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Keeping abreast of risk in the face of evolving sanctions

THE NEXT GENERATION

A special focus on the ACT's Future Leaders in Treasury

BIGGER AND BIGGER

Why corporates the world over are stockpiling their cash

The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS • OCTOBER/NOVEMBER 2018



“A treasurer understands the big picture”

Anissa Teemul,
NIC, Abu Dhabi

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Editor's letter

Welcome to the autumn edition of *The Treasurer* – a special edition guest edited by the ACT's Future Leaders in Treasury group (FLiT). FLiT is an ACT initiative aimed at supporting a younger generation of members as they develop their careers in a fast-moving business climate. For the second year running, we've taken the perspectives and views of the group as our starting point and as a lens through which to view both the world of treasury and the wider geopolitical and economic climate.

On page 20, for instance, five treasurers highlight the business environment within which they operate in a fascinating delve into treasury across five continents. Continuing with this global theme, Whitbread's Jill Harrison talks about negotiating the push and pull of opportunity versus regulation in China, on page 15, while Agnes Favillier, who chairs FLiT, makes the case for treasurers upping their game when it comes to engaging with their organisations – moving from a perspective on economic and geopolitical risk that serves the treasury function to one that operates across the wider business, on page 13.

For many in this new generation of treasurers, the financial crisis of 2008 and its fallout will have been their formative experience. Professionals who cut their teeth during that period will have an inbuilt resilience. That's certainly the case for Anissa Teemul, treasury analyst at the National Investment Corporation, a development company based in the United Arab Emirates (UAE). Teemul's early experiences in treasury were marked by tight liquidity, and the wide-ranging responsibilities in her early roles provided her with testing challenges. Teemul, who is also the FLiT representative for the UAE, is profiled on page 16.

We revisit the impact of the financial crisis elsewhere in this edition as we celebrate 10 years of the ACT in the Middle East. In October, more than 500 treasury professionals will gather in Dubai for the ACT Middle East Treasury Summit. The ramifications for currencies, liquidity and debt and equity markets since the crisis have been felt the world over, but in the Middle East the crisis has acted as something of a catalyst for the profession, with many corporates taking corporate treasury more seriously and starting to value the skills and input of members of the profession. Our focus on the Middle East begins on page 28.

I hope you enjoy the issue.

Liz Loxton

editor@treasurers.org

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THIS ISSUE'S CONTRIBUTORS



Matt Packer is a freelance business and finance journalist, who covers leadership and management issues, as well as charting technology's impact on the world of work. In addition to penning features, Packer ghost-writes blogs for senior business figures and writes, hosts and edits leadership-themed podcasts. His article on the social implications of artificial intelligence is on **page 26**



Semih Ozkan is a transaction banking professional and ACT member based in the United Arab Emirates. A long-time observer of Middle East business practice and economics, he has previously written for *The Treasurer* on the practicalities of operating in Iran, Iraq and North Africa. Contributing to our focus on the Middle East, Ozkan writes on supply chain finance, on **page 33**



Amanda Bradley is MD of coaching company Liberty EQ and is also studying for an MSc in Transactional Analysis Psychotherapy. Bradley's coaching is grounded in more than 20 years' experience in corporate treasury and risk management, most recently as head of risk and strategy in GSK's internal audit function. Her article on building self-confidence is on **page 48**

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Anissa Teemul, treasury analyst at National Investment Corporation

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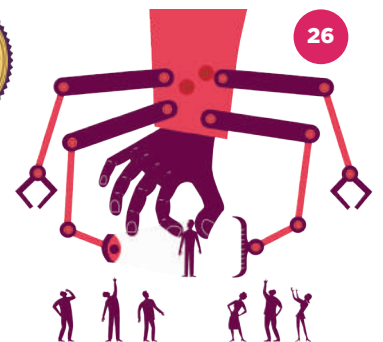
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Agenda



GREECE EXITS BAILOUT PROGRAMME



A decade on from the explosive sovereign debt crisis that sparked civil unrest and depression, Greece is reemerging onto the global financial scene, having exited its bailout programme.

The country can again raise money for itself on the markets, albeit at an expensive rate due to its poor credit rating and weak economy. It also has stringent criteria to meet, including a primary surplus of 3.5% of GDP until 2022 and 2.2% of GDP until 2060.

Greece has wrestled back some control of its future from creditors and eurozone politicians. And the International Monetary Fund (IMF) has approved a symbolic standby agreement with the country to provide funding if

it can guarantee the sustainability of its debts moving forward. However, the IMF also warns that the Greek economy remains weak, and it has advised that further debt relief may prove necessary.

EACT BENCHMARKS TREASURY TEAMS

The European Association of Corporate Treasurers (EACT) has published the findings of its *Treasury Headcounts Benchmarking Survey 2018*, in which a number of ACT members took part. The survey is particularly helpful when benchmarking your organisation or simply trying to explain the reality about the size of treasury functions. It noted that, in absolute terms, treasury

sizes are low in non-financial businesses. Among other key findings around the size of treasury teams surveyed were:

- 50% of treasurers work in companies that employ more than 32,000 employees;
- 50% of treasurers work in companies that have a turnover in excess of €10bn; and
- 50% of treasurers work in companies that have a balance sheet in excess of €13bn.

The survey also throws light on tasks that are typically carried out within treasury departments and those that are carried out externally. Commodity risk management was almost equally divided within and outside treasury functions, while M&A work,

tax and cybersecurity largely fall outside the scope of treasury, according to the survey respondents.

EU SAYS EQUIVALENCE MORE REALISTIC THAN MUTUAL RECOGNITION

Equivalence rules came back into the spotlight after the EU's financial services chief, Valdis Dombrovskis, said he welcomed UK proposals to base market access for the City of London on these rights post-Brexit.

The rules allow non-EU institutions to operate within the single market if the Commission agrees their home nation's financial regulations are as tough – or equivalent to – its own benchmark.

Brussels is pledging to strictly enforce the conditions. Dombrovskis, meanwhile, warned market access should never be taken for granted and that the UK would not be offered a form of 'super equivalence'.

SHARE BUYBACKS TAKE FOREGROUND

The trend for companies to buy back their own shares from the market is outstripping activity from corporates either floating shares for the first time or raising funding via secondary issues.





WHAT THEY SAID

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Federal Reserve chair Jerome Powell (pictured above), in his speech at the Fed's annual Jackson Hole summer retreat, hinted that plans for interest rate rises might be revisited in the face of external pressures.

“There are risk factors abroad and at home that, in time, could demand a different policy response”

While it has long been recognised as a US phenomenon, the trend is growing in the UK, Europe and Japan, leading to the size of equity markets shrinking as a result.

Goldman Sachs has even predicted that buybacks will top \$1 trillion during 2018 in the US alone.

