November/December 2017

treasurytoday ASIA

research | insight | analysis

The future of banks

Banks are under pressure like never before to evolve in order to meet the changing demands from clients. Treasury Today Asia finds out what banks are doing in response to this and asks what the future looks like.

The Corporate View

Seng Ti Goh

General Manager of Treasury & Accounting

Isuzu Motors

Sustainability

Meeting sustainable objectives

Treasury Trends

Navigating political uncertainty

The Industry View

Beccy Milchem

Head of Corporate Sales

BlackRock

Eric Hiatt

Director, Portfolio Manager

BlackRock

treasuryinsights
research | insight | analysis

In depth
research | insight | analysis

treasurytoday.com/treasury-insights

China outlines its global ambitions

All eyes were on Beijing in October as the 19th Communist Party Congress took place. Staged in the Great Hall of the People every five years, the congress brought together over 2,000 party members to shape policy, decide on political positioning and set the agenda for the years ahead.

The headline event at this year's Congress was President Xi Jinping's mammoth three hour and 23-minute speech where he signalled the arrival of a "new era" in Chinese politics. At the heart of his speech was the notion that now is the time for China to truly rise up onto the global stage and lead the world on political, economic, military and environmental issues.

The good news for investors in China is that Xi is committed to pushing ahead with market-oriented reforms of both the financial system and foreign exchange rate. He announced that the government will "clean up rules and practices that hinder a unified market and fair competition, support development of private firms and stimulate vitality of all types of market entities".

Xi indicated that China is also committed to further opening its doors to foreign businesses. "China's open door will not be closed – it will only be opened wider," he declared.

Debt spectre

While this rhetoric sends a positive message to everyone that has a stake in China's success – treasurers may be especially buoyed by the promise of a more open economy, allowing them to integrate China more effectively into their global treasury operations – concerns regarding the levels of debt in China continue to persist.

Indeed, high levels of corporate debt were one of the reasons for S&P's recent downgrade of China. Although Chinese authorities stated that S&P made the wrong decision, the Central Bank has recently voiced its concerns that corporates may have taken on too much debt.

Reports from Bloomberg show that some Chinese companies are increasingly struggling to carry their debt burden. The news outlet announced that there were 17 defaults between June 2016 and June 2017 in China's bond market, nearly three times the number of defaults recorded in 2015. Bad corporate debt levels in China have also reached a ten-year high.

A bright future but …

China therefore stands at an interesting juncture in its modern history. On the one hand, it has set out grand global ambitions that few would argue it will meet. On the other hand, however, there are concerns that China will not be able to adapt to its 'new normal' quickly enough, potentially resulting in a crisis that will send shockwaves across the world.

One thing is certain though, the eyes of businesses around the world will continue to be focused on the world's second-largest economy for the foreseeable future.

Thank you to our readers

It has been another interesting and eventful year in corporate treasury and Treasury Today Asia is proud to be your valued source of treasury information.

Next year, we will continue to offer you the in-depth, insightful articles and print editions that you expect, whilst also expanding our portfolio of multimedia content to give our readers new and improved ways to consume our content.

See you in 2018!

Audited member of BPA Worldwide

treasurytoday ASIA
research | insight | analysis

treasurytodayasia.com
Volume 5/Issue 6
November/December 2017

Director and Group Publisher
Angela Berry
Associate Group Publisher
Sophie Jackson
Associate Publisher EMEA and Americas
Meg Coates
Editorial Manager
James Hayward
Editorial
Tom Alford
Head of Operations
Samantha Collings
Research Director
John Nicholas
Global Head of Events
Lisa Bigley
Head of Circulation
Sarah Arter
Circulation Manager
Kerry Stamp
Head of Technology
Luke Scammell
Digital Content Manager
Joanna Smith-Burchnell
Creative Designer
Robert Murray

Managing Director
Richard Parkinson

Switchboard	+44 (0)13 0462 9000
Publishing	+44 (0)13 0462 9005
	+852 8199 0351
Memberships	+44 (0)13 0462 9013
Advertising	+44 (0)13 0462 9018
Editorial	+44 (0)13 0462 9003
Production	+44 (0)13 0462 9019

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, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA.

Periodicals postage paid at Jamaica NY 11431.

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

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

Air Business Ltd is acting as our mailing agent.

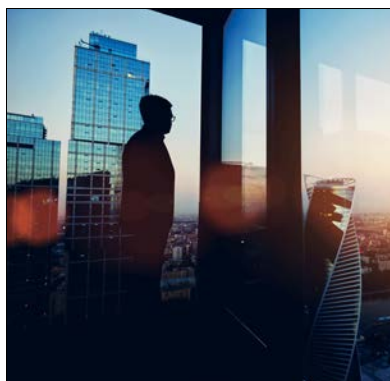
The paper used in the production of this magazine is sourced from protected forests and sustainable raw materials.

IN THIS ISSUE

INSIGHT & ANALYSIS 4

How banks are adapting in an era of disruption

Will there be banks in the future? If there are what will they look like? Treasury Today Asia takes a detailed look at the disruptive forces impacting banking today, before gazing into the crystal ball to find out what the future holds.



TREASURY TRENDS 8

Navigating political uncertainty

The significant geopolitical events of 2016 have continued to impact the work of treasurers in 2017. Treasury Today Asia explores what treasury teams have done in reaction to this and finds out how they are preparing for the future.

INVESTING 14

Money market funds: what's next?

Money market funds in Asia have grown significantly in recent years with more and more corporates looking to use them as short-term investment options. What though does the future hold for Asia's funds and will corporate usage increase?

SMARTER TREASURY 25

Byte marks: sinking treasury's teeth into agile technology

The corporate 'more with less mantra' persists. How can treasurers deliver on such a seemingly difficult mission? Technology is the simple answer. But there's much more to it than buying in a shiny new set of toys, argues ANZ's Mark Evans.

WEBINAR REPORT 31

The arrival of the Grey Swan… risk visualisation in an uncertain world

VOICE OF CORPORATE TREASURY

The industry has spoken

Jonathon Traer-Clark

Head of Strategy & Advisory for Global Transaction Services

The results are in from this year's Voice of Corporate Treasury Global Study, conducted in partnership with Bank of America Merrill Lynch. They show the profession at a crossroads, with treasury teams searching for answers in an uncertain environment. Here, Bank of America Merrill Lynch's Head of Strategy & Advisory for Global Transaction Services, Jonathon Traer-Clark and a select group of corporate treasurers discuss the study's findings.

TREASURY ESSENTIALS

Treasury Insights 20

Question Answered 34

Point of View 39

TREASURY PRACTICE 17

Dynamic working capital management

Managing the intricacies of working capital is becoming a crucial task for many treasury teams. We speak to several experts in this field to find out what strategies and solutions the world's top corporates are using.

SUSTAINABILITY 22

Sustainability in treasury

Sustainability is a topic which incorporates a number of different areas, but in the context of business the focus tends to be on environmental and social concerns. As sustainability becomes a higher priority for corporates in Asia, what does this mean for treasurers – and how can they help their organisations achieve their sustainability goals?

FINTECH FOCUS 32

Accelerating supplier payments

SMEs are desperate for cash and large corporates are searching for better ways to utilise their cash stockpiles. Paycelerate's mission is to solve these issues on both sides of the equation by offering a dynamic invoice discounting solution.

11 The Corporate View

Seng Ti Goh

General Manager of Treasury & Accounting

It is the ambition of Seng Ti Goh, General Manager of Treasury & Accounting at Isuzu Motors, to build a world-class treasury function. Starting with a blank canvas, he has already made much progress towards this objective. He now has his eye on the future – and more specifically, on how emerging technology can help him achieve his goal.

BACK TO BASICS 28

Private placements explored

With the possibility of securing long-term, fixed-rate funding, private placements of debt securities provide treasurers with an alternative to the usual bank loans and public bond issues. We explore the ins and outs of this product.

THE INDUSTRY VIEW 36

Responding to MMF reform

Beccy Milchem, Head of Corporate Sales and Eric Hiatt, Director, Portfolio Manager at BlackRock explore the latest trends in Money Market Funds and explain why treasurers should begin looking at their investment policies and approaches now.

How banks are adapting in an era of disruption

Might there be a future without banks? Perhaps. But what we do know is that the banks of the future will look and act very differently from how they do today. This article looks at the forces that are transforming banking, what banks are doing in response and what this all means for the corporate treasurer.

Back in 1994 Bill Gates famously said that "banking is essential, banks are not." He might turn out to be right: over the past decade a combination of factors has begun to transform the financial industry. These forces have given rise to a plethora of non-bank players that are disrupting the incumbents and shaping a new vision for financial services.

This is happening right now. In China, for example, Alibaba processes hundreds of millions of transactions and owns one of the largest money funds in the world. Alibaba is a technology company, not a bank.

Across the world, there are numerous other examples of how technology companies have disrupted banking, especially retail banking. In the corporate space, however, the impact has been less pronounced. As custodians of their companies' cash, treasurers are generally not in a hurry to ditch their long-standing and trusted banking partners for a small fintech – no matter how innovative the solution.

Trusted partner

There are many reasons why banks remain the provider of choice in the corporate space. The main factor is that they are fully-regulated financial institutions, certified by central banks as trusted providers of financial services with privileged access to the underlying financial architecture. Many banks also have long and storied histories, acting as crucial institutions in the development of the markets they operate in, and as partners to the corporates that operate in those markets. These two factors, combined with the fact that until

recently there has not been any other choice for corporates, has made banks indispensable partners to every organisation on the planet.

In the post-war era of globalisation, the role of the bank has arguably become more important for corporates who have spread their wings and ventured into new and exotic markets in pursuit of greater profits. In doing so, the banks have moved beyond being an indispensable partner simply because they take deposits, lend money and process payments. They have now become de-facto members of the treasury team, acting as trusted advisors and navigating the way for businesses as they move into new markets.

For Ebru Pakcan, EMEA Head of Treasury and Trade Solutions (TTS) at Citi, the emergence of banks as advisors to their corporate clients has been the big change in how transaction banks operate over the past decade. "Banks have always been in the business of providing corporates with solutions and services to help them realise their objectives," says Pakcan. "But what has changed is how we are now regarded as advisors to the business."

Pakcan explains that banks have assumed this role because it is what clients have demanded. "In the past, many treasury teams were simply focused on executing the basic processes day-to-day," she says. "Today, many treasury teams have a much broader remit and are regarded as a strategic partner to the business. This has led treasurers to turn to their banks for advice on what they can do to achieve their new strategic objectives."

Regulatory leviathan

Whilst the growing advisory capacity of banks has been a big positive for many institutions, allowing them to foster deeper relationships with clients, there are also some negative forces impacting banks. Most notably these include the regulatory pressure, through Basel III for instance, that every bank in the world has been under post-crisis. These new regulatory pressures have had a profound impact and quite publicly put an end to the era of the global bank, forcing institutions to streamline, refocus and retrench.

This regulatory burden has also hamstrung banks in terms of their ability to be innovative – both in terms of the money they are willing to commit to innovation and the areas they are comfortable innovating in. This has inadvertently opened the door for non-bank providers to enter the market, giving rise to the age of fintech.

"Banks are in a tough spot and often come across as analogue players in a digital world," says Don Raftery, Head of Commercial and Corporate Banking Practice at Greenwich Associates. "This is because at exactly the time when their customers are learning how fast, easy and transparent online service can be, banks are struggling to simply maintain the quality of service, because most of their technology spend is dedicated to addressing risk, security and compliance needs."

Fintech pressure

Fintechs have jumped at the chance to take advantage of this opportunity and challenge the banks, most notably in the area of payments. These companies are doing so by leveraging new technology and creating value propositions that are deeply focused on solving specific pain points for customers – something that the banks, arguably, have not done in the past.

The dynamics between banking and fintech are constantly in flux and it has been a fascinating story to follow. Initially banks saw these disrupters as a threat: companies that could begin eating into significant chunks of banks' profit margins. Over time, however, their stance has softened and banks now regard fintechs as potential partners that can help them serve their customers better. On the other side of the equation, many fintechs have realised their best chance for success is to align themselves with a bank to distribute their products and services.

A recent paper from Christine Barry, Research Director for Aite Group's Wholesale Banking Practice, highlights this. "The acceptance of fintech companies as potential partners did not happen overnight," says Barry. "In fact, it is part of a far greater shift in bank attitudes and buying behaviours around technology in general." For Barry, the last few years have seen large banks begin to move away from fully building their own cash management solutions to instead deploying vendor-built solutions end-to-end or some components of these solutions.

"Several factors drive this shift in buying behaviour, including faster speed to market and the ability to build in areas in which there is a competitive advantage while outsourcing the rest," adds Barry. "Additionally, technology has improved over the last few years. As such, solutions are far more customisable without having to touch code, and available functionality has widened."

This change in buying behaviour is part of a wider shift in how banks operate as they seek to mimic fintechs and put the customer at the heart of everything they do. "The operating models of banks are profoundly changing," says Winston Nesfield, Partner at Strategy&. "Before, banks used to be organised around products. Now they are striving to put the customer at the heart of their operations and systems in order to embed themselves in the customer journey. We should not understate how big a shift this is, both in how banks operate and how their people think."

The right people in the right place

Transforming the culture of the organisation by hiring the right people and giving them room to flourish is likely to be a big driver of success for banks in the coming years. In an interview with McKinsey & Co, Piyush Gupta, CEO of DBS, commented that "we are up against businesses that work out of a garage, that take risks, operate in a nimble way and have a different kind of energy and drive. Large incumbent companies that can't create a similar kind of culture just won't be able to compete". Indeed, the public aim of DBS is to be akin to a 20,000-person start-up.

DBS' Head of Digital of Institutional Banking Group, Raof Latiff, offers more insight into how the bank is achieving this goal. "We have established various innovation project teams throughout the bank, they are left alone to work on improving products and processes, and bring new ideas to the table," he says. "At the same time, we have trained staff around new ways of working, such as applying the agile methodology and following a customer journey process to encourage staff and clients to think innovatively and develop client centric solutions. Thus, we have started to cultivate a culture where it

is encouraged to think outside of the box and experiment, and it is okay to even make mistakes as long as we learn from it."

Erik Zingmark, Co-Head of Transaction Banking, EVP at Nordea explains that the Nordic bank has adopted a similar philosophy. "The people we hire today have a very different skillset to those we recruited five years ago," he says. "We are also empowering our people to work differently, ensuring that creative people are not burdened by institutionalised reporting processes and other things that have traditionally hampered banks' ability to innovate."

Immediate improvements

Scanning the market, it is clear that these changes in thinking, culture, procurement and hiring at banks are having an impact on the products and services they are offering. Over the past year or so a seemingly endless list of bank product launches have leveraged all manner of existing and emerging technologies in an effort to solve pain points for clients.

The future of banks, though, is not dependent on digital product launches or on applying the "digital lipstick to products" as DBS' Gupta so viscerally told McKinsey & Co. It is about completely digitising the organisation end-to-end.

Treasury Today Asia has had numerous conversations with banks around the world about how they are leveraging various technologies to improve their back office functions and offer a more seamless experience for clients using the bank. "Banks will not necessarily have to continuously release cutting-edge digital services to satisfy customers' needs," says Greenwich Associates' Raftery. "Instead, they need to get the basics right and make it easier for their customers to do business with them."

Granted, some may cynically say the banks are doing this to cut costs, and to a degree they are right. However, Strategy&'s Nesfield is keen to point out that banks realise many products are commoditised, and that they will only retain and gain more customers by making themselves easy to work with. "As a result, banks are now looking to leverage technology not only to cut costs but also to ensure they keep business," he says.

To put this into context, Citi's Pakcan explains that it is crucial for banks to look at their process end-to-end and remove all the friction that exists. "To provide an example, we are working to digitise our call centre so that clients no longer need to pick up the phone to ask questions about the status of a payment," she says. "Instead we want to provide that information into their eBanking portal using APIs, or allow them to ask a chatbot that will find the information for them. To do this, though, requires a big overhaul of our back office processes to ensure all the dots join up to deliver the correct information to our clients in a timely fashion."

Winning advisory

Revamping the back office and making sure that data is organised in a logical fashion and easily accessible to clients will also enable banks to be better advisors to clients. According to Greenwich Associates' Raftery, this work is crucial because advisory will be "one of the enduring pillars of differentiation".

Raftery goes on to say that "the true power of the advisory model will emerge when banks integrate 'high-touch' service with digital technology". This will see banks use algorithms based on client inputs and industry data to inform solutions to clients' short, medium and long-term goals – thereby enabling banks to "connect customers with products experts in areas critical to their business".

For some banks, this is already becoming a reality. Citi, Nordea and a host of other banks have developed solutions that harness client and third-party data to show where improvements can be made and are using these to build more bespoke solutions for their clients.

DBS has also recently stepped into this area, taking a slightly different approach. Treasury Prism, a web-based solution, allows treasurers from around the world to upload data on their treasury structure and simulate what impact certain changes or the use of different liquidity and payment products will have. The solution suggests all the possible changes that can be made to their operating model today.

Explaining the thinking behind Treasury Prism, DBS' Raof highlights that the bank was conscious not to develop a product to just simply push sales. "This tool gives treasury teams an easy way to evaluate their treasury management structures and see what improvements they can make or new structures they can work on without having to talk to the bank directly," he says. "Of course, we would like them to come and speak to us down the line and we would follow up. But the main purpose of the tool is to get people thinking and share the knowledge that we have with anybody that wants to access it."

Future gazing

What will a transaction bank look like in the future? Will there even be transaction banks? It is hard to say because as Nordea's Zingmark notes: "The only guarantee you have when predicting the future is that you will be wrong." With that in mind, Zingmark highlights how the strategy of Nordea is to develop a bank that is digital and nimble, thereby "allowing us to be able to meet customer demands as they evolve".

This view is similar to the future of banking as predicted by Greenwich Associates' Raftery. In his opinion, banks will prevail and the threat of non-bank financial services companies will subside as regulators scrutinise them more closely. "With electronic banking ubiquitous, large traditional providers transform into 'digital banking superstores'," he says. "Stripped of their technology advantage (and their regulatory advantage as well, assuming regulators act appropriately), non-banks will cede clients and share of wallet to the banks. At the same time, corporates will rediscover the benefits of one-stop shopping with large banks. Many remaining major fintech and non-bank providers will be acquired by banks, further enhancing banks' technology prowess."

For Strategy&'s Nesfield, the question of whether or not banks will survive in the future is a simple one. "Banks need to make their offerings simpler, smaller and more connected to the customer," he says. "To do this, banks need to stop being a destination you go to in order to use financial services and instead become an experience you consume as part of everyday life. They need to fit into our lifestyles and workstyles rather than us, the customer, fitting into their operating model. If they can do that then they can survive in a variation of their current form, and it will be more of an evolution than a revolution."

CONNECTIONS MAKE THE WORLD GO ROUND

When it comes to growing your business across borders, connections count. That's why ANZ connects you to insights and expertise in markets across Asia Pacific. So when you need to reach your customers, suppliers and business partners, you know you'll have the right people at the right places.

