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RTCs: Singapore vs Hong Kong

Selecting the right location for a regional treasury centre in APAC is key. Should it be Singapore or Hong Kong – or another location? We probe the options.

The Corporate View

Christopher Emslie

Asia Regional Treasurer

General Mills

Investing

When it comes to investing short-term cash, looking beyond the obvious sources can be beneficial. What are the options for the more sophisticated treasurer?

Cash Management

Treasurers have a major role in M&A

China Practice

Opportunities and challenges in perspective

Back to Basics

Budgeting with precision

Question Answered

Fintech or bank: is the balance changing?

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Central reservation

When a business grows and reaches into a different region, setting up a regional treasury centre may be seen as a logical next step. After all, having somewhere closer to the action that can support business growth, cover the local footprint, and have treasury experts on tap, should be appealing. And what about the favourable tax regimes established by key locations; surely a major benefit?

Whilst the tax incentives are undeniably attractive (albeit usually with a time limit of around five years), when taking the regional treasury centre path it's better to think more in terms of how such a structure can help the company achieve its objectives such as enhancing operational efficiency, centralisation of funding, liquidity and risks, and optimisation of capital.

However, any business considering this path will rapidly be made aware of the considerable need for local knowledge to achieve all this. The demands of the process for some may even put the brakes on any such plan, encompassing as it does swathes of regulation, in-depth knowledge of local business practice, payment systems, taxation, legal requirements and so on. Building a regional treasury centre is thus not something a business can take lightly, and reservations may abound.

Fortunately, Asia presents a number of realistic options for companies seeking treasury centre efficiencies.

There are two obvious candidates in the region. Singapore is easily the largest FX trading centre here, with a mature banking sector to match. It offers political stability, a strong technological infrastructure, and a deep talent pool for businesses to draw upon. Furthermore, it is currently ranked second among 190 economies by World Bank annual ratings on ease of doing business.

The other contender, Hong Kong, despite its current difficulties, is a convenient gateway to China, offers interesting tax incentives and a favourable environment in which to do business (it takes fourth place in World Bank annual ratings). What's more, it offers a dynamic financial structure, and one of Asia's largest stock exchanges.

Whilst these two financial colossi may be strong magnets for APAC treasury centres, they are not the only options for companies in the region. Other demonstrably suitable locations currently include China, Malaysia, Thailand, India, Australia and New Zealand (the latter taking the number one spot in the 2019 World Bank ease of doing rankings).

With the trend of relocating treasury centres having seemingly picked up speed in the last few years, these alternative locations may well be serious challengers to the dynamic duo. With more options, any reservations about taking the centralisation pathway begin to melt away.

In our main feature this edition, we explore in depth the options open to those seeking to establish a regional treasury centre, opening up the options beyond the obvious (but giving the obvious credit where it's due).

Elsewhere, we look at opportunities for treasurers seeking to expand their short-term investment strategies, we cast a critical eye over the role treasury can play in M&As, and even explore the contentious notion of zero-based budgeting.

Whilst it sometimes pays to be circumspect, treasury options are opening up in many fields; being aware of what's out there is essential if informed decisions are to be made.

IN THIS ISSUE

INSIGHT & ANALYSIS 4

Regional treasury centre locations: Singapore vs Hong Kong

When setting up a regional treasury centre in APAC, most companies opt for Singapore or Hong Kong. So how do the two compare – and which other locations may be worthy of consideration?

INVESTING 8

Behave like a bank: making the most of short-term investments

Weighing up security, liquidity and yield may be essential when it comes to short-term investments – but in today's market there are additional factors to consider, from leveraging new technology to adopting sophisticated structures inspired by banks.

SMARTER TREASURY 21

Opportunities ahead for APAC treasurers

What are the opportunities and headwinds currently defining APAC? How can treasurers navigate them successfully? Is cutting-edge technology the answer? Citi experts have the answers.

CASH MANAGEMENT 14

M&A

M&A deals are potentially complex and resource-intensive with no guarantee of success. We explore the role that treasurers have in managing the risks and opportunities pre- and post-deal.

CHINA PRACTICE 18

Treasury in China: challenges, trends and opportunities

From the pace of regulatory change to the rise of digitisation in treasury, what challenges, trends and opportunities should treasurers be aware of when operating in China?

TREASURY ESSENTIALS

Treasury Insights	7 & 17
Question Answered	28
Point of View	30

11 The Corporate View

Christopher Emslie
Asia Regional Treasurer

Treasurers are used to a challenge or two. Being tasked with building an APAC regional treasury operation from scratch ranks highly on Chris Emslie's list. The General Mills Asia Regional Treasurer explains all.

BACK TO BASICS 24

Zero-based budgeting

Setting budgets is based largely on what happened last year. In the current business environment, a more accurate method seems more appropriate. We explore the concept of zero-based budgeting.

TREASURY DIALOGUES 27

Adaptive, responsive, innovative: exploring the rules of the 'triathlon' business model with Xiaomi and Citi

When it comes to digital disruption and cutting-edge business models, think 'adaptive, responsive, innovative'. The rules of the 'triathlon' business model come under the scrutiny of Xiaomi and Citi experts.

Regional treasury centre locations: Singapore vs Hong Kong

Companies set up regional treasury centres in APAC for a number of reasons. Selecting the right location is key – so what should treasurers bear in mind when choosing between Singapore and Hong Kong? And which other locations may be worthy of consideration?

Setting up a regional treasury centre (RTC) can bring numerous benefits, from operational efficiencies to the centralisation of funding, liquidity and risks. "When you grow into a different region, it's common to set up a RTC in order to support business growth, cover your footprint and have treasury experts in the region," comments Jessie Hsiao, Senior Advisor for APAC Solutions, Treasury Services, Wholesale Payments at J.P. Morgan.

But choosing the best location for that treasury centre is not always straightforward. While Singapore and Hong Kong are the favoured locations for APAC regional treasury centres, companies need to weigh up the pros and cons of each in order to find the best fit for their company. So, what do treasurers need to think about when choosing a RTC location in APAC – and how do Singapore and Hong Kong compare?

Variations on a theme

For one thing, it's important to note that different companies structure their treasuries in different ways. "Some companies decide to have their treasury completely centralised in their Corporate Treasury (HQ)," explains Stefan Leijdekkers, head of Regional Sales, Asia Pacific, Global Transaction Services, Bank of America Merrill Lynch (BofAML). "Others decide to have RTCs reporting to corporate treasury or have in-country treasury staff in addition to RTCs."

Likewise, treasury centres can come in different flavours. Ankur Kanwar, Head of Cash Products, Singapore and ASEAN Region, Transaction Banking at Standard Chartered Bank says that the role of a treasury centre can vary not only across organisations, but also sometimes within the same organisation, depending on factors such as company policies, operating structure, and jurisdiction.

"While the traditional role of treasury to perform essential finance-related activities has not changed, what has changed is the structure, breadth of responsibilities and requirements from management to make treasury teams more of a business partner," he adds.

Function of a treasury centre

There are a number of reasons why companies might set up regional treasury centres, from rationalising bank accounts to managing financial risk more effectively. According to Kanwar, a treasury centre can help companies achieve a number of objectives, such as:

- **Enhancing operational efficiency** through the rationalisation of bank accounts, selection of banking partners and improvements in straight through processing.
- **Concentration of risk into a single location** for standardisation, better control, FX risk management and improved visibility of cash.
- **Optimising capital** by reducing operating cash needs through centralised liquidity management and yield enhancement structures.
- **Establishing a centre of excellence** to leverage new technology such as new payment and collection methods, thereby assisting with improved customer experience and creating new sources of revenue.
- **Providing real-time data analytics** to highlight liquidity and risk issues and support forward-looking strategic planning for management.

While many of these goals are perennial, developments in regulation and technology have brought some additional considerations. "The role of a treasurer has become increasingly strategic," says Lewis Sun, Regional Head of Product, Global Liquidity and Cash Management at HSBC Asia Pacific. He adds that as well as managing operational efficiencies and minimising risk, treasurers increasingly need a stronger voice for business development, which means "ensuring the treasury systems and processes are set up to help manage real time payments and information flow resulting from his organisation's transformation to a digital era."

Meanwhile, where IT is concerned, Sun also notes the importance of identifying the use of AI and RPA to minimise fraud and drive efficiency, "whilst ensuring strong cyber-security standards to protect customer and organisation data."

Choosing the right location

When setting up a regional treasury centre, choosing a suitable location is key. Sun says that setting up a treasury centre "requires a high level of standardisation and centralisation of processes all of which require changes to the

operating model of intra group companies." As such, considerable local knowledge is needed, encompassing regulation, business practice, and local payment systems.

"Thus, the chosen jurisdiction will have specific tax, regulatory, legal, accounting practice, time zone, language, and maintenance cost requirements," says Sun. "In addition, the right location would allow the company to attract and retain talent and reduce costs of the company through tax incentives and benefit programmes."

Other considerations include making sure the chosen location has the infrastructure needed to support the company's operations – and as Sun points out, "the region must be politically and economically stable enough to support the operations."

Avoiding the pitfalls

When choosing a location, treasurers also need to be aware of the pitfalls that should be avoided. As BofAML's Leijdekkers notes, these can include "blindly following where their peers located their RTCs," as each company has its own business model and dynamics. He also warns against deciding on a location based primarily on tax incentives – not least because such incentives may come with a time limit: "It is usually for five years, and the renewal is subject to additional commitment," he says.

Likewise, Leijdekkers says finding appropriate staff with the right experience can be challenging in some locations – and companies may struggle to attract talent if their RTC has limited autonomy, "which will have a direct impact on the effectiveness of the RTC."

Meanwhile, HSBC's Sun points out that when a company has multiple treasury centres across the world, internal challenges may arise due to variations in internal expectations. "Furthermore, treasury initiatives of one region may be prioritised over another if the leader of the other treasury centre is not powerful enough," he adds. Companies should also bear in mind the impact of factors such as local regulations, developments in foreign policy, and KYC requirements in specific locations.

Relocating the treasury centre

While it's important to choose a location that suits the company's needs, it's also worth noting that a treasury centre location is not set in stone. Indeed, Kanwar says that the relocation of treasury centres is a trend that seems to be picking up speed in the last few years.

"Treasury centres were traditionally established at a central global location, generally within close physical proximity of the decision makers within the corporate," Kanwar explains. "However, with the expansion of global trade, availability of advanced technology tools, and increasing complexity of legal entity structures, many corporates now prefer setting up treasury centres closer to the growth regions. This could entail relocating the global treasury centre or establishing a regional treasury hub."

Kanwar notes that establishing a regional treasury hub can bring significant benefits in terms of time zones, yield benefits, and access to the local talent pool. "For instance, Rio Tinto set up a commercial treasury unit in Singapore, moving a large portion of its treasury activities from London. One of the key reasons for the move was to support the Asia Pacific region which now accounts for 70% of its customer base, with Singapore being the epicentre of its trade flows."

In addition, Kanwar notes that some jurisdictions are offering treasury incentive schemes encouraging corporates to set up base in those jurisdictions. That said, he adds that some jurisdictions, such as Malaysia and Thailand, have recently revised their treasury schemes to align with feedback from the OECD Base Erosion and Profit Shifting (BEPS) committee.

"Furthermore, there is tangible evidence through various surveys highlighting that treasury incentives by themselves are not the primary reason for choosing a location, and relocation decisions are made taking into consideration a variety of other factors," he says.

Where to locate a treasury centre

Companies looking to set up – or relocate – a treasury centre in APAC are likely to focus their attention on two main candidates: Hong Kong and Singapore. Both have much to recommend them, although there are also many significant differences between the two. For example, Hong Kong's proximity to China has to be weighed against Singapore's proximity to ASEAN and Australia.

- **Hong Kong.** Acting as a gateway to China, Hong Kong is an attractive option for companies seeking to access the China market. As Sun notes, Hong Kong offers tax incentives "as well as a favourable business environment, dynamic financial structure, and Asia's third largest stock exchange."

  The appeal of Hong Kong has been boosted in recent years by the introduction of a new rule in June 2016 which brought two key benefits: allowing corporate treasury centres (CTCs) to deduct interest expenses from intragroup financing under some conditions, and a 50% profits tax concession for certain treasury activities (bringing the rate to 8.25%).

- **Singapore.** Singapore, meanwhile, offers proximity to ASEAN countries and the Australian market. "Singapore offers key incentives, such as a low tax rate for treasury centres (8%), a withholding tax exemption on certain interest payments, and a wide tax treaty network," says HSBC's Sun. "It is also the largest FX trading centre in Asia with a mature banking sector, and offers political stability, a strong technological infrastructure, and a deep talent pool." Sun also notes that Singapore has a high focus on innovation and financial technology advancements.

A report published earlier this year by East & Partners identified Singapore as the most popular location for regional treasury centres, accounting for 27.1% of the companies surveyed. While Hong Kong was somewhat behind at 13.1%, the report also found Hong Kong to be the favoured location for manufacturers, retailers, and wholesalers.

Meanwhile, research published by EY, Singapore: a strategic regional treasury location, interviewed a number of treasurers and strategic stakeholders from regional and global treasuries located in Singapore. The report found that the location of the regional business headquarters and a well-developed financial ecosystem were the main considerations when

closing a regional treasury location. Where the former is concerned, Singapore has a notable advantage: the report notes that Singapore is home to 4,200 regional headquarters, compared to 1,389 in Hong Kong.

Compare and contrast

While both locations have much to recommend them, there are a number of points to consider when weighing up their respective benefits, says J.P. Morgan's Hsiao. She emphasises the importance of fully considering the company's footprint and business needs alongside the existence of incentive programmes. She also notes that the philosophies and ways of rolling out such programmes can differ fairly between the two locations.

"Hong Kong is more about extending benefits to MNC and there are simple qualifying calculations across the board," she says. "While there are various criteria to satisfy, the process is overall straightforward requiring an auditor's confirmation that your financials qualify for certain tax benefits."

In Singapore, Hsiao says incentives tend to be "negotiated" with the government on a case-by-case basis. "This can achieve a more tailored programme, with a specific set of rules or a plan that the company will need to follow in order to receive the agreed benefits," she explains. "And when the term expires, the renewal of the benefit programme will be subject to further review."