US LAW FIRM FINDS GDPR OBSTACLE TO BLOCKCHAIN

The potential for blockchain technology to transform international trade and supply chain management came into question when US law firm Venable flagged a potential clash

with the EU's General Data Protection Regulation (GDPR).

The data-protection objectives behind the legislation – which regulates collection, processing, transfer and retention of every EU citizen's personal data – may make altering or deleting records on distributed ledger systems problematic and, potentially, illegal.

The firm has concluded that post-GDPR coming into effect, storing personal data in a blockchain becomes a major issue. But without flexibility around data, the advantages blockchain offers are moot.



1m%

the inflation figure for Venezuela later this year, as predicted by the International Monetary Fund



£2bn

the UK budget surplus for July, its largest for July in 18 years



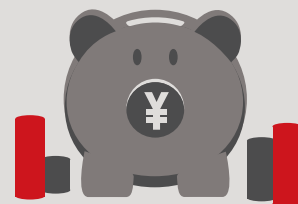
£3.9m

the average pay for chief executives, rising six times faster than the wages of the wider workforce, according to the High Pay Centre's annual review



3,453 days

the record-breaking S&P 500 bull run, reached last month



5.5%

China's fixed-asset investment growth for the first seven months of 2018 – its slowest pace on record



Two-thirds

the proportion of asset managers preparing for a hard Brexit, according to research from trading venue Liquidnet

£59.6bn

the value of exports of UK financial services to the EU, up £3.6bn on the previous year



IN THE NEWS...

GERMANY'S SURPLUS IS THE WORLD'S LARGEST

Chancellor Angela Merkel's fiscal policies came back into the firing line after the Information and Forschung research (Ifo) institute warned that Germany's current account surplus would remain the largest in the world for the third year running.

The International Monetary Fund and European Commission have long been urging Germany to boost domestic demand and import more in an effort to rebalance the global economy and stimulate growth in other markets. US President Donald Trump has also criticised Germany's export strength.

Ifo estimates that the country's current account surplus will be around \$299bn this year, well ahead of Japan's at \$200bn. The

US will have the largest current account deficit with around \$420bn, it added.

CHINA INJECTS \$22BN INTO BANKING SYSTEM

China's latest attempt to boost credit flows to corporates and local governments has seen the People's Bank of China (PBoC) inject ¥149bn (\$22bn) into the banking system via commercial bank loans.

Amid signs that economic growth in the Asian powerhouse continues to slow, China's leadership is eyeing further monetary and fiscal stimulus, with hopes that fresh liquidity will push up purchases of local government bonds and lower-rated corporate debt.

According to the PBoC, its medium-term lending facility

has been used to provide one-year loans to commercial banks at a rate of 3.3%, with such funding replacing shorter-term cash previously injected through repo operations.

UK GOV ANNOUNCES NEW EXPORT STRATEGY

A UK government strategy designed to boost total exports as a proportion of GDP to 35% was launched by International Trade Secretary Liam Fox.

Making better use of overseas networks, new online tools and plans to build an extensive business-to-business network are all part of the ambitious plan.

The move came as research shows companies that exports have improved potential for growth, are more productive and boast better-paid jobs.

In 2017, some £620bn of goods and services were exported by British companies, accounting for 30% of GDP, with exports at a record high.

Nevertheless, the UK government said that some 400,000 businesses could export, but don't, while demand for British expertise and goods overseas continues to grow.

TURKISH LIRA SELL-OFF RESOLVES

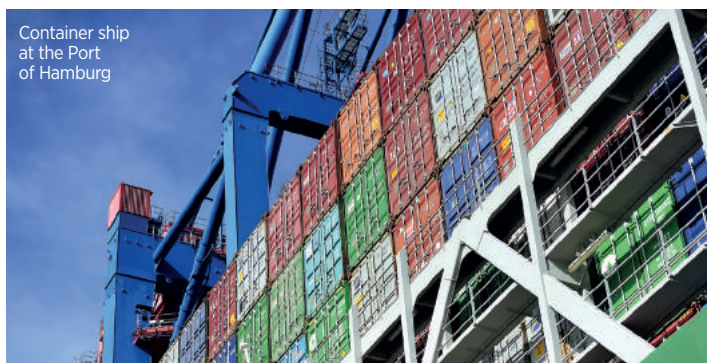
Global financial markets were eyeing Turkey's currency crisis for signs of contagion, despite reassurances from analysts that the situation doesn't necessarily read across to other emerging markets.

While investors have been urged to beware complacency, Turkey has idiosyncratic problems alongside a declining lira. A diplomatic row with the US and the threat of trade sanctions hit hard, while

other issues include high inflation, a large foreign currency-denominated debt pile and a rift between the country's president and central bank.

Amid a wider emerging market sell-off, tight liquidity also represents a warning sign, and other nations with large current account deficits – such as Argentina, India and South Africa – are inevitably coming under scrutiny.

Concern about how exposed some European banks are to Turkish trauma is also weighing on sentiment.



Container ship at the Port of Hamburg

FIVE MINUTES ON...

THE UK'S UPDATED CORPORATE GOVERNANCE CODE

In July, the UK's Financial Reporting Council published an updated version of the Corporate Governance Code, alongside supporting materials to assist with implementation.

Although responsibility for adherence to the Code lies with the board of directors, many treasurers will be involved in identifying and assessing those risks that fall within their remit (ie, liquidity, interest rate, counterparty risk, etc).

Treasury risks that are deemed to be 'principal risks' need to be reported along with the principal risks originating in other parts of the company (as required by Principle O and Provision 28). Of particular relevance to treasurers may be the new requirement

(Provision 28) to assess emerging risks, which may result in the requirement to establish new processes to comply.

Provision 28 sets out that the board should carry out a robust assessment of emerging and principal risks, and should confirm within annual reporting that it has completed this assessment, including a description of its principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated.

It is likely treasurers will need to assist by:

- Explaining how treasury risks are managed or mitigated. If relevant, this would include a description of hedging strategies.

- Carrying out a review at least annually of the effectiveness of the risk management and internal control systems within treasury as required by Provision 29.