- BEST TRADE FINANCE PROVIDER IN AUSTRALIA AND NEW ZEALAND -
Global Finance World's Best Trade Finance Providers 2017*

anz.com/expertise

©Australia and New Zealand Banking Group Limited (ANZ) ABN 11 005 357 522.
*Best Trade Finance Provider in Australia 2009 - 2017
*Best Trade Finance Provider in New Zealand 2012 - 2017

YOUR WORLD
YOUR WAY

Navigating political uncertainty

Last year, corporate treasurers faced unexpected challenges in the form of Brexit and the outcome of the US elections. But to what extent have geopolitical challenges affected the world of corporate treasury this year – and what are treasurers doing differently as a result?

If 2016 had just one defining characteristic, that could be said to be the geopolitical uncertainty which was manifested in developments such as the UK's decision to exit the European Union and the election of President Trump in the US. These events have had wide ranging consequences which continue to affect treasurers in a number of different ways.

For one thing, Brexit continues to have a lasting impact on FX rates: the value of sterling has remained considerably lower since the referendum took place. Consequently, many UK importers have seen their costs rise – although exporters have conversely benefited from the higher value of overseas sales. "As the unexpected result of the Brexit referendum demonstrated, major political changes can have a rapid and drastic effect on currency and foreign exchange risk management strategies," comments Steve Wiley, VP Treasury Solutions at FIS.

Indeed, the challenges of these currency movements have proven insurmountable for some companies. The recent collapse of Monarch Airlines, which left 110,000 passengers in need of repatriation, has been attributed in part to the drop in the value of the pound following Brexit – both because of rising fuel and aircraft costs, and because a weak pound has deterred many UK-based holidaymakers from travelling abroad. Many other companies have likewise seen profits suffer as a result of currency movements, although some have been insulated to an extent by hedging strategies implemented before the referendum took place.

Beyond Brexit

Treasurers are paying close attention to these issues: a survey carried out by the ACT, The Business of Treasury 2017, found that 61% of the treasurers surveyed were worried about Brexit. But while the impact of Brexit looms particularly large for companies operating in or trading with the UK, numerous other geopolitical developments are also causing a considerable headache for corporate treasurers.

"More recently, worries in Spain related to Catalonian independence have resulted in similar, though less significant fluctuations in currency, driving the euro down against the dollar," says Wiley. "Political changes in the United States

have added an additional element of uncertainty, leaving treasurers confounded as to how foreign and economic policy changes will impact their business."

For example, President Trump's position on the North American Free Trade Agreement (NAFTA) continues to generate uncertainty across the region. The US is currently in the process of renegotiating the proposals, with the Trump administration seeking adjustments such as a sunset clause which would require the agreement to be re-approved every five years. The president has also indicated that the US could even exit the agreement entirely if a deal cannot be reached.

Another consideration is that while European regulators have focused on opening up relationships with countries such as Iran, the US has perhaps been moving in the opposite direction. "There are certain things that banks with operations in the US appear more reluctant to do," explains David Stebbings, Director, Head of Treasury Advisory at PwC. "So if you want to develop business with Iran, a focus on non US banks has been the preferred route for many."

Political changes in the United States have added an additional element of uncertainty, leaving treasurers confounded as to how foreign and economic policy changes will impact their business.

Steve Wiley, VP Treasury Solutions, FIS

Challenges for corporates

For companies operating internationally, these issues bring considerable challenges. "Geopolitical shifts complicate a treasurer's ability to forecast risk, whether related to cash flow, external financing, commodity prices, foreign exchange rates or interest rates," comments Patricia Hines, Senior Analyst at Celent.

Indeed, the ACT survey found that 69% of respondents were concerned about geographical uncertainty aside from Brexit – higher even than the number of treasurers who were concerned about Brexit itself. Meanwhile, the 2017 AFP Risk Survey similarly found that 52% of treasury and finance functions are considering the impact of geopolitical events in general on their organisations' growth.

The AFP survey also illustrated that geopolitical risk can incorporate a number of different risks: respondents cited loss of customers/revenue (53%), currency/volatility risk (49%) and supply chain disruptions (30%) as the most pressing issues.

Inevitably, different companies have been affected by these developments in different ways. In some cases, the net outcome has been a positive one. Rick Martin, Group Treasurer at GasLog, an owner, operator and manager of liquified natural gas, says that while the wave of populism has thrown up some "interesting political outcomes", these have not – so far – impacted the company's business model.

"Indeed, if anything, these outcomes have been beneficial," explains Martin. He notes that President Trump is supportive of US natural gas exports, while "a number of governments rightly see natural gas as the cleanest fossil fuel going, and by a long chalk, looking to replace other sources such as coal".

Martin also points out that central bank actions to date have been benign, "helping to keep the global economy ticking over rather well". He says that whether these waves of populism ultimately lead to unhelpful uncertainty, or even anti-business policies, remains to be seen. "However, to date, we have been able to stick to our business plan, and gratefully so!"

Diversification and flexibility

However, the picture for other companies is somewhat different. For Greek food company, Chipita, geopolitical turbulence looms large in the current environment. "It's the first time in all the years I've been working for Chipita that political events have had such a huge impact on the treasury," comments Marianna Polykrati, the company's Group Treasurer. For example, she explains that recent political turmoil in Turkey has affected the value of the lira – meaning that the company most probably needs to revisit a previously approved budget rate for the following year. Likewise, Polykrati says that turmoil in Russia and Ukraine has had an impact on the group's companies in these markets.

"In the past, due to the Group's diversification across several geographies – including Western Europe, the US, Russia, Ukraine, Turkey and India – we felt quite secure and ring fenced, meaning that when one country/region was not performing very well due to political and economic issues, it would be offset by others that were," she explains. "But today, we are seeing that increased globalisation results in a butterfly effect – so if something happens in Russia, it can have a knock-on effect in many other markets."

As such, Polykrati says the company is working on different ways of minimising the risks that the company faces in different countries. For one thing, the company is looking at hedging more than in the past. Flexibility is also important: Polykrati says that because Chipita has factories all around the world, it is straightforward for the company to change which of those factories are used to provide particular products. "Being flexible allows us to allocate the sourcing in accordance with the costs and expenses," she explains. "This enables us to absorb any sudden and extraordinary costs."

Changing role of the treasurer

One of the more positive consequences of geopolitical turbulence is a growing awareness of the role played by the corporate treasurer in managing risk. "Developments such as Brexit and the US elections have created financial uncertainty, which always raises the profile of treasurers in their organisations," explains Stebbings. "For example, many companies have seen unexpected FX gains or losses as a result of the recent fall in the value of the pound – and questions about whether or not to hedge FX exposures put treasurers centre stage." Stebbings says that while political turbulence brings challenges, it can also have a positive impact on treasurers by "giving them more influence and an opportunity to be more involved in the business than they are in quieter times".

> The risk management function has expanded within treasury to include not only those areas most sensitive to the global political landscape, such as interest rate, and foreign exchange risk, but also cyber risk.
>
> David Stebbings, Director, Head of Treasury Advisory, PwC

Polykrati agrees that geopolitical pressures have contributed to the evolution of the treasurer's role in recent years. "In the past, the treasurer was envisaged as an accountant or a cashier, focusing on the flows of cash in and cash out," she says. "At Chipita, the role has transformed a lot the last couple of years, especially after the Greek crisis. The treasury reports directly to the deputy CEO in order to advise on topics such as bank relationships, commodities and risk management. So my role has been upgraded due both to changes in the business and due to the challenges brought by the political landscape."

That said, treasurers still need to play a proactive role in seizing the opportunities. "The definition of a good treasurer is the one who is leading the discussion, putting the issues on the table and presenting the solutions, rather than simply letting it happen and then responding to what the business wants," Stebbings says.

Adjusting to the new normal

In many cases, companies have not been fully prepared for the impact of recent geopolitical events. "Few of these recent events have been widely or effectively factored into company risk management strategies, and so the question for treasurers becomes how to best manage global political, economic, and regulatory uncertainty," comments Wiley. He notes that planning for and reacting to changes in the global political landscape has always been a tricky task for treasurers, "due to the fact many of these changes occur abruptly, unexpectedly, and have uncertain ramifications for currency rates, interest rates and counterparty risk".

It is clear that there is a need for some companies to adjust their approach in light of recent developments. According to Wiley, corporates have responded to the ever-changing global economy and more uncertain political landscape by taking a fresh look at their risk management strategies and existing technology. "The risk management function has expanded within treasury to include not only those areas most sensitive to the global political landscape, such as interest rate, and foreign exchange risk, but also cyber risk," he notes.

Consequently, Wiley says that treasurers are taking a fresh look at the technology used to manage these risks, in order to mitigate the negative effects of the next unexpected Brexit-scale event. "Treasurers without best in class risk management processes, and the latest technologies which can accommodate these processes through stronger analytics and decision-making tools, will find themselves the most challenged," he adds.

Likewise, many treasurers are keeping a close eye on the banking landscape – particularly in the UK, where a question mark also remains over the longer-term impact of Brexit on banks. "There's a lot of uncertainty right now about what the banks are doing," says Stebbings. "Treasurers are keen to know what services banks will offer post-Brexit and whether they will move certain of their teams out of London. That's very difficult to ascertain right now, but it should become clearer if and when a transition deal is done."

Brexit: seeking a transition deal

While the outcome of the 2016 referendum caught many by surprise, this year has brought further controversy where Brexit is concerned. After triggering Article 50 in March, Prime Minister Theresa May announced the following month that she was calling a snap general election. This was intended to secure a mandate for Brexit – but the move backfired, with the Conservative party losing its overall majority in Parliament.

As Brexit talks continue, considerable uncertainty remains about the outcome of the negotiations. Particularly significant is the question about whether a transition deal will be signed which will protect companies from a 'cliff-edge' departure.

With the UK set to exit the EU in early 2019, the need for a transition deal is becoming more pressing. In a recent speech, Sam Woods, a Deputy Governor at the Bank of England, warned that a Brexit transition deal is needed by Christmas – otherwise firms will "start discounting the likelihood of a transition in the central case of their planning".

In the absence of a formal agreement, trade between the UK and the EU would become subject to WTO rules, with large tariffs imposed on some goods. Without a transition deal, EU nationals in the UK would also face considerable uncertainty. Meanwhile, the imposition of a new customs regime could bring considerable disruption for businesses as well as congestion at the country's ports.

Looking forward

Moving into 2018, treasurers are continuing to monitor geopolitical developments closely. Jack Spitzer, Treasurer of Isagenix, comments: "Obviously we are curious how any US tax reforms from Trump and Congress will impact the company and ownership, being privately held. We are trying to understand and predict what might happen, if anything, and be in a position to take advantage of any opportunities."

Looking further ahead, Spitzer says the company is currently considering expanding into a few locations around the world which have high levels of political tension, and that the company remains concerned with any potential changes around free trade agreements. "All of these issues are fraught with uncertainty due to the current US political leadership," he adds.

In the meantime, treasurers are likely to proceed with caution while paying close attention to the impact of political developments on everything from their banking relationships to their hedging decisions. Above all, the events of last year illustrated the importance of expecting the unexpected – a worthy lesson for treasurers everywhere to keep in mind.

Building a world-class treasury

Seng Ti Goh
General Manager of Treasury & Accounting

It is the ambition of Seng Ti Goh, General Manager of Treasury & Accounting at Isuzu Motors, to build a world-class treasury function. Starting with a blank canvas, he has already made much progress towards reaching this objective. He now has his eye on the future – and more specifically, on how emerging technology can help him to achieve his goal.

Founded in 1916, Isuzu Motors has the longest history of any Japanese vehicle manufacturer. By following its mantra of "creation without compromise" the company has become a world leader in the commercial vehicles space with a presence in over 100 countries around the world.

Since the dawn of the 20th century, Isuzu Motors has had a crucial role in Japanese history. This was especially true during the post-war years when Isuzu played its part in the reconstruction of the country by providing trucks to carry all kinds of building materials, products and foodstuffs. Since then, Isuzu has branched out from its Japanese roots and to develop into a truly international brand.

As Isuzu's very first treasury professional, Seng Ti has a lot of responsibility on his shoulders to ensure the financial future of this iconic Japanese brand. The chief architect of the company's treasury and finance function, Seng Ti strives to build a department that can support the business as it pushes ahead with its international ambitions. This has involved putting in place a host of new solutions, changing

> Technology is having a significant impact on how treasury departments operate and how they add value to the organisation – this is clear.

institutionalised ways of working and educating the business on the objectives of treasury.

His success in building up the treasury has seen Seng Ti's responsibilities expand. The company increasingly recognises the value that the department adds. But never one to rest on his laurels, Seng Ti is now considering what he needs to do next to achieve this ambition of creating a truly world-class treasury and finance function within Isuzu.

Blank canvas

Seng Ti is unfazed by the tremendous responsibility that he holds in his role at Isuzu. In fact, he says he will not have it any other way. "I joined the company at a fascinating juncture in its history," he says. "Isuzu has always been a leading Japanese brand and Japan is where much of the Group's revenue came from. However, the international expansion that has taken place over the past decade has changed this completely and now two-thirds of revenue comes from outside of Japan."

It is this international expansion, and the plethora of risks that it has created spanning FX, interest rates and more, that spurred Isuzu to hire a treasury professional. When approached about joining the company and filling the role, Seng Ti did not need long to decide. "Being given a blank canvas to work with – and a chance to make my mark on a company with the heritage of Isuzu – was a fantastic opportunity, and one that few would turn down."

In his first few weeks with the company, Seng Ti admits that he spent most of this time understanding how the organisation functioned and the challenges it faced, as well as building relationships with key stakeholders. "I had a good idea of what I wanted to do with the treasury department, but as the new guy in the company I couldn't come in, be overbearing and make sweeping changes," he says. "It would be naïve to push for changes without speaking to people and learning first-hand about the organisation."

For Seng Ti, there were two important reasons for doing this. "Firstly, I wanted to build a rapport with key stakeholders and staff so that when I implemented changes that would impact how they worked they would understand why I was doing it and buy into the project," he says. "Secondly, any changes that are made will create a chain reaction that can sometimes lead to unexpected events. Given that I was new and didn't have an intimate understanding of the global business, I wanted to learn about it from people that had been there for a long time to better predict that chain reaction and mitigate the risks arising from any unexpected events."

This strategy paid dividends when Seng Ti was implementing one of the treasury department's flagship projects: a multilateral, multi-currency netting solution. "This was a project that had a big impact on the business units and how they operated," he explains. "Yet, because I had taken the time to speak to the people in the business units and build a rapport, the level of resistance was much lower than I had expected. As a result, I was able to get the project over the finish line, improving multiple processes and reducing costs significantly. It was a big win for treasury and showcased the value that we can add."

Journey to treasury

Seng Ti attributes much of his success in his first few years at Isuzu to his experiences and the lessons that he learnt early in his career. After graduating from the National University of Singapore with a degree in Statistics and Economics, Seng Ti joined the Japanese banking giant SMBC as a Dealer on the money markets desk. "In this role, I managed the bank's balance sheet, quoted interest rates, managed the funding gap risks and dabbled in prop trading – before prop trading became a dirty word," he says. "It was a fast-paced role and a steep learning curve, but it gave me a great grounding in finance and how financial markets work."

After spending two and a half years at the bank, Seng Ti moved on to work for one of Asia's largest hedge funds, Asia Genesis Asset Management. In his role as a Trading Strategist, Seng Ti helped to manage the fund and traded T-bond & JGB futures, stock indices futures and FX. "I was only there for a year, but I loved it," he says. "The only problem was that it was a very intense role and required nothing less than full commitment and long hours were necessary. As I traded both Japanese and US markets, it was common for me to watch US markets until 2am at home and continue trading the Japanese markets at 8am the next morning. I had a young family at that time and it was difficult for me to manage my work commitments and family time optimally."

Having reached this crossroads in his life, Seng Ti had a decision to make on what to do next. And with experience on both the buy and sell side of financial markets, there were many options open. "I decided to work in corporate treasury as I felt it reflected my skillset and with the improved work-life balance, I could fulfil one of my life goals to do a part-time MBA," he says. "While it may not be as fast paced as working in a bank or hedge fund, corporate treasury enables you to have a valuable impact on the business you work for. I have no regrets and haven't looked back."

Seng Ti cut his teeth in corporate treasury working at the SKF Treasury Centre. He later joined Maersk Treasury before taking up his role with Isuzu Motors in 2015. With no prior corporate treasury experience before these roles, Seng Ti admits that he has done a lot of learning on the job, especially in his time at SKF and Maersk. However, he believes that entering corporate treasury through a less traditional path has enabled him to bring a different perspective to the profession and view problems differently.

From pupil to teacher

Today, Seng Ti is active in the corporate treasury scene; he serves as an Executive Committee member of the Association of Corporate Treasurers (Singapore) and speaks in seminars and conferences. And he is keen to share his knowledge with

those within Isuzu and has been organising a yearly finance, treasury and accounting conference, that will see senior executives from across the organisation fly into Singapore to learn more about what is happening across the financial industry and how this is impacting Isuzu over the two-day event.

"This event is unprecedented," says Seng Ti. "In 2015, when I first broached the idea with my bosses they were apprehensive – but after I explained how it would all work they became excited and gave me the go ahead. Now it has become an annual event that many across the Group look forward to."

The aim of the conference is to ensure that all senior executives within the organisation are cognisant of the basic purpose of the treasury function, have a common platform where they can openly discuss their issues with other senior finance colleagues and solicit advice from the treasury at the same time. Seng Ti and his team have invited several external experts from Isuzu's banking group and advisory firms to present and speak on the key topics of the day. "It is about breaking down walls and building bridges so that treasury can receive greater support for new initiatives," he adds.

A changing world

One topic that Seng Ti guarantees will be on the agenda at the conference is the changing geopolitical landscape. "Geopolitical changes manifest themselves in regulatory instability and market volatility, both of which have created a few issues for treasury in recent months," says Seng Ti.

On the point of market instability, Seng Ti expands by saying that over the past 18 months he has had to deal with several sudden market shifts across the region. Whilst problematic, Seng Ti has worked hard to ensure that these events do not negatively impact Isuzu, using a range of hedging techniques.

In fact, in a roundabout way, the market volatility brought on by shifting geopolitical dynamics provides treasury with an opportunity to demonstrate its value to the organisation. "Before there was a treasury in place, the commercial teams made their own call about what was right to do when FX rates shifted, for example," says Seng Ti. "But now we are there to advise and help them make more informed decisions when they negotiate contracts with suppliers to mitigate FX risk and highlight other potential risks."

Changing regulatory regimes across the region also pose a challenge, but Seng Ti pragmatically regards these as "par for the course when operating in Asia". In his view, it is staying abreast of the big multinational regulatory reforms that are more challenging. "We must constantly stay informed about regulations such as MiFID II and work to ensure we are compliant in order to continue our basic risk management role like entering into FX hedging contacts with European banks," he explains. "If we don't, there will be big implications down the line."

Be digital or be left behind

Away from geopolitical instability and market volatility, another big topic on Seng Ti's agenda is the changing technological landscape. As a keen observer of what is happening right across finance and banking industry, Seng Ti is fully aware of the transformational impact that technology is having on all businesses. The big question for him is: what does this mean for treasury?

> Blockchain will transform how companies in a lot of industries will behave.