Beyond Singapore and Hong Kong

Singapore and Hong Kong may be the most common APAC treasury centre locations, but they are not the only options for companies in the region. Other jurisdictions, such as the following, may also be worthy of consideration:

- **China.** "With the emergence of China as an the most important strategic growth market for many companies, China and especially Shanghai, is increasingly a location where RTCs (regional treasurer and team) are located," says Leijdekkers. "Due to regulations, centralised account structures and cash pools will still be based in Hong Kong, Singapore or Europe. With continued currency deregulation, and support from Beijing to turn Shanghai into a major financial centre, we expect to see continued growth in popularity of Shanghai as an RTC location, largely at the expense of Hong Kong."
- **Malaysia and Thailand.** According to Leijdekkers, both of these markets offer lower costs and enhanced RTC tax incentives – although the pool of treasury professionals may be more limited. J.P. Morgan's Hsiao also observes that some companies have started to look at Thailand when setting up a treasury centre in conjunction with a manufacturing hub, while others may consider Malaysia if introducing a treasury centre alongside a shared service centre.
- **India.** Leijdekkers points out that India offers a good pool of treasury professionals and a favourable time zone for supporting both APAC and EMEA, as well as being an established shared service centre location.
- **Australia and New Zealand.** HSBC's Sun says that clients are also looking at Australia and New Zealand, "as the two countries are open markets with liquid currencies conductive to support resident/non-resident payments-on-behalf-of (POBO) and receivables-on-behalf-of (ROBO) structures."
- **Europe.** Beyond locations in Asia, Leijdekkers says that Ireland, the Netherlands and Switzerland are primary locations for RTCs managing both EMEA and APAC.

So, while Singapore and Hong Kong may be the favoured locations for companies setting up RTCs in Asia, they are not the only options. Ultimately, there's no one-size-fits-all approach – and the individual company's needs should be fully considered when choosing a location.

	Singapore	Hong Kong
Unique differentiators	• Key hub for ASEAN markets • Stable legal and regulatory framework based on Commonwealth law • Positioning as innovation hub in Asia with start-up development programmes	• Familiarity and proximity to mainland China • Language and culture make it easier for Chinese corporates • World's largest offshore RMB hub
Global Financial Centres Index (2019)[1]	4	3
FX turnover[2]	3 (>US$500bn per day)	4 (>US$400bn per day)
Clearing currencies	SGD, CNH	HKD, USD, EUR, CNH
Financial incentive*	Financial and Treasury Centre (FTC) tax rate of 8% to qualifying RTCs	Corporate Treasury Centre (CTC) tax rate of 8.25% to qualifying RTCs
Double tax treaties	Over 80 nations[3]	Over 40 nations[4]

**Eligibility criteria, reporting requirements and qualifying income varies*

Source: Standard Chartered Bank

[1]Long Finance, Global Financial Centres Index 25 Rank: https://www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index/gfci-25-explore-data/gfci-25-rank/
[2]Bank for International Settlements, Triennial Central Bank Survey, Foreign exchange turnover in April 2016, page 14: https://www.bis.org/publ/rpfx16fx.pdf
[3]Inland Revenue Authority of Singapore, List of DTAs, Limited Treaties and EOI Arrangements: https://www.iras.gov.sg/irashome/Quick-Links/International-Tax/List-of-DTAs--limited-treaties-and-EOI-arrangements/
[4]Hong Kong Inland Revenue Department, Comprehensive Double Taxation Agreements concluded: https://www.ird.gov.hk/eng/tax/dta_inc.htm

INTERPRETING ASIA'S REGULATORY LANDSCAPE

Asia's disparate regulatory landscape – coupled with a rapid pace of change – means that treasurers need to be able to interpret not just individual regulations, but also understand the overall direction of travel.

Treasurers in APAC have much to consider in the current market, from understanding the impact of the US-China trade tensions to harnessing the opportunities brought by digitisation. But one perennial topic that treasurers can address is the complexities of the region's regulatory landscape.

Asia's diverse regulatory climate is complex. The region is characterised by a rich variety of countries, currencies and regulations, with different markets exhibiting disparate financial regulations, tax regimes and currency controls.

What's more, regulatory change is a fact of life – and the rate of change can be very rapid. Last year alone, Asia saw more than 200 regulatory changes in the areas of payments, liquidity and foreign exchange, says Sandip Patil, Asia Pacific Head of Liquidity Management Services and Financial Institutions Group for Citi's Treasury and Trade Solutions.

Interpreting the changes

While change can certainly bring opportunities, many of the region's regulatory developments are characterised by a certain degree of ambiguity, meaning that corporates need to be able to interpret regulations effectively in order to make sure they are compliant. "Clients need to make sure they are following every comma and full stop, and that they have a process in place to monitor and report so they can give comfort to everyone, including auditors, regulators and banking partners," explains Patil.

These developments also result in opportunities for companies looking to expand into certain markets. But first, treasurers need to have a clear sense of how the regulatory climate is evolving in different countries, and what that means for their businesses. For example, individual countries will have their own regulatory climates, with different priorities and objectives. At any given time, some of the region's regulators may be in the process of liberalising controls, while others may be doing the opposite.

Direction of travel

As such, Patil says it is important to interpret not only individual regulations, but also the overall direction of travel. "For example, to make sense of what's happening in China, you cannot interpret one regulation at a time," he notes. "You need to look at a series of regulatory changes over the past few months to start understanding the regulatory mindset and the rationale behind these regulations." Consequently, he says that clients are looking to put specific changes into context so they can try to extrapolate future developments.

Supporting growth

Moving forward, it's likely that regulators will continue to focus their attention on supporting growth. "Regulators will need more foreign enterprises coming into Asia, establishing bases, expanding bases and expanding capital, with the help of domestic players," says Patil. "So to make sure the engine is running faster, they will have to keep liberalising regulation."

That said, he notes that drastic change is not expected as regulators are generally calculated and methodical in their approach. "We have never seen an approach where a regulator takes the lid off completely – it's very gradual," he says. "And often it's two steps forward and one step backward, just to cross-check the market."

Meanwhile, despite the heterogeneous regulatory climate, Patil says that Asia has much to offer, particularly in light of the ongoing uncertainties in Europe and the US. While there is competition between different markets in Asia, the region's growth potential is considerably higher, not least because of the way spending patterns are evolving.

Behave like a bank: making the most of short-term investments

When it comes to investing short-term cash, there are many factors to consider – and while bank deposits and money market funds may account for most treasurers' short-term investments, there may be other options worth exploring. Meanwhile, some forward-thinking companies are taking inspiration from banks as they seek a more sophisticated approach to this area.

Deciding where to invest cash is a key part of the treasurer's role, but there are a number of competing goals and other factors to consider. While bank deposits may be an obvious choice, many companies also use money market funds very effectively – and beyond that, there may be further options for treasurers willing to take on additional risk.

So what are the key investment goals for treasurers in Asia, where are the most significant challenges – and what are the options for treasurers wishing to look further afield than bank deposits and money market funds?

Security, liquidity, yield

Aidan Shevlin, Head Global Liquidity Fund Management, Asia-Pacific, at J.P. Morgan Asset Management, points out that understanding and clarifying investment goals is the critical first step for treasurers. "Typically, an organisation's investment policy should provide a solid foundation for cash investment decision, defining objectives, acceptable levels of risk and return requirements," he notes.

Where objectives are concerned, any investment decision requires the investor to weigh up the competing goals of security, liquidity, and yield. A highly liquid investment is unlikely to offer as attractive a yield as an investment with a longer maturity. And a high-yielding investment may not offer the security that is likely to be a top priority for treasurers. As Warren Buffet famously remarked, "Rule No. 1: Never lose money. Rule No. 2: Never forget Rule No. 1."

That said, the importance of liquidity is not to be underestimated. "When it comes to investments, access and availability are key," says Anton Abraham, head of International Advisory at Bank of America Merrill Lynch. "If treasurers are going to place an investment, they need to know how easily they can get their cash back if they need it in a critical situation. Can that be done electronically or do they have to fill out forms? And are there any penalties around accessing that cash?"

Access to cash also needs to be weighed against the need for return on investment, which leads to something of a balancing act as treasurers aim to maximise yield while still having the desired level of liquidity.

"In the region I often see treasurers looking to banks to see if they can price their normal operating accounts with a higher rate of interest, comparable to what they might get in a one-week term deposit," notes Abraham. "Obviously there is going to be a higher yield if they go for a longer tenor – but there has definitely been a move over the last few years to price operating accounts to a level where banks can still keep cash in those accounts. And that helps the treasurer with convenience."

Challenges in Asia

Security, liquidity and yield may be perennial goals. But market conditions are more of a moving target – meaning that it's important to stay on top of current trends and developing

opportunities. Treasurers also need to understand the specific challenges of Asia's heterogeneous landscape, such as:

- **Regulation.** "Regulatory differences across Asian countries are one of the biggest challenges when managing short term investments in Asia," comments Gordon Rodrigues, Director, Head of Asian Rates & FX, HSBC Global Asset Management. He notes that in Asia, even if a treasury department has set up a regional treasury centre, "there are still cross-border sweeps, time zone differences, intercompany lending and various other factors that make getting to a reasonable final cash position by currency a challenging task." Adding to this, he points out the potential multi-currency pooling complications of having one currency to place investments in, or the challenge of investing each currency individually.
- **Sell side challenges.** Likewise, Rodrigues says the same challenges exist on the sell side, "where providers rarely have the same cash management toolkit available in every currency or market." He explains that this makes it extremely challenging for a treasurer to have a consistent short-term investment approach across the region.
- **Trapped cash.** The issue of trapped cash can make it difficult to access balances in certain markets. "The main challenges are around some of the restricted countries and currencies," says Abraham. "While you can still get optimised interest and put your cash into call deposits, or various products offered in different countries, the issue remains for treasurers that if cash is trapped, it's trapped. So you might be able to get a return on your cash, but you still can't get it out."
- **Weighing up risk and return.** As Shevlin explains, the range of money market instruments, issuers and structures available to investors across the Asia Pacific region has expanded rapidly in recent years. "This has given treasurers more choices than ever before, but with a major caveat – risk has also increased," he adds. "Even in China where historically all fixed income instruments had an implicit government guarantee, the link between risk and return is strengthening as defaults increase and the government guaranteed fades."

From bank deposits to money market funds

For treasurers in Asia, bank deposits have long been the instrument of choice. "Historically, time deposits provided a simple method for local treasurers to invest cash balances," says Shevlin. "Long-term, close relationships with banks and limited alternative options in certain countries meant that time deposits were often the only investment choice."

But as Shevlin explains, a decline in high quality counterparties – together with the introduction of Basel III and the growth in corporate balances – has forced treasurers to look beyond bank offerings and diversify into other investment options.

Money market funds, or liquidity funds, can be an attractive alternative. Shevlin notes that liquidity funds are generally "an excellent option for corporate treasurers for placing short-term cash balances." He adds, "Amid the recent complicated investment and economic environment, they offer an efficient investment solution that satisfies many of the risk and return requirements sought by cash investors – including excellent security, good liquidity and a competitive yield. In addition, the strict guidelines and oversight by regulators and rating agencies have greatly improved the liquidity, security and resiliency of these funds over the past decade."

That said, corporate investment patterns can vary considerably from region to region. "In the US, about 20% of corporate cash ends up in money market funds," says Rodrigues. "In Europe, that number is around 13-15%. Across Asia (excluding China), that number is less than 5%."

In China, however, Rodrigues says it is a different story. "Historically there have been strict limits on the level of interest that could be paid on corporate deposits that were not tied to market rates," he says. "Having significant amounts of cash onshore creates a supportive environment for the growth of money market funds." Consequently, he points out that China is now the second largest money market fund market in the world, "with almost half of that coming from corporates and institutions, with the rest being retail."

Cash flow forecasting

When it comes to investments, cash flow forecasting has a crucial role to play in giving the treasurer visibility over how much cash is actually available for investment. "It helps you to understand how much you can optimally invest, and for how long," says Abraham. "If you don't have the forecast, you may have the situation where you are breaking your deposits or need to call them back early. Or you may keep too much operating cash, which then impacts your ability to get a better return on excess cash."

The benefits of effective forecasting are clear – and PwC's 2019 Global Treasury Benchmarking Survey, Digital Treasury – It takes two to tango, found that cash flow forecasting was the top priority on the agenda for both treasurers and CFOs.

However, this is also an activity that many treasurers struggle to perfect. Obstacles to cash flow forecasting may include inefficient processes, inaccurate data, a lack of dedicated resources and a communication gap between the treasury and other teams that may need to provide data for the forecast.

That said, there is plenty that companies can do to forecast more accurately, from streamlining processes in-house to leveraging suitable technology. "Companies looking to improve their forecasting should aim to drive a cash culture within the organisation, which may be aligned to key performance indicators and incentives," Abraham notes. "This, in turn, impacts the company's ability to optimise short-term investments."

What else can treasurers use?

While bank deposits and money market funds may account for most corporate short-term investments, some treasurers may be open to exploring other options – albeit while keeping a close eye on the company's risk appetite, policies and corporate philosophy.

Key to this is the ability to segment cash balances in accordance with the company's liquidity needs. "Obviously, operational cash – for day to day needs – must be liquid and secure," says Shevlin. "But for reserve and strategic cash balances, which may not be required for several months, reducing the amount of liquidity held and broadening the range of money market instruments and credit ratings allowed can help boost the overall returns achieved."

Rodrigues says that the investment options open to treasurers in APAC are expanding at an increasing pace. He notes that there has been more adoption of separately managed mandates for large pools of cash, with such arrangements allowing treasurers to create a specific set of investment guidelines that exactly match the company's risk appetite, "and allow an asset manager to create and manage that portfolio on their behalf."

He adds: "We are also seeing an increase in low and short duration vehicles that have a longer tenure than a money market fund but less than that of a bond fund in the main APAC currencies. These vehicles are being offered in both the traditional fund format and in ETFs." According to Rodrigues, these vehicles can provide more interest to an investor than a money market fund or short-to-medium term time deposit.

"The most recent entrant to this space has been trade finance funds," he adds, noting that while these funds can come in various options, "the principles remain the same."

Evaluating opportunities

Naturally, treasurers need to pay close attention to the risks associated with any additional investment instruments. Rodrigues points out that all the new instruments coming to the market require the treasurer to have a more robust risk management approach, which might require different skillsets within the treasury, or investments in new technology to support the treasurer.

"These instruments are more for the strategic cash element of a portfolio where yield is more important," he explains. "Whilst these may deliver more yield on average than the traditional cash products, the trade-off will be less certainty of capital preservation as they will not be AAA rated products."

Shevlin, likewise, warns that care should be taken when tapping new opportunities to ensure they are within the framework provided by the organisation's investment policy, and that the returns achieved are in line with the additional risk assumed. "Securities with longer maturities, lower ratings and more complicated structures will generally have lower or limited liquidity," he notes. "Therefore investors should be comfortable with their ability to hold to maturity."

Shevlin also highlights the importance of credit and counterparty research when it comes to longer tenor and lower rated securities, noting that this is needed to minimise the risk of selecting issuers or instruments that may face downgrade or default risk prior to maturity. "Across Asia's less developed credit markets, monitoring liquidity and credit quality can be challenging; therefore, working with a trusted investment partner who has the necessary resources and experience is critical to avoiding these pitfalls," he adds.

Shift in mindset

Another notable trend is that some companies are taking a more ambitious approach to investments. As Shevlin observes, regional treasurers "are now more sophisticated and seek to emulate best investment practices of global multi-nationals in their cash investment policies."