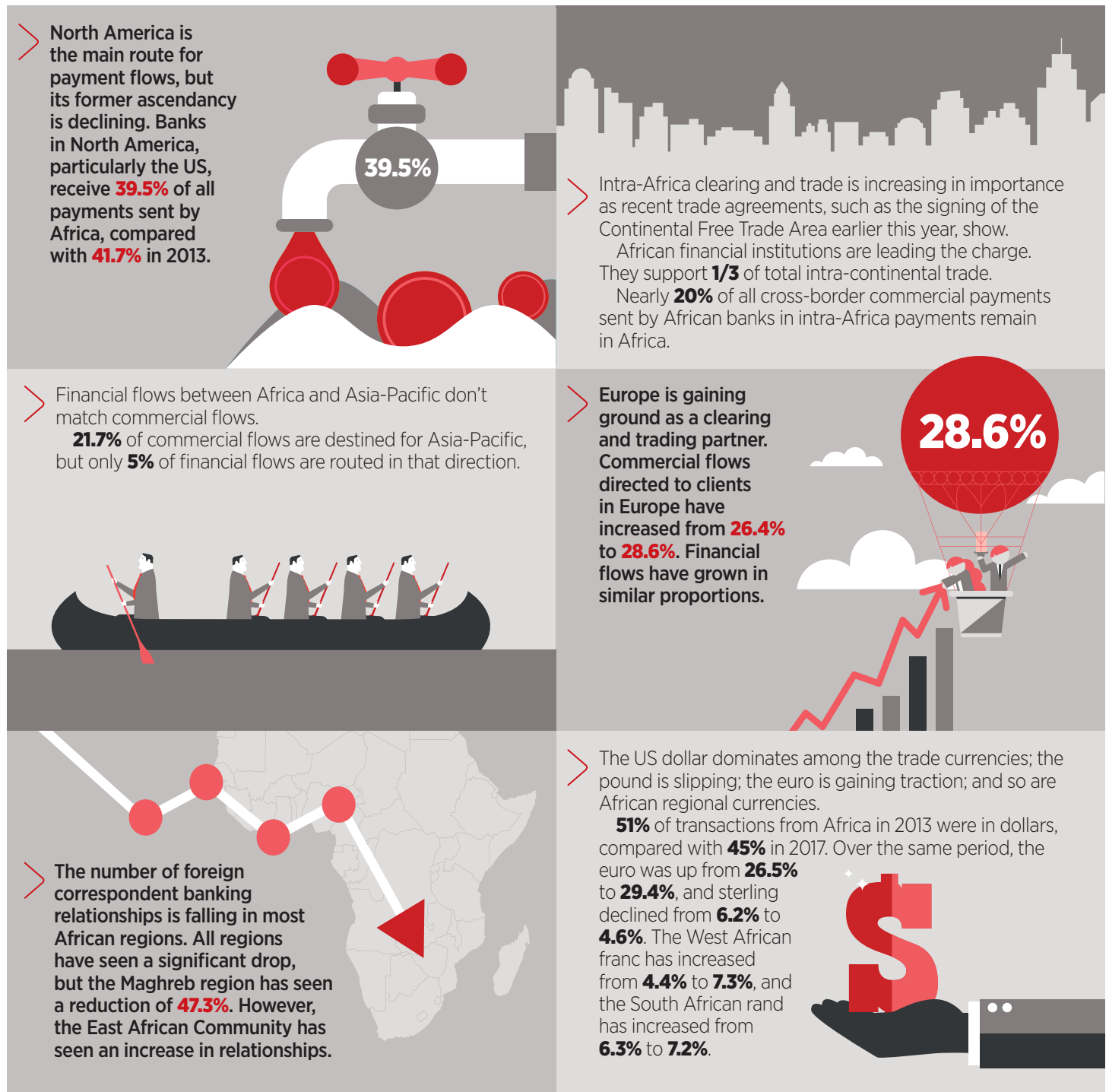
The revised Code and supporting materials can be found at www.frc.org.uk/news/july-2018/a-uk-corporate-governance-code-that-is-fit-for-the

An article on the relevance of the updated Code to corporate treasurers was published in the August online edition of *The Treasurer*; see www.treasurers.org/thetreasurer/updated-UK-corporate-governance-code-will-draw-on-treasurers-skills

Africa rising



THE DOLLAR DOMINATES THE AFRICAN PAYMENT SCENE, BUT ITS ASCENDANCY IS NOT GUARANTEED, AS INTRA-COUNTRY CLEARING AND TRADE INCREASE AND EUROPE PLAYS A GREATER ROLE, SWIFT'S *AFRICA PAYMENTS: INSIGHTS INTO AFRICAN TRANSACTION FLOWS SURVEY* SHOWS



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THE ACT'S PARTNER CHARITY FOR 2018 PROVIDES FINANCIAL AND ENTREPRENEURIAL TRAINING TO INDIVIDUALS IN SOME OF THE WORLD'S POOREST COUNTRIES, LIFTING FAMILIES OUT OF SUBSISTENCE LIVING. ANN DICKINSON EXPLAINS

Hannah Haciku from rural Kenya barely had enough money to eat two meals a day. Then she learned entrepreneurial skills from Hand in Hand International and started a tailoring business. Now she earns KES 5,000 (\$50) a month, doubling the family income. Her family eats regularly and her daughter can go to school.

This year, the ACT will help hundreds of women just like Haciku – a whole village, in fact – thanks to its partnership with Hand in Hand International.

Hand in Hand trains people with the skills and knowledge they need to start microenterprises, create their own jobs and make their own success. If, at the ACT Annual Dinner in November, the ACT raises £50,000 for the ACT village, then Hand in Hand will be able to train around 394 villagers to launch approximately 271 microenterprises and create some 356 jobs, which in turn will improve the lives of more than 1,000 dependent children and adults. If the ACT raises more than £50,000, then it will be able to help improve the lives of even more families living in poverty.

Fighting poverty with jobs – an equation most of us take for granted – has some notable benefits:

- Jobs break the cycle of dependency. Hand in Hand's role is complete when the entrepreneurs no longer need its support.



Hannah Haciku in Karia, Kenya, who set up a tailoring business with the assistance of the charity

- An average of four family members benefit from the income generated by every business Hand in Hand creates in Kenya. That's more children in school, more parents with access to life-saving medicine and more families with sturdy roofs over their heads.
- The charity can tailor its programme to a huge array of needs and constituencies, from green jobs to youth entrepreneurship and beyond. After all, no one village is the same.

Hand in Hand has developed a four-step programme using pictures, parables and songs to teach people the basics of business and finance. First, it

creates self-help groups made up mostly of women (since women tend to reinvest in their families), who support each other, save together and learn together. Contributions to group savings funds are required from all 20 or so members at every weekly meeting. For many, this is the first time they have considered their household cash flow.

Second, when a self-help group is stable with its savings fund firmly in place, we train members to develop small businesses with modules in basic bookkeeping, business development and marketing. The programme enables people to look at local market trends and review their financial

situations so they are aware of the risks, as well as the potential, of starting a new business.

Third, for members whose financing needs cannot be funded by self-help group savings funds, we will connect members to microfinance institutions.

And fourth, Hand in Hand boosts businesses' sustainability by helping members find market opportunities in the form of larger value chains, cheaper supplies and more.

