of knowledge and understanding to help clients navigate and manage this growing space is what marks the difference between a functional bank and a global partner.

## India: the road less travelled

In exercising a political and economic will to open up the country to trade, India is a country intent on fulfilling its potential. In the first phase of recent reforms, it sought to liberalise foreign direct investment (FDI) across multiple industries, and it swept out a lot of trade-related bureaucracy, bringing instead more clarity and predictability. It also kick-started a number of key infrastructure projects, tackled fiscal consolidation through strong discipline, and sought to bring the country's current account deficit back into line.

As the second phase of reform swings into action, India is now focusing on driving forward the digital initiative. This, notes Debopama Sen, India Country Head, Treasury and Trade Solutions, Citi, will have a direct impact on how corporates do business in and beyond the country. By building out the broadband and telecoms infrastructure, banking the unbanked and implementing the nationwide Aadhaar biometric ID programme, there is an opportunity to transform e-commerce and encourage growth within consumer facing industries and their supply chains.

The effects of reform are notable. In 2015, India was possibly the largest recipient of FDI globally with commitments of around \$63bn, and annual growth of almost 30% between 2014 and 2016. Overall economic growth is 7.6%, expected to hit 7.8% by 2018.

Although in 2016 India is ranked 130 in the World Bank's Ease of Doing Business report, this has improved by 12 places since 2015. But the government target is to move into the top 50 in three years. Some major investments by large corporates have increased confidence in this respect – Foxconn's May 2015 \$10bn manufacturing plant for iPhones notable amongst these. Other household names coming on board include Amazon, Suzuki and Siemens. "There is optimism and faith in the measures being taken," comments Sen.

It's not all 'green shoots' though. Some of the challenges on the ground are still very much present. In the same World Bank report, India's ranking for starting a business is 155; and ranking for resolving insolvency is 136. "The government however is resolute and the passing of an insolvency law earlier this year shows strong will", notes Sen. In August too, after much debate, the Constitution Amendment Bill for Goods and Services Tax (GST) was passed. Once approved by 50% of the states, it will replace indirect taxes with a common approach. "For any corporate operating in multiple States – perhaps manufacturing in one and selling in another – it removes multiple points and different levels of taxation," explains Sen. Economic research suggests GST will have a positive impact of between 1% to 2% of GDP.

Sen is keen to draw treasurers' attention to the fact that the domestic Indian market is huge and consumer behaviour is rapidly changing. This has consequences. "In the last five years, from a small base of \$4.4bn in 2010, we grew to a \$22bn e-commerce market in 2015," she notes. The expectation is that this will hit \$100bn by 2020. The digital-savvy nature of the new Indian consumer is affecting purchasing and banking channels – and this is now reaching into business realms too. "The traditional distribution model of manufacturer to distributor to retailer to consumer is going through a transformation," she explains. "Many consumer goods companies now want to reach end-consumers directly. Initially this was just to create awareness but now many of our clients are considering selling directly online."

It is an approach that has necessarily forced new thinking on how corporate payments, cash collections and reconciliations are executed. If proof were needed, India's 24/7 real-time inter-bank fund transfer mechanism, Immediate Payment Service (IMPS), launched in 2010, now clocks up around \$3.5bn of small-value settlements per month and rising.

With ongoing legislative and regulatory reform, and changes in the consumer mindset and the digital infrastructure all coming together with great serendipity, treasurers must stay ahead of trends. This applies equally to both domestic and cross-border trade. Of the latter, there is a concerted government effort to drive up current export levels from \$260bn today to \$900bn by 2020. "This will primarily be achieved by looking at more trade partnerships across different countries, regions, and products," says Sen.

These plans are ambitious and banking partners should be equipped to play their part. Their corporate clients need to stay abreast of domestic and global developments and be detailed on what these mean, and how they can be leveraged.

As part of its ethos of local involvement, Citi has a hands-on approach to delivery in this respect. It is, for example, at present partnering with the Indian Customs authorities and the Ministry of Finance on a major trade digitisation project. The administration has been "very receptive" to inputs from client workshops and research provided by Citi through its domestic and international corporate clients. It is this kind of two-way relationship, anchored by Citi's long-term on-the-ground experience and knowledge, that Sen believes will prevail as India's stock continues to rise.

# CitiDirect BE<sup>®</sup> is everywhere you need to be.



Access the full power of CitiDirect BE<sup>®</sup> from anywhere in the world. Three channels—**online**, **mobile** and **tablet**—deliver one integrated experience. Work with colleagues across locations and channels to seamlessly execute transactions in real-time, anytime.



Easy to use with intuitive design and sleek interfaces



Robust features deliver a powerful user experience



Secure and seamless user authentication across all channels



**Download CitiDirect BE<sup>®</sup> Tablet** from the App Store, Google Play or Windows Store. **To use CitiDirect BE<sup>®</sup> Mobile**, enter <https://m.citidirectbe.com> in your mobile browser and log in.



# Treasury models are adapting for purpose

*A corporate treasury focused purely on executing transactional activities is a rare thing – if one still exists. The role of treasury has developed into a far broader function and phases such as strategic advisor are now thrown into the mix. But what does this mean and how does selecting the correct treasury structure enable an advisory function? Treasury Today Asia looks at how different treasury models, including hybrid centralisation, have evolved to fulfil the multiplying needs placed on different treasuries.*

Whilst automation and cost reduction remain among the major aims when it comes to structuring the treasury function, full centralisation doesn't suit every business, nor is it possible for many. Certainly, emphasis on visibility and control is considered one of the drivers behind intensifying interest in centralisation. But the trend to note from recent years, suggests Craig Davis, Partner, Head of Financial Risk Management, Asia Pacific, KPMG, is the movement away from decentralisation – one which may not reach full centralisation in every case, but a journey that is particular to an individual company's criteria, and what works best for its operating model.

According to Norbert Braspenning, Clients & Products, Asia Pacific, Managing Director, ING Bank's wholly owned subsidiary Bank Mendes Gans, this trend can be compared to Charles Darwin's theory of natural selection. "In his scientific theory, the evolutionary process gives rise to diversity at every level. If you project that onto treasury, one of the definite takeaways is that there is more than one way forward." As companies evolve, "each business will find itself in a unique situation based on its size and scale, geographical footprint, organisational culture, technological sophistication and so on", and treasury will adapt more or less in line with these developments.

Without a doubt, though, in recent years, centralisation has been the hot topic. KPMG's Davis identifies three factors which have driven the preference for a move in this direction: "Firstly, from a cash management perspective, being able to pool your liquidity together is going to give you cost and efficiency benefits. In addition, from a risk management perspective, having a holistic view across the organisation is advantageous. A third key point is regarding infrastructure; rather than having multiple instances of TMSs, for instance, being able to build technology in one location and leverage that for increased risk analytics and cash management capabilities drives centralisation."

It is clearly not a new transition, but one which has been accelerated by the global financial crisis. Efforts to fortify internal controls, mobilise working capital and boost visibility intensified in the turbulence that followed this period. And now, Davis says, the current economic environment is further driving focus on such efficiencies, as well as technological advances making it easier and cheaper to centralise in varying degrees.

## Drawing the right attention

As such, treasury models have received much attention in Asia Pacific (APAC). Richard Parkinson, Managing Director of the Treasury Today Group, facilitated a panel at the annual SIBOS conference in Singapore last year, which discussed the growing trend to centralise the treasury function in APAC but acknowledged the multiplicity of choices treasurers have when shaping the structure of their departments. Indeed, operating a centralised structure is not always straightforward and, as every business has individual requirements, it is important to determine (and periodically re-evaluate) the degree to which centralisation is beneficial and practical from a specific company's perspective.

This is particularly the case in Asia where infrastructure and regulatory frameworks diverge between markets, making achieving an optimal balance between global consistency and local flexibility of utmost importance. In fact, many treasuries form a hybrid between the two.

When deciding whether a company's treasury model needs adapting, the treasurer's knowledge of the company's business drivers, how funds are managed within regions and back to the parent company and desired levels of control, amongst other company-specific priorities, is key. "There are certain criteria that I think everybody needs to consider but depending on the type of industry they are in, some will be more important than others," says Davis. These priorities can then be matched with relevance to the two distinctions that treasuries find themselves between:

**Decentralised.** Treasury policy-making, decisions and activities are conducted by individual subsidiaries. Typically, only a small team is retained at group level to provide advice and support. Subsidiaries may have their own local banking arrangements, will organise their own funding and handle cash management (including short-term borrowing and investments) locally but payments to and from the parent company will still occur.

Decentralised structures work well when the subsidiaries are independent and autonomous units with limited complimentary needs. Treasury units' enhanced local operational knowledge and risk awareness is advantageous – especially when the business needs to adapt to unexpected events. However, they face issues with limited automation (no central processes), and potentially lack the leverage or ability to offset surplus cash

positions against borrowings elsewhere, among other potential problems of multiplying, rather than minimising, efforts.

**Fully centralised.** With a fully centralised structure, a global treasury centre or regional centres (on behalf of subsidiaries across a specific region or across the group) will undertake policy-making decisions and most, if not all, banking and financial activities. These centres may offer 24-hour services to ensure round-the-clock coverage for all subsidiaries.

Centralisation ensures group treasury has standardised operations, greater control across the company with streamlined bank accounts and improved transparency of cash flow. The natural hedge created by the matching of financial positions can also result in better margins. If basic processes of payments and collections are centralised, the cost of those processes decreases: it is a simple economy of scale. At the SIBOS panel facilitated by Treasury Today Asia, Finance Lead at British American Tobacco (BAT), Nicholas Soon, said how the cost savings from their centralisation project in treasury alone are \$50m per annum.