Abraham, meanwhile, says that the most sophisticated corporates are "starting to behave more like a bank". He explains that some are increasingly using structures such as in-house banks and funding desks, adding that the latter is a way of "optimising funding from the group and for the group at the cheapest possible rates, while also leveraging the investments they may place their excess liquidity into."

He adds that by centralising all group borrowing onto a single platform, a funding desk can thereby reduce the total cost of group funding, minimise third-party funding, reduce funding costs and ensure a mechanism is in place to transfer price working capital efficiently to the group.

"A great example would be if the organisation needs funding in Australian dollars, and doesn't have Australian dollars in their accounts today, they may have access to draw down on a bank line in Australian dollars – but they may also have excess sterling sitting in London," he says. "They can then make a decision at the funding desk: 'Is it cheaper for us to draw down our line, or should we swap our sterling into Australian dollars and fund that way?'"

In order to deploy this model effectively, Abraham says companies need to have a robust technology infrastructure, as well as having transfer pricing arrangements in place and employing suitably qualified staff. "I see that as the next frontier in terms of liquidity funding and investment management – at least for more sophisticated corporates," he adds.

Technology may also have a role to play in helping treasurers optimise liquidity management and enhance yield. "The next wave we are seeing is how this can be more digitalised," says Abraham. "So how the use of APIs can help this process be more automated and digital from an end-to-end perspective." He adds that while companies can already access plenty of capabilities via electronic banking, the next step is for APIs to bring greater sophistication in connecting treasury systems with banks, leading to a more dynamic process.

In conclusion, while bank deposits and money market funds are likely to suit most corporations' investment needs, there's a growing trend for companies to adopt a more ambitious approach to short-term investments – whether that means adopting a funding desk approach, or taking advantage of nascent technology.

But whatever the chosen approach, it's essential for treasurers to take a rigorous approach to managing their short-term investments, from weighing up risk and return to clearly defining the company's investment goals.

Relishing the challenge

Christopher Emslie
Asia Regional Treasurer

GENERAL MILLS

It goes without saying that treasurers are used to a challenge or two. Yet few challenges are tougher than being tasked with building a major regional treasury operation from scratch. Christopher Emslie, Singapore-based Asia Regional Treasurer at General Mills, enthusiastically obliged.

General Mills is a 150-year old American multinational manufacturer and marketer of branded consumer foods sold through retail stores. Brands include Cheerios, Betty Crocker, and Haagen-Dazs. The company has sales of nearly US$16bn and a global workforce of 38,000.

"We started with pretty much a clean canvas," he says. "The aim was to put all the working parts together so that we have a fully operational treasury centre within three years". With General Mills having treasury in the US and one in Europe, it was felt it was time for the company to have one in Asia.

Emslie continues: "We're also starting on a new centre for Latin America. General Mills is a pretty big ship and it really makes sense for us to have a broader global treasury footprint as we look to support future growth."

Emslie's focus on and commitment to the Singapore treasury project are readily apparent as he rifles through the many "moving parts" needed to bring into operation. Not surprisingly, many hurdles needed to be overcome to progress the project to its current stage, and many still remain.

"It's not the easiest thing to go out and build a treasury from almost scratch anywhere in the world. There's a lot of elements to consider to ensure they all work in harmony. It's like a giant jigsaw. Inevitably there's a lot of frustrations that come as well as you begin to crank up the machine and get it running. And the biggest frustration in Asia, as we all know here, is regulation."

For Emslie, the APAC arena is forever changing, whether it's China, Korea or India. "This causes difficulties for all APAC treasuries, but for a new operation like ours, still very much a work in progress, the constant flux of regulation can be especially challenging."

While the new team considers itself as still working on the coalface in terms of implementing the various essential treasury functions, the project has already succeeded in rolling out cash management solutions across the region. As Emslie inherited 600 bank accounts and 50 different banking relationships, the main priority was to go back to the banks to find the best solutions for each market.

"We're very intent on rationalising that structure. To begin with we needed to cut down 600 accounts to less than 100 in the first instance, then, going further forwards to less than 30. That's certainly taking up a lot of our time."

So, as the project moves towards the final phase of its initial three-year span, what does Emslie consider to have been the biggest challenges as he looks back on its development?

Without question it was the need to invest time and effort in educating and training the more inexperienced personnel amongst his team: "If they are not experienced it can be difficult for them to fully appreciate and understand what treasury is, and its role within the organisation."

He appreciates that for some of these colleagues it can be a lot to get their minds around. "Of course, we as seniors are here to help them with everything – from looking at simple things such as policies and procedures and how to bank directly, to what the authorisation matrixes are while stressing the importance of not sharing their tokens."

Whilst this doesn't always work, he believes it is getting down to the simple basics to help build that expertise from the ground up. "A lot of our time has basically been spent on that aspect of things," he says.

Adding value

With General Mills being a US multinational and all its satellite treasuries reporting to its HQ in Minnesota, there is also the fact that knowledge transfer and best practice requirements will overwhelmingly be directed out from the US to its global operations.

"It's really about educating and training for treasury from a US perspective, sharing those ideas. Things are not quite like Europe; ideas, concepts and practices can take a little bit longer to instil here in Asia. As a result you do need to put a little bit more effort into education and training to get the results you're looking for. From that point of view, the project is always a journey."

One aspect that Emslie has spent considerable effort in was emphasising to his team the need for treasury to clearly show how it can support the wider business and generate value-added solutions. For Emslie, the more effort he and his treasury colleagues have put into this particular responsibility, the more they have worked themselves into a real team.

"Most of the training has been in-house – us imparting our knowledge on what we would like the team to do, and how we'd like things to move forward. It's always difficult to go into new places where they don't quite understand what your expectations are, and there can be a tendency among some to think you're like the police, that you're coming in to clean house and not to help."

More than anything, for Emslie it has been reassuring to note that the more he and other seniors have stressed to less experienced personnel that they were there as helping hands, always available for advice, and not a threat, the better the project progressed. "That ongoing assurance from us definitely helped all of us. I think the more they saw us adding value in terms of knowledge, advice, mentoring, support and solutions, the better it became for everyone."

Reflecting on how he initially approached the project, Emslie recalls that his first nine months were spent speaking to his new colleagues and understanding the business, and then imparting knowledge on how he thought things could be done better. "Once we saw the kind of reactions and feedback that was generated, it became an easier process. But Asia is not an easy place for any treasurer – most will tell you that it's a difficult place to come."

Emslie found it very hard to be accepted at first. From initially believing the brand new operation could be built in two years, a reassessment concluded that three years would be more feasible. The fundamentals needed to be put in place and working smoothly so that a platform could be created to build further functionalities and processes.

For Emslie, the focus on 'learning to walk before trying to run' is exemplified by the big challenge regulation across APAC countries poses for treasurers. "It's not just that rules are always changing, an even bigger aspect is that regulation in every country is very different. So, if you're in India, or if you're in China, they are just not amenable to anything remotely like copying and pasting as a total solution."

He believes that treasurers operating in these regions need to look at each very carefully, to see where the nuances are and identify specifics that can be acted upon. "It's no use having a great idea that you believe can work in all markets when it's not going to be possible in six out of your 11, or six out of your 13 markets. You really need to be focused on what it is that you are trying to achieve in each market."

An all-rounder

While Emslie wholeheartedly believes technology can help treasurers to become more efficient and free time for more strategic contributions, he is also keen to stress the importance of building solid relationships with partners.

"Technology is always a great aid, but your banking partners and third-party suppliers can help enormously with knowledge transfer and intelligence in areas such as markets, regulation and geopolitics. While us treasurers might tell you we know everything, sometimes we do need a little bit of help to get the right solution, an ultimate solution that we need per market or country."

South African by birth and a graduate in accounting science, Emslie began his journey into treasury with roles in auditing,

accounting and financial management. The big turning point was joining ABB as their SAP implementation specialist. After two years in that role however he felt he needed a new challenge.

"It was definitely time for a change for me," he says. "The financial director at ABB offered me the credit management position as an additional role to try and fix his cash flow. And then through that I was offered the job of building the first treasury centre in Africa for ABB, and becoming their treasurer there."

For a while at ABB Emslie wore three hats; working in SAP implementation, as a credit manager, and company's treasurer. "What I knew about treasury in those days was very little. It was pretty much about learning from the ground up and doing exactly what I'm doing now – building a treasury centre from nothing, to something that we can all write home about and be quite proud of."

When his wife Heather succeeded in securing a post in Singapore, and with the two keen to move to the city state, it seemed to Emslie that his time at ABB was finally at an end. But ABB was not letting go of their all-rounder that easily, and offered him the post of Country Treasurer in Singapore which he took up in January 2015.

"Eventually, however, I wanted a new challenge and that's when the opportunity with General Mills came up. I had absolutely no hesitation, it was my forte and right up my street. To be offered something like that, to get to really work on the coalface, is me in a nutshell. And it's been very interesting and fulfilling so far, but there's still a long way to go yet!"

Sage advice

Being as bold and highly motivated as he is, it's not surprising that Emslie's prime advice to young people looking to get into treasury is 'don't be afraid to take a chance'. Emslie stresses: "I think that's very important. Treasury is now evolving and changing at a real pace. There's no right or wrong solution for treasurers at the moment – in order to be a successful treasurer you need to be well-rounded."

He adds: "You also need to be an individual who's willing to interact with most of the business and willing to put yourself out there to be able to give solutions and to speak to different people." He believes that the 'new treasurer' should be really confident and go and build themselves up into the treasurer they want to be, and getting involved in everything that happens relating to the role will help them do that.

Emslie points out that the old days of a treasurer was pushing buttons, booking deals and looking at cash flow. "I think we've evolved quite far since then. We've become far more of a strategic partner to the business, have aligned ourselves far closer to our business partners in order to give them good advice and help them make better decisions. I think we've also now got that seat around the table where we can help our organisations and make a difference. If it had happened a few years ago, I'm sure better decisions would have been made."

Indeed, Emslie believes that such has been the evolution of the treasurer's role in recent years that nowadays many boast a skillset that is transferable to other senior management roles including executive. "I do think treasurers would make really great CEOs because they've seen and done everything in the

> Technology is always a great aid, but your banking partners and third-party suppliers can help enormously with knowledge transfer and intelligence in areas such as markets, regulation and geopolitics.

business. They've been on the coalface, they've been at the cutting edge and they've been at that decision-making point many times."

"Not everybody agrees with me, of course, but I really do think the new breed of treasurer can seriously look to move into executive roles at some point in their career. At the end of the day, treasurers love to be treasurers, but I think you'll see many more of those treasurers take up these other roles in future and, moreover, excel in them."

Only time will tell

When it comes to the merits or otherwise of the 'Asian Century' proposition, Emslie believes there is much that gives it credence. "Asia is a great place to be right now, there are vibrant, growing economies all over the region. It's not just all about China and India, there are countries like Vietnam and Indonesia that have bright futures. But then none of us has a crystal ball; who knows if everything is sustainable enough to for the Asian Century to really evolve? When will everything be resolved with China and the US? And what lies ahead with Brexit?"

With these and many other geopolitical and economic uncertainties making financial headlines on an almost daily basis, Emslie says it's vital that treasurers keep themselves up to date. "The more you know about what's happening around you, whether its related to Asia or not, the better it is for you and the better it is for your organisation. As treasurers, we need to have a handle on developments, have our heads down to the ground to listen to what's happening and analyse it for potential impacts."

With his knowledge of Africa, Emslie recalls a time when expectations of that continent ran too far ahead of reality. "We always saw great things in Africa and still do, but it was always going to take a bit longer than people expected. I think we'll see exactly the same in Asia. There's going be good things, but it's also going to take time – there will be many ups and downs."

Away from the demands of work, Emslie and his wife Heather love playing golf, entertaining friends and travelling across the continent. "It's always good to get away for the weekend," he says. "Being based in Singapore, Changi Airport is a great place to travel out of – in just 90 minutes you can be pretty much anywhere in Asia. We've seen so many great places."

It seems Emslie's journey has only just begun.

Bringing the deal home: treasury's vital role in M&A success

In a globalised world where value-creation counts, M&A deals are big news. Opportunities abound yet they are potentially complex and resource-intensive, with no guarantee of success. We explore the role that treasurers have in managing the risks and opportunities pre- and post-deal.

The current market buoyancy for M&A deals is a result of increased opportunity and confidence in the global markets. With stock markets performing well, valuations are on the rise. Yet according to EY's Global Vice Chair of Transaction Advisory Services, Steve Krouskos, 2019's global M&A market "is expected to remain at elevated levels while the imperative to manage emerging opportunities and risks boosts M&A appetite".

Indeed, he says in EY's Global Capital Confidence Barometer that, in an age of transformation, "buying rather than building can unlock future value creation at speed". His report notes too that "competitive dynamics as they relate to technology and globalisation make M&A more of an imperative than an option" and that companies are "embracing uncertainty rather than being unsettled by it".

With strategic thinking around competitive advantage, and future market share front of mind (often to access new customers or geographies, to leverage new IP or brand value, or to secure operational advantages), Krouskos further records that executives are expecting to see many peers "targeting the right asset at the right time". He also notes that, in many cases, "the right asset is the same asset". M&A competition, it seems, is intensifying.

Strategic input

The competitive nature of M&A means getting the details of the deal right first time is vital for success. However, the definition of 'successful deal' is subjective, notes Dino Nicolaides, MD, Head of Treasury Advisory UK & Ireland, Redbridge Debt & Treasury Advisory.

"In my view, it must deliver the strategic, commercial or operational benefit anticipated at the outset. Under no circumstances should the return on capital (ROC) be below the weighted average cost of capital (WACC), simply because that would mean the deal has failed to add value."

Thus, there is a huge expectation to perform in this respect, and the role of the treasurer in supporting a successful deal has never been more important. Indeed, treasurers, notes Nicolaides, have often been involved in ensuring the swift unlocking of the value of new acquisitions.

This means they will, for example, use their cash, capital markets and FX levers (that are, ideally, already finely-tuned within their own organisation) to ensure there are no impediments when integrating the financial operations of the new organisation.

However, even earlier and more upfront involvement is clearly essential to bring about value-adding success, not least, for example, with regard to optimising the structuring and management of any debt raised for a deal. With M&A movements, the treasurer has genuine strategic importance, with the role being far more aligned with the broader objectives of successful activity in this field.

Ready?

So how ready is treasury to provide the essential data and analysis? "The biggest test in this respect is whether they are meeting all of the CFOs needs, even without the looming idea of an acquisition," says Bob Stark, VP of Strategy at Kyriba.

This, he explains, not only means ensuring currency operations are finely tuned, but also making sure cash forecasts are efficient from a cash flow perspective. It also means making sure there are no concerns around the efficiency of cash and liquidity structures; that there are no questions around the capital markets composition, nor around the ability of the business to use these levers to unlock further cash and liquidity to facilitate acquisitions.