"Technology is having a significant impact on how treasury departments operate and how they add value to the organisation – this is clear," says Seng Ti. "There is already a big gap forming between those that have some form of technology, like a TMS, and those that don't. If those departments without technology do not begin to adopt it soon, the gap will widen and they will be left behind. This will result in them not being able to add value to their organisations and potentially losing their seat at the table – this is a real danger for many treasury teams."

As a treasury professional looking to leverage technology more effectively, Seng Ti is fully aware of the difficulties that some treasury teams have in getting a budget for these projects. "Many organisations tend to take a short-term outlook when deciding what to invest in," he explains. "So, when you talk about installing a TMS you get asked questions like 'what is the cost, what are the changes it will involve and how much disruption will it cause?'" Whilst Seng Ti believes these are valid questions, "it can make TMS a hard sell, because the costs are substantial and the benefits are abstract and not realised immediately".

Despite the issues that some treasury departments have in getting the budget to invest in new technology, Seng Ti believes that it is just a matter of time before technology is ubiquitous across every part of a business. One transformative technology that he has his eye on is blockchain technology. "Blockchain will transform how companies in a lot of industries will behave," he says. "For example, if it can be used to manage the supply chain from end-to-end then it will fundamentally change how these processes work and can dramatically reduce costs. The banks are clearly experimenting in this space and I am patiently waiting for them to bring commercialised products to the table."

Seng Ti is also currently pondering the impact that technology will have on humans in the workplace. And having already seen humans replaced by robo-advisors in the banks, he has concluded that gradually more jobs will be lost to machines. "What this means for the future of treasury departments, I do not know," he says. "It is a skilled role, but it is plausible that robots could, in time, perform skilled roles as well as – or perhaps better than – humans."

What's next?

Despite the technological revolution and the rise of the machines, Seng Ti jokes that he expects to have a job for the foreseeable future. And it is his ambition to continue the work he has done at Isuzu and lead the treasury setup into a truly world-class function. "We have come a long way in a few years and the department is already adding a lot of value to the organisation," he says. "However, I know there is a lot more value that we can add. I will continue to strive towards building a best in class treasury function that can support Isuzu Group for the next 100 years of its history."

Money market funds: what's next?

As money market funds become more popular across the region, how is the market developing – and what do treasurers need to know when using this type of product for the first time?

Offering security, liquidity and yield, money market funds (MMFs) have much to recommend them – and as such they are widely used by corporate treasurers around the world.

"Treasurers are focused on capital preservation, liquidity and yield," explains Simon Bourke, Director of Institutional Business for Liquidity at HSBC Global Asset Management. "A money market fund is a product that allows a treasurer to outsource cash management to a professional asset manager who focuses on optimising these factors."

As Bourke points out, MMFs are run by asset managers with specific core competencies in managing credit, liquidity and interest rate risk for a lower cost than a treasurer replicating the same portfolio themselves while providing money market yields. "This allows the treasurer to run a leaner team and focus on other value-added activities," he adds.

Driving growth

While MMFs are well established in markets like the US and Europe, they are a more recent arrival in Asia Pacific. Nevertheless, the market for MMFs is growing rapidly in the region – particularly in China, where AUM for MMFs increased from RMB 1.96trn in December 2014 to RMB 5.86trn in July 2017, according to figures published by the Asset Management Association of China.

"While it is regularly said that the MMF industry in Asia is still in its infancy, or perhaps now early teens, it has already grown significantly in a relatively short space of time," observes Bourke. He explains that most treasurers of sophisticated institutional businesses and multinational corporations are to some extent engaged with money market funds – "if they are not already investing directly, they are certainly contemplating

the approach". Large corporates are a little further behind in terms of adoption, but he notes that there is a growing appetite for alternatives to standard current accounts and time deposits.

Much of this can be attributed to the rising USD interest environment which, as Bourke says, is "driving up the opportunity costs of earning zero on cash". Other drivers of growth include increased familiarity with MMFs, as well as overall growth in Asian businesses generating more free cash flow that needs to be managed.

The impact of Basel III on the cost of bank deposits is also a consideration, although this trend may be less of a factor in Asia than in other regions. J.P. Morgan Asset Management's 2017 PeerView℠ Survey found that while 55% of respondents in Europe said their banks had encouraged them to move their cash deposits off balance sheet as a result of Basel III or other factors, only 17% of those in Asia Pacific reported the same.

Furthermore, treasurers may use MMFs in order to meet other specific needs. "PMC does not advise on investments, but we have seen increased use of such funds from large corporates holding excess liquidity who are looking at potential acquisitions or have other potential short-term needs," comments Gavin Da Cunha, PMC Treasury's Managing Director in Asia.

The money market fund landscape in Asia

Bourke notes that Singapore and, to a lesser extent, Hong Kong have emerged as regional and international treasury centres for US and EMEA MNCs, as well as becoming large financial centres in their own right. "This has led to significant demand for money market instruments as decision makers are increasingly present in Asia," he says. "While the strongest demand has been in USD, the larger developed Asian-based currencies such as AUD, HKD and RMB are growing as well."

One notable development in recent years has been the rise of Chinese fund Yu'E Bao, which is sold on mobile payment platform Alipay. The fund, which was launched in 2013, now has over RMB 1.4trn of assets under management and is the world's largest money market fund. While the fund is aimed at retail investors, its rapid success has done much to boost the profile of MMFs in the region.

Meanwhile, Bourke points out that the RMB space has become the second largest MMF domicile in the world, according to figures published by Fitch Ratings earlier this year. "This has been primarily due to retail participants' adoption of MMFs via technological innovation, and institutional demand driven by corporate outsourcing of asset management, capital controls and guidelines limiting bank payouts on deposits," he adds.

Regulatory change

At a global level, MMFs have been subject to significant regulatory scrutiny since the financial crisis. This has resulted in regulatory changes in both the US and Europe, with particular focus on the constant net asset value (CNAV) model of MMF.

How closely are regulators in Asia following these developments? "I would say that the China regulator is very focused on the risks that it sees in China," says Ben Ford, Executive Director at J.P. Morgan Asset Management in Singapore. "While they are willing to talk to global leaders like ourselves and understand our priorities, I think they are focused on controlling what they can in their own country."

Past market events had led to the introduction of new rules by China's Securities Regulatory Commission (CSRC) limiting the exposure that MMFs can have both to single borrowers and to lower rated assets. In October this year, new regulations rom CSRC have focused on concentration and liquidity. "As a retail or institutional investor I would want to know that I'm not in a fund that has a large concentration with one individual investor," explains Ford. "However, CSRC's new guidelines introduce additional rules for funds with investors at over 50% concentration, which seems very high – for example, in our funds you wouldn't hold more than 5% – but there is a realisation that concentration is an issue that needs to be regulated, and this is a first step in that direction."

Elsewhere in the region, Ford notes that regulators tend to have a "lighter touch" on money market funds than they do on their banking rules. "That said, regulation is still there. In Hong Kong and Singapore, regulations are fairly wide and encompass a wide range of investors," says Ford.

Overall, though, it would appear that corporate investors in Asia Pacific are less affected by regulatory change than those in other regions. J.P. Morgan Asset Management's PeerView℠ Survey found that only 33% of participants from Asia Pacific were planning to change their investment policies in light of the current regulatory environment, compared to 58% of European respondents and 46% of those in the Americas. The report notes that this "could be reflective of attractive USD bank deposit rates and fewer regulatory pressures in the region in comparison with Europe and the Americas".

MMF reform in the US and Europe

Last year, the US Securities and Exchange Commission (SEC) introduced new rules stipulating that money market funds must operate on a variable net asset value (VNAV) model, instead of keeping the cost of a share at a constant NAV of US$1. The rules also included the ability to impose liquidity fees and redemption gates if the percentage of a fund's assets that can be liquidated within a week drops below 30%.

On the other side of the Atlantic, European regulators are likewise in the process of implementing new money market fund rules, although they are taking a somewhat different approach. The European regulation, published in June, introduces a new category of money market fund, the low volatility net asset value (LVNAV) MMF, which uses amortised cost accounting for assets which have a residual maturity of up to 75 days. The new rules also include VNAV MMFs and public debt CNAV MMFs.

Barriers to adoption

While the market is growing, there are still many companies in the region that do not use MMFs. David Blair, Managing Director of Acarate Consulting, points out that money market funds are less popular in Asia than in the US for a number of reasons. For one thing, he says that corporates in the region traditionally have tighter bank relationships – while another consideration is "plain old resistance to change".

Ford points out that while there is a high level of familiarity with money market funds in the US and Europe, Asia is at an earlier stage of adoption. "While multinational treasurers are more familiar with a range of investment products, for local corporates the bank is often driving the relationship and promoting its own products," he says. Ford notes that where banks are lending heavily to some sectors such as real estate, the corporate cash will likely be held mainly with the lending bank. "Sectors such as pharma and tech tend to have more cash and are therefore more likely to use off-balance sheet/ non-bank products," he adds.

At the same time, Ford says that the lack of familiarity with money market funds can result in a "bigger uphill battle" when seeking to introduce the product – not least because companies' investment policies may not specify whether money market funds can be used. "Investment policy is another area that we work on with clients," he adds.

Regulation is another consideration, although Ford does not regard this as a barrier to adoption overall. "We see it as a very good thing in the long-term because it helps investors get more comfortable and understand what these products are for – although in the early stages clients get concerned about what the regulator has highlighted, and it takes time for things to settle down."

Advice for treasurers

For treasurers using money market funds for the first time, Bourke says the first step is to review current investment guidelines and see if MMFs are even allowed. "Secondly they should develop a framework to evaluate, select and monitor providers or decide if they want to outsource that process as well," he says. "Also it is important that a treasurer understand the various channels available to invest in the fund, be it via fax, sweep or online portals, and the pros and cons of each." Bourke notes that it is important to think strategically about a liquidity provider to partner with to ensure the investment and credit approach are in line with the treasurers goals.

When seeking a money market funds provider, there are many different considerations to take into account. The size of the sponsor is crucial, as is its level of experience. As Ford explains, "It's important to look for a fund that has a sponsor which has been running these products for a significant amount of time, and that has a credit team in place to make sure they are looking at counterparties in the right way. You also want experienced managers who can think about the liquidity and types of risk in the portfolio."

When companies undertake further due diligence, Ford says they should consider who the regulator is, whether the fund is rated and whether the fund has ever restricted withdrawals. "You should also look at the basic features, such as cut-off times of funds and whether the fund has client service in the region – but the overriding theme is the sponsor of the fund and its track record."

Future developments

Looking forward, Bourke says that the market will become "bigger faster and more transparent" in the coming years. "As the market matures the adoption rates across the institutional and retail space should increase to edge closer to the US/ EMEA levels, which is about 15-20% of the deposit base," he says. "There will probably be a convergence of the regulatory approach and an increase of pan Asian mutual fund recognition schemes."

Bourke also predicts that the investing process will become more automated via online portals and tools that will improve ease of investment and transparency of reporting. "Crypto currency and block chain impacts are hard to predict but could be huge disrupters in this space as well," he adds.

Ford says developments in China's money market fund industry are likely to have a considerable impact on developments across the region as a whole. He adds, "As regulators get more sophisticated, clients and investors likewise become more sophisticated, which is exciting for us – we would like to see a greater understanding of money market funds across the region."

Outside of China, Ford says that the market in Japan is more problematic due to negative rates. "Once we move out of a negative rate environment, we will probably see the market for yen MMFs grow," he says. "Meanwhile, the Australian market is being driven by both retail and institutional investors, and there are certainly corporates who are looking at using money market funds." In smaller countries, however, Ford says it is currently less clear where growth will come from.

Bucketing cash

Meanwhile, the practice of 'bucketing' cash balances into shorter and longer-term balances is becoming increasingly widespread in Asia. By dividing cash into different tranches, treasurers can invest short term balances into same-day settlement solutions such as money market funds, while investing longer-term and strategic cash into products with a longer investment horizon.

Impact of Basel III

Ford notes that to a certain extent, treasurers' investment choices are being driven by regulatory developments such as Basel III. "We have heard that some banks have created products where you have, for example, a one-month term deposit that converts into a certificate of deposit which could then be sold," he explains. "So banks are becoming more innovative in order to create evergreen structures that can be viewed by regulators as stable bank deposits."

Conclusion

Money market funds have gained considerable ground across Asia in the last couple of years. As the market matures, it is likely that more companies will explore the opportunities provided by this type of product. In order to take advantage of MMFs, treasurers should take the time to understand the differences between providers and the impact of the evolving regulatory environment.

Dynamic working capital management: the next frontier for treasury

Managing the intricacies of working capital is becoming a crucial task for many treasury teams. And a raft of changes driven by technology is giving treasurers the chance to play an even more decisive role in driving value-adding working capital strategies across the organisation.

When companies are under cost pressure, efficient working capital management shoots up the agenda. For many corporations, that is the case today. However, as any treasury team that has embarked on a working capital efficiency project will attest, driving significant and lasting change is no easy feat.

The reasons for this are multi-faceted and will vary slightly from company to company. However, one thing that is consistent across all organisations is that working capital is a truly cross-functional area, requiring treasury to align all disparate departments with different aims and objectives.

Whilst many of the challenges are largely organisational in nature, it is technology and data that hold the answer to solving them. And as we will discover, new solutions are not only enabling treasury teams to better manage working capital – they are also allowing treasury to play an increasingly pivotal role in shaping the future commercial success of the business.

Funding shifting business models

The impact that technology is having more broadly on companies is, in part, driving a renewed focus on working

capital. As Michael Vrontamitis, Head of Trade, Europe and Americas at Standard Chartered explains: "The transition to the digital economy is forcing businesses to drastically change their business models. To fund this transformation, organisations are looking to drive out costs and release working capital tied up in the business."

Achieving this is proving difficult for the world's top organisations. The Hackett Group's most recent analysis of the world's biggest companies' working capital performance highlights this, indicating that the working capital performance of companies in Asia, Europe and the US is slipping or remaining static (see box for more detailed analysis). Consequently, trillions of dollars remain locked up in working capital around the world.

Across all regions, much of the improvement corporations are making is coming about through changes in the management of days payables outstanding (DPO). "There are numerous strategies that can be employed and they are relatively easy to execute," says Vrontamitis. "In Europe and the US, the most popular strategies are to push out supplier payment terms and utilise supply chain finance (SCF) solutions. This is also becoming more common in Asia."

Whilst lots of corporates have realised significant improvements using these solutions, The Hackett Group claim in its latest reports that the use of targeted SCF programmes is only likely to deliver short-term success. Significant and lasting success only comes from a more holistic working capital efficiency strategy that tackles all aspects of the working capital cycle.

Lessons from the best

US-headquartered technology giant HP Inc. is a company that can claim to be world-class when it comes to working capital management. Zac Nesper, Head of Finance and Assistant Treasurer, says this is down to an all-encompassing C-level project the company launched several years ago to become best in class in this space. The project not only involved implementing new solutions but also completely changing the culture of the organisation.

"Historically we were a very P&L focused organisation," explains Nesper. "This doesn't necessarily correlate with strong working capital performance, especially when we start talking about changing payment terms of suppliers and customers are involved. Key to our success has therefore been pivoting the focus towards cash flow and ensuring that cash is being considered for in every business decision."

A natural consequence of this pivot has been the growing presence of treasury in discussions around sales and procurement. "We are involved in frequent and in-depth discussions with our colleagues in both departments to ensure we carefully analyse the impact different strategies have on sales/purchases and cash flow to make sure we do what is best for the business," says Nesper. "We also work together when communicating out strategies to our suppliers and customers." The result of all this work speaks for itself and HP has been able to release billions of dollars previously tied up in working capital.

SAP is another company that has worked hard over recent years to improve its working capital efficiency. SAP has transformed the company's culture and made cash a part of every conversation. "P&L is important, but cash generation is the clearest measure of success for an enterprise in our opinion," says Todd McElhatton, CFO at SAP North America.

To make sure everyone understands this, SAP has changed how it measures the performance of its staff, giving them KPIs based around first-class working capital management principles. To provide an example, McElhatton explains how the company has turned its sales team into an effective cash collection tool.

"Our sales reps receive their commissions payment for a sale once we have received payment from the customer," says McElhatton. "Through linking cash collection and commission in this way, our sales reps are now engaged with finance to understand who has and hasn't paid and chasing up any late payments."

The use of technology has also empowered SAP to collect more effectively from its customers. McElhatton explains that SAP has recently installed various machine learning and AI powered tools that drive efficiency in its collections process by enabling straight through processes and reducing errors.

These benefits are par for the course of any technology project, says McElhatton. For him, what is most important is the wealth of data on SAP's customers that this technology produces. "Today, we have a real-time snapshot of our customer's historical payment performance and every open transaction," says McElhatton. "This data is invaluable because it means our sales reps can see if their customers have outstanding invoices and find out why these haven't been paid and ensure we receive payment."

Transformational technology

The power of data to drive working capital improvement is immense according to Cedric Bru, CEO at Taulia. "The reason for this is simple: data gives you the facts," he says. "Working capital projects fail because companies don't have the facts to work with."

To elaborate on this point, Bru says that while all companies know that they can improve their working capital performance, knowing where and how is the challenge. Technology – and the data this creates – allows companies to better measure their working capital performance and gives them a set of facts to work from. "Once companies have a real-time view on their own working capital performance they can compare this to their peers to see if they are leading or lagging," says Bru. "Companies can then use this data to work out where they need to improve and how to do this."

Technology can even tell corporates where and how to improve. On the AP side, for example, Taulia has developed a solution that leverages AI and machine learning to analyse its clients' data and compare this with other corporates. By doing so Taulia can highlight opportunities for them to offer SCF or amend payment terms with their suppliers, for instance. "This is extremely powerful and means that our clients can easily drive meaningful change that benefits the company," says Bru.

Most importantly though, the use of technology such as this means that corporates can drive continuous improvement, Bru explains. "Working capital is not a static space and the opportunities that corporates have to improve constantly change. Technology such as machine learning and AI don't

sleep and can show the opportunities that exist to our clients in real time every day of the year."

On the AR side, Lewis Sun, Managing Director, Head of Product Management Asia Pacific at HSBC is also seeing opportunities for corporates to be more dynamic by using innovative technologies. "By using big data and algorithms, corporates can transform their credit policies from static documents to 'dynamic' documents," he says. "In practice this means that the sales team will be able to offer bespoke deals to their customers like improved payment terms or discounts without increasing the risk or damaging working capital performance."

In the broader scheme of things, Sun believes the increased use of this technology will ultimately give treasury teams the chance to further highlight their value to the organisation. "The board are interested in the bottom line, and if treasury can provide the tools and support that enable the company to improve the bottom line, this will not go unnoticed."

More to come …

Working capital is clearly a hot topic and with investment from banks and fintechs pouring into technology to help corporates achieve their working capital objectives there is a lot more to come. And in the view of Victor Penna, Managing Director, Regional Head of Cash Management and Global Head of Treasury Solutions at Standard Chartered, the possibilities are limitless.

"As the world becomes more connected through the rise of eCommerce and the use of internet of things (IoT), corporates are being presented with the chance to completely revisit how they buy and sell and how they interact with suppliers and customers," say Penna. "As a result, this will completely redefine the working capital metrics."

Penna provides the example of parts supplied by a manufacturing company. "Traditionally, the company would need to keep a supply of parts so that they could be replaced in equipment when needed – this obviously adds to the DIO of the company," he says. "However, when you use the IoT and use sensors on the equipment that records their wear, an automated purchase order can then be created when the part need replacing so that parts can be manufactured as they are needed and they arrive at the customer just in time – significantly reducing the days inventory outstanding (DIO)."