Armed with these skills, the new entrepreneurs will plant better, more resilient crops, raise healthier livestock, open up shops and provide a wide range of services as barbers, tailors and more.

"I am proud that I started my own business," says Haciku. "And I am especially proud that I can send my daughter to secondary school to give her a chance I never had." ♥

Ann Dickinson is head of media at Hand in Hand International

MORE INFORMATION

To find out more about Hand in Hand International, the ACT's 2018 Charity of the Year, visit www.handinhandinternational.org/the-act-village-in-kenya

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WORLD IN MOTION

IN AN EVER-SHIFTING BUSINESS ENVIRONMENT, THE NEXT GENERATION OF TREASURERS MUST CONNECT WITH THE WIDER NEEDS OF THEIR ORGANISATIONS, SAYS **AGNES FAVILLIER**

After decades of expansionary politics and technological advancement facilitating global trade and mobility, it seems the world has taken a different turn. Freedom of movement for people, goods and services is now being disputed, and we are seeing a drift towards protectionism and nationalism. Rumblings on trade barriers and tariffs, sanctions against Iran and Russia, Brexit and Eurosceptic governments in several EU countries all evidence this trend.

As treasurers, we know about these changes simply due to the nature of our jobs. In this, our second Future Leaders edition of *The Treasurer*, we will be looking in detail at some of the economic and geopolitical challenges that

members of the group face. Our core risk management activities require us to follow and understand the macroeconomic and geopolitical trends, to carry out our jobs today and foresee potential challenges coming our way, from a treasury standpoint. However, we should also ensure that we think about how these changes affect our organisations as a whole. Will the threatened trade barriers or sanctions affect our organisations' supply chains? Will Brexit affect those of our suppliers or customers? How will these trends affect our business's expansion plans and financial performance? More importantly, can treasury be more integrated within the business and add value by helping to monitor these risks?

Can it enable the business to adapt and become more agile in such an uncertain environment?

In my view, the role treasury plays is twofold: first, treasury teams must have the right technical skills to effectively manage the financial risks for which they are directly responsible. Markets have become more volatile and sensitive to geopolitical developments, and an appropriate risk management framework must be in place to protect the business from these.

Second, treasurers must engage with their organisations to understand wider risks faced by the business, to assess if and how these risks could eventually make their way back to their desks. For example, current US trade policy could prompt businesses to relocate, change their legal entity structure, their funding requirements or FX hedging framework. Sanctions additionally increase compliance costs, very often borne by the treasury teams, which get involved from a transaction banking and bank relationship management perspective.

To stay ahead of these changes and foresee what impact they could have on treasury teams, we must engage proactively outside of our traditional stakeholder group. Individuals outside of the world of finance understand the flow of cash, the underlying flow of goods and services, and potential hurdles and bottlenecks.

To engage with the business as a whole, the treasury function must therefore develop a better interpersonal skill set: communication, negotiation, collaboration and project

management, for example.

These skills should be developed as early as possible, starting at treasury analyst level, to ensure that all members of the team grow comfortable with engaging with a wider set of stakeholders, are able to hold more meaningful conversations and be effective business partners as they advance through their careers.

Such development opportunities can come from participation in cross-functional projects, or by training and personal development skills such as coaching and mentoring. It is also important to give regular feedback on interpersonal skills: how can treasurers improve on their communication skills? How could engagement with the business on a particular issue be better managed?

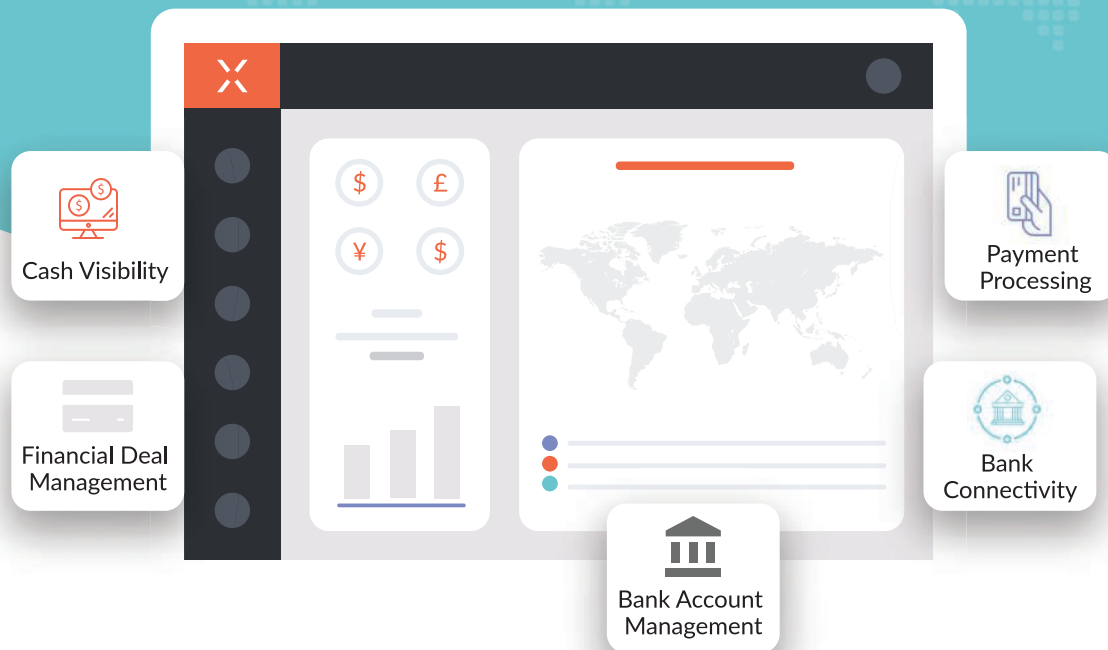
In a world that currently seems to be becoming more closed off, businesses must find a way to maintain their reach by being more agile and able to address the disruptions we are currently seeing and the potential difficulties in reaching suppliers and customers. Treasury can be at the forefront of that evolution and develop the right set of skills in order to support the business in navigating these hurdles successfully. Indeed, being able to communicate and collaborate with others is the key to a better integrated business, and crucial in demonstrating when and how treasury can successfully contribute to the organisation. ♥

Agnes Favillier is chair of the ACT's Future Leaders in Treasury group



The treasury function must develop a better interpersonal skill set

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LAND OF COMPLEXITY

CHINA'S GROWTH FIGURES CONTINUE TO PRESENT OPPORTUNITY FOR MULTINATIONALS, JUST AS ITS STILL-EVOLVING REGULATION PRESENTS CHALLENGES FOR TREASURERS, AS **JILL HARRISON** EXPLAINS

➤ This year continues to be an interesting, exciting – but also challenging time for companies to have a presence in China. Despite a prolonged period of more muted GDP growth following three decades of double-digit growth, structural concerns over an ageing population, a housing market bubble, a large government deficit and the impact of the trade standoff with the US, China continues to be a land of significant opportunity for foreign investors during 2018.