Only when treasury is meeting the CFO's evolving needs and supporting the CEO and board in their financial strategies, Stark says that is when the function is best placed to take a seat at the table, "offering credible opinions in terms of the value of potential acquisitions".

Avoiding the FX trap

One area of particular M&A concern today is the FX side of a deal, says Stark. "With today's currency volatility, it is not just

the purchase price that can be affected by movement; it can also impact the unlocking of value within the acquired entity itself," he warns.

Businesses are facing increased market volatility and, as they compete for the right deals, they are also acquiring in new geographies, so potentially dealing with new operating currencies too. This combination creates the perfect 'FX storm'.

"Treasury has a keen understanding of the impact of currency movements on the balance sheet and cash flows, and is well-positioned to identify opportunities that may arise too," suggests Stark. In practice, treasury knowledge could even give rise to an adjustment of the purchase price or the financing of the deal, and is likely to inform the putting on of appropriate hedges earlier in the process to ensure that risk is mitigated.

This is important. A sudden unprotected FX spike in the wrong direction can prove costly at closure, not just on price but also on the entire composition of the balance sheet. "Currency volatility can completely change the value of an acquisition," warns Stark. "This can be true even when acquiring in the same currency if the acquired enterprise has a significant FX component through its operations."

It should be clear then that the treasurer's earliest involvement in an acquisition is crucial to ensure that the deal is not exposed to a sudden loss of value. It is manifestly suboptimal if treasury is only able to understand what the business is exposed to after the fact. For the deal to be a success, treasury needs to know upfront how the balance sheet and P&L changes, what the cash flow statement looks like globally, what hedges are on or off, and even just the general liquidity structure of the acquired business.

Understanding deals

Understanding the full financial position of the target company going into a deal means treasury is able to prepare the ground for a quick and efficient integration – and any remedial action – if that deal concludes successfully.

Stark argues powerfully that success should not be compromised in any way by something as fundamental as currency exposures. This is why, increasingly, treasurers are invited to take up a seat at the table, not just as part of an operational M&A team ensuring a specific deal is executed, but also as a key part of the evaluation process of opportunities and potential deals.

Pre-deal

Assuming treasury readiness, there is a pre-deal advisory element for treasurers that arises even before a target has been identified, says Didier Philouze, MD, Global Head of Debt Advisory, Redbridge Debt & Treasury Advisory. Treasurers need to analyse the impact of any new strategic change of direction, including any move towards M&A or significant growth, he says.

"If management wants to double the size of the business through multiple acquisitions, clearly this could have a meaningful impact on the way the business generates profits, the volatility of its cash flows and on its credit profile. It could also have an impact on its liquidity requirements," warns Philouze. "If treasury is to have a say in the way M&A is managed, it needs to offer a clear view of the financial effects of the deal; without that view, the business could make a huge mistake in its M&A model in terms of debt quantum or cost of debt."

The treasurer's financial analysis, presented to and discussed with the CFO and CEO, should confirm that they fully understand what could be at stake, in terms of, for example, the company's equity requirements or maximum debt capacity, and especially regarding the timing and sequence of any acquisition.

It may transpire that pre-funding the deal is advantageous. In this instance, part of the financing is secured ahead of the transaction. This gives a bid greater credibility whilst avoiding the need, should progress be unexpectedly rapid, for expensive bridging facilities.

However, if in its analysis, treasury sees evidence that a proposed deal leads to a significant negative effect on key aspects such as credit ratings or covenants, or that it demands that borrowings are ramped up substantially, the pressure these issues add to the acquiring company's existing exposures to credit markets, interest rates and FX, may suggest that the deal is not right and that management should reconsider.

Says Stark: "With its exceptional skillset of understanding capital markets and cash flows, its ability to unlock capital, and to manage currency volatility, treasury is in a unique position to add intelligence capable of demonstrating the value or otherwise of a deal."

Deal time

A pre-financed M&A deal will reduce the treasurer's stress levels, says Philouze. But if not in place, and there is an investment bank mandated on the acquisition finance, then he says treasury may play an important role in ensuring that what is being negotiated with that bank is competitive, compatible with the acquiring corporate's existing financial structure, and will not be overly complicated to manage post-deal.

In one illustration of the latter, Philouze cites a business where the T&Cs of a facility, arranged without CFO and treasury input, ring-fenced the US cash flows of the acquired business, limiting the immediate benefits of the financial integration of the acquisition.

Worse still, the terms did not permit any new debt to be raised in other parts of the group before the reimbursement of the acquisition finance put in place in the US. "It shows big mistakes can be made without treasury involvement," he comments.

The reason for calling upon the treasurer is simple. "When an investment bank is mandated for M&A, financing is just a side-product," explains Philouze. "For the bank, the priority is to secure the execution of the M&A and ensure the financing does not become a problem in that process; it has little interest in trying to optimise the financing that is being put in place. It is the role of the treasurer to have a say in the way new financing will be structured and put in place."

From the moment a deal is struck, to the completion of the deal, the treasurer needs to take account of what needs to be

> Being data-driven is the reality now, and for treasury, it's about understanding how it can build more bridges.
>
> Bob Stark, VP of Strategy, Kyriba

put into place so that on day one, business can run as usual, adds Nicolaides.

"This notion is even more valid during a carve-out because sometimes if a small subsidiary or business unit is acquired, it will most likely not have its own treasury function," he notes. "One will have to be put into place as soon as possible to enable continuity, and that requires planning."

As an additional hurdle, where bank facilities and lines of credit are withdrawn from the acquired business, because they belong to the previous owner, the treasurer of the acquiring entity needs to get out there and start negotiating, making sure the relevant lines and facilities are in place for the acquired. And with each organisation having its own risk appetite, the treasurer also needs to consider how to adapt the newly acquired organisation to this.

Post-deal

Treasury planning should come to fruition post-deal. The to-do list might include operational integration, risk management policies, people and skills, amendments to the overall governance structure if the acquisition is sizeable (the need for treasury committees and sub-committees, for example), reporting processes between the acquired and treasury HQ, and of course systems and technology.

'The first 100 days', as the experience is often known, is a vital part of post-deal transitioning. In reality, this period can extend much longer than this and it may be that only six months later is the treasurer finally in a position to rationalise the business and, for example, deal with the two treasury centres that exist in the same country.

Treasury needs to consider its geographical footprint and start tackling structure sooner rather than later. But it is also important, from a strategic perspective, not to just think about what has been 'inherited', but also to review why the acquisition happened, and what the strategic objectives are, before adapting the longer-term outlook of treasury.

One further aspect with great importance is communication with the ratings agencies, says Philouze, especially where treasury has highlighted a potential impact by the deal on the credit profile of the acquiring company.

During the transaction, the acquiring business will have undertaken a lot of work to show the best credit story possible to the rating agency and the lenders. Now, post-deal, these relationships need to be managed, ensuring all stakeholders understand the benefits of that deal.

Post-deal, the existing debt of the target and the combined debt profile, may require restructuring by treasury. This may see centralisation of debt, but will certainly require action in terms of currency, maturity profiles and hedging. "Treasury may be looking at a lot of work to re-optimise its book of currency swaps and debt location," cautions Philouze.

Role of digital

Of course, having treasury rooted on an island is never the most effective model. To be able to assist the organisation in the successful conclusion of the right deals, it must collaborate and, to an extent, integrate with other functions, allowing the smooth exchange of data. Few now would fail to recognise the increasing importance of technology in achieving this aim.

There is a basic requirement in any acquisition for treasury's collaboration with other parts of the organisation to ensure support of a host of activities, from the supply chain and working capital, to cash flow and payments. But the necessity for treasury to be able to support the rapid and effective integration of acquisitions and larger scale mergers is most pressing.

If this is to happen, technologies from both sides of the deal must be able to communicate, says Stark. To be truly efficient requires what he calls a "holistic approach", in effect, creating a "treasury enterprise system".

The holistic approach he espouses provides an opportunity for treasurers to extract the intelligence and value that may be derived from a newly enlarged enterprise-wide pool of data. "The technology exists to do this; it's now a matter of having the connectivity and processes in place," he advises.

Advantage treasury

From the point of view of treasury's involvement in M&A, "proactivity is the key", advises Stark. "Being data-driven is the reality now, and for treasury, it's about understanding how it can build more bridges."

Nicolaides concurs, believing treasury's involvement should start way before closure. "Initially, it is important for the treasurer to educate the CFO and CEO on what value treasury can add in this situation," he says. "If they leave this until the transaction is well-underway, the time pressure of the deal means many aspects could be missed, with the CFO and CEO not realising that the treasurer is a key individual to have involved."

But it is incumbent upon the treasurer to step beyond the role of 'technical guru', and begin thinking more commercially and strategically. It's essential to explain complex treasury issues in non-technical language, so that all stakeholders within the M&A are successfully on-board and up to speed.

Taking the proactive stance, where the debt and credit profiles, pre-funding plans and integration tactics have already been worked on, should resonate with the CEO, not least because preparation could deliver huge savings.

More importantly, treasury's early involvement indicates maximum credibility and financial firepower for the bid, says Philouze. "It allows the acquiring team to enter the process with a very assertive message to the sellers that they mean business." In this highly competitive arena then, it may well be treasury who brings the deal home.

PAYMENTS FRAUD

HOW TO PROTECT YOUR BUSINESS

Cyber-attacks continue to make headlines around the world, and no matter what defensive measures security professionals put in place, organisations are increasingly at risk of payments fraud. How can treasurers shield their organisations from today's ever-resourceful fraudsters?

According to the Association of Finance Professionals' (AFP) recent Payments Fraud and Control Survey, a record 82% of organisations reported fraud incidents in 2018. Large organisations were particularly vulnerable to payments fraud, with 87% of businesses with revenue greater than US$1bn reporting fraud attempts, up from 80% in the previous year.

This is hardly surprising. Cyber-criminals are constantly adapting and finding new ways to target businesses. While traditional phishing scams, wire transfer and vendor payment fraud remain scammers' preferred methods of choice, they are increasingly exploiting corporates' IT vulnerabilities. These include software that hasn't been properly updated, networks that have security exposures and not encrypting sensitive and personal data.

Should a fraudster's exploits be successful, not only will a business lose out financially, its reputation may also be damaged severely – and the trust of customers, investors and suppliers may be lost.

Reducing the risk

In today's digital world, what can treasurers do to protect their businesses? The following steps can help mitigate the risk of falling victim to payment fraud.

- **Review risks and policies.** The first step should always be to hold regular risk review meetings with every department of the business. By monitoring and stress testing the application of their cyber-security policies, treasurers will be able to improve and adapt them at a moment's notice.
- **Monitor supplier connections.** Should a supplier experience a data breach, any company connected electronically to a supplier should immediately escalate the level of threat it perceives it poses to its network. Any access to said supplier should be either limited or closely monitored, and security controls should be adjusted accordingly.
- **Secure data.** If cash is king, then data is president. As such, corporate treasury departments should always map and maintain the security of every piece of data. This could be anything from information tied to a customer's account to a vendor agreement or company workflow. Any loan payment schedules, lists of professionals approved to authorise payments, investments and other transactions need to be secured, as fraudsters armed with this information could coordinate an attack by inserting themselves into any expected flow of payments.
- **Use alerts.** When it comes to third-party suppliers or contractors, any software purchased or licenced from a third party should always be equipped with some form of alerting system whenever it detects strange behaviour. A typical example could be if two IP addresses log into one individual account over a short period of time.

  Red flags could also be raised if there is a large volume of downloads or failed logins in a day, or if the software recognises irregular patterns in the creation of accounts for use of the software. These indicators are known as 'indications of compromise' or IOCs, and they are usually the first warning sign that your business is under a cyber-attack.
- **Review intelligence.** Finally, regular updates, reviews, and meetings with senior managers are critical. Every executive needs to understand what is at stake and why additional protection may be necessary. Quarterly meetings should be held to review industry-wide threat intelligence and share information about the cyber threats competitors are encountering.

If the lines of communication are kept open with leaders throughout the company, treasurers will be able to share the cyber-security burden in terms of intelligence, labour and other resources – ultimately reducing the cost and the risk of being targeted by today's resourceful fraudsters.

Treasury in China: challenges, trends and opportunities

Multinational companies continue to take advantage of opportunities in China. But there are many factors that treasurers need to be aware of when operating in this market. From seizing the opportunities brought by regulatory change to harnessing new technologies and digitalisation, what are the top developments and trends currently affecting corporate treasury?

As the world's second largest economy by GDP – and the world's largest by purchasing power parity – China has long been a major focus for companies operating across APAC.

It's also something of a moving target. China's double-digit GDP growth at the beginning of the decade may have slowed considerably in recent years, dropping to a 28-year low of 6.6% in 2018. Nevertheless, domestic consumption is a powerful driver of growth. A 2019 report by McKinsey, China and the world, points out that while China's exposure to the world has fallen in terms of "trade, technology, and capital", the world's exposure to China has increased – reflecting "the rebalancing of the Chinese economy towards domestic consumption."

Meanwhile, other initiatives currently under way are helping to drive growth – such as China's ambitious Belt and Road Initiative (BRI). The initiative, which was first launched in 2013, spans over 130 countries, with the World Bank estimating investment in BRI to be worth US$575bn. BRI projects include rails, roads, bridges and ports as well as energy projects and free trade zones. Alongside these major developments, another notable initiative is Made in China 2025, a ten-year plan launched in 2015 that aims to promote manufacturing and develop high-tech industries.

Against this backdrop, China continues to present attractive opportunities for multinational corporations. But while these opportunities are considerable, companies also need to be aware of the challenges they may encounter in this market. As a white paper published by executive search and recruitment firm Odgers Berndtson in 2018, the challenge for multinationals in China, notes: "All MNCs have to do to crack this giant market is adapt to a completely foreign culture, understand a plethora of different but connected consumer groups, and move at breakneck speed to keep up with technological developments and changing demand. Easier said than done."