This is just a single example, but when you apply this to every other facet of corporate life Penna believes it changes the game completely, linking the physical and financial supply chains more closely than ever before. "In my view, working capital is the new frontier for corporate treasury," he says. "These developments will give treasurers a multitude of opportunities to have a positive impact on the business, above and beyond the areas they are focusing on today."

Ahead of the game

Although much of this technology is in a nascent stage, initiatives such as those carried out by HP and SAP demonstrate the working capital benefits that can be achieved today. If that was not enough, Taulia's Bru offers something else to consider, commenting on the rising interest rate environment in the US (and potentially elsewhere as economic improvement continues).

"Treasurers have been working in a low-interest rate environment for a decade now where it has been cheap to borrow," he says. "This has made it relatively easy to fund the business cost-effectively using debt. As rates rise, however, the dynamics change: debt becomes expensive and working capital becomes the cheapest form of funding. As a result, those treasury teams that are focusing on working capital today will be in the best position to ensure they can cost-effectively fund the digital transformations of their business."

Lay of the land

The Hackett Group's annual survey of working capital performance of the world's leading corporates provide interesting insight into the current state of play. Here is how corporates in the US, Asia and Europe are currently performing.

US

The working capital performance of the top 1,000 US corporates improved slightly in 2016, with the average cash conversion cycle (CCC) falling from 37.1 days in 2015 to 35.7 days in 2016.

Much of the improvement came in DPO as corporates pushed out payment terms and implemented SCF programmes. Conversely, both DIO and days sales outstanding (DSO) deteriorated in 2016.

Asia

Working capital performance in Asia is on a downward trajectory and the region's 1,000 largest listed companies had around US$2trn tied up in working capital in 2015 – the latest data available. The average CCC is 45.6 days, the worst seen in the region for more than ten years.

The opportunities to improve working capital performance are abundant. Hackett suggests that better working capital management will unlock US$741bn in inventories, US$633bn in receivables and US$579bn in payables for these companies.

Europe

In 2016, the CCC of Europe's 1,000 largest companies slipped due to an increase in inventory and receivables. As a result, these companies lost the use of over €1trn, which remained tied up in net working capital.

APAC Inc troubled by late payments

Non-payment risk in Asia Pacific (APAC) has escalated due to financial stress and looser corporate credit controls. In total, 64% of companies experienced overdue payments, and the average overdue days lengthened in comparison to the previous year.

These are the headline findings of the latest Coface Asia Corporate Payment Survey, which quizzed just under 3,000 companies from eight APAC markets about payment trends.

Smoke and mirrors

Despite over two-thirds of companies experiencing overdue payments in 2016, this number was down slightly from 2015. This relatively positive news has been met with an increase in business sentiment, with 30% of companies confident in their customers' ability to pay, up from 26% in 2015.

Whilst encouraging, Coface is keen to point out that the most worrying finding of their report is the number of companies experiencing ultra-long overdue payments (payments over 180 days late). In 2016, 12.5% of the companies surveyed had experienced such delays. This is the highest number for four years and up from 8.2% in 2015.

Over a quarter of the companies experiencing ultra-long overdue payments said that these payments exceeded 2% of their total annual turnover. This is especially concerning, as these late payments cause significant financial stress and cash flow issues for many businesses. Coface research also suggests that 80% of ultra-long overdue payments are unlikely to be paid at all.

Customer financial difficulties were cited as being the main reason for late payments. These difficulties are created by a mixture of fierce competition and slow economic growth in some markets, according to survey respondents.

Loose credit control

However, more companies seem buoyed by the fact that overall overdue payments have decreased. This has manifested itself in companies practising looser credit control. Indeed, the survey highlights that only half of respondents checked and monitored buyer credit-worthiness in 2016.

As the focus on credit risk is decreasing, companies are also offering customers increased credit terms. The survey finds that on average credit terms have increased from 55 days in 2015 to 59 days in 2016. More companies than ever are also offering long credit terms of 90 and 120 days. The primary reason for companies offering such terms is because their customers are experiencing liquidity issues.

Market challenges

Companies in China are experiencing the biggest pain due to overdue payments. Despite some improvement, 68% of companies still had to deal with overdue payments. Over half of these experienced ultra-long overdues. Paradoxically, China has the largest number of companies offering sales credit in the region.

Overdue payments are also troubling companies in India. The proportion of respondents experiencing ultra-long overdue amounts exceeding 2% of annual turnover in India was 'very high', despite there being some improvement vis-à-vis 2015.

Elsewhere, Thailand registered the highest increase in respondents, with ultra-long overdue amounts exceeding 2% of annual turnover in 2016. Ultra-long overdue amounts as a percentage of annual turnover deteriorated in Australia and Japan but improved in Singapore and Hong Kong.

Voice of Corporate Treasury

in association with

Bank of America Merrill Lynch

The industry has spoken

The results are in from this year's Voice of Corporate Treasury Global Study, conducted in partnership with Bank of America Merrill Lynch. They show the profession at a crossroads with treasury teams searching for answers in an uncertain environment. Here, Bank of America Merrill Lynch's Head of Strategy & Advisory for Global Transaction Services, Jonathon Traer-Clark, and a select group of corporate treasurers discuss the study's findings.

Jonathon Traer-Clark

Head of Strategy & Advisory for Global Transaction Services

Bank of America Merrill Lynch

In a world in flux, it is good occasionally to take a step back and assess where we are and, most importantly, where we are going. These were the key objectives of this year's Voice of Corporate Treasury Global Study, conducted in partnership with Bank of America Merrill Lynch.

The results of this quest provide a detailed and unique snapshot of the treasury universe. They show it at an inflexion point where, on the one hand, treasurers are having to weather the storm created by recent political, regulatory and economic upheaval, and on the other they are taking the next step and leveraging new technology and ideas, allowing them to better support their business. It goes without saying that these are interesting times to be a treasury professional.

Conducted in the first half of this year, the wide-ranging study attracted 625 corporate respondents from around the world. The universe was diverse in terms of company size, industry sector, geography and treasury structure. As expected, there were some nuances that arose when the data was cut by region. Broadly speaking, several key themes emerged.

Political turmoil

Almost half of the sample view the outlook for the next 12-18 months as challenging and very uncertain. This is to be expected, given the myriad of political surprises the world has faced over the past two years. Respondents cited the uncertainty around the Donald Trump presidency and the direction of Brexit as two major concerns. Even if corporates are not directly impacted by these two factors, it is clear that they have caused ripple effects around the world.

During a recent webinar covering the results of the study, Sonia Clifton-Bligh, Director, Regional Treasury Services Centre, APAC at Johnson & Johnson, said the political environment, "is one of the factors contributing to the uncertainty". This, she added, "presents its challenges across cash and liquidity management as well as foreign currency exposure management".

Specifically, she noted how several countries in Asia, especially China and Malaysia, have introduced new regulations aimed at protecting their currency as a result of political events. These decisions, she explained, "impact the way we would have previously executed our risk management strategy and also impose onerous obligations on the business to be able to operate within the financial markets".

Séverine Le Blévennec, Director, Treasury EMEA at Honeywell, participating in the same webinar, notes that such events remind us that "political risk exists". That said, she insists that her treasury sees more opportunities than threats in today's market.

625

corporates took part

48%

view the outlook as challenging/ very uncertain

Currency volatility is the top risk to organisations

Treasury: at tipping point or crossroads?

Today, most treasury functions are either at a tipping point or a crossroad. They are undergoing a major transition, having to embrace additional responsibilities whilst continuing to operate with extremely lean teams. There is a keen focus on risk management in its many guises but also a focus on growth. The latter can be influenced by cash-flow forecasting, a frequently cited area in the study, as both the enabler of growth and of capital funding. Treasurers continue to balance risk versus investment, striving to answer the burning question, "where is the best return?".

That investment may well be in new technology. Bank of America Merrill Lynch's Jonathon Traer-Clark feels many corporates, "are waiting for the 'light-bulb' moment use-case and a compelling event to justify such an investment".

Treasurers are also navigating the changing technology landscape in a period when their companies are changing too. Many treasurers noted that one of the fundamental changes is that their decisions are being much more influenced and driven by external factors, most notably the shifting commercial models of their organisations.

KYC continues to challenge

Whilst the course of business changes, some issues remain static. KYC is a case in point with many respondents citing this as a major test. "Around the world, we're helping clients address the KYC challenge in multiple ways, focusing primarily on advisory and secure information sharing," says Traer-Clark. "Our documentation specialists are current on local regulations so they know exactly what information is required in specific jurisdictions or entity types." The degree of variation is significant and thus, he adds, "it is important we collate only the information we need and do so in a single streamlined request to avoid any unnecessary duplication or rework from a documentation perspective".

Realising how big a pain point this is, Traer-Clark also notes that his bank tries, where possible, to self-source information on behalf of its corporate clients. Bank of America Merrill Lynch, he says, also continually seeks to leverage technology. The team recently installed a global 'document crawler' that finds and retrieves client information or documentation already held across its global data repositories – whether in credit, a different region or a different line of business, he explains.

Non-bank providers are also looking to solve the KYC challenge. These firms, notes Traer-Clark, are now starting to gain traction. The bank has "cast a wide net" in this regard. It offers "complete flexibility" for its clients and is currently signed up to numerous industry KYC utilities such as SWIFT's KYC registry, IHS Markit's kyc.com, Clarient's entity hub and Bloomberg's entity exchange. "We think these utilities present a real opportunity in the KYC space – helping banks satisfy the need for robust KYC, and doing so in an operationally-efficient manner."

Bank relations are as important as ever

Given that many corporates work with a mix of global, regional and local banks, solid relationships are key to success. Although the global financial crisis was almost a decade ago, its legacy dictates that honesty, integrity and trust are most important in the bank-corporate relationship.

Maeve Robinson, Assistant Treasurer at Omnicom Group Inc. commenting on bank relationships and the main factors in the selection process, said that she starts with the banks in the company's credit agreement, then assesses product capabilities, looking for "the superior product providers" in each market.

For Omnicom, the arrangement relies upon a core banking group supplemented by numerous regional banks servicing operations in each of the company's home markets. "We find this approach works best given time zones, languages and access to client service or relationship managers," she explains. "We closely monitor the various products and services each provides to be sure our wallet is fairly distributed according to each bank's credit support."

Honesty/integrity/trust are the key factors in bank relationships

Cyber-crime is the top concern amongst respondents

Controls and security is one area identified in improving corporate-bank communications

According to Bank of America Merrill Lynch's Traer-Clark, transaction banking relationships have noticeably evolved since the crisis. "Relationship banking is not a new concept but it became more salient post-financial crisis," he says. "Both corporates and banks realised they want more visibility and less complexity in their respective relationship groups."

It is not necessarily easy for corporates to achieve these aims, not least because many corporate bank groups and structures have grown both organically and acquisitively over time. "Rationalising bank structures has obvious advantages from a structural cost and visibility perspective, but the relationship management piece shouldn't be underestimated," explains Traer-Clark. "Banking is very much a 'people business' so having solid relationships with a select group of banks that know you and your business is really important". This, he adds, makes it easier to do business and build the collaboration and experience "that really form the foundation of reciprocal trust".

Relationship banking is not a new concept but it became more salient post-financial crisis.

Jonathon Traer-Clark, Head of Strategy & Advisory for Global Transaction Services, Bank of America Merrill Lynch

The crisis had a severely negative impact on the trust people and corporations have in banks, but Traer-Clark believes the industry is doing a good job rebuilding this. "In terms of trust and integrity from a financial stability and counterparty perspective, this is one of the positive outcomes arising from a decade of increased post-crisis regulation," he comments. "From contingency planning and capital adequacy, to operational segmentation or ring-fencing – much has been done to ensure the industry is more robust and worthy of our clients' trust." And to keep banks accountable, corporates and society at large "should, frankly, expect their banks to treat them fairly, honestly and with complete integrity".

Cyber-security is top of the agenda

Banks are also rebuilding trust with clients by acting as strategic advisors, especially around areas such as cyber-security. And with almost a third of the study respondents having been victims of a cyber-attack or fraud in the past five years, corporate treasurers are now heavily focused on technology and processes which mitigate the risk of such occurrences.

Digital security company Gemalto recently published its findings from the 'Breach Level Index'. They revealed that 918 data breaches led to 1.9bn data records being compromised worldwide during the first half of 2017.

"We take this issue extremely seriously but we are not working in isolation," says Traer-Clark. "We certainly maintain awareness and have introduced procedures that aim to spot things that are out of character, allowing us to identify potentially rogue transactions in a timely manner."

In general, the banking community is providing a lot of education in this space, hosting workshops and webinars, and ensuring its own shops are in order so it can be a trusted partner to clients. Bank of America Merrill Lynch has a very clear focus on policy, procedures and best practice and strictly adheres to legal and regulatory obligations. "Security is key and we develop, train and encourage the appropriate mind-set around these issues," Traer-Clark says.

Blockchain revolution

Banks talk a lot about blockchain, but do corporates have the same interest? The results of the survey are somewhat mixed. Whilst there are detractors amongst treasury professionals, blockchain is cited as an area of serious interest and many corporates are considering their own blockchain projects.

We are taking a collaborative approach to blockchain technology which often utilises an open sourced framework. The technology has clearly helped encourage collaboration between banks and regulators, and between banks and fintechs.

Jonathon Traer-Clark, Head of Strategy & Advisory for Global Transaction Services, Bank of America Merrill Lynch

Bank of America Merrill Lynch is evaluating blockchain technology too, validating the benefits and framing the path to commercialisation, says Traer-Clark. "We are taking a collaborative approach to blockchain technology which often utilises an open sourced framework. The technology has clearly helped encourage collaboration between banks and regulators, and between banks and fintechs."

In September 2016, the bank announced its participation as a founding member of Ripple's Global Payments Steering Group (GPSG). The GPSG will oversee the creation and maintenance of Ripple payment transaction rules, formalised standards for activity using Ripple, and other actions to support the implementation of Ripple payment capabilities.

Focusing on the client experience

Much has been made about the disruptive nature of fintechs on traditional financial institutions, but in recent years, the dialogue has shifted from disruption to collaboration. Traer-Clark agrees with this notion. He believes banks and fintechs together can make a "formidable team". Banks have the scale and relationships whilst the emerging fintechs, "make us think differently and make good partners," he says.

What is most important is that banks are addressing the big issues and leveraging the speed, agility and innovation of fintechs to find solutions to these issues. In doing so, they are also focusing on the client experience. "Assuming that banks can get the basics right first – and that isn't always easy – they can then think about delivering an enhanced client experience which is where the fintechs have a role to play," says Traer-Clark.

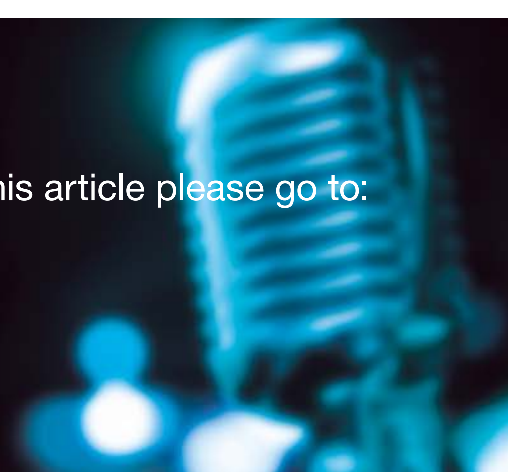
Where will corporate treasury be in 20 years?

Progress is often incremental – and this is well illustrated by the motor industry. Exactly who invented the automobile is a matter of opinion but if we had to accredit one inventor, it would probably be German, Karl Benz. Many suggest that he created the first true automobile in 1885/1886. In 1903, Henry Ford established the Ford Motor Company and five years later the company rolled out the first Model T. Elon Musk, CEO at Tesla Inc. has taken the automobile to new heights with electric vehicles. And we now hear that British inventor James Dyson is investing £2bn into developing a battery-powered vehicle which is expected to launch in 2020.

It has taken well over 100 years for the motor car to evolve to the type of vehicles we see on our roads today. Yet in less than 30 years since Tim Berners-Lee invented the World Wide Web, we are now all using the internet and mobile technology as if they had been around for a century or more. What does this all mean from a technology standpoint with regard to the world of corporate treasury? The answer must of course be set against a backdrop of geo-political uncertainty, the increasing threat of cyber-attacks, 'Black Swan' events and the naturally conservative approach to new technology exhibited by corporate treasury in general. One thing is certain – there are further interesting times ahead.

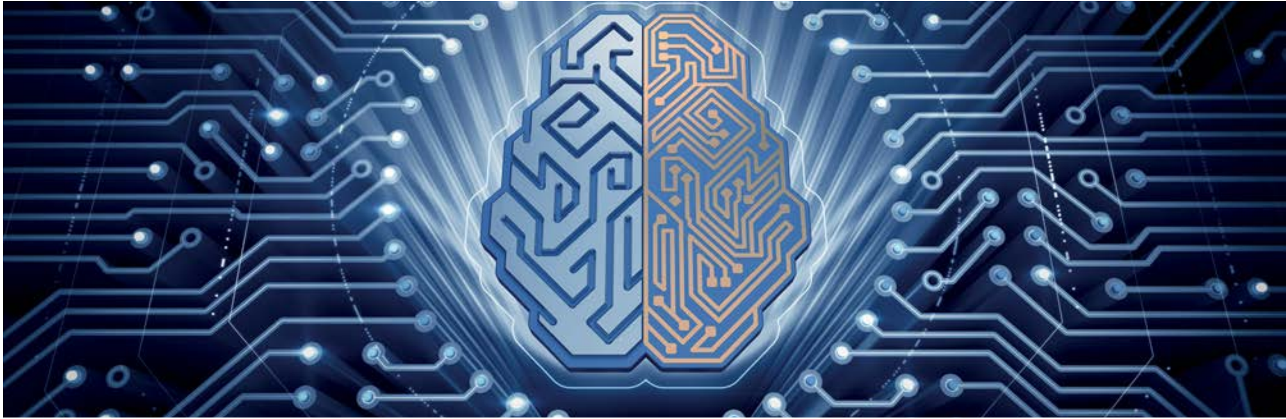
A voice being heard

Bank of America Merrill Lynch's client base made up around 30% of this study's respondents. Nonetheless, it is fair representation of the corporate treasury industry as a whole, concludes Traer-Clark. "We are delighted to have been associated with this body of work. Part of our client-centric approach is to understand their concerns, their challenges and their plans for the future, so that we can support them in the best way possible. The industry is certainly in transition and we hope that by providing the community with an opportunity to express itself, and to be listened to, we are helping to facilitate better solutions and better financial outcomes for all."



If you would like to listen to the webinar mentioned in this article please go to:

treasurytoday.com/voct/webinar



Does your treasury have a digital mindset?

As the digital disruption continues to impact the business landscape, staying on top of the change requires senior treasurers to improve the understanding of themselves and their teams of what emerging technologies enable in terms of functionality and new ways of thinking and doing business.

For Rohit Talwar, CEO at Fast Future, raising the function's technological literacy and evolving genuinely digital mindsets is one of the biggest challenges facing senior treasury leaders today.