Centralisation can, however, lead to a lack of local banking expertise and a loss of responsibility locally may create a lack of interest and build up resistance at that level. Technology developments can also be hampered by many Asian regulations so although full centralisation may be the ultimate goal for most multinational corporations, many companies end up with a partial or hybrid centralisation structure simply because it is too impractical for them to operate in any other way.

Indeed, it certainly isn't a case of one size fits all. Some responsibilities of the treasury department can benefit more obviously from centralisation – increased visibility of cash flows and information, for example.

But, in some instances, companies must question whether the process involved would be handled better locally – certain commodities hedging or transactions require reporting to central banks, for instance. “Historically, decentralised approaches were used for a number of reasons in terms of regulatory requirements and infrastructure challenges,” Davis says. Whilst the majority of developed countries innovate, mature and advance, some countries remain stuck in the past somewhat and if companies want to operate there, they must follow the rules and deal with the consequences on treasury structure.

In fact, according to Braspenning, “the majority of corporates fall in the middle. There are a few that operate fully decentralised, but there are even less that can do everything centralised”.

## The best of both worlds?

Treasury models, of course, aren't fixed structures – they are meant to adapt for purpose. As such, over the years, other models taking influence from both ends of the spectrum have emerged. For example: global treasury centres with regional treasury centres and global treasury centres with decentralised treasury activities (see Chart 1 opposite). Both are part of a centralised treasury management function, but are legally structured as a separate group entity or branch.

Heralded as a 'best of both worlds' approach, hybrid centralised models typically involve individual subsidiaries following the treasury policy as outlined by group treasury, but given the responsibility for executing deals themselves via their local banking partners. Since the financial crisis, treasurers have been rethinking their approach to banking and

funding and with an increasing number of banks withdrawing from once key markets, relying on just a few banks is no longer seen as a viable option.

This delivers more control while enabling subsidiaries to maintain a degree of autonomy within the front office function. It can also help to increase uniformity in treasury policies and procedures across the group and allows key decisions to be made at a global level with a comprehensive view of cash flow – whilst also retaining local expertise.

What you see with hybrid centralisation, Braspenning says, is that treasury can decide which parts it wants to outsource and what activities it wants to do locally. “For example, managing short-term cash using cash pools, whilst arranging long-term financing through an in-house bank (IHB).” In addition, keeping that local knowledge avoids an inevitable challenge of having all expertise at the centralised level. “Hybrid centralisation has already been around for a long time, but I think to a certain extent it has been rediscovered in Asia Pacific,” says Braspenning.

However, trying to identify specific tasks that will be given to subsidiaries is somewhat difficult, as it will depend on their individual set-up and consequently can vary massively from company to company. Whilst, for example, subsidiaries could be tasked with identifying exposures related to their line of business and requesting head office operations to execute hedges, in other companies the specialised business unit may also execute the hedges. Over time though, Davis says, “treasury has evolved from being purely an execution centre to one that's driving a lot of decision making throughout the organisation” and it is this decision making treasury can use to drive forward a tailored set-up for the function.

## What are the motivations?

Hybrid models can arguably be seen as “stepping stones to centralisation”, says Davis. “Going straight from decentralised to fully centralised can be a significant leap for certain organisations. In some cases, such models are very much that stop gap.” That isn't to say that it is every organisation's aim, however, to eventually move to a centralised structure. Some corporates like to keep a certain amount of control in the local businesses, so whilst there might be a group treasury helping them coordinate some activities, a lot of the on-the-ground decision making is still made within the local operation. “This links back to the culture of that particular organisation in terms of not wanting to give up authority within the local businesses,” says Davis.

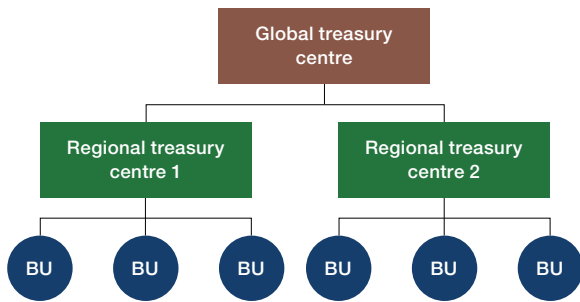
His colleague, Oliver Hsieh, Director, Advisory, KPMG Singapore, concurs. “I wouldn't say that a fully centralised treasury centre is the ultimate goal for every treasurer out there. Some companies' businesses naturally go towards a regional treasury model, especially where they have major pricing centres or major trading areas.”

The tendency to stick to global treasury centres with decentralised treasury activities, Hsieh says, is often seen in Asian conglomerate companies that “like to have their fingers in a lot of different pies” – a result of which is that the group's businesses have limited connections to one another, so to try and force a centralised or even a regional treasury model onto that company might not necessarily work.

What's more, “in this day and age, corporates in multinationals or conglomerates can be conscious about having to sell off

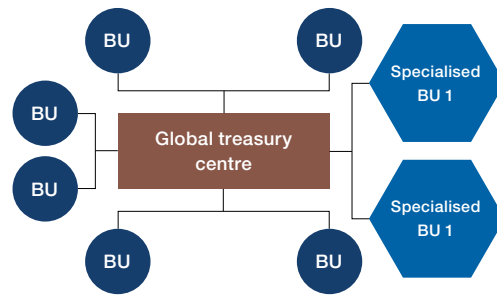


**Chart 1: Treasury centre operating models**



**Global treasury centre with regional treasury centres**

- Each region's business units report into their respective regional TC.
- Treasury operations are pooled and coordinated regionally.



**Global treasury centre with decentralised treasury activities**

- Hybrid model.
- Business units generally report a centralised entity, however some treasury operations are carried out separately.

Source: KPMG

parts of businesses. To the extent that they would need certain assets to go with that specialised business, having a centralised treasury again may not actually work," says Davis.

**Location push and pull factors**

Whatever may be the motivation, when either a regional treasury centre or specialised business unit is encountered, decisions need to be made regarding location. Again, this choice will largely depend on a company's individual business model. A KPMG report, titled 'The Structure, Role and Location of Financial Treasury Centres: A Process of Evolution', cited the following consideration factors and the corresponding importance, as rated C-suite respondents representing MNCs from 12 industries:

- Banking factors (13.3%).
- Tax attractiveness (12.9%).
- Business environment (9.7%).
- Availability of skills and talent (9.4%).
- Government incentives (9.3%).
- Currency environment (9.1%).
- Access to capital markets (8%).
- Country credit ratings (7.4%).
- Infrastructure and accessibility (7.2%).
- Regulatory and reporting requirements (7.2%).
- Existence of other treasury centres (6.4%).

As Hsieh says: "It typically isn't one single factor that tips the balance, but a combination of multiple factors in multiple jurisdictions that they are weighing up." In sectors such as commodity energy trading, for example, tax effectiveness and governance incentives will be extremely important. Whereas,

Hsieh continues, in electronics, the availability of talent and efficient infrastructure is likely to sway the balance.

Indeed, treasury centres are normally located in a tax-efficient environment, reducing the bill on transactions and profits associated with the entity. For example, between APAC's top choice for corporates for establishing a regional treasury centre (Singapore or Hong Kong), Hong Kong has lagged behind Singapore largely because of its poorer tax incentive programme. Recent developments have looked to change this: the Hong Kong Monetary Authority has new rules that tax payments on intercompany loans will no longer be larger than profit earned – thus bringing the territory's incentive package more in line with Singapore's Finance and Treasury Centre (FTC) award where qualifying corporates receive a concessionary tax rate of 8% on all fee income received from treasury activities and an exemption from withholding tax on interest payments.

But also of importance – and increasingly so – is the location's possession of a wealth of financial services expertise and talented future employees. According to Braspenning, as the tax landscape continues to change – the OECD's action plan on Base Erosion and Profit Shifting (BEPS), for example – it will, in fact, be "far more important to have capable people, in the right place, doing the right things". This is a factor, he adds, that treasury can influence, as opposed to a changing tax environment.

**Typified by diversity**

As has been explored, centralisation can take many forms; individual corporate objectives can be as varied as those pursuing them. "Based on the corporate's DNA, the right (re)balance between centralised and decentralised needs to be found," says Braspenning. The days of understanding treasury centralisation as a project that has a finite end point are seemingly over. "Rather, the best idea is to see the change as multiple treasury evolutions because everyone will face different kinds of challenges, which need to be address in different ways."

# A new dawn for Asia's cash investors

## Kheng Leong Cheah

Head of Global Liquidity Sales,  
Asia Pacific

**J.P.Morgan**  
Asset Management



*Basel III is set to dramatically change how banks view deposits; a development that is already having an impact on corporate liquidity management. In this article, Kheng Leong Cheah, Head of Global Liquidity Sales, Asia Pacific at J.P. Morgan Asset Management, explains the implications of Basel III and shares his thoughts related to this topic with corporate treasurers in Asia Pacific.*

### What are the key objectives of Basel III and what does this mean for how banks will manage their balance sheets going forward?

Basel III is a set of reform measures developed by the Basel Committee on Banking Supervision in the wake of the 2008 financial crisis. It is focused primarily on the liabilities that the banks hold – building on the framework set out under Basel I and Basel II, which were more interested in the asset side of the balance sheet. Ultimately the goal of the regulation is to strengthen capital adequacy and bolster banking supervision by setting the standards for bank capital, liquidity and leverage.

As the centrepiece of the Basel III liquidity framework, the Liquidity Coverage Ratio (LCR) aims to ensure banks are able to meet their liquidity needs in times of serious stress. More precisely, banks are required to hold a sufficient stock of unencumbered high-quality liquid assets (HQLA) that can be converted into cash within one-day – without a decrease in value – to meet banks' needs in a 30-day stress scenario.