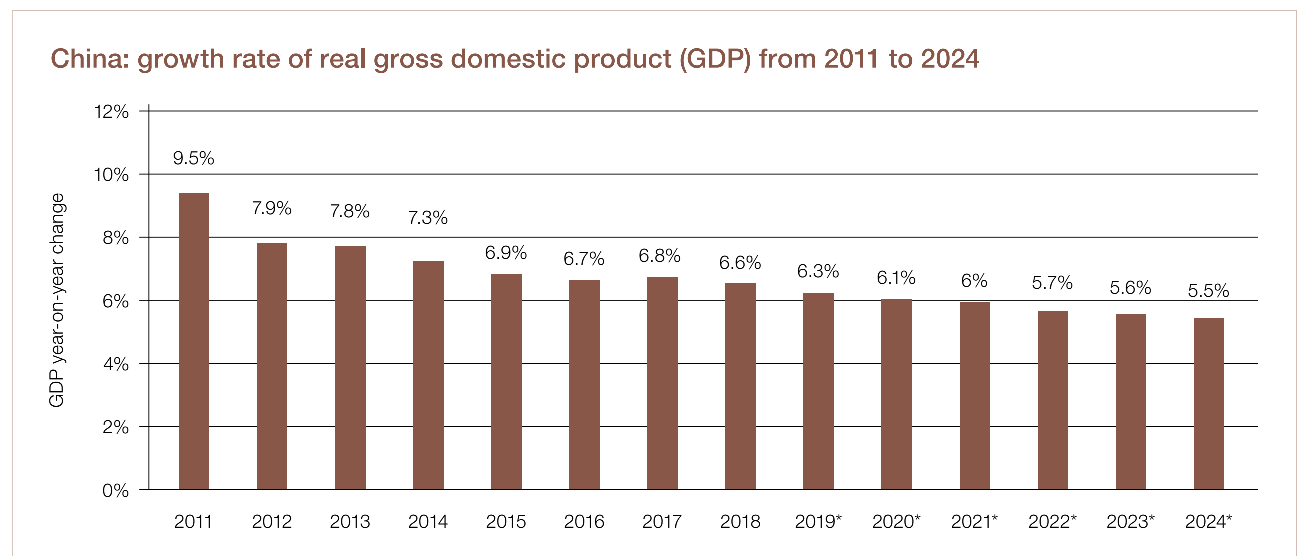
China's treasury landscape

Where treasury is concerned, there are a number of considerations to be aware of, from China's complex and rapidly evolving regulatory climate to the opportunities brought by digitalisation. While not exhaustive, the following are five challenges, trends and opportunities that treasurers should be aware of:

1. **Regulatory change**

For treasurers in China, the country's complex regulatory climate is one notable consideration. "It's no secret that China's complex regulatory environment has posed challenges for MNCs," says Rani Gu, Head of Treasury Services, China at J.P. Morgan.

Gu says that interpretations of regulatory rules can vary between different cities and provinces of China. As a result, treasury activities may be governed differently across different cities under the same rule. According to Gu, this could prove



Source: Statista **IMF estimate*

challenging for MNCs looking to centralise their treasury operations across China. "At J.P. Morgan, we take a proactive approach by staying close to regulators on the ground to help clarify as necessary and in turn communicate with clients to help them navigate accordingly," she comments.

But regulatory developments can bring opportunities as well as challenges – and Gu says that continued efforts by the Chinese government to open up financial markets and push for renminbi internationalisation "are all positive developments for corporate treasurers." A case in point is a change in regulations by the State Administration of Foreign Exchange (SAFE) earlier this year, making it easier for foreign companies to set up cross-border liquidity and payment structures. "This means treasurers can now set up cross-border sweeping arrangements and POBO/COBO as well as other netting schemes," says Gu.

2. **Navigating trade tensions**

Aside from regulatory considerations, the last year has brought numerous headlines focusing on trade tensions between the US and China. To date, the US has imposed tariffs on US$250bn of Chinese goods, while China has imposed tariffs on US$110bn of goods from the US. Despite ongoing talks, President Trump indicated in August that a further round of tariffs was forthcoming, with a 10% tariff proposed on a further US$300bn of Chinese goods, including smartphones and clothing – although a subsequent announcement indicated that these tariffs would come into effect from mid-December.

Understanding business culture in China

Business culture can vary considerably between countries and regions, affecting everything from communication styles to decision making processes. For any company operating in overseas markets, it's therefore important to understand the nuances of local business culture. A clear understanding can lead to productive relationships – but equally, cultural misalignment can sometimes hinder the effectiveness of those relationships.

As Benny Koh, Southeast Asia Leader for Deloitte Global Treasury Advisory Services, explains: "Business culture is one of those funny things where one realises something is wrong and it's usually too late – ie a transaction is called off, senior external relationships are soured, complaints are raised by employees or a poor performance appraisal is given by the CFO."

For overseas treasurers operating in China, a clear understanding of the country's business culture is therefore essential. "If you really want to create a strong, robust and long-term business relationship with China, then it's absolutely critical that you understand the culture," says Neil Payne of Commisceo Global Consultancy. "By learning about the culture, you learn to behave in certain ways and carry out certain actions that all help you become part of the local business fabric."

For example, Payne says that one significant consideration when doing business in China is the concept of 'face'. "As a foreigner you need to learn the rules around protecting people's face as well as enhancing it," Payne says. "Once you work out how to give face, you soon see a huge difference in how you are treated."

Another feature of Chinese business culture is the concept of Guanxi – in other words, the ability of an individual to harness their personal connections.

What do treasurers need to know?

Where treasury is concerned, Koh highlights a couple of cultural factors that treasurers should be aware of. "One is internal – team dynamics and management," he explains, noting the importance of understanding "how one's staff perceive authority and where the treasurer may be expected to lead/give explicit instructions vs adopting a more 'laissez-faire' or consensus-building approach like in the West." He adds that deliberate consensus building "may be taken for indecisiveness and weakness."

In addition, Koh says that externally the treasurer may be seen as the key decision maker and buyer of banking services. "In cases where he or she is not the 'boss', ie the CFO is actually the real decision maker on most treasury matters, it is better to be clear upfront with external parties to avoid commercial, and sometimes social misunderstanding which may be awkward," Koh says.

Local business culture may also have implications for the way in which intermediaries and subcontractors are viewed, notes David Blair, Managing Director of Singapore-based Acarate Consulting. He adds that where local banks are concerned, risk management tends to be "less data driven", while regulation is typically written in a way that "allows directional changes when expedient."

Beyond China

Of course, China is not alone in having a unique business culture. Koh notes that in Asia generally, "hierarchical levels and authority matching are important", noting that this can determine how bankers perceive the authority of the treasurer. This, in turn, can determine "who the treasurer interfaces with and can get access to in a bank, for example."

When it comes to successfully navigating business culture, Koh says it's important to have an open mind while being able to adapt quickly. "To be successful when navigating in a different environment, one's sense of self awareness and sensitivity to social cues are required and that's not taught in school," he concludes. "Perhaps it's part experience and part humility that make it work."

Companies have begun to feel the supply chain impact of these developments, which could lead to some shifts in terms of trade corridors. A recent poll by Baker McKenzie found that 93% of Chinese companies were considering making changes to their production and supply chains in light of trade tariffs, with 18% carrying out a complete transformation.

Nevertheless, Gu says the bank has not seen a material impact on clients in China as a result of trade tensions. She says that while some clients have expressed concerns about the situation, they are also aware that China represents one of the largest opportunities for businesses globally. "Most are staying cautiously optimistic and we will continue to support them fully as their banking partner," she adds.

3. **Treasury 4.0**

Meanwhile, companies in China are taking advantage of opportunities to increase the efficiency and effectiveness of their treasury operations. "We believe the trends in corporate treasury evolution in China correlate with those on a global level," says Patrick Zhu, Head of Global Liquidity and Cash Management for HSBC in China. "This is known as Treasury 4.0."

According to Zhu, Industry 4.0 "combines the skills of humans and intelligent machines to drive innovation and deliver process efficiencies, data-driven insights, and new growth opportunities across all sectors, including financial services." He adds that this is particularly applicable to China, where the market is at the forefront of global technology advancement – "providing a vibrant test ground for corporates to explore new technologies, new strategic partnerships and even new ecosystems."

Zhu adds that the global interest environment is another driver behind treasury transformation, noting that this is driving both cost controls and efficiency gains – a trend that he says is also becoming more prevalent in China. "A solid reflection of this is the fact that treasury centralisation, among numerous routes to achieve the efficiency goal, prevails," adds Zhu. He explains that the execution of treasury centralisation can employ a wide range of means, from well-known models such as shared service centres (SSCs) and regional treasury centres (RTCs) to robotic process automation (RPA).

4. **Digitalisation and e-commerce**

Likewise, technology continues to be a major driver for treasurers around the world – and China is no exception. Gu cites the increasing need for treasurers to digitalise their operations to adapt in the shift towards e-commerce – a trend that she says applies not just to pure play e-commerce companies, "but also traditional brick and mortar firms like automakers looking to migrate their commerce activities online."

At the same time, the growth of e-commerce continues apace. A report by McKinsey, Global payments 2018: A dynamic industry continues to break new ground, noted that global digital commerce volume exceeded US$3trn in 2017, with this figure set to more than double by 2022. The report notes that Asia Pacific already comprises over half of the US$3trn – "and, due to the fast-growing Chinese market, will increase its share to nearly 70% by 2022."

"In this context, helping our clients in their digitalisation journey remains our key focus here in China," says Gu.

She notes that many corporates in the country still rely on spreadsheets, or have standalone treasury functions that lack the capacity to handle the speed and volume of online transactions across a multitude of payment methods.

"At J.P. Morgan, we invest heavily in innovation to this end; a good example is the E-Customs Payment Solution we recently launched in China, which was developed as a direct result of specific needs of our clients," says Gu. "The solution is a first by a foreign bank in China that allows corporates to fully digitise and automate cross-border payment of goods, solving common problems associated with the manual nature of such transactions."

5. **Embracing emerging technology**

On a related note, treasurers also need to consider the role played by emerging technologies. Zhu notes that China "is at the forefront of global technology advancement, providing a vibrant test ground for corporates to explore new technologies, new strategic partnerships and even new ecosystems." He adds that this is also evidenced by "booming digital platforms and payment tools in China and their penetration into the economy, as well as the application and impact of other new technologies such as artificial intelligence (AI), cloud computing and robotics." Consequently, he says, "corporate treasury management is expected to evolve."

Indeed, new technologies have the potential to increase the efficiency of treasury processes in the future. "For example, with the sheer amount of data being created in payments today, solutions leveraging machine learning will likely become common treasury tools in the near future as treasurers look to interpret the data to identify inconsistencies in their processes or strategise through predictive analytics to optimise liquidity and mitigate risks," says Gu. "Likewise, for robotics which is used to automate treasury processes, or application programming interface (API) which is becoming widely used for greater connectivity."

The opportunities presented by some of these technologies are reviewed in PwC's 2019 Global Treasury Benchmarking Survey, Digital Treasury – It takes two to tango. The survey found that 19% of respondents see RPA as 'highly relevant' for treasury in the next two to three years, with a further 45% judging the technology to be relevant or somewhat relevant.

Where the application of RPA is concerned, the survey saw payment execution as the top candidate, followed by deal confirmation, accounting and monitoring of payments. Meanwhile, the areas of treasury in which AI is seen as most relevant included exposure forecasting/analysis, monitoring of payments, payment execution, and liquidity management.

Conclusion

While China certainly has its challenges – both from a treasury perspective and in light of ongoing trade tensions – treasurers in the country have much to be excited about, from harnessing the potential offered by RPA and AI to taking advantage of favourable regulatory changes.

As Zhu concludes, "The challenges to treasurers in the current market are obvious. How corporate treasury management adapts to the changes and evolution trends, implements and leads the transformation through strategic partnerships with wider scope of services providers will define its success."

Opportunities ahead for APAC treasurers

Citi experts consider the opportunities and headwinds currently defining the region, and explain how treasurers can navigate them successfully, keeping their clients informed about market developments and supporting them in harnessing cutting-edge technology.

So far, 2019 has proved to be an eventful year for Asia. The last few months have featured elections in India, Thailand and Indonesia, while the ongoing US-China tariff negotiations has started to generate structural changes in capital and trade flows across the region.

Ernesto Pittaluga

Corporate and Public Sector Sales & Marketing Regional Head – Asia Pacific, Treasury and Trade Solutions, Citi

For Ernesto Pittaluga, Corporate and Public Sector Sales & Marketing Regional Head – Asia Pacific, Treasury and Trade Solutions, Citi, geopolitical uncertainty is a key issue for firms across the region, as this impacts the enterprise value chain. He notes that trade tensions could lead to the redistribution or relocation of production to facilities based in ASEAN, with implications for companies' banking structures, cash management needs, and funding requirements in these markets.

Likewise, Pittaluga says that actions such as rebalancing export markets, relocating production facilities, and/or substituting suppliers have implications for treasury cash flows and risks. Shifts in cash flow patterns may necessitate adjustments to cash pool structures and intercompany funding arrangements, entailing a detailed assessment of associated regulations and tax implications.

Regulation

Meanwhile, agility in navigating regulation is another area of focus for firms operating in Asia. A survey of CFOs and treasurers at Citi's Treasury and Finance Conference in April 2019 established that regulatory and tax framework related changes are the number one theme impacting their finance and treasury key performance indicators (KPIs). APAC treasurers also need to manage a range of government-led initiatives, giving both opportunities and challenges.

"In India, for instance, there has been a continued impetus towards promoting digitisation post the demonetisation initiative in November 2016 including the introduction of government-sponsored interoperable apps like BHIM to promote use of UPI, the launch of BharatQR (a unified QR platform across cards and UPI) and subventions to acquiring banks for low value card and UPI transactions. In the latest budget released on July 5th 2019, the government has proposed no merchant discount rate (MDR) for companies with more than Rs 50cr (US$7MM) turnover[1] accepting payments through digital means," Pittaluga notes. "In China, we have had new, progressive, cross-border liquidity management programmes proposed. They are all positive developments – but at the same time, firms do have to contend with very high levels of regulatory complexity."

Knowledge as an enabler

Pittaluga says it is "very important" for corporates to keep abreast of developments and try to anticipate their impact. "It's about assessing new risks and opportunities," he says. "Corporate clients expect support from us in that regard."

As such, he says the bank proactively communicates key changes to clients and how these are relevant for their businesses. To facilitate client access to regulatory and market developments globally, Citi offers an external portal, the Knowledge Exchange Centre (KXC), that provides a single point of access to market intelligence from the bank's experts across the globe. "KXC offers insights and analysis across several areas including regulation and geopolitics," says Pittaluga.

To highlight how the portal works, Pittaluga points to the new cross-border pooling programme in both RMB and foreign currency announced by China's SAFE in March. "Its analysis would typically be of very high interest for a client," he says. "We prepared a concise deck that explained to treasurers what's new with the programme, the differences with any other existing programme, and the opportunities it presents to our clients."

Brexit provides another example of how Citi's portal can help treasurers. "Brexit is an area where a corporate could see changes in the way they run their European operations," says Pittaluga. "It raises questions for firms about cross-border payments in Europe and how they manage liquidity in the region. What part of the provisions of the EU is the UK going to live with going forward? What exceptions are or will be approved for the UK? All of this has very specific repercussions to the way corporates manage their businesses in Europe – and the KXC represents a useful window into updated information on this and many other current subjects."

He adds: "If you are a treasurer or CFO, how do you manage geopolitical risks or regulatory change? A big part of the answer is by researching what the banks have to say about a particular development, and discovering the opportunities and issues that emerge from it. Citi is well placed to play that advisory role because we are operating in all these markets across the region – we have a very detailed understanding of what's going on."