"Understanding and realising the opportunities created by new technology requires deep digital literacy," says Talwar. "Technology advances enable radically different concepts underpinned by dramatically different ways of looking at treasury activity, hence digital culture needs to encompass both the emerging technology and the associated mindsets."

What is a digital mindset?

For Talwar, a digital mindset revolves around seeing everything as data rather than physical objects represented by data, hence something that can be analysed and manipulated in increasingly clever and complex ways.

He looks to the automotive industry to provide an example of this in action. "Automotive industry leaders are starting to see that the biggest value in cars lies in software," says Talwar. "The data it generates about every aspect of the car and what the passengers do while travelling – offering constantly updateable revenue streams rather than a single fixed purchase – the car has become a data generation platform.

With the rise of Tesla's autonomous vehicles and similar digitally-minded manufacturers such as Local Motors, who crowdsources their 3D printed car designs, a car is no longer just a means of transportation – it becomes a physical embodiment of digital products and services."

Applying this to treasury

Successful digitally-literate business leaders in treasury will need to embrace a host of disruptive technologies. Talwar cites artificial intelligence (AI), blockchain, cloud computing, hyperconnectivity and process automation as just a few examples. "The tools these technologies enable can help increase efficiency and effectiveness, and create more value for internal customers and others who treasury connects with," he says. "As financial services firms and central banks start adopting blockchain and cryptocurrencies, the pace of change in the marketplace will only accelerate."

Indeed, Talwar points to China, a country that has its sights firmly on creating a fully digital ecosystem. "China is exploring the technology with the intent of transforming its entire finance sector," he says. "Other markets are also exploring blockchain as a platform for frictionless sale and distribution of equities, currencies, bonds and other assets."

As Treasury Today Asia has reported before, the secure and irrevocable nature of blockchain transactions coupled with the reduction in transaction fees make it an attractive proposition for executing direct peer-to-peer transactions between counterparties. Transacting without a bank is a big change, but it may be the way of the future.

AI on the other hand offers the potential for smarter analysis and automation of many routine tasks. "Positive digital treasury cultures will explore ways of enhancing the role of people in the organisation through AI rather than simply automating the work," says Talwar. "Finding deeper, meaningful ways to connect to employees and encourage their best work, and providing worthwhile experiences for both employees and internal customers – ie building relationships will be the true hallmarks of the digitally enlightened organisation."

To join our treasury community and receive our weekly Insights newsletter please contact memberservices@treasurytoday.com with your email address and job title.

Sustainability in treasury

As sustainability becomes a higher priority for corporates in Asia, what does this mean for treasurers – and how can they help their organisations achieve their sustainability goals?

Sustainability is a topic which incorporates a number of different areas, but in the context of business the focus tends to be on environmental and social concerns. "A sustainable business is a business that looks at the environmental, social or governance (ESG) risks that may have a significant impact on a company's bottom line," explains Loic Dujardin, Research Director at Sustainalytics.

This topic has become increasingly important to corporates in Asia over the last couple of years. "Broadly speaking, the topic of ESG started out in Europe, where it is pretty familiar to corporates and investors and has been for over a decade," says Beijia Ma, a strategist on the Thematic Investing team at Bank of America Merrill Lynch in London. "In the last 18-24 months, there has been an explosion of interest among corporates and investors in Asia Pacific."

This is particularly the case in China. While CO^2 emissions have increased rapidly over the last few decades, China has committed to a number of actions under the Paris climate agreement, including peaking the country's carbon emissions by 2030 while increasing the use of non-fossil fuels to account for 20% of China's energy consumption. Indeed, China is the world's foremost investor in renewable energy, accounting for 45% of the world's new solar installations last year. "There is an increasing awareness from corporates in Asia that they should be focusing on their own sustainability, and that this is something investors are increasingly asking for," comments Ma.

Dujardin notes that in Asia, ESG risks such as water pollution, climate change and corruption may have a profound effect on company's operations and profitability. "The ability of a company to manage ESG risks is key for its long-term success," he adds. "Consumers in Asia are becoming more aware and concerned about the sustainability issues that impact their health and well-being, such as air pollution and food safety. Workers are also in a stronger position to demand better treatment." As a result, Dujardin says that corporates which stay ahead of these changing expectations can differentiate themselves from their competitors.

Attracting corporate focus

For companies, these topics are becoming a higher priority. "I have no doubt that corporations as a whole are realising

that being environmentally irresponsible just doesn't work anymore," says Damian Glendinning, Treasurer at Lenovo. "Even in the US, the polluting industries which stand to benefit from the relaxation of environmental protection laws have made it clear they do not want to be associated with relaxed environmental controls. Everyone wants to have a good public image when it comes to the environment."

Indeed, Lenovo recently demonstrated its own commitment to this topic by inventing a new process which lowers the temperatures used for soldering components. This consumes significantly less electricity, and therefore has considerable environmental benefits. "Instead of trying to profit financially from the invention, we are making it available free of charge to the whole industry, on the grounds that we feel the environment comes first," says Glendinning.

Lenovo is far from the only company in the region focusing on this topic. "Sustainability is important for corporates in Asia for a number of reasons," says Paul Davies, Partner at Latham & Watkins LLP. "In order to attract international investment and business, Asian companies increasingly have to demonstrate corporate sustainability and responsibility. This is because multinationals risk reputational damage, legal action, and investor pressure if they fail to consider sustainability."

Davies says that companies may increasingly find it necessary for brand-building and growth potential to prioritise sustainable development, corporate social responsibility and an overall awareness of environmental, social and governance (ESG) factors that could impact a company. "Moreover, regulations relating to sustainability are becoming increasingly strict in many Asian countries, giving companies that take early action an advantage in complying with such regulations," he adds.

What does sustainability mean for treasurers?

Sustainability may not be a core component of the treasurer's role, but there are a number of reasons why treasurers should pay attention to this topic. "For corporate treasures, the implications are interconnected across green financing, managing supply chains and creating positive social and economic benefits in this region," explains Cynthia Tchikoltsoff, Head of Supply Chain for Asia Pacific at BNP Paribas.

Treasurers also need to be aware of the risks that can arise in relation to this topic. "Some ESG risks may impact the company's liquidity," says Dujardin. "For example, pollution from a company's operation may trigger fines or litigation costs. A product safety issue may impact a company's reputation. This, in turn, could potentially prevent the company from generating revenues or restrain its ability to access funds from banks." Consequently, Dujardin says that treasurers need to have a good understanding of the ESG risks a company is facing, and of their effect on the company's liquidity.

As well as understanding the risks, corporate treasurers can also play a role in supporting companies' ESG goals in some key areas. These include replacing paper with digital workflows – and thereby helping to reduce their organisations' CO^2 footprints – as well as incorporating sustainability into their funding strategies by taking advantage of the growing green bonds market.

Replacing paper with digital workflows

Companies have many reasons for digitising their paper workflows: digital workflows bring greater efficiency and visibility and can therefore enable the treasury to operate at a higher level than would otherwise be possible. Beyond these benefits, digitisation can also bring considerable sustainability benefits.

"There are several large companies who already have extensive programmes towards sustainability and replacing paper with digital work flows is one way corporates can enhance efficiency in a green way," explains Rakshith Kundha, Managing Director, Trade and Supply Chain Finance, India and South East Asia at Bank of America Merrill Lynch. "Currently, much of the paper is digitised by parties in the work flow. As such, it would be more effective for companies to receive information and data in a digital rather than paper format."

As Kundha explains, going paperless is an efficient option for companies to streamline processes and increase efficiency, while also reducing their costs and their carbon footprints. Information reporting and transaction initiation are two areas which can offer opportunities for improvement. Kundha points out that corporate treasurers can initiate transactions and view statements via electronic channels, including mobile, which are directly integrated into their ERP systems. This enables companies to save time and manpower spent on reconciliation and updating while increasing efficiency and visibility.

"For example, millions of sheets of paper were used for printing client statements annually in Asia Pacific," he says. "We have since implemented digital statements, thereby reducing paper consumption while enhancing the overall client experience. This is just one example of how digitisation of work flows can make a material difference. And for our firm, it is also part of our broader efforts to manage our environmental impact – including reducing paper waste, energy use and greenhouse gas emissions."

Nevertheless, Kundha says there are some areas where it is more challenging to replace paper with digital workflows due to regulations. "For example, regulations may require that the paper document is provided, checked or retained," he says – although he adds that with governments looking to digitise workflows, these areas are likely to become less challenging in the future.

Green bonds

As well as building sustainability goals into treasury processes, treasurers may also have an opportunity to tap into the green bond market. As the name implies, a green bond is a bond which is used to fund projects with environmental or other green benefits. The market for green bonds has grown rapidly in the last decade: the sixth annual State of the Market report commissioned by HSBC identified "a universe of US$895bn climate-aligned bonds outstanding which is made up of 3,493 bonds from 1,128 issuers across seven climate themes" – including US$221bn of labelled green bonds. According to the report, China was the largest source of issuance in 2017.

"Since the beginning of last year, we have seen a dramatic increase in Chinese issuance," comments Ma. "This is likewise the case with places like India, Japan, South Korea and several other East Asian countries as well. We have seen quite a few new countries issuing for the first time this year."

> In time, we may see a greater number of corporate green bond issuances from companies that are not traditionally considered green.
>
> Paul Davies, Partner, Latham & Watkins LLP

Corporate issuers can benefit from green financing in a number of ways. Ma notes that corporates are often attracted to green financing "because you tend to tap into higher quality types of investor. Some of the major investors in green bonds are traditional ESG investors, who tend to hold onto those bonds a bit longer".

Driving adoption

With a growing focus on sustainability at a global level, issuers and investors have much to gain by investigating this area. "Investors are increasingly aware that sustainability, and the commitments the international community has made to improving it – such as the adoption of the Sustainable Development Goals by UN Member States, including China and India – brings with it a host of opportunities across sectors and regions," says Davies.

Davies points out that many Asian countries have ambitious renewables targets, and are seeking to bring in the required investment through green financing. "The use of green bond proceeds for carbon reduction energy projects, for instance, is important for many Asian countries as a step towards meeting the Paris COP21 Agreement climate change targets," he says.

Principles and guidelines

While the Asia market follows the ICMA Green Bond Principles (GBP), local guidelines are also beginning to be adopted. In December 2015 and January 2016, green bond guidelines were published by the People's Bank of China and by the National Development and Reform Commission. These are largely aligned with international practice as set out by the GBP when it comes to defining what constitutes a green project, although there are some differences.

"It's generally pretty clear what constitutes a green bond and what type of project qualifies," says Ma. "This might include renewables, energy efficient buildings, clean transport, clean waste and clean water. Even R&D in a specific area could qualify as well. The major difference in Asia versus the broader market is that countries like China are looking at more controversial areas like clean coal."

Across the region, a number of similar initiatives are under way. The Securities and Exchange Board of India has developed a set of rules for the issuance and listing of green bonds. In Japan, the Ministry of the Environment issued a set of Green Bond Guidelines earlier this year in order to encourage issuance and investment. Meanwhile the ASEAN Capital Markets Forum is introducing green bond standards, based on the GBP, in order to support sustainable growth and meet investor interest in green investments.

Innovation in the market

There's more to green financing than green bonds alone. This is a rapidly evolving market, and Davies notes that there has been a good deal of supply-side innovation in the last couple of years.

"The green finance market has increasingly seen products other than normal bonds, including securitisation of cash flows from green product contracts and credit facilities with margins linked to the use of the borrowings or the sustainability rating of the borrower," he explains. "Green bond indices enable investors to benchmark performance and promote liquidity. Green bond-linked exchange-traded funds have helped to stimulate broad-based demand by offering investors access to the investment grade green bond market."

Using green bonds

While the market for green financing is growing rapidly, this is still a nascent market – and consequently, there are a few pitfalls to look out for. For one thing, companies should be aware of the possible costs of issuance. "Historically, companies have tended to incur incremental costs of around US$15,000 – US$40,000 in order to issue a green bond, due to the additional reporting requirements," says Ma. "It shouldn't break the bank – but it's worth noting that for repeat issuers, the incremental costs for further issuance would be much less."

When using green financing, Davies says treasurers should bear in mind that although green financing may lack pervasive and enforceable legal standards to be classed as a 'green bond' by international investing standards, "the projects for which the proceeds will be used must be carefully demarcated in light of prevailing international and local standards. If this is not the case, certain investors may decline to add the company's debt to their investment portfolios".

On the other hand, he says that if a treasurer can build sustainable financing with thoughtful engagement on the company's sustainability performance, "there is the potential to attract new investors and potentially improve commercial terms".

Conclusion

Sustainability has become an increasingly important topic for corporates in Asia – and this is likely to continue in the years ahead. As such, treasurers should consider what they can do to support their organisations in this respect, whether this means issuing green bonds, building greater sustainability into the supply chain or digitising paper flows.

Where green financing is concerned, it will be interesting to see how the market develops in the next couple of years. "In time, we may see a greater number of corporate green bond issuances from companies that are not traditionally considered green," says Davies. "Green bonds and sustainable finance have great potential as tools to finance not just renewable energy companies, for example, but also companies transitioning and improving their sustainability performance."

Likewise, technology will continue to provide new opportunities for companies to eliminate paper from their workflows. As BNP Paribas' Tchikoltsoff concludes, "The most important thing for treasurers to bear in mind when it comes to this space is that the cost of doing nothing far exceeds the benefits and rewards of acting."

Byte marks: sinking treasury's teeth into agile technology

The increasing pressure on all business functions to deliver more with less is not going away. What's needed, argues Mark Evans, Managing Director, Transaction Banking, ANZ is a communicative, connected and agile business environment. For treasurers, this includes exploring new technologies.

Mark Evans
Managing Director,
Transaction Banking

There is absolutely no doubt, states Mark Evans, that over the past decade, the role of the treasurer has become more strategic. The role is no longer just about funding or managing short-dated risk as increasingly the treasury is relied upon to supply timely decision support for the board and C-suite's long-term goals.

The need to optimise is one that all companies in all sectors would benefit from, says Evans. In particular, the larger publicly-listed companies, which are naturally subject to closer external scrutiny and the pressure of multiple reporting regimes, might experience heightened urgency to seek change. A different pressure to perform might also be seen by companies operating internationally; by virtue of their exposure to complex, multi-jurisdictional activities, they almost inevitably must focus on extracting maximum efficiency from their processes.

In treasury terms, progress to optimal status has in part been an extension of where the role has historically sought to achieve efficiencies. But as the wider business demands increase, moving beyond a pure accounting view of working capital efficiency, for example, risks missing the bigger picture, says Evans.

A helping hand

But in achieving that wider view, the treasury aim is not to run other functions but to have greater ability to influence how those functions achieve their goals, for the greater good. Through collaboration – including the appropriate deployment of technology – Evans believes there is more opportunity to drive enterprise-wide efficiencies. A sales department might benefit from lengthening trade terms but if this is not possible from a balance sheet perspective, the treasurer is in a position to assess the advantages of, and perhaps implement, a payables financing solution.

Over the years, the need for more treasury input at the corporate level has been a push-pull affair, with the business asking and treasury offering. Progress has been steady. But the speed at which global and domestic economies are changing, driven in part by technology's enablement of more rapid processing, means business unit silos really should be a thing of the past, says Evans. "All good organisations have to collaborate to succeed."

The C-suite increasingly understands that treasury has a broader role to play and is empowering treasurers with the right to engage with colleagues in other areas. But well-developed soft skills for all involved in seeking to optimise the business are critical here, Evans warns. "People are naturally protective of their roles and suspicious of those who seek to influence. But no one has all the information and all the ideas; the real need is to be able facilitate the sharing of opportunities."

Softly spoken

To become the most agile, responsive and business-sensitive treasury, there must first be an acceptance that other functions may not necessarily welcome what could be seen as 'interference' from areas where there has been no previous engagement.

If success is absolutely dependent upon collaboration, then that must be derived from empathy for each other's part in the business, says Evans. But he adds that it is also incumbent upon the treasurer to be upfront about the agenda of any proposed engagement, and why it is good for the business. "It helps to identify some quick wins with their colleagues so they can buy into the value-add that treasury can produce."

For the treasurer, an "inquisitive mindset" is vital in helping bring about these quick wins. Taking an interest in the other functions will, says Evans, help create a learning curve that in turn delivers the capacity to identify pain points and where treasury can add value but to honestly assess where it has no facility to help.

The logical areas of development from where treasury can start building out an assistive role are commonly around automation and straight-through processing. In being able to harvest specific data to improve reconciliations on accounts receivables it could speed up the working capital and cash conversion cycles to the benefit of sales planning.

In managing multiple risks (credit, interest rate, country, currency et al), treasurers are uniquely placed to provide guidance to other functions on how to incorporate risk management into their own processes. Even something simple such as alerting sales to the possibilities of using different trading currencies, or advising on the commercial impact on buyers and suppliers of geopolitical risk, has value.

In the context of practical solutions, it may be that sales has willing buyers but the credit team places constraints on deals by putting on conservative limits. Extending credit terms through supplier finance or applying credit insurance to buyers are not traditional considerations for sales team, yet with treasury guidance on the options, sales volumes can be increased.

Keep it clean

One of the keys to success of any treasury optimisation plan will be the adoption of appropriate technology. Of course, treasury and technology are known associates but developments in the technology space in recent times seem to be ushering a new era of agility. With advances in APIs, robotics, artificial intelligence and distributed ledger tools (such as blockchain), progress can be rapid.

The overarching goal from the outset should be for clean data, explains Evans. This, he notes, "is what will unlock a lot of the currently constrained opportunities for the organisation". APIs, used to connect third party systems through a variety of digital channels, will only be of worth if the underlying data is both accessible and sound.

The viewing of aggregated data from internal or external sources could be through an app or a bespoke dashboard, depending on the needs of the user. A departmental manager will already understand the impact of credit limits or the flow of receivables, for example.

With access to clean data of this nature, the treasurer will be able to overlay and configure relevant and possibly real-time external market, sector or client data, drawn through APIs to suitable third parties such as banking partners. This will start to bring a deeper and broader understanding of the fundamentals for each function, says Evans. With the application of modern business intelligence (BI) and analytics tools capable of processing multiple data sources, the level of information achievable today is unprecedented.

Outsource for expertise and advantage

This sounds like an expensive ideal rather than an achievable aim. With the outsourcing of some treasury activities to shared service centres or to cloud-based third-party service providers, treasury costs can be reduced, says Evans. Instead of having to build and maintain their own infrastructure, the operational element can be divested by treasury to professional providers whose expertise, developmental capacity and economies of scale in these areas could exceed those of treasury or in-house IT.

Where a provider works with a number of clients across sectors and jurisdictions, Evans says the accumulated knowledge allows each user to benefit from the insights and experiences of the other users whilst still respecting confidentiality. At a high level, this might be in terms of understanding and responding to emerging trends. Where these trends indicate a need for a system change across the board, the outsource provider can do so for all in a single iteration yet individual needs can still be met. Depending on sector, the early heads-up on trends provided by the vendor's broader connection to the market could even be extended to its clients' clients.

The new tools on the block

Few treasurers could have failed to note the recent increase in volume of conversation around robotic process automation (RPA), artificial intelligence (AI) and blockchain-type solutions. "These solutions will impact treasurers positively if they embrace them, or if they don't they will impact them negatively," warns Evans. "The technology is just getting better and better."