The LCR is changing how a bank views a clients' deposits. The LCR rules reflect assumptions around what liabilities will leave the bank in times of stress, and a run-off factor applied

to all deposits. Those that are deemed to be more likely to leave first – unsecured wholesale funding by a financial services company under the US interpretation for example – attracting a 100% run-off rate. Operational deposits, cash used for payments and the day-to-day running of the businesses, are seen as least likely to leave in a stress scenario and so receive the lowest run-off rate.

For the 30 banks deemed global systemically important financial institutions (G-SIFIs), there are additional requirements. All banks with the G-SIFI label are required to provide even more stability in times of market stress. As a result, on top of the requirements all banks must meet under the LCR, these institutions are also required to hold an additional 1% to 2.5% depending on the size of the bank. Consequently, non-operational deposits are becoming less profitable – and over time the banks are likely to seek to minimise this type of deposit.

### So what does all this mean for the corporate investor?

Corporate investors need to understand that going forward their deposit banks will be splitting their deposits into two



buckets. In one bucket will be operational cash and in the other, non-operational cash.

Given that non-operating deposits are becoming ever more unattractive to banks under the LCR rules, we are likely to see increasing instances of banks turning away some corporate deposits. Indeed, this is a trend we are already seeing a lot of in the US and Europe. It means corporates are going to need to pay a lot more attention to how they manage their banking relationships, and look to diversify their short-term investments, potentially by using a greater number of off-balance sheet vehicles to do so.

**Corporates in Asia are said to be holding more cash than companies in any other region. Would you say that given this trend Basel III is especially significant for companies in Asia?**

The Asia Pacific region has evidently been on a higher growth trajectory of late, certainly relative to the economies of the US and Europe. So corporates based here have been growing at a much faster pace and using a considerable amount of their spare capital to invest in growing their businesses through merger and acquisition (M&A) or research and development (R&D).

But that being said, we have in recent years begun to see a slowdown in some of the region's major economies, most

notably China and Japan. Consequently, the pace of corporate growth has also slowed and many companies have started to stockpile cash to provide a buffer in this uncertain environment.

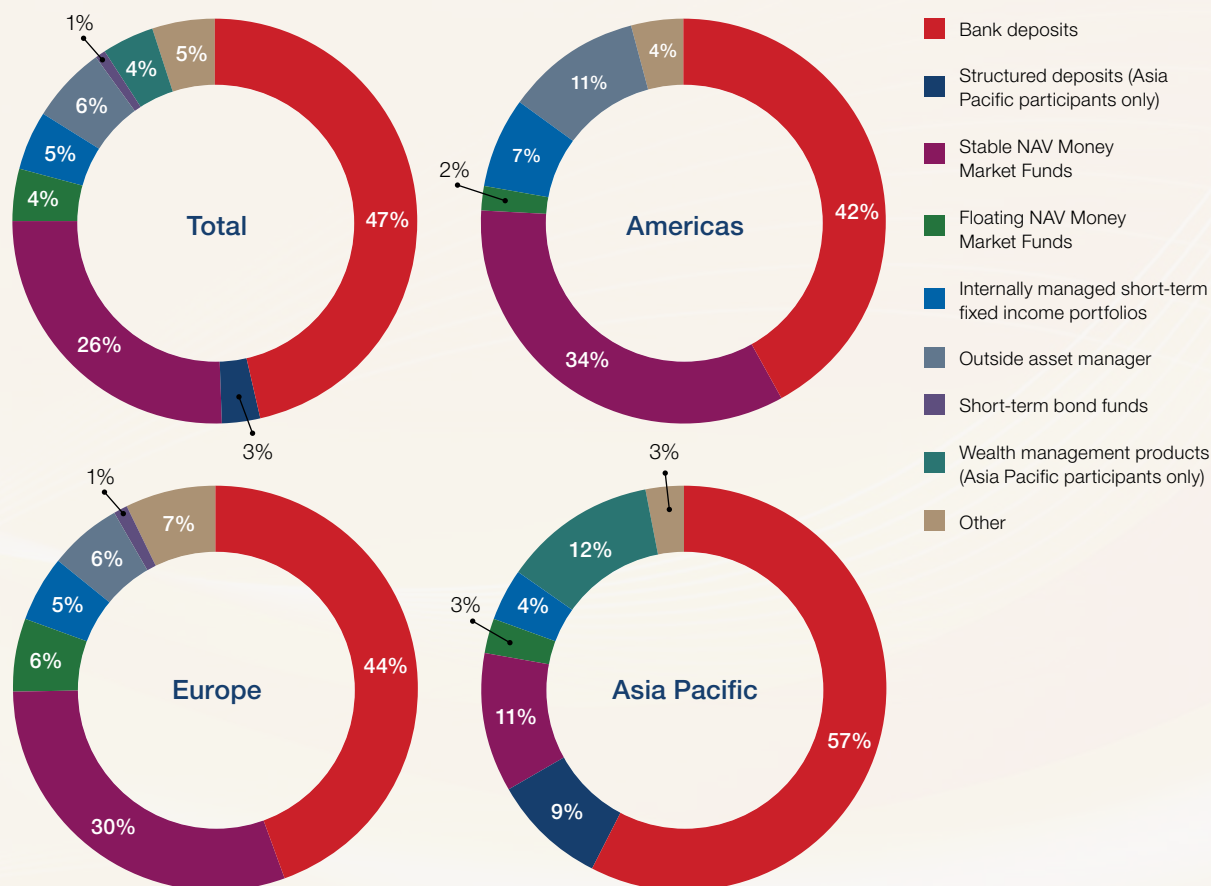
The numbers are quite staggering. Japanese companies, for instance, are holding close to US\$3trn. In China, corporates are holding roughly US\$1.2trn in cash and this figure is growing rapidly. Given that bank deposits remain, by far, the most popular investment vehicle in Asia, that is a lot of non-operating cash currently sitting on the balance sheets of the region's banks. And once Basel III truly begins to bite in the region, that is a lot of cash that corporates may need to find a home for.

**On that note, how has Basel III impacted Asia to date, compared to Europe and the US, for instance?**

Although the final deadline for all banks around the world to be compliant with Basel III does not hit until 31<sup>st</sup> March 2019, we have already seen many banks, especially those in Europe and the US, taking a proactive approach and adjusting to meet the new requirements earlier than required.

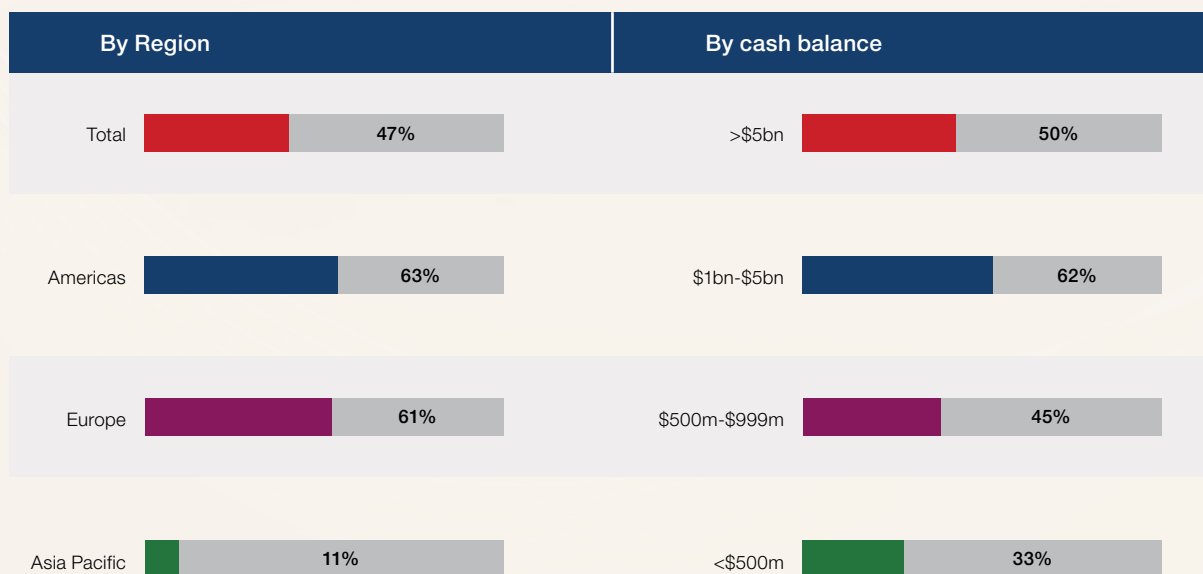
Yet this is not the case in Asia Pacific, where compliance with Basel III is progressing at a much more gradual pace. This is reflected in the banks' treatment of deposits. The 2015

Chart 1: Average cash allocation across peer groups by region



Source: J.P. Morgan Global Liquidity Investment PeerView<sup>SM</sup>; as of 21<sup>st</sup> October 2015

**Chart 2: Of those likely to decrease bank deposits, % encouraged by bank to move non-operating deposits off balance sheet**



Source: J.P. Morgan Global Liquidity Investment PeerView<sup>SM</sup>; as of 21<sup>st</sup> October 2015

J.P. Morgan Global Liquidity Investment PeerView<sup>SM</sup> (PeerView<sup>SM</sup>) study, for instance, found that in both the Americas and Europe, over 60% of corporates who stated that they were likely to decrease bank deposits had been encouraged by their banks to move non-operating deposits off the balance sheet. In Asia Pacific, the equivalent figure stands at 11%.