[1] https://www.thehindubusinessline.com/economy/budget/govt-announces-more-incentives-for-businesses-embracing-digital-payments/article28293631.ece

Sandip Patil

Asia Pacific Head of Liquidity Management Services and Financial Institutions Group, Treasury and Trade Solutions, Citi

From trade tensions to growth opportunities

Like Pittaluga, Sandip Patil, Asia Pacific Head of Liquidity Management Services and Financial Institutions Group for Citi's Treasury and Trade Solutions, highlights geopolitics as one of the major causes of uncertainty for corporates across Asia.

"It's not just about China and the US," he says. "There is this important spread of change that we see across supply chains in Asia Pacific – from Australia, which has a huge commodity supply exposure, to China, all the way to North Asia, into ASEAN or South Asia and North America. The fallout of this has had an impact on the trade talks between China and the European Union, too. Treasurers will need to consider the impact of these changes on their treasury flows and intercompany arrangements."

Different regulatory landscape

As for the regulatory challenges and uncertainties for treasurers across Asia, Patil points out that there are more variations across the region than in any other geography. "The regulatory regime is different in each country," he says. "It's incredibly fragmented, right from rules governing clearing infrastructure, to banking infrastructure, to what is allowed in terms of foreign exchange and inter-company lending. Regulations across practically every space of concern to treasurers and CFOs are exposed to country to country variation." Likewise, Patil notes that countries have different tax regimes: some countries charge transactional taxes, some charge border taxes, while income tax levels vary across the region. "That all amounts to a challenge for treasurers," he says.

If such challenges weren't enough for APAC treasurers, Patil points to variation in monetary policies. "They are very divergent," he says. "You can have a situation where one country is taking a very expansive stance, pumping liquidity into markets. Another country, meanwhile, is trying to contract. You see inflation in one country but not in another; liberalising policies in one country while another is trying to increase taxes. From a client treasury perspective, that policy fragmentation creates some of the biggest uncertainties in managing businesses in the region."

Opportunities for growth

Despite the headwinds, the region also has a positive story – one that makes navigating those hurdles worthwhile for corporates. Firstly, says Patil, due to a combination of factors, the quantum of growth Asia offers outstrips any other region. For one thing, Asia's population represents approximately 60% of the world total, yet the median age is 30.7 years, compared to over 40 for most European countries[2]. There is also a deeply embedded savings culture, and discretionary spending on luxury goods is rising fast.

Meanwhile, unencumbered by legacy infrastructure, Asia has taken a "technology-leap", with mobile and new technologies proliferating, especially in big countries. "If you combine all those factors into one bucket, you get a very powerful, very compelling growth story, and that is the dilemma for our clients," says Patil. "On one hand, you have growth and a very promising outlook to exploit; on the other hand, you have to deal with all the fragmented infrastructure and many sources of uncertainty. Managing the two together is the challenge that every treasurer and CFO deals with here in Asia."

The rise of digitisation

In today's 24/7 world, APAC firms are rethinking their business models and digitalising their infrastructure. In the past, investment was directed towards, for instance, ERP and manufacturing systems, but Patil now sees more broad-based digitisation of organisations – this is affecting companies' client-facing systems and their financial and treasury systems.

"That is now the foundational infrastructure for the new world," he says. "On top of that, different tech-led systems are being deployed by firms to help them take efficient decisions on liquidity, funding, foreign exchange, counterparty risk management and distribution. Each and every activity our clients have to deal with is now digitising, and that's creating a powerful platform for them to optimise and manage their businesses efficiently."

One key area that treasury teams are looking to improve through technology is cash flow forecasting. Having accurate, timely cash forecasts is essential to the management of firm-wide liquidity, funding and risks. "It is probably the biggest headache every treasurer faces, but new technology has the potential to help in ways that were not possible before," says Patil. "Citi can help clients objectively benchmark their treasury function in terms of where they are at versus their peers. We can also offer practical suggestions in terms of the scope for digitisation and available tools to manage flows, liquidity and working capital efficiently."

Morgan McKenney

Head of Core Cash Management for Asia Pacific, Treasury and Trade Solutions, Citi

Digital revolution

Morgan McKenney, Head of Core Cash Management for Asia Pacific, Treasury and Trade Solutions at Citi, likewise emphasises the scale of the change brought by digital disruption. "The pace of digitalisation across all industries and societies is rapid and accelerating," she says. "It's a cultural and commercial phenomenon in every aspect, likely more so than for any other region."

McKenney says the explosion in e-commerce across Asia is an accurate reflection of the fast-growing impact of digitalisation across the region. The Asian e-commerce market will be worth

[2]https://www.worldometers.info/world-population/europe-population/

US$1.4trn[3] by 2020; 59% of e-commerce transactions are currently via mobile[4]; and mobile wallet transaction volume is expected to total US$60trn over the next five years[5]. Eighty percent of Asian millennial purchases are influenced by social media[6], while time spent on online shopping in Southeast Asia is twice that of US consumers[7].

McKenney says digitalisation across Asia and the explosion in e-commerce means businesses are rapidly switching to direct-to-consumer models. At the same time, the payment landscape is becoming ever more digital. Even if there is a lot of cash in Asia, it is digitising at a much faster pace than anywhere outside the region, she notes, while banks, consumers, and merchants are increasingly shifting from batch to real-time.

Asia's digital environment poses some key questions for treasurers, she says. "Firstly, what's the impact of new business models on treasury? If your business is moving to sell direct to consumers, that means lots of new consumer payment capabilities, it means more real-time treasury management. Secondly, what opportunities are offered by innovation? And thirdly, how does treasury remain agile in this new landscape?"

McKenney points to Citi's recent Treasury Digitisation survey, which reveals that amongst the over 70 treasury and finance respondents based in Asia Pacific, over half (56%) are exploring new digital technologies with a view to support the transformational change and development that is happening in their businesses, whereas a majority (64%) are doing so with a view to drive transformative development in their treasury function so as to enable them to assume a more strategic role within their enterprise over time.

Leveraging APIs

So, what are the new technologies that might impact treasuries in the near future? "APIs are here now, and their impact to treasury is expected to be felt over the next two years. At Citi we are investing heavily in them," says McKenney. "They can help re-engineer workflows and provide real-time information." She explains that clients can access their balances via API, with the information automatically populated into the treasury management system and constantly updated.

Results from Citi's recent Treasury Digitisation survey reveal that over 55% of the respondents from APAC are currently exploring or pursuing API technology to obtain real-time visibility over their bank account balances. Treasurers are also exploring or pursuing APIs to facilitate payment status inquiries, initiate payments, and obtain credit notifications in real-time.

RPA, ML and AI

A lot of Citi clients are also focusing on robotic process automation (RPA), McKenney says. "It's helping to automate manual repetitive processes, for example aggregation of bank statements and analysis of cash positions. Many manual tasks in the end-to-end payment process can be considered for RPA. We do see a lot of clients with keen interest in using RPA."

As for a more tangible impact for corporates from machine learning (ML) and artificial intelligence (AI) to augment decision-making and improve control, McKenney is eyeing a timeline of one or two years. The present emphasis for APAC treasurers exploring or pursuing ML and AI appears to be on cash management and forecasting. "Citi itself has really made its big data platform differentiated now in terms of quality of data," she says. "It's able to provide more intelligent recommendations, whether it's for cash application/collections reconciliation or to improve controls over payments."

The bank is applying sophisticated ML and AI technology in its Citi® Payment Outlier Detection service, an advanced data analytics tool that assesses all transactions that flow through its system against a client-specific behaviour profile. It triggers real-time alerts for transactions that do not conform to the routine patterns and behaviours of the specific organisation. The service also constantly updates the client-specific profile to better detect future erroneous payment and potentially fraudulent events.

Blockchain

As for blockchain, McKenney regards it as more "bleeding edge than leading edge" and says it's a technology that is very much for the longer term. She is, however, enthusiastic about its potential in, for example, digitising the documentation involved in payment processes or in trade. "One of the big potential benefits of blockchain besides being able to move an asset is that you can also be much more thoughtful about workflow organisation," she says. "You can have different certifications by different parties along a workflow with common visibility of the status. That's why blockchain is being looked at in trade finance, as an example."

Real-time treasury

More broadly, McKenney expects that in three to four years, progress towards truly real-time, intelligent treasuries will be evident. "You're going to have information that is available wherever you need it, whether it's in TMS, merchant platforms or other systems," she says. "There will be more flexible access and greater connectivity with banks for various information and transactional level initiations. There will also be smarter tools to manage cyber risk."

While technology is destined to help define corporate operations in Asia, Citi's global clients are clear with their operational priorities and how the bank can help them: "They want operational efficiency and balance sheet optimisation of all their treasury functions and capabilities. That's always been the bread and butter in transaction banking and we're very focused on helping treasurers do that."

The other two are "super exciting objectives," and relate to helping Citi's clients grow and improve their own clients' transactional and service experience. "It feels very rewarding to help our clients achieve sales efficiency," comments McKenney. "Citi is helping them grow their business with our capabilities and plugging into all these new clearing houses and instant rails, paying into wallets, collecting from wallets. This, especially in Asia, will be a defining feature of business growth."

McKenney adds that Citi supports a lot of digital and e-commerce clients, noting that creating a virtuous circle between them and their own clients is key to unlocking growth. "It is about making our services more flexible and embeddable to help make our clients' clients' experience frictionless and rewarding," she concludes.

[3] *https://www.go-globe.com/e-commerce-asia-pacific/*
[4] *https://kinsta.com/blog/ecommerce-statistics/*
[5] *https://assets.kpmg/content/dam/kpmg/xx/pdf/2019/05/consumer-currents-issues-driving-consumer-organizations.pdf*
[6] *https://www.retaildive.com/news/study-80-of-gen-z-purchases-influenced-by-social-media/447249/*
[7] *https://techcrunch.com/2017/12/12/google-southeast-asias-internet-economy-is-growing-faster-than-expected/*

Zero-based budgeting: a precise model for an unpredictable world

Cost management is vital for every business and for most, setting budgets is based largely on what happened last year. But in the current business environment, where volatility and unpredictability are the watchwords, a more accurate method seems appropriate. We go back to basics with the concept of zero-based budgeting.

A 2018 Accenture report showed that over 91% of zero-based budgeting (ZBB) programmes met or exceeded their targets. Before 2011, only 2% of surveyed companies had initiated a ZBB programme but between 2013 and 2017, Accenture notes that ZBB adoption grew by 57% every year amongst the world's 85 largest companies. ZBB, it seems, has arrived, at least on the big stage.

Does it work? McKinsey reports that "when properly implemented, ZBB can reduce selling, general and administrative (SG&A) costs by 10% to 25%, often within as little as six months".

But it is not a silver bullet for cash management difficulties nor is it an easy fix, warns Accenture. Indeed, companies reported some serious obstacles to overcome before finally reaping the rewards: 67% said cultural buy-in was the hardest, followed by change management problems (41%) and the perennial issue of data visibility (33%).

Perhaps one of the key difficulties in getting buy-in is that ZBB is an ongoing process that represents, for some, both a cultural and business process about turn.

Accenture now advocates a far wider use case for the 'zero-based mind-set' (or ZBx, as it calls it), with potential, it argues, to tackle the entire P&L, including general and administrative expenses, direct and indirect labour costs, sales and marketing, logistics, and cost of goods sold. For now though, we'll focus on its original target.

Basics

The 'zero-based' concept was the brainchild of Peter Pyhrr, an account manager at US technology firm, Texas Instruments. Pyhrr developed his concept in the 1960s and wrote about his success with it in a 1970 article for the Harvard Business Review. The Accenture report referred to earlier shows that it has since met with favour at many a large corporate and has been advocated for use by small businesses too because of its inherent accuracy.

ZBB requires a company's income less its expenses to equal zero. In other words, its expenses need to match what comes in during the budgetary period. The idea is that every single unit of currency (euro, pound, dollar, yen, rupee et al) has a well-defined function, so that everything the company spends, saves, gives or invests is equal to that period's income.

ZBB means there are no balances to be carried forward from prior periods and no expenses that are pre-committed. It is literally a zero-balance for each period. But it is more than just 'a new budget from scratch'. It is, as McKinsey has argued, a way to "build cultures of cost management throughout the organisation by using a structured approach to facilitate cost visibility, cost governance, cost accountability, and aligned incentives."

Indeed, by connecting the budgeting processes to the different business functions – production, sales and marketing, logistics and so on – it allows the grouping of diverse cost bases. Current but rather more granular expectations of expenditure across the business can then be analysed, giving a far more strategic view.

The ZBB model is a means of banishing arbitrary and potentially inaccurate and costly blanket increases or decreases over the previous period's budget. It means that it

is now possible to create an accurate and detailed rolling budget over an extended period. Here, reviews can be called from small groups of managers from different functions at different times, rather than imposing them en masse, and still maintain accuracy.

The fundamental process demands a re-evaluation of every line item of a cash flow statement, justifying every expenditure that is to be incurred by each department. Every expense for each new period is thus calculated on the basis of actual expenses that are to be incurred and not the rather less accurate assumption (as is the case with traditional budgeting) that previous incomings and outgoings will continue.

Good practice

The idea that arbitrary incremental spending increases over previous budgets is somehow appropriate when costs and market conditions are as volatile as they are today seems wide of the mark. Whereas traditional budgeting seeks to justify only new expenditures, using the last period's actuals as the template, ZBB wipes the slate clean for each new period.

The main aim of the ZBB model is to lower business unit costs by pinpointing where these can be sensibly cut. By knowing precisely where every dollar (euro, pound, etcetera) is going, the vagaries of the market can be more effectively managed. As McKinsey has pointed out: "A world-class ZBB process is based on developing deep visibility into cost drivers and using that visibility to set aggressive yet credible budget targets."

The basic principles encourage:

- Identifying specific business goals and/or tasks for each function.
- Analysing and developing new ways of achieving these tasks.
- Exploring new sources of funding for these.
- Setting the budget numbers and prioritising the direction of funding.

Buy-in

The creation of a ZBB demands the buy-in and involvement of relevant employees. Department managers need to think about how every dollar (or pound, euro) is spent in every single budgeting period. This requires that they describe and justify all old, recurring and new expenditures before they can be included within a new budgetary period. Only that way, argue ZBB's proponents, can a business optimise both its costs and revenues.

This is in contrast to the potential over- or under-funding that comes from blanket incremental increases. With traditional budgeting, managers typically need to spend their budgetary allowances in each period to ensure they do not lose it, regardless of need. With ZBB, every expense is accounted for and so there is no loss of budget, only access to what is needed, when it is needed.

Advantages

Managers must justify all expenses, so it is not an issue if their new budget is higher or lower than the previous one; they will receive what they can justify. Because justified expenditures are in their budgets, ZBB helps to drive the allocation of resources directly toward activities which benefit the organisation most and remove those that offer little or no value.

Here are some further plus points for ZBB:

Improves accuracy: by ensuring every function revisits every item of its cash flow and calculates its true operational costs, it helps give an accurate set of figures for the whole business in terms of cost versus expected performance.