RPA is focused on tackling high-volume repetitive processing. As a means to the end of straight-through processing, it is a means of reducing operational risk and increasing efficiency, explains Evans. "The technology is available, its application is clearly an efficiency driver and it is being embraced by corporates large and small," he notes.

Looking at AI and the idea of machine learning is generating much more speculation and excitement. Where process repetition is a factor but decisions are not always black and white, judgement is required on every exception. Algorithms within RPA can adopt 'fuzzy logic' – the IT equivalent of a 'maybe' – so that decisions based on calculated probability can be made. As each decision is accepted, the basis of that decision can be formed into a rule for future action where similar conditions exist, further promoting automation.

Within ANZ, a number of fintech solutions are being explored in the trade finance environment. With some recent successes in this space, the accuracy rates of machine learning have risen from around 50% to over 90%. With some institutions now claiming over 98% accuracy "we're getting at or beyond the levels achievable by humans," says Evans.

The application of these tools is being deployed in areas such as document checking, reconciliations and the provision of customer advice and information. In this context, optical scanning and character recognition technology can be used to further automate data extraction prior to decisioning.

Fixing real issues

The exploration of further developments in this space is very much part of ANZ's strategy. It has a dedicated in-house lab populated by engineers who fully understand the technology. Their skill is augmented by the Bank's business units that are charged with bringing an understanding of the clients' pain points, and thus commercial viability, to the IT concepts.

In taking on projects, it would be a mistake to work on a solution looking for a problem, says Evans. "First we must have an understanding of what the problem is that we are trying to resolve. We then have to work out what a good outcome looks like. Only then will we engage with the technologists and the operations experts to explore what options we should consider applying."

One of the loudest conversations today is around blockchain as the great panacea. But the most appropriate solution for an issue, taking real client needs into consideration, may be as simple as moving them out of the branch and onto phone banking, says Evans. It could give a much better customer experience yet still reduce processing times and operational errors.

It would be a mistake too for a bank to doggedly pursue a technology roadmap that in some instances does not align with current client needs. "It cannot be a case of 'our way or the highway'," comments Evans. "We have to work hand-in-hand with our customers." Indeed, he adds, progress through technology is not about banks investing in the latest and dragging customers with them. As Evans says, "we can't do everything overnight and we have to respect that customers may not be able or want to either".

In the spirit of collaboration – and in the spirit of finding solutions that really work – a key part of ANZ's development strategy is to involve its customers in a collective discussion on how best to remove pain points and optimise the technology experience. The real benefit for customers here is that they stand to shape the solutions they need rather than explain how they should be developed after the fact. "It also demonstrates that we are listening to them," adds Evans.

A business case for agility

The key activity-based metrics and KPIs (such as cycle times, treasury process costs, throughput and available liquidity) used by treasurers will remain as relevant going forward as they have always been, says Evans. However, the success of the treasury function across the business may not be reflected in these metrics.

If treasury is going to contribute to the success of the organisation, the way in which it has made an impact needs to be counted. It will be necessary to secure feedback from the functions that the treasurer has worked with in order to ascertain the level of value added as a result of that relationship. This may be tied in with a reduction in Days Sales Outstanding (DSO) or increased sales off the back of a working capital initiative. The bank itself may also be in a position to quantitively assess the value added by treasury to different functions through analysis of activity across different banking areas.

Get involved

More and better collaboration is the message for treasurers in the new technology landscape. Ensuring other functions understand the context and purpose of treasury involvement will encourage cooperation. But treasurers also need to exercise curiosity and learn about those parts of the business that may not traditionally be on their radar. Only then will they see the opportunities to add value that lie ahead.

"Engage with the financial services providers and ask what they are doing in the technology space too," advises Evans. "Most will be more than happy to share their thinking around it and learn from the practitioners. A treasurer with a proactive and collaborative approach asking if they can work together on a problem is a signal that this issue could be affecting many more businesses."

The end of treasury or a new beginning?

As the march of technology continues, will the treasurer eventually be automated out of existence? There may be no value in speculating what the treasury of 10 or 20 years' time may look like, says Evans. But look back by that same period and who could have confidently stated the degree by which technology would have advanced by today and how it has helped treasurers reach a position of genuine strategic importance? It is, he adds, almost certain that the work of tomorrow's treasurer will be intrinsically plugged into the company's strategic roadmap, enabling them to continue to holding elevated positions within their organisations.

The role of the treasurer and the CFO will become more closely aligned, says Evans tentatively. It may be that the CIO function will also become more closely aligned with treasury, because technology will be deployed across the whole organisation for both external and internal benefit.

"Ultimately, if you think the job you do today will be the same in ten years' time, you're probably not going to be in that job," cautions Evans. Today's treasury professionals, including bankers, "have to be flexible, to anticipate and embrace change, and be responsive to the opportunities that those changes bring". To avoid being bitten, agility, it seems is more than just having the latest toys.

Private placements explored

As part of the quest for reliable alternative sources of funding, private placements are high on the agenda for treasurers. We explore the ins and outs of this robust option.

With the possibility of securing long-term, fixed-rate funding, private placements of debt securities provide treasurers with an alternative to the usual bank loans and public bond issues.

Often attracted by the private, and thus more personal nature of these placements, corporates have the ability to access the capital markets without the need for obtaining a credit rating. However, it's not all a one-way street. A private placement's success relies heavily on the treasurer's and the investor agent's ability to structure and negotiate the terms of transaction.

What is a private placement?

A private placement enables a company to raise funding by offering shares, stocks, bonds or securities to a small group of sophisticated investors.

Investors of private placements could include larger banks, mutual funds, insurance companies and pension funds. Since these placements are only offered to a few individual investors, buyers can request a custom-built financial plan from the issuing company. Using this approach, potential investors can assess the deal and see if it precisely meets their investment criteria.

The market in general

Historically, the long-established US private placement market is the model to follow, US investors having taken advantage of an exemption to the SEC registration and business prospectus requirements in the 1933 Securities and Exchange Act.

The market has 'internationalised' over the years, with nearly half of all placements now coming from non-US issuers. That said, leading investors in the private placement market remain solidly institutional and US-based.

In recent years, institutional investors have become interested in less traditional assets due to lacklustre normal market yields. More adventurous investors are buying stock through private placements, seeing it as a safer way to yield than heading into the junk markets.

On the issuer side, in a loans market partly constrained by Basel III capital requirements exerted on banks, mid-range businesses especially with their less attractive smaller wallets and limited ancillary business, could see a way forward with private placements.

Perhaps as a result of this, the smaller private placement markets in Germany (the 'Schuldschein'), the UK and France and have expanded in recent years.

Why would a corporate issue a private placement?

Direct investor relationship

The beauty of a private placement can be found behind the scenes. Because more shares are bought by fewer investors, they have the power to request a private placement memorandum (PPM). This is similar to a bespoke business plan for buyers. Buyers can see exactly how shares would help the issuer, allowing for more complex business circumstances and investment stories to be communicated effectively. Business sensitive information is always subject to an NDA, so the level of publicity often seen with a public offering is avoided, which may suit both sides.

Access to capital markets without a credit rating

A key difference between private placements and public offerings is credit ratings: placements don't need one. Whereas most public debt issues require at least one credit rating from a recognised credit agency, private placements allow companies without a long-term credit rating (or simply those that don't want a long-term rating) to access capital markets. The lack of a credit rating doesn't mean the placements have a low credit quality though; placements are usually investment grade, with issuers typically having an implied credit quality of AA to BB.

Diversification of funding sources

Variety is the spice of life and private placements offer help in this department, providing treasurers with an alternative source of funds to the usual bank loans or public bond issuance. This allows companies to easily diversify and thus make secure their funding sources, potentially freeing-up additional credit lines or enabling refinancing of existing bank loans.

More breathing room for issuers and investors

One of the good things about having such a personal relationship between issuer and investor is the increased freedom for both parties when making business decisions. Placements generally give the issuing company more breathing room in the disclosures it makes to potential investors. The theory is that buyers will make sure they know exactly what they're buying when investigating shares. In terms of advantages for investors, the private market gives borrowers the opportunity to delay funding for 12 months or longer, as opposed to the public market where a transaction is funded just a short time after it has been priced. It can therefore secure funding for when it really needs it, not just when it can get it.

Competitive pricing and flexibility

The fact that the process of offering debt placements to a limited number of investors is private, means relatively competitive pricing is assured. There is also greater flexibility in structuring the debt issue, with issuers and investors laying out individual finances on the table before investors look at buying.

Variety is the spice of life and private placements offer help in this department, providing treasurers with an alternative source of funds to the usual bank loans or public bond issuance.

Issuance costs

Another bonus for companies issuing private placements is that they could potentially avoid significant underwriter fees; things like formal registration in the US, for example, and publishing a prospectus, all cost money, and it can be very helpful if such things can be avoided.

Why do investors invest?

Private placement investors are usually sophisticated, institutional investors, who will take the time to fully research and analyse the credit of the issuer. Most of the time, investors will be insurance companies, larger banks, mutual funds and pension funds.

In some cases, because the investor is buying more shares, they expect a higher rate of interest than they might earn on a publicly traded security, thus they are able to achieve slightly higher returns than can be achieved by investing in comparable publicly traded securities.

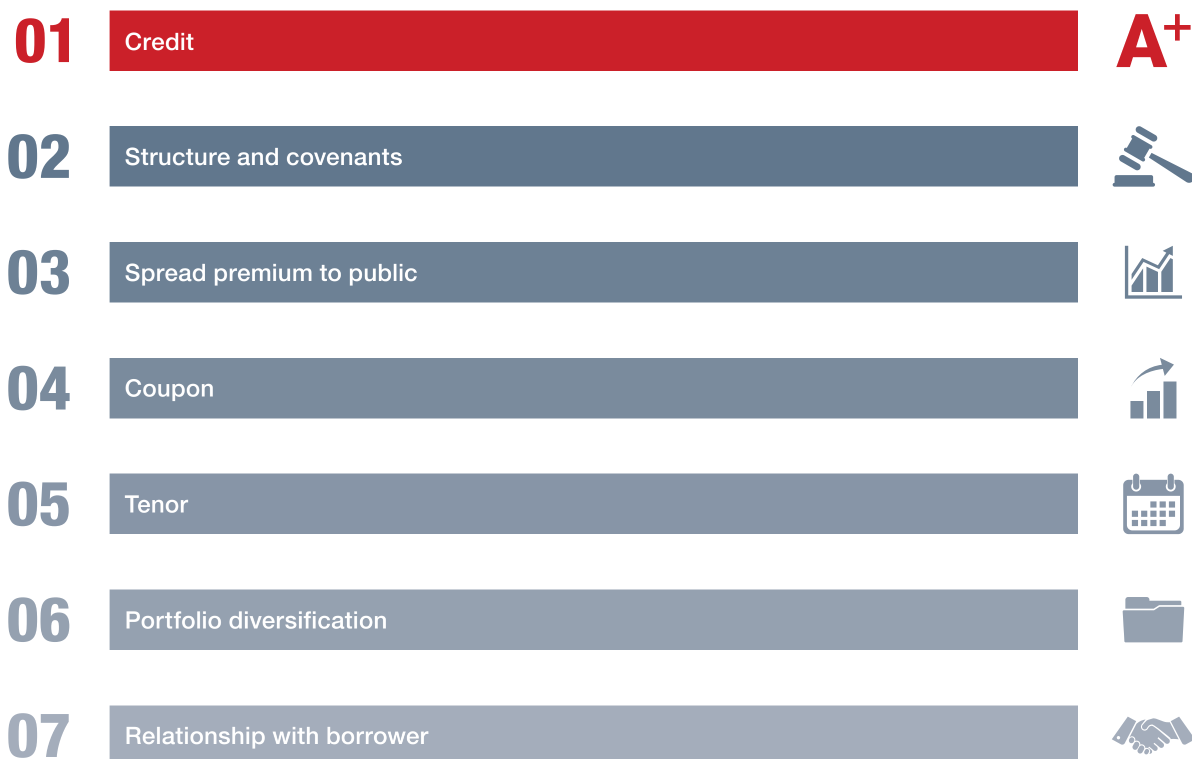
Also, because issuers may not have a credit rating, investors may not buy unless secured with specific collateral. This, accompanied with the fact that investors are often buying stock from less well-known names means they may expect a higher percentage of ownership in a business or a fixed dividend payment per share of stock.

Regional focus

Asia

About a decade ago, investments in Asia were moving into bubble territory. Eventually, there was little for investors to purchase on Asia's underdeveloped capital markets. There was a period of prosperity for private placements as investors bought up all the debt they could in this market.

Whilst public placement accounts for the majority of corporate bond issuance in a number of Asian countries such as China, Malaysia, the Philippines and South Korea, its private counterpart thrives in other markets, like India. Here, private placements have remained the primary form of bond issuance, representing more than 80% of the corporate



Source: EY private placement market investor survey 2016

bonds issued domestically in 2012 and 2013. In 2015, private placement debt in India was at an all-time high, with 2,953 companies using this route.

US

Public bond issuances in the US still outweigh privately placed debt 80/20, despite the latter being on the rise generally speaking. In 2015, new issues of private placements amounted to US$49bn. This compares with more than US$1trn in the public corporate bond market during the same period. In 2015, US$578.9bn or 20.9% of insurance companies' total bond portfolio was in private placements, up from US$531.5bn in 2014.

Europe

Before 2014, Europe was unable to recreate the thriving US market, where insurers, pension funds and other investors avoided public markets to buy billions in private placements.

A year later, in 2015, it looked as if the European private placement market was expanding but fragmented, with pockets of regional activity in areas such as Germany, France and an emerging market in the UK.

Over the last few years, momentum has been growing towards the establishment of a pan-European private placement market (Euro PP), which is envisaged will complement the established US private placement market.

Indeed, many European companies in search of private placement money still head to the US for it. About a third of the US market consists of placings for European companies.

Despite these developments, the US market looks to remain dominant, at least for the foreseeable future. The continued need by many global corporates for dollars remains a strong advantage. Perhaps the private placement market in Europe can continue to gain momentum and achieve the capital success of America it desires.

In 2017, Apple broke into the Canadian 'maple bond' market for the first time, raising US$2.5bn in private placements. In a filing with the US SEC, Apple said it planned to use the funds for general corporate purposes. Investors included institutional clients HSBC Bank Canada, RBC Dominion Securities, BMO Nesbitt Burns and Goldman Sachs Group.

PP conclusion

Private placements have continued to grow over the last ten years, and not just in underdeveloped capital market countries. Boasting many positive factors for both the issuer and investor, it is easy to see why placements are, in some parts of the world, outweighing bonds offered to the public by a factor of 4:1.

As leading US companies continue to invest in these more personal corporate deals, European markets remain for now the poor relation, at least in terms of deal size and volume. With capital markets rising and falling in different parts of the world, private placements can act synchronously to meet the ebb and flow of need.

As part of the treasurer's funding arsenal, it is likely that private placements will be in demand for some time to come. Investors, it seems, are happy to oblige.

The arrival of the Grey Swan… risk visualisation in an uncertain world

Nowadays, the strength of a corporate treasurer is no longer judged on centralised processing prowess. In a world riddled with geo-political uncertainty, treasurers need to be futurists who don't operate in black or white options. Those who sit at the top of commodity-intensive industries know there's a grey area between the white swan world of well-planned and executed corporate strategies and the unpredictable devastation of a black swan event.

Mark O'Toole
Vice President of Treasury & Commodities Solutions, Openlink

In a recent webinar hosted by Treasury Today Group, Mark O'Toole, Vice President of Treasury & Commodities Solutions at Openlink advocated the arrival of Grey Swan events and discussed some key areas to focus on for improved risk management.

The presentation focused on the following:

- Treasury situation: expectations and volatility.
- Grey Swan risks.
- Treasury-intensive organisations.
- Risk and complexity.
- Visualising risk management.
- Risk management frameworks.

Mark O'Toole opened the dialogue by describing the increased volatility in today's world. This is heightening the focus on risk and on strategies to mitigate such risks. He cited forces including the Trump factor, Brexit, cyber-security and the threat to world peace as a result of the recent actions of Kim Jong-un in North Korea. Currency devaluations, changes in the US position on international trade and a weakening global economy were all deemed to present Grey Swan risks.

Mark then spoke about the risks inherent in the growing complexity of supply chains, 'what-if' scenario analysis and stress testing.

Attendees were polled during the webinar with a series of questions; here are the results of one of these polls:

Which area do you believe your department requires the most education in the near term?

FX risk management: 47%

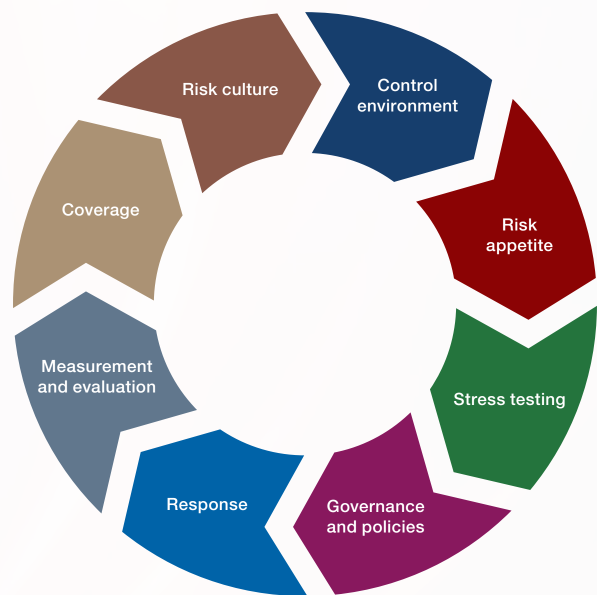
Commodities/procurement risk management: 16%

Interest rates risk management: 16%

Derivatives modeling and risk management: 21%

Given today's volatile markets, it is perhaps unsurprising to see corporate treasurers needing the most education in FX risk management. The other polls conducted suggest sensitivity analysis and 'what-if' simulations also need to move up the agenda. Manually generated spreadsheets acting as risk dashboards remain prevalent too; a risk in themselves where a single error can often go undetected with potentially catastrophic consequences. Perhaps now would be a good time to review the way you manage your enterprise-wide risk and plan for the Grey Swan.

Enterprise risk management framework



Control environment

How well do we manage the risks?

Risk appetite

How much risk are we willing to take?

Stress testing

What else can go wrong and how are the risks interconnected?

Governance and policies

How good are we at overseeing risk taking?

Response

What are we doing about the risks?

Measurement and evaluation

How do we determine the size and scope of the risks?

Coverage

What are all the risks to our business strategy and operations?

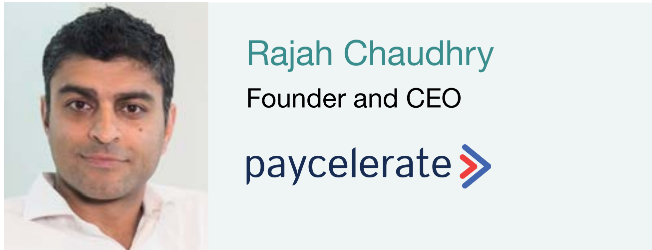
Risk culture

Components are dynamic (review in any order).