This perhaps explains the regional differences we see in corporate short-term investments. Our PeerView<sup>SM</sup> study, for instance, indicated that just under 60% of corporate cash is allocated to the banks, compared to 42% and 44% in the Americas and Europe respectively. Meanwhile, cash allocated to money market funds (MMFs) in Asia Pacific stands at 14%; that's noticeably lower than the 36% for the Americas and Europe.

Of course, the numbers can be partially explained by the fact that the MMF industry is generally more developed in Europe and the US. Also, since corporates here in Asia have only recently been in a growth cycle they have had little need to think about managing large stockpiles of excess cash. But as we noted earlier, this is now beginning to change. With all the additional cash that corporates in Asia have recently been accumulating, corporates do need to begin thinking about alternative short-term investment products as M&A and other growth investment opportunities begin to dry up.

This requirement will only become more acute over the coming months and years as more banks begin to align themselves to the Basel III landscape. That means there is going to be a lot of work to be done by corporates and their banking partners here in Asia. Now is really the time for treasurers to begin thinking about how deposits will be treated moving forward and the difficult short-term investment decisions that lie ahead. For those treasurers who have not already started discussing the impact of Basel III internally and externally, it would be prudent to now begin this exercise.

### What options are available to a company considering off-balance sheet options and how can J.P. Morgan Asset Management help companies with these liquidity solutions?

There are various ways corporate treasurers can begin to invest in off-balance sheet products. At an elementary level, it would be wise to begin looking at the different alternative investment options, understanding how these work and whether their company investment policy permits the use of such products. Typically, MMFs are the product best suited to shorter-term investment needs. For longer-term investments, corporates might wish to consider short-term bond funds or investment funds in the debt space with a one to two-year investment horizon.

Of course, the suitability of each of these products will come down to each individual corporates' cash requirements and risk appetite. It is therefore a sensible step to begin segmenting cash into buckets of operating and non-operating cash and to predict how these tranches will be treated by the banks. To avoid a mad rush to find appropriate investment options as the Basel III deadline edges closer, it would be a good idea for corporate investors to begin having conversations with their banks and asset managers in order to ascertain which products best suit their needs.

Throughout the region many corporate treasury departments are in the same position. Treasurers know that Basel III is coming, and in Asia they are working hard to understand the potential implications of the regulation on short-term investments so they can adjust their strategies accordingly. J.P. Morgan Asset Management has a wealth of experience helping clients on this journey around the world and, as the impact of Basel III begins to be felt in Asia Pacific, our team of investment professionals will be ready to answer clients' questions and find solutions to meet their investment needs in the post-Basel III world.





# Will Asia's MMFs seize the Basel III opportunity?

*With the cash stockpiles of multinationals in Asia continuing to expand and Basel III changing how a bank views its client's deposits, 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 the prospects for funds in some of the region's key markets in the years ahead.*

Never before have Asia's multinationals had so much cash on the balance sheet – and right at a time when certain deposits are becoming less attractive to banks. But will it be the region's money market funds (MMFs) that emerge as the big winners if corporates are forced to look for alternatives to holding all their cash with banks?

The MMF industry in Asia has already undergone an astonishingly rapid growth over recent years. At the heart of this trend has been China, where the MMF industry is but a decade old. Total assets held by funds in China surged six-fold to RMB 2.2trn between July 2013 and December 2015, according to a recent research note by Fitch Ratings. In 2010,

the industry in China accounted for a mere 1% of total MMF assets. Today the figure stands at 10%. The development of Asian capital markets has facilitated this development. A growth in the range and volume of assets available to invest in has allowed for larger and more diversified funds to emerge.

Now asset managers believe MMFs could be on the brink of a second burst of growth. Amid a dearth of capital investment opportunities, the cash stockpile of corporate China now stands at a whopping \$1.2trn, having increased by 18% in the last quarter alone. In South Korea, meanwhile, companies have around \$270bn idle on the balance sheet, and publicly traded companies in Japan are said to have amassed



## MMFs: Things to consider

For a corporate treasurer looking to invest in MMFs in Asia, HSBC's Bourke says there are a number of factors that should be kept in mind.

As noted earlier, the region's industry is incredibly diverse. But differences in MMF products across jurisdictions may not always be reflected clearly in the ratings. "Depending on the currency of the fund the absolute level of credit risk can be very different between different currency options within Asia," says Bourke. "So whilst a money market fund in India may have 'AAA' rating, that money market fund rating is for the India market, and the absolute level of credit risk is very different to a fund with 'AAA' money market fund rating in Europe for example. Investors should understand the norms in each market – from credit risk, to cut-off times, to settlement cycles: each market has its own characteristics."

One should also be conscious that because asset managers manage their funds relative to local regulation, products may differ from what a US or European corporate might be used to in its domestic market. "Many multinational companies will look to invest with providers that they use or work with in another jurisdiction," says Bourke. "So it is important to understand how that asset manager manages its investments for MMFs in different regulatory environments, as well as the governance around those products. Different structures employed in different jurisdictions, and the level of oversight is different between providers."

But irrespective of these differences, Bourke believes the value proposition for corporate investors remains consistent across the globe. "The benefits MMFs bring to institutional investors do not differ between different domiciles," he says. "Most of the features, in terms of credit diversification, portfolio management, and a high degree of liquidity and transparency are the same whatever the market. We expect clients to continue to see value in those features and continue to use MMFs and as we ramp up resources focused on Asia, we expect to see commensurate growth in AUM across the region as well." HSBC Asset Management's Bourke agrees, adding that he expects this broadening of the client base to drive further increases in AUM for HSBC's China funds over the coming years. "In the past it has principally been US and European multinationals, but I think that is beginning to change. We are now beginning to see interest from China domiciled corporates as well and because of that we are confident we will be able to continue to grow our funds in the way that we run them today."

reserves of some \$828bn. That represents a lot of cash that may soon have to find a new home.

Under the Basel III Liquidity Coverage Ratio (LCR) banks must hold reserves of as much as 40% against some corporate deposits deemed likely to flee during times of crisis. In the US and Europe, we are already seeing banks taking steps to discourage such deposits. But the impact of the LCR in APAC has so far been rather muted, relative to other regions. J.P. Morgan Asset Management's Global Liquidity PeerView study, for instance, found that treasurers in APAC are significantly less likely to have been encouraged to move non-operating deposits off their banks' balance sheets compared with peers in the Americas or Europe.

But some believe it is only a matter of time before more treasurers in the region start having those conversations with their banking partners. "We expect to see more growth in assets under management (AUM) over the next couple of years," says Simon Bourke, Director, Institutional Business Liquidity, Hong Kong, HSBC Asset Management. "Some of this growth will be driven by regulatory changes such as Basel III; developments which we expect to support the growth of in funds like our HKD fund targeted at institutional clients."

Aidan Shevlin, Head of Asia Pacific Liquidity Fund Management, J.P. Morgan Asset Management shares the view that interest in institutional MMF products could grow further as the banks begin to treat deposits differently under the new Liquidity Coverage Ratio (LCR) rules. "This year we have definitely seen a change in tone from the banks," he says. "It's been evident that clients are starting to become more aware of the changes, and they are starting to ask us questions about them. It definitely could be a good tail wind to the MMF industry in the years ahead."

## Growing sophistication

Adding to the optimism of asset managers is the growing acceptance of the money fund product beyond its traditional customer-base. Originally, institutional MMFs sprung up in Asia mainly to meet the demand of western international companies that used the products in their home markets and sought something similar as they expanded into Asia. But now companies domiciled in Asia are showing interest too. "What we have seen recently is the growing sophistication of local investors," says Shevlin. "They are no longer satisfied with time deposits or local standards. So there is definitely growing demand in that area."

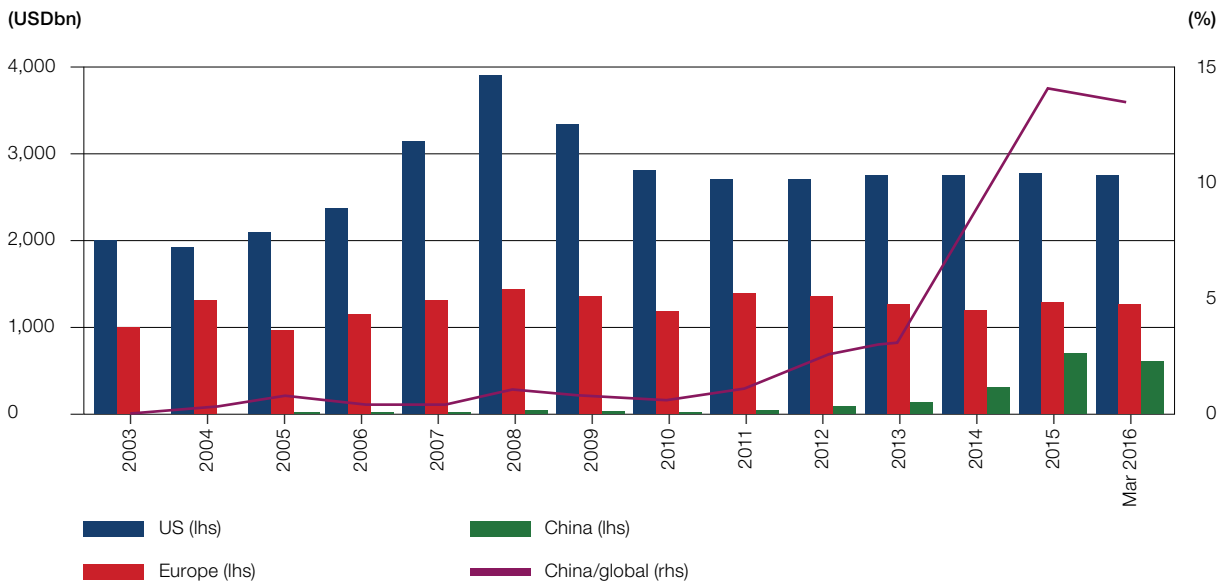
The trend is perhaps a natural consequence of the steady internationalisation of corporates domiciled in China. As KL Cheah, Head of J.P. Morgan Asset Management's Global Liquidity Sales, Greater China explains, as the mainland has opened up, many Chinese companies have hired treasury personnel from other international markets. Exposed to new ways of thinking about short-term investments, these companies have begun look beyond deposits to think about the credit diversification benefits of MMFs, and developed their investment policies accordingly.