China is the world's second-largest economy behind the US by nominal GDP and is the world's largest manufacturing economy and exporter of goods. It also represents the world's fastest-growing consumer market. The sharp increase in the rate of urbanisation towards China's coastal areas and top-tier cities, combined with the rapid emergence of a wealthier, more individualistic and more sophisticated middle class of consumers in China, has created unprecedented opportunities for the companies serving their needs.

Taking Costa Coffee as an example of a consumer business targeting this emerging class of consumers, the company has targeted investment in Shanghai and Beijing, focusing its product offering on high-quality service, brand and delivering a 'Western' customer experience.

Changes in the treasury and banking landscape have served to facilitate foreign investment into China, and the direction of travel has continued to be towards relaxing controls in order to stimulate investment and growth. The renminbi is still subject to exchange controls, managed by the State

Administration of Foreign Exchange (SAFE), but the role of SAFE has evolved over time from that of 'micro-controller' to one of 'macro-supervisor', with a simplification in regulatory procedures and improvement in administrative efficiency. Investing capital into China is now relatively straightforward, as long as the correct clearances have been obtained and processes followed, and the cash is paid into a dedicated capital account.

➤ Moving funds cross-border out of China continues to present challenges even in these days of renminbi internationalisation, as the currency is still not yet fully convertible, and there are still certain restrictions around cross-border flows. Companies need to consider carefully how to structure and fund their operations in China, to achieve flexibility in cross-border cash flows and avoid the risk of trapping cash, while at the same time maintaining balance-sheet strength and appropriate capital structure. There are generally no restrictions on the payment of dividends from China to overseas parents, albeit these are subject to withholding taxes.

Similarly, the settlement of trade invoices cross-border is generally unrestricted. The emergence of cross-border cash-pooling arrangements, including those within China's Free Trade Zones, has provided an additional channel for onshore Chinese subsidiaries to channel funds offshore and manage working capital flows between overseas parents and Chinese subsidiaries. The creation of offshore renminbi bond markets, as well as facilities offered by



Nowhere else is the value of good banking relationships more crucial

banks within China, offers a diverse and competitive market for borrowers of renminbi, allowing companies to borrow locally to fund their operations in China, the servicing of the loan interest offering an alternative to repatriating cash cross-border.

One of the main challenges faced by corporate treasurers in navigating treasury in China is the constantly changing and evolving regulatory landscape and the fact that it can be difficult to stay up to date on current rules and requirements, especially as these rules can change so quickly, can vary significantly across different regions of China, and are often not clearly documented or accessible.

In no other country is the value of good banking relationships more crucial. Where rules change so quickly and there

is limited published guidance available, the role of the banks is paramount when it comes to navigating often complex rules and regulations. The banks are also key in interpreting these regulations and advising on the practical application of them in the real world.

Working within an organisation that is investing in China, the most significant concern from a treasury perspective is this uncertainty around the regulatory landscape; maintaining agility, planning for change and communication with banks are all therefore key to success. ♥

Jill Harrison FCT
is group treasury
manager at
Whitbread



A portrait of a woman wearing a light purple hijab and a dark blue business suit over a white blouse. She is sitting on a green couch with her hands clasped in her lap. The background is a blurred indoor setting with green plants.

CAREER PATH

2017-present

Treasury analyst,
National Investment Corporation

2014-2017

Treasurer, National Central
Cooling Company (Tabreed)

2008-2014

Treasury analyst, National Central
Cooling Company (Tabreed)

2007-2008

Liquidity analyst,
RBC Royal Bank Caribbean

2006-2007

Liquidity management officer,
Caribbean Money Market Brokers Ltd



QUALIFICATIONS

London Business School
Executive EMBA (2018-2019)

AMCT (2016)

University of the West Indies
Bsc Management and Finance (2005)

STEPS TO SUCCESS

A commitment to professional development as well as early testing experiences have given **Anissa Teemul** an edge as she forges a career in treasury

Words: Liz Loxton / Photography: Grant Bishop



➤ Anissa Teemul's career trajectory to date demonstrates the virtue of amassing as much experience, knowledge and responsibility as early on as possible, and also of embracing the professional aspects of the treasury world.

An AMCT passed with extra plaudits, early involvement with the ACT, including membership of the working group for the Future Leaders in Treasury group for the Middle East, and further study – she is currently studying for an Executive MBA from the London Business School – are all manifestations of her commitment.

"Treasury is my passion," she says. "I qualified, set myself goals, went to conferences and events, networked and asked how I could become involved. I was persistent as I wanted to learn and benefit from an association of like-minded individuals, and here I am today on the Middle East advisory panel."

Teemul first encountered treasury when she began working in financial services in her native Trinidad. Just two weeks after graduating from the University of the West Indies in 2005, she joined Caribbean Money Market Brokers, a hedge fund manager, as a client relations officer. From there, she applied for and secured a position in the treasury team, where she gained her first insights into liquidity management, and where she was given responsibilities including matching the company's cash inflows and outflows running to millions of dollars each day.

Engaging with financial institutions and the firm's high-net-worth clients gave her an early opportunity to fine-tune her interpersonal skills. "I learnt that one of the most important skills required in treasury is negotiation, and gained the confidence to interact with high-level clients and financial institutions that would later be of great value in my career."

After two years, Teemul was recruited by the Royal Bank of Canada in the Caribbean as a liquidity analyst and, in 2008, having moved to Abu Dhabi, she joined the National Central Cooling Company (Tabreed), again as a treasury analyst.

GOOD IN A CRISIS

The move turned out to be well-timed. A financial crisis, she notes, is an excellent point at which to secure a new role or seek out additional responsibilities. During the eight years she spent at the company, Teemul handled the majority of core treasury functions within the finance department. The company had made heavy investments on the capital expenditure front, but was not yet seeing returns. Liquidity was tight and the learning curve steep. The local treasury community was to prove supportive. Tabreed's major shareholder, Mubadala Investment Company, wanted fast and accurate reporting, but was also on hand to provide guidance, however. "I had their very experienced treasury team just a phone call away," she says.

The years spent at Tabreed were formative ones. Teemul witnessed the company go through a full business cycle, with cash at a premium at the outset right through to situations where she needed to find the right investment home for surpluses, with each stage of the cycle yielding useful lessons.