Drives efficiency: the ZBB process creates a set of flexible budgets that have at their heart a deep understanding of current costs, and a far more disciplined approach to budget execution and distribution. Allocation of budget and resources need not be based on historical numbers where actuals are available. By using actuals, ZBB aims most resources at activities which generate most revenue and/or are most critical to the survival of the business.

Removes waste: by seeking repeated justification, ZBB stops any resource being diverted to activities that no longer offer value, either from a risk-reward ratio perspective or from a cost-benefit analysis. This helps to optimise all current activities and avoids wasteful expenditure by wiping out any legacy expenses or misallocation of resources that have crept

ZBB in action 1

ZBB requires close and granular scrutiny of all departmental expenses each period. A company making widgets uses this process to identify that the cost of a part that it has been buying in to make these widgets increases by 7% every year. Instead of increasing the budget for this part, and either absorbing the cost or passing it on to the customer, it uses departmental cost analysis to work out that it could make the part for less in-house. Having weighed up the positives and negatives of in-house manufacturing, and the costs of ZBB itself (as a more involved process), it decides to manufacture in-house.

ZBB in action 2

The budget for a manufacturing unit is set for US$12m. The decision to award this figure is based on a traditional model of last year +10%. All things being equal, management could have used ZBB, whereby the manufacturing budget disregards all previous figures and instead calculates the expected expenses of the unit, then justifies each of these. Once agreed, the figure may turn out to be slightly higher or lower than the incremental model, but either way, the ZBB figure reflects the actual cost for manufacturing to function effectively, neither being wasteful nor underfunding the operation.

upwards over time without any real understanding of why these costs are as they are (see ZBB in action 1, on previous page).

Stops budget inflation: justification of every expenditure counters the inefficiency and waste of incremental budgetary inflation.

Improves co-operation and communication: McKinsey has said that ZBB "is very detailed, structured, and interactive in order to facilitate meaningful financial debate among managers and executives".

Encourages innovation: ZBB encourages managers to be more innovative in how they reduce costs or raise output as they seek to justify their allocation of resources.

Disadvantages

Resource intensive: the 'from-scratch' process that characterises ZBB is its main downside. There is no escaping the fact that it is more time-consuming and resource-intensive than traditional budgeting methods. Indeed, it takes a lot more time and effort to closely review and justify every budget element; building a whole new budget from the ground up could require the input of many more employees.

It may be that certain functions or departments do not have the resources to comply and this will clearly hinder any attempt to deploy ZBB across the organisation. Whether the benefits of ZBB outweigh the far heavier demand on resources than traditional methodologies require is a call that the individual business must make. That said, McKinsey suggests that initial rollout of a new ZBB programme can be led by a central team and completed in four to ten months.

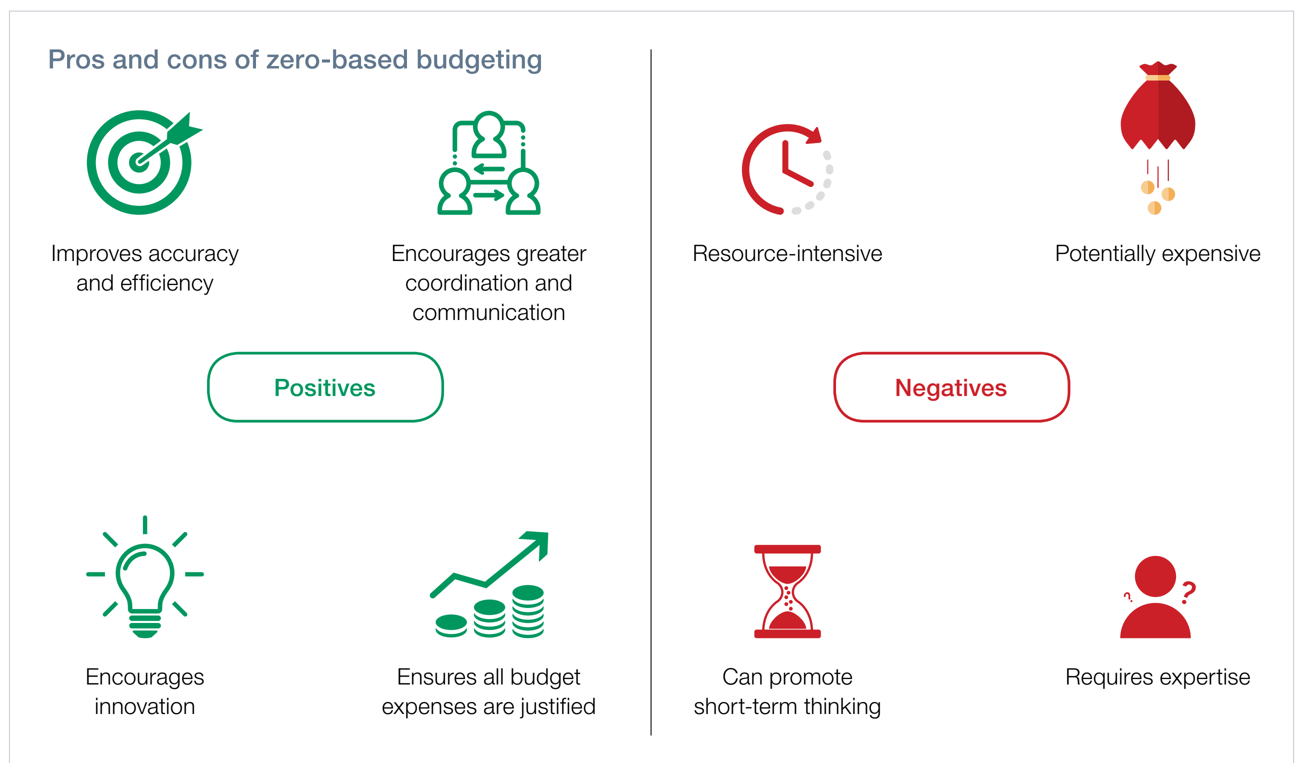
Can promote short-termism: ZBB is easier to practice within functions generating direct revenues (such as sales) because their contribution is easier to measure, and therefore justify, than indirect sources such as training, customer services and R&D.

By focusing the direction of resources on areas that the company knows will be profitable in the next budgetary period, there is a risk that that longer-term investments, especially those that do not directly deliver revenue (such as the aforementioned training, customer services or R&D), could lose out on budget. Obviously, this would be damaging for the long-term prospects of the business, and thus must be managed.

Exposes lack of expertise: ZBB requires a qualified professional skillset to undertake and thus demands serious commitment. There will almost certainly be a requirement for training of managers to be able to understand and use the process effectively and extract the most benefit for their respective functions and for the business as a whole.

Is ZBB a winner?

ZBB is a means of reflecting the actual expenses that a department may incur in going about its business. It requires time, skill and understanding and the buy-in of managers for it to work. However, it is also a means of creating a rigorous culture of cost management across the enterprise. It can offer what McKinsey describes as "unprecedented cost visibility, a unique governance model, accountability at all levels of the organisation, aligned incentives, and a rigorous and routine process". If used sensibly, ZBB removes unproductive costs, enabling the business to divert funding to areas that can ensure future growth. In an unpredictable and volatile world, anything that can do that must surely be worthy of consideration.



Adaptive, responsive, innovative: exploring the rules of the ‘triathlon’ business model with Xiaomi and Citi

Corporate business models have undergone substantial changes during the past few years. The most significant driver is digital disruption, which has seen young companies growing at amazing speed by leveraging innovative business models.

Chew Shou Zi
Senior Vice President, CFO

Li Yan
Director, Treasury Advisory Group – APAC
Treasury & Trade Solutions

In this environment, corporate treasuries are being impacted profoundly, needing to adapt accordingly.

An example of this successful approach can be seen in Xiaomi. Founded in 2010 as an internet company with smartphones and smart hardware connected by an internet of things (IoT) platform at its core, it became the youngest company on this year’s Fortune Global 500 list.

Xiaomi’s business model comprises of three pillars. The first is hardware. It is the fourth largest smartphone maker in the world and has established the world’s largest consumer IoT platform, connecting 196 million devices (excluding smartphones and laptops). The second pillar is retail, with a significant portion of revenue coming from its online platform. Pillar three is internet services, with Xiaomi leveraging the user-base it acquired through sales of smartphones and IoT devices. The three synergistic pillars form what Xiaomi refers to as its ‘triathlon business model’.

Efficiency underpins all business-model decisions made by Xiaomi. With the company having built its own retail platform, the cost to acquire customers is a lot lower than channelling sales through layers of distribution. Xiaomi also requires robust solutions for C2B payments and for the integration of its business/finance systems. This helps achieve straight through transaction processing, ensuring speed, scalability and cost efficiency.

Xiaomi makes only its core products itself. For the remaining products, it provides a hardware incubation platform through which it has encouraged and invested in over 200 ecosystem companies. With efficiency in mind, Xiaomi provides these companies with incubation services, including design, product management, supply chain and funding.

Xiaomi believes that supply chain financing (SCF) enables its partners to access more efficient funding, leveraging Xiaomi’s own credit strength. Xiaomi aims to rebuild a comprehensive risk-control model, similar to that of the credit rating companies.

This model enables evaluation of business scenarios under which its partners can access SCF and factoring programmes. But Xiaomi sees these as more than financing tools, deeply integrating them into what it wants to achieve as a company.

Xiaomi is one of the few Chinese corporates that is learning how to be a global consumer company. Last year, 40% of its revenue came from international markets, growing more than 100% year-on-year by the end of 2018.

Today, Xiaomi is present in over 80 markets. Throughout its journey to internationalisation, it has faced many new treasury challenges. Currently, FX risk tops the agenda. Some countries it has entered have more rigid currency controls and exchange rate volatility. While acknowledging that companies with FX exposures could mitigate FX risk through effective hedging schemes, Xiaomi believes that companies should first ask some fundamental questions. These include the probing of key drivers behind each new market, and asking what are the key factors in the long-run that will decide the value of each currency to which they have exposure.

Only in this way is a company able to formulate strategic and long-term solutions. In addition to a long-term FX management perspective, Xiaomi also chooses to be very cautious when adding new billing/settlement currencies, making sure the embedded dynamics and risks are well understood before proceeding.

As part of its overall strategy, Xiaomi is building its global treasury centre in Hong Kong. This initiative has been in planning for a couple of years. Currently, Xiaomi operates most of its treasury operations out of headquarters in Beijing. Setting up a global treasury centre would enable it to be more efficient in handling various treasury requests from international markets, including activities such as global liquidity management, FX trading and hedging.

In the long run, as business models and regulations evolve, Xiaomi believes it might need to combine its global treasury centre, regional and, in some cases, even local treasury teams, as it seeks a balance between efficiency and business needs.

However, the most critical and challenging issue for treasury at the moment is to manage information flow, to have robust and integrated systems, to ensure processes are in place and to clearly define roles and responsibilities.

Of course, there are other initiatives that may be taken by corporate treasuries to adapt to business model changes. These include setting up reinvoicing centres to streamline trade flows and aggregate FX exposure, the adoption of different hedging approaches for G10 and emerging market currencies, and the optimisation of global liquidity structures to best support international expansion.

While the initiatives taken by each company may vary from case to case, the key to enable treasury to excel is always found in staying adaptive, agile and innovative.

The treasurer's conundrum – bank or fintech?

As technology continues to evolve, corporate treasurers face a problem – when it comes choosing a service provider, should I stick with a traditional banking partner or take a risk with a fintech?

Anton Abraham

Head of International Advisory,
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The evolution of technology continues to dramatically change the world. With robots advising on investment decisions and automated trading enabling the execution of transactions faster than humanly possible, we are going through an unprecedented upheaval in the way we live and work.

Emerging technology like distributed ledger technology (DLT) and artificial intelligence (AI), coupled with the exponential use of mobile and so-called 'smart' technologies, has created a truly digital world. These developments in technology are driving the next generation of financial services infrastructure and solutions.

The combination of these factors has influenced the role of the treasurer and the importance of technology, which has never been more critical to effective treasury management. As the global marketplace changes, business models and operations have to adapt to remain competitive.

This is even more profound in Asia, where the growing middle class, multiple markets, languages and regulatory regimes create a unique set of challenges. The right technology can make navigating these challenges easier. It is vital that corporates have an understanding of the technological solutions available to them and how they can be deployed to assist them to operate, scale and succeed across borders and time zones.

The most important questions you need to answer are what problem are you trying to solve, and what is the right technology solution for your problem? More often than not, treasurers understand the areas requiring improvement across their treasury, but they don't have the right technology for optimum performance.

Therefore, it's critical to have a clear strategy so that everyone in the organisation is aligned around what you are trying to achieve. Banks, technology partners and advisors are also important stakeholders in this process and should be engaged.

Never before has so much technology been available to treasury and finance professionals to tackle their challenges. There are so many solutions and options available that treasurers need to consider their needs carefully and find the right mix of solutions that gives them optimum results.

Deploying an enterprise resource planning (ERP) system or treasury management system (TMS) is no longer enough to implement a best-of-breed solution. Treasurers now need to leverage a mix of fintech, bank and third-party applications to create a bespoke treasury solution. This presents a unique set of challenges as treasurers try to determine the best mix of technology for the organisation and how best to integrate it.

Solutions that integrate cash forecasting tools, TMS, SWIFT and fintech solutions are becoming increasingly common. The key for success is to ensure the focus is on people, process, and technology across the organisation. It's critical that treasury is clear on what the technology must do. In order to define this, treasury will need to:

- Get granular.
- Address treasury and organisational challenges.
- Consider timing and output – does it need to manage liquidity or risk in real-time?
- Identify the 'must-haves' versus the 'nice-to-haves.'
- Limit the need for customisation.
- Make certain that the solution can scale.
- Integrate infrastructure into bank and other fintech solutions.

Building an intelligent treasury function takes planning, foresight, and a keen understanding of existing and emerging technologies. As the pace of technological development accelerates, not being in tune with the latest developments can negatively impact a treasurer's ability to effectively manage risk.

Under this quick win approach, the corporate instructs its banks to send statements to the SWIFT address or BIC of the fintech, which is a SWIFT member as a Supervised Financial Institution. This has the advantage of a rapid return on investment, which leads smoothly to other phases: treasury payments, then bulk payments and cash concentration. This rapid deployment model delivers fast results, while keeping the option for the corporate to join SWIFT at a later date.

Thomas Stahr

Owner

Stahr GmbH

Selecting a business partner can often be a question of perceived information about the reputation for the new partner in focus. This kind of information can come from several sources, such as credit ratings and the creditworthiness of the potential new partner itself, to existing customers, influencers, and more. However, despite the wealth of information available there is hardly any direct references to the needs of the business.