## Resilient relationships

The question is whether the continued growth in interest asset managers expect to see in the MMFs in Asia will one day see the product become as well established as in the US and Europe. That will most likely depend on how a number of limiting factors play out over the coming years.

Firstly, relationship considerations may deter banks from encouraging their corporate clients to move non-operating

**Chart 1: Chinese MMFs are gaining importance in global market**



Source: ICI, Wind, Fitch

cash balances off the balance sheet. There are cultural explanations for why this is the case. Large balance sheets continue to be a focus for many local banks in APAC; indeed, some Chinese bank managers are even compensated on the basis of balance sheet size. Moreover, with the enduring popularity of informal banking groups such as keiretsu and chaebol, in countries like Japan and Korea it is not uncommon for a bank to form part of a conglomerate’s core operations.

“There continue to be very close relationships between banks and corporates in APAC,” says Shevlin, adding that cross-selling opportunities might make non-operational deposits an acceptable trade-off for some banks. “Banks can offer multiple services and some may use deposits as a loss leader as a way to get in and sell those services. That relationship will only change slowly.”

Secondly, MMFs are far from being the only short-term investment alternative to bank deposits. In China, for example, commercial banks frequently introduce new products such as structured deposits – which can allow corporate investors to obtain yields significantly higher than either bank deposits or MMFs. While Shevlin warns that treasurers’ approach to these products should be firmly based on the caveat emptor (buyer beware) principle, he admits some clients might be tempted. “We are seeing a range of new products beyond MMFs, some of which have yields that are optically very attractive to clients,” he says. “But it is important for clients to understand the genuine risk and returns of these products – I think some of the attractiveness of these vehicles may fade as clients become more aware of the risks.”

A final limiting factor is APAC’s highly heterogeneous regulatory and market environment. Just how attractive an MMF product is to any given corporate investor may depend on the jurisdiction of the fund. Cheah makes the point, for example, that an institutional investor in Taiwan might be

discouraged by the requirement to report any investments made; which includes MMFs above \$10m, to the regulator. Chinese institutional investors for example will also face difficulty in freely accessing offshore investment options unless they have special approvals or investment quotas like the QDII. Enormous interest rate disparities also exist between markets, which undoubtedly influences the relative attractiveness of MMFs over bank deposits. “There are different restrictions affecting MMFs across markets in APAC, and differences in terms of rates,” he says, “and this does have an impact on the popularity and availability of MMFs in those different jurisdictions.”

### Another liquidity tool

Taking all these factors into consideration, there would appear to be a strong likelihood that any shift away from bank deposits to MMFs will not be an especially rapid one. But gradual though it may be, asset managers are convinced that Basel III will drive cash balances out of bank accounts and alternative investment vehicles like MMFs will be the main beneficiaries. Increasingly, they say, treasurers of locally domiciled companies in countries like China are learning to appreciate the level of diversification MMFs can provide for their short-term investments, and the added flexibility they give them to manage cash more efficiently across the businesses. And at a time when companies have so much cash on the balance sheet, having other investment options cannot be a bad thing.

“I think we will see clients adding MMFs as another tool in their toolbox,” adds Shevlin. “There is still a huge opportunity, to educate the market and to attract a whole new breed of clients that wouldn’t have considered MMFs before. Treasurers are not going to switch completely to something else, but they will surely want an additional option.”



# A healthy supply

*Supplier finance is often seen as a solution too good to be true. And whilst corporates operating in Europe and the US may now have seen the benefits it can bring, many here in Asia are only just beginning to realise its potential. So what makes a successful supplier financing programme? Treasury Today Asia speaks to a number of experts to find out.*

Experienced business practitioners will tell you that there is no such thing as a 'free lunch'. So when a solution is being billed as 'win-win' it can, perhaps correctly, cause distrust and doubt. And supplier finance – sometimes called supply chain finance (SCF), reverse factoring or confirming, depending on who you speak to – is one such product that carries the 'win-win' label.

Supplier finance is a form of receivables-driven financing that is initiated by the buyer, through their relationship bank(s). The traditional model works by allowing the supplier to leverage the buyer's credit rating and access an agreed percentage of the due payment up front from the bank. The 'win-win' comes from the fact that in return, the buyer is able to push out payment terms or benefit from early payment discounts, safe in the knowledge that their suppliers are being supported financially.

Although in Asia Pacific (APAC) there remains a debate on whether the solution is a 'win-win' for corporates and their suppliers, it certainly has begun to take hold elsewhere. Indeed, research undertaken by BCR Publishing and published

in their 2016 World Supply Chain Finance Report, estimated that at the end of 2014 the market was worth €46bn (roughly \$52bn) globally. And there is plenty of room for this market to grow, driven in large part by corporates in Asia.

## The first step to success

Having said that, corporates that have worked on supplier finance projects in Europe and the US will confirm that these programmes are often difficult to get off the ground. This is not because of any failure of the product itself. The initial challenge instead comes from the need to drive alignment across numerous business functions and achieve buy-in to the project.

"As companies grow in size, individual departments often develop independently of one another," notes Roque Damacela, Head, Open Account Trade & Commodities Financing at Standard Chartered. "In doing so, they often establish their own key performance indicators (KPIs). As supplier finance programmes often depend on multiple



functions, they have the potential to disrupt individual departments and as a result, the benefits of adopting such a programme are not always immediately clear to each function.” For example, the procurement department may be incentivised to strengthen only certain more critical suppliers, while treasury may wish to leverage a programme to fully optimise working capital benefits across the supplier base.

Whichever department is championing the solution – this is likely to be either treasury or procurement – therefore needs to ensure that it outlines a clear set of objectives that not only demonstrate how it can deliver value to the business holistically, but also how it can enable each individual function to better deliver on their own objectives. “If this isn’t completed correctly and internal alignment isn’t achieved, there is a danger that the project will fall at the first hurdle,” adds Damacela.

The formation of a cross-functional working group can be another method used to ensure that the company is aligned with the project. This will be led by either treasury and/or procurement, but also feature colleagues from other functions that will be materially impacted, including accounting, IT and legal.

For Brian Medley, Director of Sales at Prime Revenue, the formation of such a group is vital given the broader implications a supplier finance programme can have on the business. “A supplier finance programme is not just another project run by treasury or procurement. It is a fundamental transformation of how the company does business with its suppliers. It shouldn’t be completed in a silo and should be built into the broader, long-term strategy for the company.”

To that end, it can also be very useful to have a mandate from senior management. After all, CFO and CEO buy-in will always ensure that other departments take notice of the project.

## Important decisions

Once internal alignment and buy-in is achieved, the next step is to find a solution, and a partner, that will be able to deliver on the company’s requirements and give the programme the best chance of success. For the most part, corporates have two options: a bank-led solution, or the offerings of a technology provider – some large corporates have also developed their own in-house solution, although this isn’t typical. Both options have their own unique selling points.

### Bank-led

Here in APAC there are a number of banks that are offering supplier finance solutions. These are typically the US and European names, as well as a handful of regional players. In the view of Bruno Lechevalier, Head of Supply Chain Management Asia at BNP Paribas, a bank led solution, particularly that of an established name, has an advantage because “it has been tried and tested over many years in numerous markets”. This results in those banks having “best-in-class platforms and a standardised offering in terms of documentation that enables corporates to quickly and relatively easily set-up a programme”.

It must be noted however, that whilst the expertise of a bank and its well-developed platform can be an attractive proposition, bank-led supplier finance programmes are not homogenous. They can vary greatly depending on the



The choice of bank is often more important than first considered when carrying out a supplier finance project.

Paul Melkebeke, Vice President, Supply, Asia, Samsonite

footprint of the bank and its appetite to do business in certain countries. Understanding a bank’s network and future plans is therefore crucial when selecting a solution.

For Paul Melkebeke, Vice President, Supply, Asia at Samsonite, a company that opted for a bank-led solution, this point is especially pertinent. “The choice of bank is often more important than first considered when carrying out a supplier finance project,” he says. “All banks are able to talk-up their solution, but it is important to carefully evaluate their capabilities in the markets that you operate in and across the currencies that you use to make sure these align with your objectives. We operate a US dollar and RMB programme, for instance, and not all banks can offer a RMB programme.”

Samsonite’s banking partner did not only have to offer a suitable solution, however. It also had to have a significant presence in the markets that the company’s suppliers operate in. “We wanted to make sure that our suppliers had somebody local that they could speak to and who could visit them personally to discuss the solution. In my view, this was critical to ensuring the suppliers bought in to the project and its overall success.”

### Bank agnostic

There are corporates however, that may not wish to align its supplier finance programme to a single bank. These companies are likely to be more interested in bank agnostic supplier finance solutions offered by third-party technology providers, such as Prime Revenue, Demica and Taulia, to name but a few.