Teemul's role evolved to take in core treasury disciplines such as risk management, cash and treasury operations. She was exposed to other major departments, and her communication skills would prove key. One standout achievement was fixing more than AED 2bn (\$545m) of floating-rate liabilities through hedging arrangements, an undertaking that also required her to negotiate with banks on interest-rate swaps, put all documentation in place and take recommendations with their potential outcomes to the board. "My negotiation ➤

“Treasury is my passion. I qualified, set myself goals, went to conferences and events”

skills were put to the test and definitely sharpened, as well as my confidence in presenting ideas to executive management. I handled all aspects of the trades from planning to execution to negotiation, including getting board approval.”

Creating strong relationships throughout the company, across its subsidiaries and at all levels was important. “I was required to interact and negotiate with them regularly, often on the lifeblood of the business: cash,” she says.

After five years, Teemul was promoted to treasurer in a move that would mark a shift towards more strategic input into the company. Still in charge of treasury operations and tasks such as making sure suppliers were paid on time, her responsibilities evolved from maintaining daily liquidity to long-term forecasting 18 months out, reporting on the forecasts to the board and investors, and feeding information into the company’s budgets and five-year plans. She also found time to study for and pass her AMCT Diploma in Treasury Management in 2016 with an outstanding achievement award.

VANTAGE POINT

The promotion was significant in that it added a wider remit – and sleepless nights as a result. But it also provided her with a 360-degree view of the treasury operations and the opportunity to look forward and move away from an operational role. Having that view on all aspects of treasury and cash helped, for instance, when an associate company was restricted from paying a dividend as it needed to hold cash collateral against a forward interest and loan payment. Teemul needed to look for a solution.

“I looked outside our existing relationship banks to negotiate a better facility on improved terms,” she says. A letter of credit covered the debt servicing for the associate company, allowing it to release the dividend at quarter end after all. “Communication and coordination are key, because people don’t always know what they are working towards or how serious the consequences can be, but a treasurer understands the big picture,” she says.

Teemul also led on a cash management system implementation that would prove pivotal in moving the company from a heavily manual set-up with an emphasis on cheques to a more fit-for-purpose solution. “I enlisted the help of the major banks in the United Arab Emirates [UAE], identifying potential solutions and choosing the best for the company.” The system streamlined the process, shortening the time to deliver payments as well as easing the workload of those previously involved in manually preparing payments. Teemul also negotiated a trade finance facility at a crucial time for the business, broadening her links with local banks to secure competitive pricing in the process.

In April 2017, Teemul moved to National Investment Corporation (NIC), a major real estate developer that was in the process of diversifying its interests. Owned by members of the Abu Dhabi royal family, NIC was behind the development of the first retail mall in Abu Dhabi and since then has begun focusing on residential and leisure property development.

NEW DEVELOPMENTS

While this kind of development is a familiar feature in Dubai, they are a new part of the landscape in Abu Dhabi. NIC’s new venture is a premium seafront development with one major project just finished – Marina Sunset Bay comprises 67 luxury villas – and another just about to complete: the Fairmont Marina Hotel & Resort and Fairmont Residences, due to commence early in 2019.

The new direction and move into the growth period brings opportunities for Teemul to further the strategic aspect of her role and develop her skills. “I wanted to close the technical gap in my skill base, as I hadn’t had much experience in corporate finance and funding.”

The new phase will move the company from a cash-rich, virtually debt-free balance sheet to a more leveraged one. Teemul’s responsibilities include a funding strategy, managing bank relationships, working with the CFO on funding for new projects and formulating a risk management strategy, including hedging an extension to the

Marina Mall and the Marina Walk in Abu Dhabi, requiring around AED 2bn.

NIC’s first major debt of AED 1.4bn (\$380m) was secured for the Fairmont development and luxury villas a few years ago, during the construction period, and loans now require reporting on covenants and have begun to come up for repayment.

“NIC is my opportunity to co-lead on the funding with these two iconic projects in Abu Dhabi. The company is growing, with projects being handed over and about to start up. Cash management now needs to have even more emphasis with longer periods of forecasting. Now the company is growing, it needs qualified professional treasury managers who can really manage the cash, floating-rate liabilities and the banking relationships. The business is very localised, just in this premium seafront area of Abu Dhabi. So what you do is keep very close relationships with your local banks, as they really know the market.”

As is typical on these kinds of projects, there have been occasional delays, but banks have proved flexible when it comes to timings and ready to wait for the asset to begin generating revenues, she says.

ACT INVOLVEMENT

Throughout all this, Teemul has stayed closely involved with the ACT as well as remaining committed to continuing her professional development. Her AMCT has been fundamental to her development as a treasury professional and she recommends the qualification for its close relationship to day-to-day treasury work. “You can execute what you’re learning in the most hands-on sense.”

She also sees the ACT’s qualifications steadily gaining ground in the Middle East. “It is definitely something we look for in hiring and I can see more treasury roles being advertised in the UAE asking for ACT certificates now. When I first joined, treasury operations were handled by the finance team, but now with greater shareholder commitments, financing requirements and rising interest rates, more sophistication is needed to manage treasury and I think people realise the function should be handled by a qualified team.”

The changing economic environment is likely to test her skills further. Rising

WHAT I VALUE MOST ABOUT THE ACT IS...

The ACT provides everything for someone who is serious about a career in treasury. You can study for a certificate in treasury or become a proper qualified treasurer if this is your career choice. There is training for your team in all areas of treasury, networking with those who speak your language, the publications, updates. It's all there with one professional body and you can become as involved as you want to be.

WHAT I LIKE BEST ABOUT TREASURY IS...

The adrenaline I feel when I am negotiating and need to close a transaction such as an interest-rate swap. Rates will be moving and I will have banks on different lines trying to get the best rate. Then finally there will be the satisfaction of closing the deal on time within the set limits.

I love interacting with people and one of my greatest strengths is good communication skills. I enjoy having to work with various departments and external parties, depending on the needs of the job.

THE WORK CHALLENGE I WOULD MOST LIKE TO FIX IS...

Working in the UAE for the past 10 years, I've had amazing opportunities and access to fantastic networks. However, I've also faced challenges my female counterparts in other parts of the world don't have to combat. The UAE government is leading the Gulf Cooperation Council region in promoting women in business.

It has recognised the need for women to enter the workforce, publishing a gender-balance guide outlining objectives to reduce gender inequality and enhance the UAE's ranking in global competitiveness for gender equality, focusing on government sectors only. I hope to see these policies extend into the private sector to afford equality and fair working conditions to every woman in the region. The empirical data quantifying the financial benefit of a diverse workforce is overwhelming. However, to tap into this opportunity, the private sector needs to align with government policy. It's not groundbreaking or pioneering, but merely catching up with the rest of the developed world.

interest rates and the stronger dollar are starting to exert pressure on the trading environment at a time when Abu Dhabi is positioning itself as a tourist destination. "We have been living in a low interest-rate environment for the past 10 years and to some degree those needing capital have been spoilt. Projects requiring capital have to now be re-evaluated along with the interest-rate risk on these projects and their feasibility given higher cost of debt."