In essence, it means that selecting any new business partner, like a fintech or a bank, requires the same diligent process from a treasurer such as when hedging an FX or interest rate

exposure. Primarily, the needs and requirements of the business in question always needs to be determined. In selecting a partner, the process can be partitioned into four main categories, and each segment should be weighted accordingly:

- **General criteria.** This can be the domicile of the banks head office, subsidiary network of the bank, and the fidelity of the management, for example to measure a partner's loyalty in case of a hostile take-over, or takeover threats.
- **Risk.** Factors can include credit ratings, risk disclosures, loss of turnover and impact in case of bankruptcy are also key considerations when evaluating risk.
- **Abilities and potential.** Can a bank play a major role in granting loans or support bond issues? Does it have a professional FX and MM desk and provide SWIFT reporting? Physical cash pooling is also essential.
- **The costs involved.** But, crucial to an effective operation of any organisation are the direct costs involved, such as the charge for domestic payments, foreign payments, flat fees and charges for e-banking and software.

These factors are especially important when it comes to Asia, because cash management techniques like pooling or virtual accounts are very common. Asia, compared to Europe and North America is quite underdeveloped regarding best global banking practice. For example, in China cash pooling is somewhat exotic. To get funds in and out of the country, organisations will either have to comply with very strict bureaucratic terms, or not at all.

However, what is clear is that the operational market in Asia has indeed opened itself up to more and more cross-border transactions in recent years. It will get more competitive, mainly for smaller and mid-sized companies. For treasury in Asia, a more comprehensive qualifying view should be taken when choosing a partner, such as direct costs and other economical topics. A few examples include costs for domestic and foreign payments, commitment fees and bond issue costs.

However, regardless of the metrics used and regardless of the country a treasurer operates in, choosing between a bank or a fintech as a partner will always come down to a cost/benefit analysis, free of any external influencing.

Marcus Hughes

Head of Strategic Business Development

Bottomline

Although some suggest the balance has tilted in favour of a fintech over a bank as a service provider, in reality this should be a 'dream team' partnership for banks and fintech, working together to jointly deliver enhanced multi-bank payment and cash management services to corporate customers.

Recently there has been a marked reduction in the scale, ambitions and branch network of many cash management banks, to the point that few banks today would claim to have global reach. Some offer overlay banking services and act as a gateway for corporate customers to access a number of partner banks, to extend to their geographical and product reach. But these have had mixed results, dependent on the level of integration and standardisation achieved.

In contrast to this trend of banking de-globalisation, corporates have continued to globalise their operations.

Asia has long been key to supply chains and is gaining importance as a major sales outlet. Corporate globalisation means almost all large corporates have hundreds, even thousands, of bank accounts and numerous bank relationships – from London to Singapore and beyond. So, managing payments and cash across multiple banks is complex and time-consuming, with each e-banking platform requiring disparate security tokens and approval processes, different formats, and reporting features.

The global financial crisis crystallised demand for improved cash visibility, which remains a priority of treasury. The crisis also reinforced a trend for treasurers to prefer technology solutions which are independent of banks, allowing treasurers to continue executing payments and cash management efficiently, even if one or more banks experience difficulties.

This has resulted in the emergence of fintechs offering cloud-based multi-bank payment and cash management (PCM) platforms. But, banks should not view them as a threat, since the treasurers' choice is not a matter of 'either or', it's 'both'.

There is no question that banks remain essential for a raft of credit, risk, trade, FX and settlement services, with increasing focus on real-time. Meanwhile, fintechs make it easier for treasurers to orchestrate their multi-bank needs more efficiently. A cloud-based PCM platform delivers increased automation and improved security, with a solution which is highly flexible while also allowing processes to be standardised and simplified wherever possible.

Facing the rise of fintechs, forward-thinking banks are partnering with these innovative solution providers which are keen to distribute their products to banks' customers. Such partnerships become a win-win for banks and fintechs, to move forward together faster and deliver winning solutions to their shared customers. Crucially, treasurers will benefit too.

By integrating with a multi-bank cloud-based PCM platform, they achieve secure access to banks around the globe. With a pre-configured platform, developers' sandbox, and a proven implementation plan, a corporate can be live within a few weeks, receiving statements from multiple banks.

Next question:

"What does your IT department need to know about treasury?"

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

Digital coins made tangible – Libra, JPM Coin coming to life?

Last year most blockchain pundits confidently predicted that the first widespread application of blockchain in treasury would be in trade. This year all the news is about digital coins on industrial grade stablecoins, backed by real money assets. Could this be an inflection point?

A taxonomy of coins

Bitcoin is no doubt the reason that the term 'coins' has arisen. After all, Bitcoin is the founding father of cryptocurrencies and the implementation that brought distributed ledger technology (DLT) to public awareness.

Since the formation of bitcoin, DLTs have evolved from permission-less DLTs, where no one is in control and anyone can set up a node, to permissioned DLTs, where only approved parties can run nodes on the DLT.

From a money perspective, bitcoin is an example of a new currency. It is not pegged to, nor dependent upon, any fiat currencies or commodities.

To mitigate the extreme volatility of bitcoin and the like (so-called "V-Coins"), the market has developed stablecoins which are backed by some other assets – normally fiat currency, commodities, financial assets, and even other cryptocurrencies.

Last year Venezuela launched the 'Petro' – a cryptocurrency backed by its oil reserves in order to get around sanctions. Gold-based virtual currencies have also been tried over the past few decades. J.P. Morgan's JPM Coin is pegged to US dollar (USD), while Facebook's Libra is backed by a basket of high-quality liquid assets in various large economy currencies. Central banks are also studying issuing digital fiat currency as coins on a DLT or otherwise. The ones that are likely to be most relevant for treasurers are Stablecoins, Fiatcoins, and Digital fiat currency.

Stablecoins

Facebook Libra is an example of a Stablecoin and an intriguing prospect for treasurers. Unlike JPM Coin, which is at its heart the USD in a new form, Libra is a brand new currency.

For treasurers, Libra could indeed be a safe middle currency between competing currency blocks which are likely to become even more volatile due to ongoing trade wars and economic uncertainty.

Libra will also be properly distributed from its independent ruling association and across hundreds of partners. This will make Libra more robust than a single point database (as intended in the design of DLT) and also create a deeper ecosystem to add value to Libra with different services. Libra is a multi-asset DLT and its ability to handle multiple asset types will open up some interesting trade opportunities.

Unfortunately, governments and central banks are currently taking a very negative view of Libra,due to the current distrust of big tech and central bank change resistance. This is a pity because it is a golden opportunity to make Facebook give back to society by paying for this grand experiment while regulating Libra tightly (bank regulation plus), especially as central banks are also looking at what they call a synthetic hegemonic currency (SHC) as a replacement for the USD.

Fiatcoins

Unlike Libra, JPM Coin is USD on a DLT, and will be regulated as a bank deposit, attract FIDC insurance, and behave like normal USD. Although it will be on a DLT, it will be permissioned and the other banks who have signed up to use it will access it through APIs to J.P. Morgan itself who will run all the nodes itself. In essence the 'distributed' part of DLT will be absent.

Although the vision for JPM Coin includes corporate use, initially it will be a bank-to-bank product only. Corporates will not be able to use JPM Coin directly, but through their own bank accounts as a replacement of correspondent banking for cross border transfers.

With SWIFT GPI becoming mandatory for 10,000 banks in 2020, it may seem hard to understand the unique selling point

Type of coin	Characteristics	Example
V-Coin	Pure digital currency without backing and therefore extremely volatile	Bitcoin
Stablecoin	Backed by real world assets eg currency, assets and commodities	Libra
Fiatcoin	Pegged to and backed by fiat currency but not central bank issued	JPM coin
Digital fiat currency	Central bank-issued digital currency	e-Krona

of JPM Coin. Cost is suggested as a driver. If it heralds cross border payments for pennies, then it certainly deserves treasurers' support.

In order to maintain speed, JPM Coin DLT will handle only minimal data payload with payments. Enriched data, such as remittance information to aid in reconciliation, will go through a separate network, although this opens up risks of data synchronisation.

Unlike Libra, which might potentially replace USD as the global currency, if successful, JPM Coin might rather entrench on the USD hegemony. Under the correspondent banking model, it might also undermine today's USD clearers, and could bring a huge deposit base to J.P. Morgan itself.

JPM Coin is credible new technology, coming from a major global bank. It is simply USD regulated by the Federal Reserve and the US bank regulatory system. Unlike Libra, which raises questions to regulators and users alike, JPM Coin will have minimal barriers to adoption. Its success depends only on market acceptance, which will be largely down to commercial factors – mainly cost.

Digital fiat currency

Digital fiat currency could be surprisingly disruptive too, as it effectively offers the public direct access to central bank money. In the current system (fractional reserve banking), the public has access to money mediated and created by commercial banks. The central bank provides banking to the commercial banks, and manages money through policy rates and the commercial banks through regulation.

This means that digital fiat currency, depending on how it is introduced, might disintermediate the commercial banks, since the public would be able to bank directly with the central bank. This is not so outlandish – in the 2018 Vollgeld referendum, Switzerland voted against a proposal to restrict money creation to the central bank, for example to stop fractional reserve banking.

In this sense, JPM Coin is a far more conservative suggestion than digital fiat currency because it maintains the role of banks in fractional reserve banking. However, it risks fragmenting the market – even if bank coins are all in a regulated peg to USD. This raises the question – how will users choose between J.P. Morgan-, Citi, Bank of America Merrill Lynch-, and Wells Fargo- coins? Will they all be interoperable?

If JPM Coin is really useful, it would be better if organised as a multi-bank service like current clearing systems such as CHIPS, ACH, and THC for real-time payments. The Federal Reserve wants to implement another fast payment system to compete with THC – potentially a digital fiat currency on blockchain could fulfil this function.

Digital fiat currency need not be on a DLT. The Dutch central bank tested DNBcoin on a DLT in 2015. The Swedish National bank (Riksbank) has been studying e-krona since 2017 in a technology agnostic way – either allowing the public to open accounts directly with the Riksbank or implementing e-krona as a token presumably on DLT (or even both).

Stefan Ingves, governor of the Riksbank believes that the two solutions are not very different from an economic perspective:

"If we construct an e-krona, there are in principle two models we could base it on," he says. "In one of them, the e-kronas would be held in an account with the Riksbank and in the other, the e-kronas would be in the form of digital units of value (tokens) stored locally, for instance on a card or in a mobile app."

So far, the Riksbank seems to be proceeding towards implementing e-krona at some point in the future.

Mark Carney, Governor of the Bank of England, recently hinted that the global economy needs a new hegemonic currency to replace the USD. "It is an open question whether such a new SHC would be best provided by the public sector, perhaps through a network of central bank digital currencies."

This sounds much more like Libra than JPM Coin.

Conclusion

It remains hard to predict the near future of Stablecoins, but in the longer term it is likely that central banks will start to offer digital fiat currencies in various forms. This will be a functional boon for treasurers and may also disrupt fractional reserve banking – which will be a big change. JPM Coin faces no impediment, other than pricing. Libra will continue to face regulatory and political resistance, which is disappointing because the risks can be managed through regulation and it would be a great opportunity to let Facebook bear the cost.

David Blair, Managing Director

Twenty-five years of management and treasury experience in global companies. David 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.

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TECHNOLOGY

Blockchain and distributed ledger technology

With its myriad complex processes, rules and regulations, trade finance has remained paper-based and resistant to change. Will DLT and blockchain ever become industry standard, or are the barriers simply insurmountable?

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

Rani Gu, Head of Treasury Services, J.P. Morgan, China; Patrick Zhu, Head of Global Liquidity and Cash Management, HSBC, China; Benny Koh, Southeast Asia Leader, Deloitte Global Treasury Advisory Services; Neil Payne, Commisceo Global Consultancy; Christopher Emslie, Asia Regional Treasurer, General Mills; Jessie Hsiao, Senior Advisor for APAC Solutions Treasury Services, J.P. Morgan; Stefan Leijdekkers, Head of Regional Sales, Asia Pacific, Global Transaction Services, Bank of America Merrill Lynch; Ankur Kanwar, Head of Cash Products, Singapore and ASEAN Region, Transaction Banking, Standard Chartered; Lewis Sun, Regional Head of Product, Global Liquidity and Cash Management, HSBC Asia Pacific; Aidan Shevlin, Head Global Liquidity Fund Management, Asia-Pacific, J.P. Morgan Asset Management; Anton Abraham, Head of International Advisory, Bank of America Merrill Lynch; Gordon Rodrigues, Director, Head of Asian Rates & FX, HSBC Global Asset Management; David Blair, Managing Director, Acarate; Marcus Hughes, Head of Strategic Business Development, Bottomline; Thomas Stahr, Owner, Stahr GmbH; Sandip Patil, Asia Pacific Head of Liquidity Management Services and Financial Institutions Group, Citi; Eric Li, Head of Transaction Banking, Coalition; Sen Ganesh, Partner, Bain & Company; Job Wolters, Director Corporate Clients, Zanders; Patricia Hines, Head of Corporate Banking, Celent; Stephen Lane, Finance Director, Xtrac; Peter Pyhrr, Account Manager, Texas Instruments.

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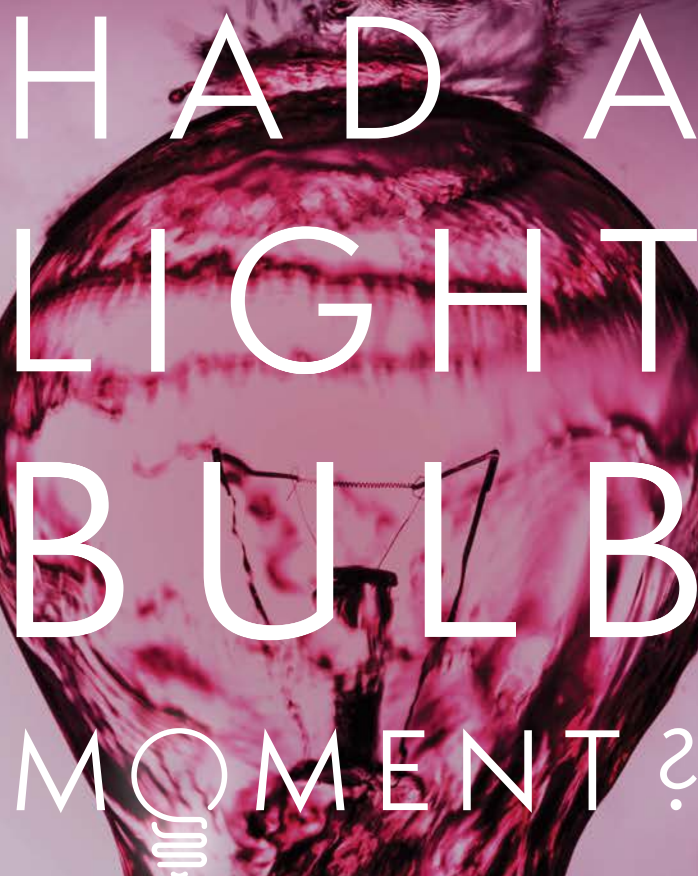

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