In brief, these companies offer portals which sit in between the corporate, its suppliers and numerous sources of funding. The main advantage of these solutions, of course, is that it enables corporates to utilise numerous parties to fund their suppliers. This doesn’t have to be limited to banks, a corporate may use their own cash, or even tap into alternative funds such as hedge, mutual and even pension funds, all of whom are increasing their interest in trade receivables.

“The multi-funder strategy matches the pressures of today’s business environment as the needs of corporates, suppliers and funding providers shifts,” says Prime Revenue’s Medley. “By choosing a bank agnostic offering, corporates will not only be able to build a supplier finance programme in all the

countries they need to, using the currencies they require, they will also be able to use their funding sources strategically.”

Building on this point, Medley notes that: “Supplier finance is not about one point in time. It is about developing a long-term viable solution that is scalable as the business ebbs and flows. Using a multi-funder solution therefore allows your supplier finance programme to adapt as the business, regulatory environments and banking relationships change.”

## Regulatory hurdles

Whichever solution is selected, corporates and their partner(s) here in Asia will still have to navigate the region’s complex regulatory environment. When this is tied to the myriad of currencies that are used this can create a wealth of complexity, particularly if the solution has a broad reach.

In fact, it is this point that Standard Chartered’s Damacela believes has limited the penetration of regional supplier finance solutions across Asia. “We see many corporates offering supplier finance on a standalone single country basis. This is largely driven by the procurement patterns of corporates and generally reflects situations where the corporate has a local country entity that is doing a fair amount of procurement in country and in local currency. Corporates in these situations sometimes shy away from establishing a fully-fledged regional programme because of the complexity this could bring.”

There are various ways that companies can overcome these challenges. On the currency side, for instance, Samsonite have been able to entice all of its suppliers, aside from those in China, to accept US dollars for payment. As a result, the company has been able to launch a regional programme and also a RMB programme for its Chinese suppliers.

For those that aren’t able to do this there will be a need to launch a number of individual, in-country programmes. But as Standard Chartered’s Damacela, highlights, doing this means that it can be very challenging to “scale a solution similar to how a corporate would in the US and Europe, particularly if the corporate is not able to rely on a single bank partner across the region that understands the country level nuances and also possesses the required capabilities to successfully onboard suppliers”.

Even if the currency problem is overcome, regulation can still prove a big stumbling block. “In Asia, aside from when working in the developed markets such as Singapore and Hong Kong, there may be many blocking points that prohibit the roll out of a regional supplier financing programme,” says BNP Paribas’ Lechevalier. “In some countries, for instance, all transactions must be completed with recourse, creating accounting difficulties for the corporate seller,” he adds.

## Selling the product

The final, and arguably most crucial, aspect of any supplier finance programme is the ability to sell it to suppliers. It may also be the most challenging.

The aforementioned scepticism around the ‘win-win’ billing the product receives is arguably one key reason that supplier finance programmes are relatively difficult to initiate anywhere in the world. Treasurers and procurement professionals from both Europe and the US will be able to attest to the fact that

when the solution is discussed with suppliers there is often some doubt that this will be a good deal for them. And indeed, the same belief exists here in APAC.

Take Samsonite’s experience, for instance. The company, due to both internal and external forces, holds working capital efficiency as a key performance indicator (KPI) and Melkebeke and his team were set the objective of pushing payment terms out to 105 days. There would be no exceptions, apart from with those business critical suppliers. This, of course, was a tough ask for a number of the company’s suppliers and had a detrimental impact on supplier relationships.

Supplier finance seemed to offer a solution. But when having initial conversations with suppliers about the solution Melkebeke found there to be significant resistance. “It seems that there are some negative connotations that exist in the market around supplier finance. Many suppliers seem to believe that there is no upside for them and that it is just a way for larger corporate names to take advantage of them and push out payment terms. It was a big task to convince suppliers that this solution is a win-win,” he explains.

To do this, the company set about educating its suppliers with the aid of its banking partner. “Key to these discussions was transparency,” says Melkebeke. “We never disguised that there was a cost involved for the suppliers – there is a cost for us setting up the programme after all. But we made sure that we communicated that, in the grand scheme of things, there is more upside for the suppliers. This is because by agreeing to join the programme they are able to receive cheaper funding than they could from financing their receivables with a local bank, they can have a more predictable cash flow, they will be able to access their cash faster than before and also by accepting our terms they will become our preferred suppliers and thus potentially receive more business.”

Melkebeke offers a final key word of advice: “It is vital that you take time to pick which suppliers you will trial the solution with. The success of the trial will ultimately make or break the programme. If possible this should be done with well-known companies in the industry to give your programme credibility and the best chance to succeed.”

## Long lasting benefits

Samsonite has reaped the rewards of this approach, with nearly 95% of suppliers now accepting 105 day payment terms. “Once we went live with the first batch of suppliers, which were high profile names in our industry, the solution quickly gained credibility and traction,” explains Melkebeke. “Where once we had to explain the benefits to suppliers, now they are knocking on our door wanting to be part of the programme.”

As a result, relationships, which at first were tested due to the new payment terms, have actually been strengthened. Internally, there have also been many benefits including procurement now being a net contributor to working capital, for instance, due to the increase in the company’s days payables outstanding (DPO). Cash flow planning has also been greatly improved as a result of the certainty around AP.

“Based on our experience, there is no reason not to launch such a programme, especially if you are paying attention to working capital metrics and do not want to undermine your key supplier relationships,” says Melkebeke. “And now, given the low interest rate environment, is an especially good time to get suppliers on board.”

# Structuring commodities

*History is littered with examples of the transformational power of commodities. The Californian Gold Rush of the 19<sup>th</sup> century, for example, converted a handful of small frontier settlements on the US West Coast into big cities as hundreds of thousands of people travelled from around the world to make their fortune.*

Today, crude oil, nicknamed 'black gold', is the world's most prominent commodity. Oil is the commodity of the modern age and plays a vital role in every part of an industrialised economy. It can be used to generate heat, fuel vehicles and manufacture nearly all chemical products. As such, its transformational power has surpassed that of gold and any other commodity before it.

Oil and gold fit perfectly into the dictionary definition of a commodity: a raw material that can be bought or sold, at any time, anywhere in the world. As a rule, commodities are uniform in nature – in other words, you should not easily be able to tell who or where it has come from by its look, taste, feel or smell. A product (made out of commodities) on the other hand can usually be identified as being created by a certain company.

Commodities are big business, and so is financing them. To the point where the market has developed its own nuanced ways of financing players in the commodities market.

## Heavy users

In some way, all companies are users of commodities, either directly or indirectly. But not all companies are users of commodities finance, because although they might purchase commodities such as fuel, they do not then produce something from this which is a commodity. By using the fuel to power an airplane or oil tanker the commodity is being transformed into a product or a service. Once the commodity is in the hands of these companies, who are end-consumers, it can no longer be banked as a commodity and this is where commodities finance slips away.

The traditional target market for commodities finance can therefore be broken down into three categories:

- Commodity trading firms such as Vitol, Glencore and Cargill.
- Producers of commodities, for example: Saudi Aramco, Adecoagro and BHP Billiton.
- Processing companies, such as: Reliance Industries, Sinopec and ArcelorMittal.

## Built to fit

The unique nature of the commodities market, in respect to the size of the deals, the need to often raise financing quickly, the risk levels and its cross-border nature, has seen it develop its own nuanced approach to financing. This is commonly referred to as structured financing.

Structured financing is different from traditional trade financing because the lender takes security (this can vary

from the commodity itself, to contracts, shipping documents etc) in return for the cash. In doing so, the credit risk is removed for companies along the supply chain, because the lender (often a bank) is the trusted entity in the transaction who will guarantee payment to the producer/seller.

This is important in the commodities business because many of the companies involved are not rated in their own right, or are operating in countries with below average ratings, and therefore find it difficult to access affordable financing. Other advantages of this arrangement include:

- Working capital is freed up – this benefits the entire supply chain and allows the flow of commodities and cash to continue.
- Commodities are very liquid and banks are therefore willing to lend against unprocessed goods because they can be liquidated should need be.

Within the scope of structured finance there are several different key methods of financing during the commodities lifecycle (see Chart 1 overleaf). And many of the products that are used in these methods of financing are those typically found in traditional trade finance.

## Pre-export finance

Pre-export finance is often raised against the producer's projected future export revenues, but it can also be based on existing orders along with the buyer's payment risk. In most cases, these deals are short-to-medium term, with a tenor between one and five years and can be amended or restarted during this period.

In a typical pre-export finance agreement, the funds will be provided by an individual lender or a syndicate for all manner of working capital reasons, including:

- The purchase of raw materials.
- Manufacturing and production costs.
- Transportation and storage costs.
- Sales and admin expenses.

In a pre-export structure, the loan is secured by a security assignment of the relevant delivery contracts between the producer and 'oftakers', and the receivables generated under those contracts following the delivery and sale of the relevant goods. Also, there will be a charge over a collection account (belonging to the producer) into which the proceeds of the sale are paid. After deductions for debt service, excess funds are made available to the producer. It is worth noting that there a number of ways a structure can be enhanced,



## Commodities financing: a short history

Just like any corporate, commodity producers, processors and traders require financing to ensure that the tools which help build and maintain industrialised economies keep coming. This vital function is, on the whole, provided by the banks, primarily the large European, Japanese and American banks, who have been active in the commodities market for centuries.

But it is an evolving relationship. Original financiers of commodities would have done so by issuing letters of credit to the commodities firms which were secured against the commodity. This relationship largely existed unchanged until the 1980s, and the deregulation of the financial services industry. This provided the banks with an opportunity to explore new avenues of revenue – primarily becoming brokers and market makers in the world's largest commodities exchanges. In the 1990s, the relationship further changed, as commercial banks expanded into the commodities trading business as a way to capitalise and meet new regulatory requirements, going in direct competition with the companies they had been financing.