Teemul need have no concerns that companies such as NIC will have less need for skilled treasury professionals any time soon. 💜

Liz Loxton is the editor of *The Treasurer*



VANTAGE POINT

WHAT PRESSURES DO TREASURERS FACE SPECIFIC TO THE REGION THEY WORK IN? AS PART OF THE FUTURE LEADERS SPECIAL EDITION, WE ASKED FIVE TREASURY SPECIALISTS TO HIGHLIGHT KEY ECONOMIC, REGULATORY AND GEOPOLITICAL FACTORS AT PLAY IN THEIR LOCAL MARKETS. HERE IS WHAT THEY HAD TO SAY...

US

JONATHAN COHEN DIRECTOR, US TREASURY PLANNING AND STRATEGY AT NATIONAL GRID



Jonathan Cohen's treasury career has taken him from managing bank relationships in London to developing the

business-partnering capabilities and implementing strategic financing for National Grid in New York.

His current focus is to connect with the business and develop automated management information, as National Grid continues to grow in the US. Cohen is intent on combining his expertise in treasury with emerging technology trends.

The US utility industry is a complex business environment for treasury, largely due to the various regulatory bodies that oversee the industry at both the state and federal levels. National Grid owns and operates electric and gas businesses across multiple states, each of which has its own regulator, while a national commission oversees interstate commerce. This means different regulations exist in the states in which we operate, adding to the

Business partnering is crucial in order to learn about each state's regulation and refine the financing strategy

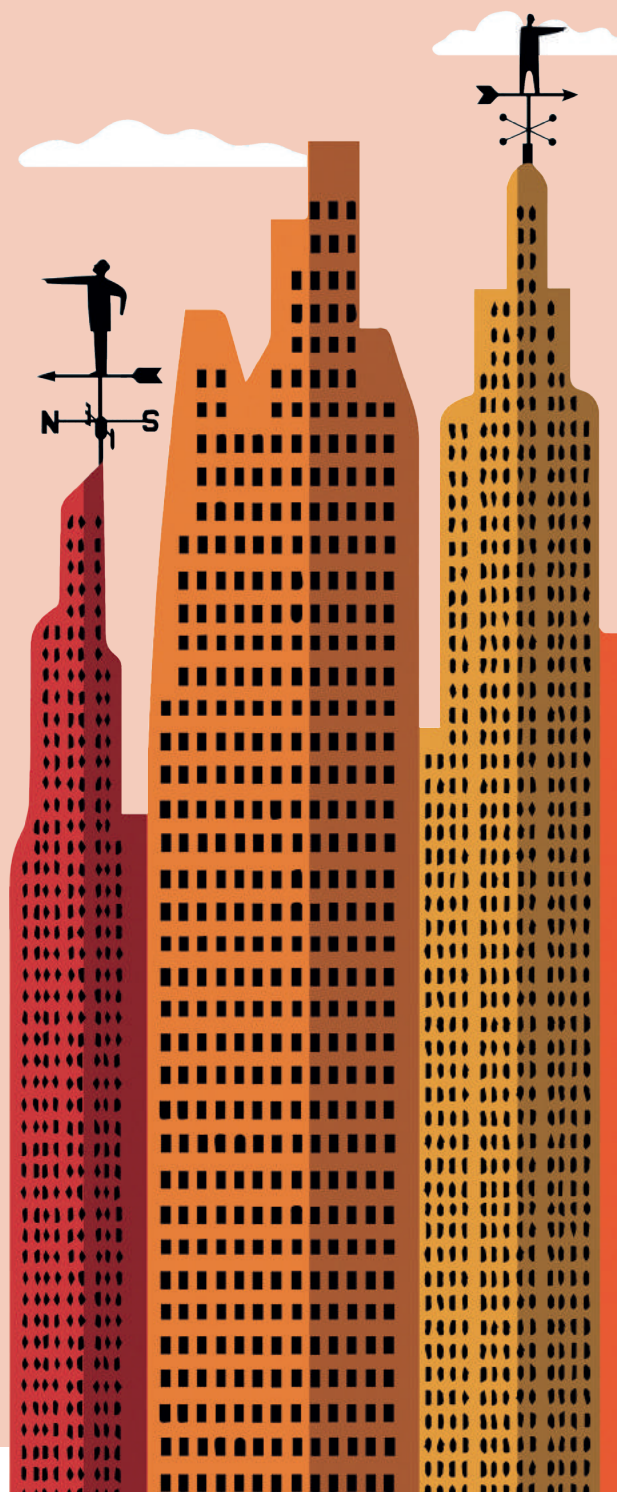
challenge of creating and managing a competitive portfolio.

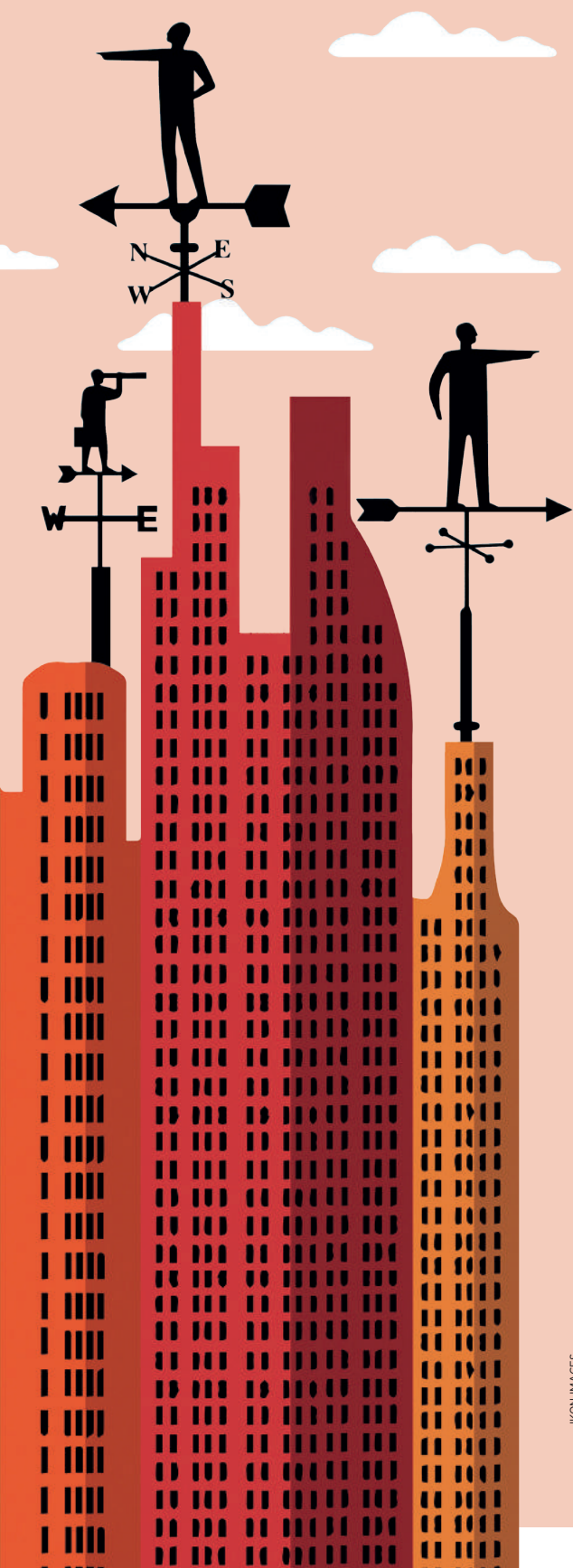
It means that, as a treasury team, we need to be nimble and adaptable to various regulatory requirements. While there may not be a 'one-size-fits-all' solution, there are two things that we focus on internally: upskilling our business-partnering capability and maximising our use of technology.