If you missed the webinar and would like to hear the full recording this is available at ***treasurytoday.com/webinar/previous-webinars***

Accelerating supplier payments

Paycelerate's mission is to accelerate supplier payments. Rajah Chaudhry, Founder and CEO, explains how he aims to achieve this.



Tell us a bit about yourself and your background.

My background is in investment banking. I spent ten years working in this space in both Hong Kong and Australia, mainly with Deutsche Bank. Seven years ago, I left banking and founded ChinaScope, a financial data and analytics provider. This was my first foray into the world of fintech, before fintech was even included in the financial lexicon.

Do ex-bankers make good fintech entrepreneurs?

I think the answer is very much dependent on the individual. In my case, as an investment banker, I was trained to be a perfectionist. At the bank, we would never do anything without it being triple checked and you would never put anything out to a client without it being as good as perfect.

I quickly learnt that you cannot be a perfectionist working in fintech. The innovative nature of the sector means that you are always pushing the boundaries of what is possible, at speed and whilst working with imperfect information. The result is that some mistakes will be made, and failures will happen. Becoming comfortable with this fact and trying not to be a perfectionist was probably one of the biggest challenges I faced when switching from banking.

Where did the idea for Paycelerate come from?

The idea for Paycelerate was born out of the frustration I experienced when launching ChinaScope. As I am sure other small business owners will attest, when you start out there are very few financing options available.

Even once the business starts making progress and attracts institutional or venture capital, the banks are still not going to offer finance, unless you can provide proof of profitability – which is unlikely to happen in the early stages.

How vibrant is the fintech community in Hong Kong?

The scene is vibrant. There is a lot of hype and everyone is talking about fintech – you could probably go to a fintech event every night of the week. This community is playing a positive role in building an understanding of what fintech companies are trying to achieve.

My only concern is that despite all the talk, there are very few companies out there with an actual product. To some degree, this is just the nature of Hong Kong. I hope to see more people translating their ideas into products in the coming years so the momentum that currently exists around fintech in Hong Kong can continue to grow.

What about across the rest of Asia?

I think what is happening in China speaks volumes. It is a completely different ballgame there when you compare the market to Hong Kong, or any other country for that matter. One issue is that the market in China is so saturated that there will be a lot of companies that just cannot survive. When you couple that with the growing dominance of the big tech firms, it is going to get increasingly hard for smaller players to penetrate the market.

China does have an advantage, though, because of its massive consumer market. This is what the majority of fintech companies in China are catering for.

What can regulators do to help fintech thrive?

Regulators across Asia are reacting differently. In China, for example, one of the reasons why the fintech community is so vibrant is because the regulators are quite hands-off. That is, until companies start having a noticeable impact on the economy – we have seen a prime example of this around cryptocurrencies recently.

In Singapore, which is like Hong Kong in the sense that it has a relatively small consumer market, the regulators are being very proactive and supporting fintech. Lots of companies are receiving funding and numerous products are hitting the market.

In contrast, the regulators in Hong Kong are taking a more free-market based approach. There is nothing inherently wrong with this, but the fintech space would certainly be boosted with a little bit more support to ensure more companies can receive funding.

Broadly speaking, I think the regulators in Asia are doing a good job by facilitating innovation without creating risks to the economy. Ultimately it is a balancing act. Only time will tell what is the best approach.

June 2016

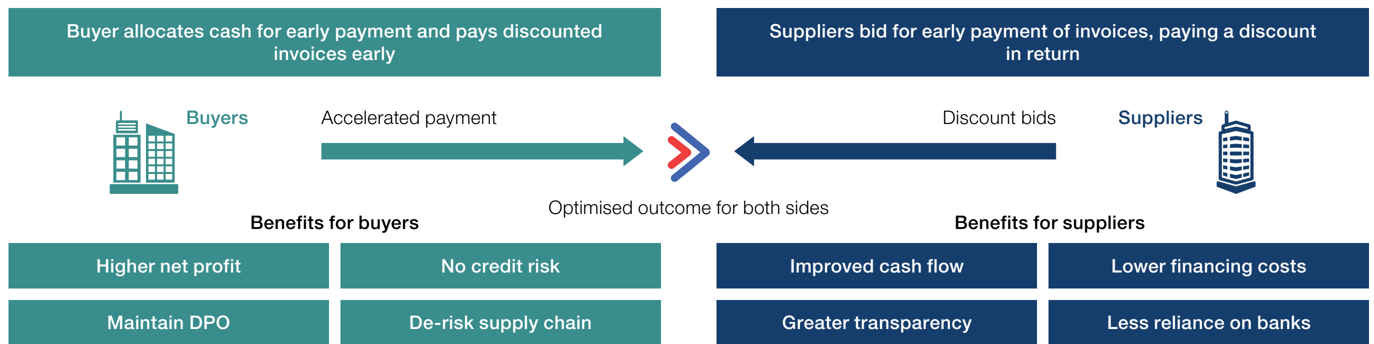
Paycelerate founded in Hong Kong

October 2016

Platform developed

January 2017

Testing completed



Unlocking value in the supply chain

Around the world, SMEs are struggling for cash. This is largely due to their inability to access readily available and reasonably priced funding from traditional lending sources. "In Asia Pacific, this problem is especially acute with somewhere between 50% and 70% of SMEs claiming to be unfunded or underfunded," says Rajah Chaudhry, Founder & CEO at Paycelerate.

On the other side of the equation, large corporates are increasingly stockpiling cash and searching for ways to use it. "This is proving to be a challenge as there are few options available to invest short-term cash," explains Chaudhry. "The options decrease even further if the corporate is seeking a healthy yield from these investments."

Paycelerate looks to solve both issues by offering a dynamic invoice discounting solution. "Invoice discounting – where suppliers offer discounts for accelerated payment of invoices – has existed for some time in Asia," says Chaudhry. "Yet despite the benefits it can offer buyers and suppliers, invoice discounting has not gained the kind of traction it should have. This is largely down to the absence of a system to manage the process, making invoice discounting a highly manual, convoluted process that is impossible to roll out on any large scale."

In contrast, Paycelerate's solution is flexible in the sense that suppliers can select when they want to accelerate a payment. "This is a much more efficient process and gives SMEs the ability to more strategically manage their working capital on a week-by-week basis," Chaudhry says.

Supply chain finance +

To do this, the solution links up with the corporate buyer's ERP system either through an API or similar data transfer option. Once an invoice has been received and approved by the corporate buyer, invoice data will be sent to the Paycelerate platform and the supplier will be alerted that there is an opportunity to receive accelerated payment, subject to a discount being offered on the invoice. The supplier can then select what payment(s) they want to accelerate and receive payment almost instantly.

Also, unlike more traditional forms of supply chain finance, Paycelerate's solution negates the need for suppliers to go through lengthy and complex KYC checks when onboarding. "As a result, suppliers can be on-boarded and begin using the solution in a matter of minutes using our online portal," Chaudhry says.

Realising the benefits

So what are the benefits of using the solution? Chaudhry explains that suppliers ultimately get the chance to access a much cheaper form of funding than they would from a bank. "If a supplier offers the buyer a discount of 0.5% on a HK$100,000 invoice to receive payment 30 days early, that equates to an annual 6% cost of financing for the supplier," he explains. For the buyer, the discount means that they improve their yield to 6% on an annual basis as well – a better return than most, if not all, other risk-free short-term investment options.

Despite the clear benefits the solution can offer, Chaudhry admits that it is not always an easy sell. "Corporates generally understand how the solution works and the benefits it offers," he says. "The issue is that it requires a small change to an existing process. From my experience, many corporates can suffer from organisational inertia, which makes getting them to make these changes a challenge at times."

Corporates may also need to make some changes in how they work with their suppliers to attain full value from the solution. "Although the solution works with all forms of invoicing, it works best when the buyer and supplier are using electronic invoicing," notes Chaudhry. "This is because the quicker the invoice can be received and processed, the quicker the supplier can access the financing."

Future ambitions

After building solid foundations in Hong Kong's corporate community, the next step for Chaudhry is to launch in Singapore. "This is the short-term ambition," he says. "Medium term we are looking to launch in Australia and Taiwan as both these markets have expressed an interest in this type of solution."

March 2017

Launch with Hong Kong clients

August 2017

Soft launch in Singapore

March 2018

Planned launch in Australia

FX volatility

"What are treasury professionals in Asia doing to mitigate the impact of FX volatility?"

Philippe Jaccard
Head of Liquidity Management
ANZ

When FX volatility is high, the immediate reaction is to hedge any visible exposure by buying forwards, non-deliverable forwards, or options. And with so many currencies in Asia, the task can quickly become daunting, or the cost prohibitive.

Hedging is essentially buying financial products at a premium. Hedging too little can carry a heavy price (aside from the premium), but hedging too much can also cause losses. It's like a heavy drinker and a chain smoker, with a bad diet, deciding to take on expensive health insurance upon realising their lifestyle is unhealthy. That insurance may secure the best room in the hospital but it won't prevent the sickness.

Mitigating FX volatility should be a process managed internally using an adequate currency exposure management framework. Get on a diet! It is best to start with the profit and loss (P&L) and splitting in- and out- cash flows by currencies to derive a net position within the company's normal annual business cycle, which could be seasonal in the fashion and sports industries, for example.

The business cycle is defined by the time it takes to absorb currency volatility up and down the supply chain. For example, luxury watches may not have to pass on any negative movement whereas commodity goods traders may have to pass on the change immediately.

Once a net P&L position for the appropriate time horizon is derived, a similar process needs to determine the structural exposure in the balance sheet – splitting assets and liabilities by currencies to derive a net equity position. If all assets and liabilities are valued in the same currency, there may be very little FX exposure left other than the P&L. However, a company using heavy capital goods with an international replacement value may need to hedge the FX mismatch if the debt is in the domestic currency.

Once the P&L and balance sheet exposures are well understood, consider redenominating supply chain contracts to minimise any currency mismatch. And do the same for assets and liabilities. Perhaps a US dollar loan could reduce the exposure if the company's assets are mostly denominated in US dollars. This is a time where a gutsy treasurer could increase the mismatch to capitalise on a weakness but they better get the CEO aligned!

Lastly, the treasurer needs to ensure the shareholders' expectations are aligned; do they expect a dividend in the next 12 months? How do they value FX exposure? Do they already hedge the risk? Do they consolidate the full balance sheet or just collect the dividend? This is usually established in a Treasury Board policy and approved at a shareholders' meeting. It defines how much risk is acceptable, how the dividend will be paid, and in what currency.

Once it has been all worked out, the treasurer can start considering buying FX insurance products. The buying process can be centralised in a treasury centre, aggregating notional positions across the company. That would leverage the expertise of professionals, and secure access to the best prices in financial centres such as Singapore or Hong Kong. However, this could also come at a price if underlying cash flows no longer match the hedging gains and losses booked in different jurisdictions. This could cause unpleasant tax surprises: gains on a hedge may be treated as profit in one jurisdiction without the countervailing loss being netted out because it's booked in another country, for example.

Wolfgang Koester
CEO
FiREapps

Automation! Automation! Automation! A trend that accelerated after the financial crisis of 2008, treasury professionals are now fully embracing automation. This movement came to Asia via Asia-based subsidiaries of large multinationals. Headquarters of North American and European companies needed to know what their global currency exposures were and they needed the accurate data quickly. To remedy this, they turned to financial technology solutions to help manage exposures for all their subsidiaries.

Today's FX management programmes are less and less manual, and people are embracing modern technologies to run their formerly spreadsheet-based programmes. These technologies, especially the use of currency analytics to identify and manage currency exposures, provide access to accurate, complete and timely data and enable corporations to run an automated FX risk management programme, protecting them from volatile currency moves.

Now that treasury professionals in Asia have embraced automation to mitigate the impact of FX volatility, they need to figure how they can further leverage automated technologies to continue to streamline processes.

Automating FX is a key step in protecting earning and the improved operational efficiencies, deeper insights into

currency trends, time savings and reduction in errors and risk enable companies to uphold the industry standard Management by Objective (MBO) of less than one cent EPS impact. Additionally, running an end-to-end automated FX programme, from data aggregation to analysis and trade execution, allows for corporations to pull data from multiple source systems, manage more currency pairs and reduce transaction costs of trading.

The need for technology that aggregates and analyses currency data is only going to continue to grow with the widespread adoption of international accounting standards. In the last ten years, treasury professionals that have chosen to leverage technology in order to better mitigate FX volatility have seen a 50% reduction in risk and have been able to increase their hedge ratios.

Treasury teams today are driven to leverage financial technology that provides insight into their exposures and enhanced analytics and reporting. Ultimately, for treasury professionals in Asia to mute the impact of FX volatility to their financial statements, they need to implement a technology-driven FX risk management programme that provides a better understanding of their currency risks and enables them to manage them fully.

Sandip Patil

Regional Head of Liquidity & Investments & Financial Institutions Group Sales Head, Treasury and Trade Solutions

Citi

The last 18 months have been a rollercoaster ride for most treasury professionals in Asia in terms of navigating the FX markets. Starting from the Brexit referendum in June 2016 to the US presidential elections in November 2016 in the developed markets and closer to Asia, regulatory changes in Malaysia's Foreign Exchange Administration rules in December 2016, these key events have certainly kept most treasury professionals in Asia extremely busy. The lack of depth in some of the local Asian swap markets, the limited hedging tools and the myriad of conditions that must be met in some jurisdictions before a hedge is permissible, all made the task of mitigating FX volatility a challenging one.

In Asia, companies with formal FX hedging policies typically mitigate their FX volatility by adopting a layered rolling hedge strategy. These hedges often do not extend beyond the 12 months' horizon due to uncertainty in the forecasting and the costs involved in executing longer-term hedges. It is often a balancing act, especially when the cost of carry is high, and more so if a company operates in an environment where its pricing strategies are very much dependent on the actions of their close competitors. Whilst locking in their FX exposures may yield certainty in terms planning and budgeted rates, this may be detrimental especially when the market moves in the opposite direction of one's hedges, leaving competitors with little or no hedges, the ability to price more aggressively to gain market share.

Spots, forwards and swaps are still the instruments of choice although savvier treasury professionals in Asia are slowly beginning to use FX options to enhance their overall hedge portfolio. Unlike their counterparts in the developed markets, treasury professionals in Asia are still reluctant to pay up on option premiums. In instances where hedging policies permit the usage of options, zero cost options are often preferred versus vanilla outright options. It is encouraging to note that some companies are beginning to adopt a more pro-active approach in managing their FX exposures arising from their strategic corporate decisions, such as a competitive bidding situation in an M&A by working closely with their trusted advisors on deal contingent hedges.

Companies with a sizeable footprint across Asia have realised the importance of centralised treasuries, not only from a liquidity management perspective but also from the FX exposure management lens. With centralised treasuries in Asia, companies can leverage off their platforms and processes to manage both their cash positions and FX exposures simultaneously. This is critical given the diverse market and regulatory landscape across Asia, ranging from regulated markets to liberal ones.

The setting up of intercompany netting programmes and in-house banks have enabled companies in Asia to benefit from a reduction and consolidation of FX deals and to reap cost savings arising from minimisation of external transactions and FX costs, in addition to the operational efficiencies and benefit of improved visibility and control of cash that result from such centralisation.

In 2016, some companies took a quantum leap with their FX transformation project where they collaborated with their key partner bank to deploy the next generation of tools to manage their FX risk and associated payments. As companies across Asia continue to focus on cost and operational efficiencies, centralised treasuries with streamlined programmes across both liquidity and FX management may be the way forward.

Next question:

"There is a lot of talk about payments innovation in Asia Pacific at the moment, but what solutions are corporates actually using?"

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

Responding to European Money Market Fund reform: a portfolio manager's perspective

At long last, European Money Market Fund reform is almost upon us. But don't wait until the ink has dried; start looking at your policies and approaches now, say BlackRock experts, Beccy Milchem, Head of Corporate Sales and Eric Hiatt, Director, Portfolio Manager.

Beccy Milchem
Head of Corporate Sales
BlackRock

Eric Hiatt
Director, Portfolio Manager
BlackRock

For treasurers, it is time to prepare for European Money Market Fund (MMF) reform. The European Commission's proposals now have an implementation date for new funds of mid-2018, with existing funds on a 19th January 2019 deadline. However, the new rules may have an earlier impact on the existing major European sectors of variable and constant net asset value MMFs (VNAVs and CNAVs).

Whilst most corporate investors can expect minimal short-term impact from the changes, industry consensus says the wise investor will begin working with their asset managers now on forming a clear response. "With the two dates in mind, we are using this period to educate all of our clients," confirms Beccy Milchem, Head of Corporate Sales, BlackRock. "We are cautioning that although we have a 2019 final implementation date, we think a lot of funds will migrate before then. It is worth being prepared ahead of that."

Start now

BlackRock believes it is prudent to plan a transition to the new rules during Q4 2018. It is being mindful that not only is the final date right at the start of 2019, but also that this date is sufficiently close to year-end as to apply an unnecessary challenge to managing liquidity.

The aim of this preparatory period for corporates should be to confirm full awareness of LVNAV's features, and to ensure investment policies and all stakeholders are ready for the changes when they come into effect, says Milchem. This means kicking-off internal conversations with investment committees and Boards, around updating investment policies.

Mindful of the fact that these often only get looked at once a year, they should certainly be tabled for the next available review. But Milchem adds that investors should also start dialogue with external auditors and other stakeholders who might have input on the choice of response, both to the possible changing shape of their funds, and to any operational impact this might have. "Have these conversations sooner rather than later so that if you do unearth any questions, you have time to address them."

Market impasse – the same but different

The US$2.7trn US domiciled MMF market faced up to its '2a-7 reforms' back in October 2016. This saw a shift away from a prime fund's ability to maintain its investment value at US$1 a share, towards a price that moves with the market. Government funds in the US have been allowed to maintain their constant net asset value pricing.

US and EU reforms bear some similarities but European reform for MMFs domiciled predominantly in Ireland and Luxembourg will see the introduction of Low Volatility NAV (LVNAV) funds. These, Milchem explains, are a "hybrid" composition that nestle

between CNAV Government funds, priced to two decimal places, and the VNAV funds that deploy mark-to-market or mark-to-model pricing to four decimal places. The aim of LVNAV funds is to provide many of the attributes that make CNAV attractive to corporate investors, in particular the utility of a constant net asset value as long as certain tolerances are met, but with the added safety net sought by the EU lawmakers. Hiatt believes that the addition of the LVNAV category will see a more uniform migration rather than the shift in investor preferences we witnessed during the US reforms.

"We think LVNAV are a good compromise strategy," Milchem comments. "In the US, there were two ends of the spectrum, which is why we saw that huge shift; in Europe, we will have more structural uniformity in terms of where the asset flow goes because LVNAV is similar to what investors have been used to."

The rate environment in Europe may also help frame investor decisions, says Eric Hiatt, Director, Portfolio Manager at BlackRock. It is unclear to what extent this may take place but, in the US, there is an ongoing conversation around what spread differential is required for a Government fund investor to consider a move back to prime. The difference in USD is currently around 35bps and BlackRock has seen some assets return to Prime as a result, however with short-term EUR Government rates deeply negative and GBP Government funds currently close to zero, investors in these currencies are likely to be more mindful of the gap. The proposition around reform is different in the EU but Hiatt says fund managers will be paying particularly close attention to client considerations in their discussions around the 'fund structure versus income' debate.