While this proved a prosperous adventure for the banks, the onset of the global financial crisis in 2008 and the regulatory changes since, have again reversed the banks' relationship with the commodities world. A large number of banks around the globe, such as Barclays and J.P. Morgan, have sold off their commodities trading businesses and returned to their original remit of providing financing for the commodities sector.

including introducing hedging products to protect against commodity price fluctuations and interest rates.

The overall benefits of using a pre-export financing solution include:

- The ability to enhance liquidity and produce goods.
- Lower interest rates in different countries can be leveraged.
- The solution is resilient to country default or capital controls.

### Prepayment financing

Prepayment financing is similar to pre-export financing in many aspects. However, in these arrangements the producer receives the cash directly from an offtaker as an advance payment under the export contract. Lenders can fund the offtaker and share the risk of non-performance by the producer.

The typical tenor of such a facility can vary between a few months and up to five years for the strongest producers. In regard to the security used during the deal, this includes a security assignment by the offtaker of its rights under the export contract with the producer, including the right to have the prepayment advance repaid.

In the case of pre-export or prepayment finance, the primary risk is placed in the producer's ability to deliver the commodity. To the extent lenders are comfortable with the performance risk of the producer, the offtaker who is extending the finance, can account for this line of credit as 'credit limit neutral'.

Aside from this, other benefits include:

- The ability for the producer to access credit from lenders that do not bank the producer directly.
- Buyers can negotiate term supply contracts in return for the provision of finance.
- Mitigation of transfer risk as funds are paid into an offshore account as shipments are made.
- Legally resilient against country default.

### Borrowing base financing

The final key financing structure related to commodities is borrowing base financing. This is a structure unique to

commodities and is used primarily by traders and processing companies. In these arrangements the borrower's assets – typically accounts receivables or commodity type inventories – are used as security. Once the security is in place, the solution is flexible, an upper credit limit will be agreed from the onset, but the actual amount of financing will be directly correlated to the value of the pledged commodities or receivables. Borrowers can therefore access more financing as commodity prices increase and their needs change. These facilities are revolving in tenor and typically exist for one to two years, after which they are extended at the discretion of the lenders.

To calculate the financing that can be offered to a borrower against their collateral, the lender will carry out the following calculation: the net value of the accounts receivable (accounts receivable less deductions such as those which are overdue, doubtful, or which can be contested) plus the net value of the goods (goods less deductions such as trade payables).

This represents the total collateral value against which haircuts will be applied to determine the amount available for funding.

The benefits of such an agreement include:

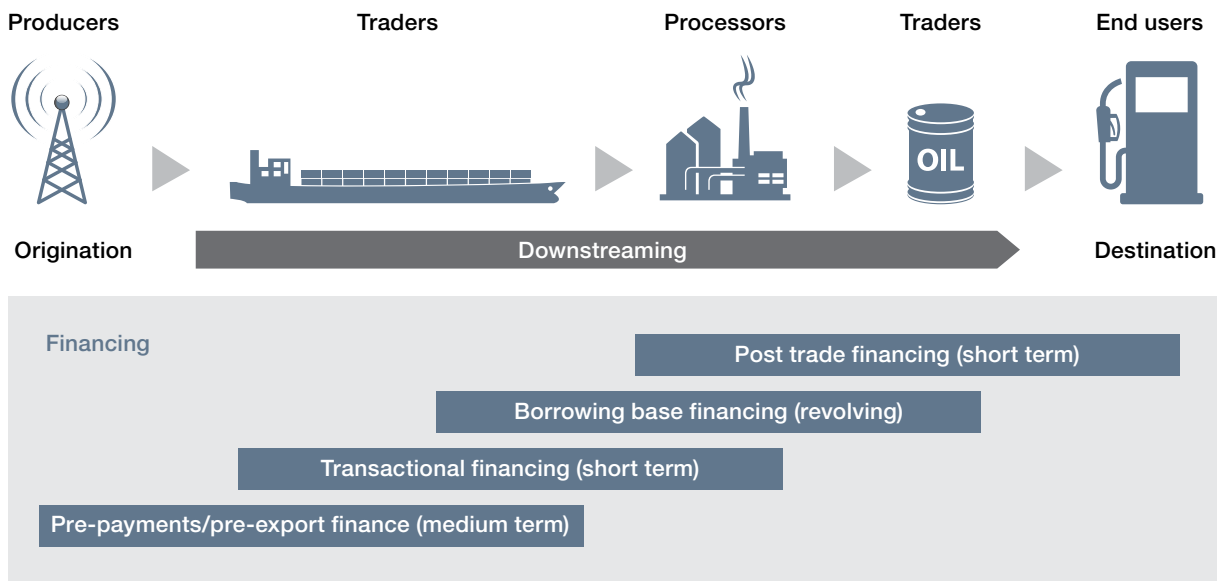
- Continuity of a credit line that fluctuates with the commodity price and hence the financing requirements.
- Reduced cost and better access to funding through collateral cover.

## Is the well running dry?

There are some commentators in the commodities space who argue that traditional commodities finance provided by major global banks is dying. It is an understandable argument when we look at the major banks' relationship with commodities post-crisis. As mentioned, many have pulled the plug on their commodities trading business, and following the crisis banks reduced their lending quotas because of their reduced access to dollar funding and the scarcity of balance sheet assets.

Since the crisis, regulatory pressure from Basel III has further added to the argument. Banks are having to focus more and more on risk weighted assets and ensuring that these are used efficiently. We are also seeing some of the world's global banks realign and pull out of countries and regions where they don't have material presence and scale. Finally, many commodity financiers have become slow to react to the needs

**Chart 1: Different stages of financing**



Source: Galena Asset Management, 2013

of the market in respect to extending finance as the internal process around approving these is now more complicated.

The stats also make a compelling argument. According to the Bank for International Settlements, which published a report which stated that before the crisis, 80% of global commodities trade financing was provided by banks, and primarily those in Europe. But more recently this number has shrunk to 50%.

As a result of these changes, many firms in the commodities world have already seen their costs of financing increase.

There is some relief, however, provided by the cyclical nature of the commodities business. In times when commodities prices are low, as we have seen with oil this year, there is less for banks to finance. In fact there was almost 50% less oil business to finance since the summer of 2014, but on the whole, lines of credit were unchanged. This means banks have to process double the amount of transactions to make the same revenues, which puts popular borrowers in a stronger position when looking to achieve financing.

Despite this, there is a shortage of bank financing for some commodities players, especially for mid-sized commodities firms in emerging markets. In many cases, the deals being made by these companies are too small and also the 'know your customer' processes are often so heavy that it makes it more challenging for the bank to onboard the client.

There is some relief for those companies that are struggling to find financing in the post-crisis world, namely smaller regional and local banks. Over recent years a number of banks from

Asia, Africa, the Middle East and Latin America have begun to be active in the market as both providers of short-term financing and as part of RCFs. The caveat is that these banks are primarily looking to support firms that are providing growth to their country or region, a bank in Brazil for example will offer financing to top firms only in Europe, but may look to help smaller firms in its own country – something which has been called the regionalisation of trade finance. These firms are also in the business of cross-selling off the back of their financing.

Since the crisis, commodities firms have also looked to diversify their funding sources themselves and reduce their reliance on traditional bank financing. Some of these firms have, for example, further delved into the capital markets. A handful have taken this even further and established their own asset management business as a way to take advantage of the different types of investors looking to pump liquidity into the market.

There are other sources that commodities firms can tap, such as private equity firms who are looking to provide financing in areas that have always been out of the scope for banks – agriculture in emerging markets, for example. Yet, these firms normally have a high cost of capital and demand higher yields to justify their involvement.

Whether these developments point to traditional trade financing dying remains a topic up for debate, and this may just be the argument used by those no longer able to compete in the space. But one thing that does seem certain is that post-crisis commodities financing has changed for good.

# Treasury metrics

*Treasury metrics should link up to the departments overall goal, which will be some form of cost effective risk reduction. However, performance can only be properly defined in terms of parameters that are in practice subjective, and therefore must be set by the board of directors. In this article I explore the various metrics that treasury may wish to employ.*

Corporate treasury has an incredibly diverse set of responsibilities and consequently varied goals. However, for most departments their objectives are likely to be some form of cost effective risk reduction (CERR). After all, non-financial corporates want to reduce financial risk so that more of the firm's resources can be devoted to the core business.

But each firm will have a different view on what cost effectiveness means, and the same can be said for their risk tolerance. As a result, it is the board that has to decide on the parameters within which treasury has to work.

## Capital structure

Capital structure is probably the core treasury related decision that the board has to answer, and its results ripple through the entire treasury operation.

At its simplest, treasurers need to know how much leverage to have and how much cash to hold. An important follow on detail is how much long tenor debt to issue – from a CERR perspective, long tenor debt is less risky but more expensive.

The target duration is, of course, closely related but I will cover that under interest rate risk.

From a CERR perspective, the optimal capital structure gives the lowest sustainable weighted average cost of capital (WACC). The strategic variables include leverage, tenor and cash. High leverage reduces cost and sustainability, and low leverage increases cost and sustainability (because equity is more expensive than debt but does not have to be repaid). Equally, short tenor reduces cost and sustainability, and long tenor increases cost and sustainability (because long tenor debt is more expensive than short tenor debt but reduces liquidity risk). And low cash balances reduce cost and sustainability, large cash balances increase cost and sustainability (because cash yields much less than WACC but reduces liquidity risk).