Table 1: What are the structural impacts to European Money Market Funds?

	Short-Term Money Market Funds			Standard Money Market Funds
	Government (CNAV)	Low Volatility NAV (LVNAV)	Variable Net Asset Value (VNAV)	Standard Variable Net Asset Value (VNAV)
Stable NAV	√	*	X	X
Floating Net Asset Value (FNAV)	X	*	√	√
Liquidity Fees	**	**	***	***
Redemption Gate	**	**	***	***
WAM (max)	60 days	60 days	60 days	0.50 year
WAL (max)	120 days	120 days	120 days	1.0 year
Maturity (max)	397 days	397 days	397 days	Fixed – 397 days Floating – 2 years
Liquidity requirements – daily liquid assets (min)	10%	10%	7.50%	7.50%
Liquidity requirements – weekly liquid assets (min)	30%	30%	15.00%	15.00%
Pricing – dealing NAV	Constant NAV (rounded to 2 decimal places ie nearest penny/cent)	Constant NAV (rounded to 2 decimal places ie nearest penny/cent), provided dealing NAV does not deviate from mark-to-market NAV by >20 basis points	Variable (rounded to 4 decimal places)	Variable (rounded to 4 decimal places)
Reference	* The Fund can price to 2 decimal places if the full mark-to-market price does not deviate from 1.00 by more than 20bps, essentially rounding up to 1.00. If the 20bps tolerance is breached the fund will price to 4 decimal places using the full mark-to-market NAV, essentially rounding down to the nearest basis point ** If the weekly maturing assets of the fund fall below 30% the manager will inform the board who has the discretion to implement fees and/or gates as deemed appropriate. If the weekly maturing assets of the fund fall below 10% the board must decide which fees and/or gates they deem appropriate to implement *** Although fees and or gates are not prescribed for VNAV funds as part of the European Money Market Fund Reform text, they will be required to be included within funds prospectus under UCITS and AIFMD rules, as they currently are.			

It is interesting that the birth of LVNAV was in part informed by the close involvement of the corporate community, says Milchem. Being consulted around regulatory reform, and offering feedback on what was highly prized in today's products, has paid dividends. But the regulators were also, to a degree, conscious of the impact of ongoing Basel III changes on banks and their attitude to the short-term investment space.

In pushing corporates off the bank balance-sheet, it created an environment where there was almost nowhere for corporates to place their day-to-day cash. "Regulators wanted to create something that still had the usability factor that was present in the CNAV world, along with much more transparency around the risk, so that end-users can really understand what they are getting into," says Milchem.

US better than EU?

Is one set of reforms better than the other? It is not easy to make a relative comparison, says Hiatt. "That's why we are focused on providing attractive solutions, no matter the operating environment. The European landscape certainly offers more choice and we plan to have a full spectrum of products available so that clients can choose the best money market fund for their needs."

Away from fund reform, US policy-makers have moved target rates up from zero in the past two years. This has been helpful to USD cash investors. At the same time, there has been a steady demand for USD funding by international banks, helping to augment dollar-issuance and thus also helping USD investors, irrespective of US 2a-7 or EU structural change.

However, there are "cross-currents" that should be highlighted, notes Hiatt. Chief amongst these are the liquidity and capital standards for banks that arise from the aforementioned Basel III. "This has fundamentally altered the supply environment for short credit, with banks rationalising exposure to short-term wholesale funding," he notes, reiterating Milchem's earlier observation that corporate non-operating deposits are being bounced off bank balance-sheets.

As such, Milchem believes that MMFs of any form – whether the predominant Government funds in the US or Europe's new LVNAV – will continue to provide "an attractive solution for short-term investing for corporates", representing an "easy tool for quick diversification of credit and day-to-day liquidity with reasonable yield".

Two approaches, one platform

The US market, having already reformed, has seen US asset managers with platforms on both sides of the Atlantic leveraging the experience. The operational architecture that sits behind the new 2a-7 reforms can be used in Europe for LVNAV and the short-term VNAV product and BlackRock is currently in close dialogue with the Irish regulator around the appropriate ways to handle multiple NAV strikes, which were developed for the US Prime funds, for the new fund structure in Europe.

Indeed, BlackRock's single, global 'Aladdin' platform is an operating system for investment managers that supports the entire process, including trading, portfolio management, risk analytics and compliance. Hiatt explains that whilst there are nuances unique to EU reform, BlackRock has spent time planning for and implementing the changes around 2a-7 reform that "lend themselves very well to reform in Europe".

Within Aladdin, portfolio managers are able to analyse liquidity metrics in real-time. This can run scenario analyses based on shareholder subscriptions and redemptions. The platform also offers enhanced analytic capability, extending to NAV per-share impacts and asset value per-share impacts on portfolio transactions, shareholder activity and security price movements.

Despite BlackRock's US 2a-7 experience, and the system's easy translation to European reform, Milchem does not see the sets of portfolios fundamentally being run differently. "This is very much us continuing with the risk management and credit management approach that we have always worked to, but adhering to extra rules and procedures which we have now embedded in our systems."

Corporate preparations

The changes likely to be seen are therefore not far-removed from what treasurers might experience today, it is simply a new concept that all must now get used to. First and foremost, as mentioned, this requires taking action now, at least discussing 'new world' plans, appetite and policy approach.

As part of this programme, securing data from funds could prove essential in making the right decision. Treasurers looking at an LVNAV strategy, for example, should seek data on the liquidity level and the shadow net asset value of the fund. These are the critical data points that allow LVNAV funds to price to 'one', explains Milchem. It is also the kind of information that should now start to become available through the MMF portals – it is certainly information that BlackRock is already publishing live to its website in a bid to make sure its clients become familiarised with it in good time.

Investors that are comfortable with the composition of risks in today's prime funds will find familiarity with the LVNAV structure, notes Hiatt. "It's also important to recognise that a lot of the conditions that regulators are placing around the

new fund structures will see enhanced transparency, which will benefit shareholders, and if a fund chooses to add a rating, investors will also still be able to rely on the independent scrutiny of the rating agencies."

A useful way to think about regulation

Ultimately, says Hiatt, think of LVNAV as "retaining the investor utility of CNAV but with the capability to round the NAV to 'one'". Where in the old CNAV environment, the 'breaking the buck' point was 99.50, LVNAV takes that concept and tightens that broad collar to 20bps. As long as a fund stays within a 20bps margin of a stable NAV pricing, rounding it to 'one' is fine and a 20bps threshold is tolerable from a portfolio management perspective

And on the matter of fending off runs on a fund – rare though they are – the new formalised rules around gates and fees (they are already in place in European UCITS funds) should be seen as measures designed to protect investors in a stressed environment.

The key differences in new fund guidelines are thus really around the increase in the requisite levels of liquidity, and the revision of diversification and concentration limits that will apply at either the product or institutional level. If there is any yield differential with LVNAV from CNAV Prime funds today, it will be a function of those liquidity standards, and even then, in most circumstances, "not be very meaningful", notes Hiatt.

Indeed, on a day-to-day basis, the reasons for a corporate using a money market fund will not be subject to drastic change, adds Milchem. However, she continues, one outcome we may see as a result of far wider-ranging market reforms in financial services, is the client becoming more adept at segmenting their cash for different use cases.

If MMF reform does indeed encourage treasurers to look at their investment policies and have a more open view on it, this is an opportunity for them to investigate some of the other solutions available, maybe taking on Standard MMFs with more duration. Having better oversight of cash flow forecasting and being able to segment more effectively has seen BlackRock engage in many more conversations with clients in the US about bespoke investments, she notes.

The wider regulatory environment is making investors become more aware of their needs and the challenges they now face for investing day-to-day cash. As they draw the veil from many more investment solutions, where they previously may have relied heavily upon their banking relationships, they may now see fit to explore a far wider portfolio of possibilities. Some may even outsource credit expertise to an asset manager with substantial resources, leaving treasurers to get on with being treasurers.

To find out more please visit our website or contact us via these details:

EMEA Clients only
Web: blackrock.com/cash
Email: cashmanagement@blackrock.com
Tel: +44 (0) 20 7743 3187

APAC Clients only
Web: blackrock.com/cash/en-hk
Email: clientservice.asiapac@blackrock.com
Tel: +852 3903 2688

Capital at risk. The value of investments and the income from them can fall as well as rise and is not guaranteed. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested.

This advertisement/material is issued by BlackRock for Institutional Investors only (or professional/wholesale investors as such term may apply in local jurisdictions) and does not constitute investment advice or an offer or solicitation to purchase or sell in any securities, BlackRock funds or any investment strategy nor shall any securities be offered or sold to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction. Risk is inherent in all investing. ©2018 BlackRock, Inc. All Rights Reserved. BLACKROCK is a registered trademark of BlackRock, Inc. All other trademarks are those of their respective owners. For professional clients/ qualified investors. TLS1017E-280865-855051

Conference learnings

I have had the pleasure of chairing and moderating a few conferences recently. This gives me the opportunity to hear lots of insights. Here are some of my favourite ones.

Invisible banking

Piyush Gupta, CEO at DBS was the keynote speaker at the most recent ACTS/ATC Forum in Singapore. DBS' mantra of "joyful banking" has always irked me. I feel that banking is about execution of primary transactions that are important to me – I don't feel happy about a mortgage, it's the house that excites me; when I buy a product or service that I want, I just want the payment to go through without hassle.

So it was great to hear Piyush proclaiming that his goal for corporate banking is that it should be invisible – integrated seamlessly into business processes to reduce friction to the minimum that is secure. Invisible banking is a goal I can get excited about!

Treasury technology penetrating Asia at last

Asia has traditionally been a laggard in adopting treasury technology – penetration rates for SWIFT connectivity, TMS and eFX are generally lower than in Europe and the USA. So ACTS decided we should have debates on TMS vs XLS and eFX vs phone to stimulate discussion.

The debates were hilarious, even if the poor treasurers who ended up debating for XLS and phone were not true Luddites, they did a great job of getting into their roles.

And the results were very positive for the more technically inclined amongst us. On TMS, two thirds of treasurers were pro TMS. Good news for TMS vendors, and treasury efficiency in Asia going forward. Interestingly, TMS clearly have room to improve on the ease of use/flexibility front since half of TMS users still rely on XLS as well.

Similar data but different story on eFX. Ninety one percent of treasurers were pro eFX after the debate, but usage lags this enthusiasm.

Two thirds of treasurers use eFX, but half of those still need the phone as well. The reason is that, with many emerging markets in Asia, many Asian treasurers feel that they still need to deal EM FX the old way. India used to have a bank cartel (FEDAI) blocking eFX and many treasurers are not aware that RBI issued clear instructions encouraging eFX a few years ago. (There is a similar and equally wrong idea that SWIFT is not allowed in India; RBI also cleared this up a few years ago, and in fact the latest INR clearing systems use ISO 20022 messaging.)

I recently checked the status of eFX in Vietnam for a client and learned all three eFX platform providers I asked are active there. Honestly, I was surprised. It is a good indication that phone dealing is rapidly heading towards redundancy in Asia.

The limits of quantitative economics

I also had the pleasure of co-chairing EuroFinance in Barcelona. The conference's first plenary speaker, Pippa Malmgren, had many challenging observations to share. Given her background as an economist, I found her warnings about the limitations of quantitative analysis bracing.

Paraphrasing, she suggested that we need to supplement quantitative analysis with something along the lines of 'common sense'. When the numbers do not make sense, we trust them at our peril. She cited plenty of examples from the past decade to support her assertion.

I am a big fan of fact based decision making. Equally I have seen that many quantitative techniques we rely on in treasury have significant limitations. Hence, we supplement value-at-risk with stress tests, and hedge optimisation with common sense.

Conversely, I think it is very helpful to challenge gut feeling and common sense with hard data. So, I suppose my conclusion is we need holistic and open-minded decision making.

Will treasury be freed or terminated?

The second morning kicked off with an engaging discussion of the implications of AI and machine learning for treasurers. (The conference theme was "intelligent treasury", and these days the word intelligent seems to be more associated with machines than with people.)

Long story short, the clear conclusions were first that AI will not be that intelligent for a while, even if its advances in specific domains such as facial identification and go are impressive, and second that treasurers will need to learn to work with AI more than risk being supplanted by it.

On why we still need treasurers, the blackbox issue came up – basically software is a blackbox and we cannot be sure what it is doing or why, so human sanity checking is a valid mitigant.

The clear upside is that simple improvements like robotic process automation will relieve us of the boring routine work and free us up for more interesting and higher value-added contributions to our companies.

Technology and what really matters

The rest of the second morning focussed on many of the buzzwords that seem so urgent. Big data can help us find interesting patterns in heterogenous data, potentially offering a way forward without the pain of restructuring our data.

Blockchain may advance industry wide collaboration to the benefit of all, even if its power may be more in an idea around which banks can collaborate rather than in the technology

> AI will not be that intelligent for a while, even if its advances in specific domains such as facial identification and go are impressive, and second that treasurers will need to learn to work with AI more than risk being supplanted by it.

itself. (Banks are mainly working on permissioned (ie private closed loop) blockchains, which are functionally more like SWIFT or DTCC, rather than permission-less blockchains like bitcoin where no one is in charge.

Refreshingly, Simon Taylor from 11:FS cut through the hype and stated that, for corporate treasurers, the first widely used blockchain is at least 18 months away and will probably be in the trade space.

A panel on fintech clearly confirmed that the term is practically meaningless – fintech is being done by banks, by large companies (ApplePay, AliPay et al), and by startups. To paraphrase Deng Xiao Ping: it does not matter who does it, so long as it works.

My big take away is that technology does not matter, solutions matter. We need to focus on clear articulations of pain points (jobs to be done, problems to be solved), and then let the experts come up with solutions. Wanting to trial a specific technology may seem sexy, but it is probably a recipe for higher cost and lower benefits.

Disrupting banks

Brett King kicked off the third day at EuroFinance. While getting miked up he showed me his digital bank, Moven, which is more like a slick and mobile first personal finance site than a bank. I especially liked that Moven uses APIs to connect with other banks (in the USA) to give a holistic view of personal cash.

Brett's presentation focused on corporate banking, rather than Moven which is retail. One of his mantras is first principles design. To reduce the cost per kilo to orbit by 95%, SpaceX had to start with a clean slate. This is very hard for incumbents to do. Many bank CEOs want their organisations to disrupt themselves, but the operational realities of staying compliant and maintaining trust are antagonistic to disruption.

A good illustration is SWIFT's gpi, which will undoubtedly improve the classic four corner correspondent banking approach to payments – if only by enforcing decent existing practice on participating banks. It took an outsider – Ripple – to completely re-imagine international payments.

In China, where tech companies have been particularly aggressive in finance, banks are already out of the game in many spaces. Alipay's YueBao is the world's largest money market fund. One bank CEO said, "We have already lost payments (to the tech companies), so what can we save now?"

The tension between the compliant and trusted status quo and the need for disruption to make significant improvements will be an interesting space to watch over the next few years.

Risk management learnings

The risk stream at EuroFinance provided some great case studies and panel discussions. The first afternoon revolved around FX hedging.

This was ably kicked off with a beautifully clear explanation from Vincent Delort, Risk and Reporting Manager at JTI of how to do cash flow at risk (CF&R) in Excel – down to the actual Excel formulae. In case you are wondering whether this was too technical for most conference audiences, the room was packed and we barely managed to get through one tenth of the questions during Q&A.

One question we did get to was why use Excel for CF@R rather than a TMS. The answer was that none of the TMS CF@R solutions is sufficiently flexible to meet JTI's needs. Another opportunity for the TMS vendors to up their game.

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 eCommerce standard development and in professional associations. He has counselled corporations and banks as well as governments. He trains treasury teams around the world and serves as a preferred tutor to the EuroFinance treasury and risk management training curriculum.

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

david.blair@acarate.com

www.acarate.com

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

INSIGHT & ANALYSIS

What do global markets have in store?

Compared to the major political and economic upheaval of 2016, last year was relatively calm. That does not mean 2018 will be, however. To help guide you through the year ahead, Treasury Today Asia will look at some of the key events scheduled for the year, analyse what the actions of politicians might mean for the financial market and see how technology will continue to move the needle in treasury offices around the world.

TECHNOLOGY

APIs and technology

APIs will fundamentally change how the financial ecosystem connects and interacts. In Asia, we are already seeing the impact that APIs can have in enabling banks to provide their clients with various services in real-time. How far can this all go and will the future of finance be built on APIs? Treasury Today Asia finds out.

BACK TO BASICS

Treasury KPIs

All treasury departments (should) have some key performance indicators. These not only give departments something to aim for, they can also be used to show off the work treasury has done to add value to the business. And as treasury continues to build up its strategic mandate within organisations, we ask what KPIs treasury teams should be using and how these can be communicated to the rest of the business to show the value treasury is adding.

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

David Blair, Managing Director, Acarate Consulting; Simon Bourke, Director of Institutional Business for Liquidity, HSBC Global Asset Management; Cedric Bru, CEO, Taulia; Rajah Chaudhry, Founder and CEO, Paycelerate; Gavin Da Cunha, Managing Director, Asia, PMC Treasury; Paul Davies, Partner, Latham & Watkins LLP; Loic Dujardin, Research Director, Sustainalytics; Ben Ford, Executive Director, J.P. Morgan Asset Management; Damian Glendinning, Treasurer, Lenovo; Seng Ti Goh, General Manager of Treasury & Accounting, Isuzu; Patricia Hines, Senior Analyst, Celent; Philippe Jaccard, Head of Liquidity Management, ANZ; Wolfgang Koester, CEO, FiREapps; Rakshith Kundha, Managing Director, Trade and Supply Chain Finance, India and South East Asia, Bank of America Merrill Lynch; Beijia Ma, Strategist, Bank of America Merrill Lynch; Rick Martin, Group Treasurer, GasLog; Todd McElhatton, CFO, SAP North America; Zac Nesper, Head of Finance and Assistant Treasurer, HP Inc.; Sandip Patil, Regional Head of Liquidity & Investments & Financial Institutions Group Sales Head, Treasury and Trade Solutions, Citi; Victor Penna, Managing Director, Regional Head of Cash Management and Global Head of Treasury Solutions, Standard Chartered; Marianna Polykrati, Group Treasurer, Chipita; Jack Spitzer, Treasurer, Isagenix; David Stebbings, Director, Head of Treasury Advisory, PwC; Lewis Sun, Managing Director, Head of Product Management Asia Pacific, HSBC; Cynthia Tchikoltsoff, Head of Supply Chain for Asia Pacific, BNP Paribas; Michael Vrontamitis, Head of Trade, Europe and Americas at Standard Chartered; Steve Wiley, VP Treasury Solutions, FIS.

CitiDirect BE® is everywhere you need to be.

Access the full power of CitiDirect BE® 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® Tablet from the App Store, Google Play or Windows Store. **To use CitiDirect BE® Mobile**, enter https://m.citidirectbe.com in your mobile browser and log in.

©2016 Citigroup Inc. All rights reserved. Citi, Citi and Arc Design and other marks used herein are service marks of Citigroup Inc. or its affiliates, used and registered throughout the world.

citi®