A quick scan of current corporate practice – especially with approximately \$5trn of corporate cash – shows that boards seem to be leaning heavily in favour of sustainability, presumably fearing macro-economic uncertainty may increase both financial and commercial risk.

Although there are mathematical models, such as the capital asset pricing model (CAPM), which help to optimise WACC – they assume that the markets provide valid input about the riskiness of the firm. Certainly market inputs require consideration, but having lived through at least a decade of distorted markets, they cannot be the only input. Ultimately

this decision is a key management responsibility, and from a governance perspective that means a board decision.

There are a number of methodologies the board can use to define capital structure, including:

- Fixed numbers and ratios.
- Following peers.
- Operational metrics (ie keep six months operating expenses in cash).
- Target rating.

In all cases, there has to be some range that allows treasury operational flexibility.

My favourite is the target rating. This gives the treasurer (and CFO) more flexibility to optimise WACC, and provides an easy to understand metric for investor and customer relations. A common strategy is to target one level above “junk” to give some room to weather adversity. Again there is no one right answer – it depends on financial and commercial market constraints (for example, customers often worry about financial solidity of their suppliers).

## Cash management

Cash management can be broken down into balance management and flow management, and each require relevant metrics.

For balance management, the key issue is cash concentration – how much of total cash is available for corporate needs such as paying down debt, business development, etc? We want to minimise cash leakage in the form of trapped cash or simply lazy cash that we have not concentrated. The cost of concentrating cash is a material but secondary metric (depending on how critical cash is for each corporate).

Flow management is basically a cost game. It is important to realise that cost reduction in this context is more about eliminating bank fees (by taking flows out of the banking system with payment aggregation and netting) rather than haggling down bank fees. In this respect, in-house banks (IHB), on-behalf of structures (OBO), netting et al are all very helpful.

In case you think I am missing some important credit and operational risk metrics, consider that for balance management concentration maximises cash in treasury's hands which implies that treasury will rigorously apply the group credit risk policy. And for flow management, cost reduction must measure all in cost, including in house FTEs and cost of errors, not just bank fees.



## Foreign exchange risk

Foreign exchange risk policy and metrics is another somewhat subjective area – which means board level decision making. For example, some groups forego hedging altogether for more or less philosophical reasons, others hedge only balance sheet exposures to avoid the hassle of hedge accounting, while others try to hedge the entire business cycle. Like capital structure, there is no Excel model that will give you the ineluctable answer, so it has to be a board decision.

The first decision is what to hedge – nothing, balance sheet (whatever causes FX revaluations in the accounts), or cash flow/margins (normally balance sheet plus orders and some forecasts). In the last case, we also need to decide what tenor to hedge (commonly six to 18 months, depending on the pricing cycle). Additionally, we need to know the hedge ratio – what percentage of the measured exposure should we hedge, and what variation around that target is permissible.

With those decisions put in place by the board, operational metrics for treasury are quite simple – basically have we followed the board policy and how cost effectively? To the extent that the board allows some discretion to treasury (small over and under hedging, use of options rather than forwards), then we can measure the risk adjusted cost compared to a benchmark (exactly following the policy using market forward rates).

The big benefits will come less from fancy hedging strategies and more from rigorous netting of exposures and even adjusting business models to reduce what has to be hedged in the market.

It is easy enough to play around with swaps and swaptions to try to beat the market – though actually beating the market can be hard absent central bank distortions. But what surprises me is how few corporates are clear about their benchmark duration.

In my experience, duration is hard to pin down in the real economy. Even long-term plant with thirty or more years payback tends to have revenues that follow business cycles, implying a relatively short duration – a big exception again is government distortions such as electricity off take agreements.

So once again, benchmark or neutral duration is a matter for the board to decide (because it cannot be calculated

quantitatively) and of course they have to fix risk limits in terms of permissible deviation from neutral.

Once the benchmark or neutral duration is fixed, treasury can get on with trying to beat it – ie to achieve a lower than benchmark cost of debt within the board determined capital structure and duration constraints.

## Other Metrics

The metrics described above are “strategic” for treasury in the sense that they come from the board. Metrics for forecasting and for front- middle- and back office are operational – treasury can decide how best to execute within the parameters set by the board (within the policy and cultural constraints of the firm, of course).

Once the board has set the parameters, treasury must set performance metrics on an ‘all in’ basis. This ensures that secondary issues such as internal control and process efficiency will be covered and built into the overall metrics framework. For example, outstanding reconciling items typically take expensive time to resolve and may incur overdraft and other fees, so metrics about outstanding reconciling items go beyond internal control (which is also important) and address all in cost.

Of course, there will often be control metrics around corporate Sarbanes-Oxley (and equivalents) compliance. The important thing is that treasury specific metrics should have clear causal links into treasury’s overall goal of cost effective risk reduction (CERR).

## Conclusion

Treasury metrics can only be set in the context of risk parameters that are company specific and somewhat subjective. Such parameters have to be set by the board of directors, because they affect the company as a whole and because they cannot be determined with empirical quantitative methods.

With the parameters established by the board, treasury can build a coherent framework of metrics to help them manage treasury towards the overall goal of CERR.



### David Blair, Managing Director

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

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

[david.blair@acarate.com](mailto:david.blair@acarate.com)

[www.acarate.com](http://www.acarate.com)





CAREER PROSPECTS

### Building the right treasury team

With corporate treasurers around the world frequently being asked to do more with less, the need to drive maximum productivity from the treasury team is a must. In this article, Treasury Today Asia speaks to some of the region's leading treasury teams to ascertain some helpful advice on how this can be done.



CASH MANAGEMENT

### Tax and the cash manager

It is the duty of the corporate body to be as tax-efficient as it can be, and, as such, the subject of taxation should be a shared concern for most business functions. Treasury Today Asia therefore looks at why treasurers should be a key part of the equation when it comes to providing the most accurate and timely information to the tax department to facilitate the most efficient tax response.



REGIONAL FOCUS

### Treasury in Africa

Asian corporate investment into Africa has grown at a steady pace as business increasingly recognise the growth potential the region has offer. However, it must be noted that whilst the opportunities are great so are the challenges. Here, Treasury Today Asia takes a look at the business landscape across the region, particularly Sub-Saharan Africa, and finds out what treasurers need to know.

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

Simon Bourke, Director, Institutional Business Liquidity, Hong Kong, HSBC Asset Management; Norbert Braspenning, Clients & Products, Asia Pacific, Managing Director, Bank Mendes Gans; Mark Butcher, Chief Executive, New Zealand Local Government Funding Agency; Kheng Leong Cheah, Head of Global Liquidity Sales, Asia Pacific, J.P. Morgan Asset Management; Roque Damacela, Head, Open Account Trade & Commodities Financing, Standard Chartered; Craig Davis, Partner, Head of Financial Risk Management, Asia Pacific, KPMG; Tim de Knegt, Head of Strategic Finance and Treasury for the Port of Rotterdam; Jacqui Drew, Director, Solutions Consulting, Reval; Antony Eldridge, Financial Services Leader, PwC Singapore; Alex Ellison, Independent Consultant; Matt Fairclough, Partner, Clifford Chance; Bruno Lechevalier, Head of Supply Chain Management Asia, BNP Paribas; Melvyn Low, Head of ASEAN and Singapore, Treasury and Trade Solutions at Citi; Dauwood Malik, Partner, Clifford Chance; Brian Medley, Director of Sales, PrimeRevenue; Paul Melkebeke, Vice President, Supply Asia, Samsonite; Kenneth Ng, Director and Corporate Treasurer, DFS; Sandip Patil, Managing Director and Region Head, Global Liquidity and Investments, Asia Pacific, Citi; Denis Savastano, Treasurer, Li & Fung; Debopama Sen, India Country Head, Treasury and Trade Solutions, Citi; Aidan Shevlin, Head of Asia Pacific Liquidity Fund Management, J.P. Morgan Asset Management; Thomas Stahr, Managing Partner, Stahr Treasury Consulting; Bob Stark, VP Strategy, Kyriba; Kris Van Broekhoven, Global Head of Commodity Trade Finance at Citi; Todd Voice, Treasurer, Holcim Australia & New Zealand.

treasury**insights**



# In depth

research | insight | analysis

[treasurytoday.com/treasury-insights](https://treasurytoday.com/treasury-insights)



# WE ARE THE BANK

SECURING THE RELATIONSHIP WITH YOUR SUPPLIERS



## SOCIETE GENERALE GLOBAL TRANSACTION BANKING

---

OUR SUPPLY CHAIN FINANCE SOLUTIONS FACILITATE AND  
SECURE YOUR TRANSACTIONS WITH YOUR SUPPLIERS:  
A REMOTE, MULTICURRENCY, MULTILINGUAL AND  
MULTIBANK PLATFORM

---

[GTB.SOCIETEGENERALE.COM](http://GTB.SOCIETEGENERALE.COM)

---



BUILDING TEAM SPIRIT  
TOGETHER

Societe Generale is authorised and regulated by the French Autorité de Contrôle Prudentiel et de Résolution ("ACPR", the French Prudential and Resolution Control Authority), the Autorité des Marchés Financiers ("AMF", financial markets authority) and for prudential purpose by the European Central Bank ("ECB"). Societe Generale is subject to limited regulation by the UK Financial Services Authority ("FSA") for the conduct of its business in the United Kingdom. This material has been prepared solely for information purposes and does not constitute an offer to enter into a contract. Not all products and services offered by Societe Generale are available in all jurisdictions. Please contact your local office for any further information. © 2016 Societe Generale Group and its affiliates. © GettyImages - FF GROUP