Business partnering is crucial in order to learn about each state's regulation and refine the financing strategy. There are different opportunities and risks, at both an operating company and group level. Business partnering requires a different skill set that goes beyond straight knowledge of finance. Key traits such as emotional intelligence and complex problem-solving are highly valued.

Technology and modelling capability are a secondary, but nonetheless important, area in which we are investing. The key aspects of each state and federal regulation work in a similar vein, so this can be modelled in innovative ways. Technology can help us with this, freeing up time to investigate the nuances of the diverse set of regulations and allowing us to use our judgement and decision-making skills for refining the financing strategy. The more time we spend on these activities, the more value we can bring to our stakeholders. Artificial intelligence (AI) and machine learning will improve the modelling of our business, while blockchain can improve information flow and present new opportunities and risks.

In the future US utility environment, the critical thinking capabilities of our team and our ability to leverage technology will ultimately drive business outcomes. This will result in greater efficiency and in greater customer outcomes to keep energy affordable.





EUROPE

IAN COOPER GROUP TREASURER AT 3i GROUP PLC



At FTSE 100-listed 3i Group, a leading international investor focused on mid-market private equity

and infrastructure, Ian Cooper is responsible for financing, liquidity, FX and interest rate risk management. Cooper previously worked at Deloitte in investment management audit, where he qualified as a chartered accountant. An associate member of the ACT, Cooper holds a BA Hons in Finance from Nottingham University, Accounting and Management.

I would categorise the key issues facing businesses in the UK and Europe into the following:

Brexit – Clearly one of the biggest impacts for UK businesses is Brexit and the uncertainty around the future trade and regulatory regime. At 3i, we are subject to financial institution regulation and can't risk a transition phase not being completed, so we have started implementing our Brexit plans. Active steps have included setting up operations in Luxembourg and getting regulatory approvals. We are monitoring this situation and will adapt our plans as we find out more about the future relationship between the UK and the EU. An important factor is that Brexit uncertainty could lead to labour shortages for certain sectors of the UK

economy if the availability of labour from the EU declines.

Market and wider geopolitical risks – Geopolitical risk seems to be increasing and this has become more evident this year with greater market volatility. The rise of populist parties in Europe, trade disputes, the instability with North Korea and Iran, and, of course, Trump tweets are all adding to the uncertainty. A sound hedging policy is more important than ever – and the hedging policies we have in place at 3i are designed to sensibly manage risk and look through periods of volatility. We manage treasury centrally, so there are no regional differences in this regard.

Interest rates in Europe and the UK continue to be anchored at historically low levels and have not been particularly volatile, but at some point interest rates will rise and businesses should be prepared for this.

Emerging technologies and cybersecurity – There is a lot of discussion regarding AI and blockchain, and these have the potential to significantly disrupt the existing technology landscape, including payments and investment products. While these continue to be discussed, I have been engaged in more substantive conversations with our portfolio company treasurers and CFOs around established systems and platforms. The focus here has been on implementing new treasury management systems and FX dealing platforms with the driver being efficiency gains and cost savings. As more systems and processes become automated, the risks from cyberthreats have increased, and cybersecurity has been more in focus among our businesses. We have recently rolled out a training programme to key personnel on mitigating those risks.

AFRICA

JOHN TUMWINE HEAD, TREASURY AND CAPITAL MANAGEMENT AT STANBIC BANK UGANDA



John Tumwine, AMCT, is currently working as the head of treasury and capital management at Stanbic Bank

Uganda, a subsidiary of Standard Bank Group. He has worked in Standard Chartered Bank in the dealing room, handling different roles spanning from trading to sales. He was the head of treasury at Equity Bank Uganda, serving both as a treasurer and head of the dealing room. He also set up and ran a treasury unit in the large local pension fund, National Social Security Fund.

Africa has been among the fastest-growing economies over the past two decades, transitioning from low-productivity economic activities, such as traditional farming, to high-productivity economic activities, such as manufacturing. It has registered increased trade activity both within Africa and across other continents where the Africa-China trade corridor has featured prominently. Africa has seen high population growth and increased urban migration. However, in all the above changes, the trend lines and context varies widely across the continent.

In supporting the above transition, the region has seen significant investment go into infrastructure development, with transport, energy and power as the leading sectors. The 2017 *Africa Construction Trends Report* by Deloitte puts the 303 projects in the region, whose individual value is above \$50m that had broken ground in 2017, at a total value of \$307bn. East Africa discovered recoverable commercial oil reserves, and a significant investment is being made in infrastructure and other oil-related sectors, including labour skills, to achieve commercial production by 2022. Structuring the financing, liquidity and capital management of such projects calls for deeper skills within the treasury teams.

Internet World Stats 2018 puts internet penetration in Africa at 35% versus the

rest of the world, which is at 58%, as at 31 December 2017. Between 2000 and 2017, internet users in Africa have increased by 9,942% versus the rest of the world, where it has increased by only 89%. This remarkable growth in internet usage in Africa has eased (speed and mode) cash transfers across the range of large to very low-value transactions. For instance, in East Africa, transactions of as low as \$1 equivalent can be settled by transfer of electronic money using mobile telephone platforms (Mobile Money in Uganda and M-Pesa in Kenya). In these economies, there is a shift from cash transaction-based settlement to electronic money settlement, as has been predominant on small-value transactions. Increased connectivity has facilitated trade and commerce across large and small transactions. Corporate treasury teams now have improved visibility across multiple accounts, which means they can deliver more efficient cash management across different currencies, which in turn provides improved liquidity and FX risk management.

Increased connectivity carries the risk of cybercrime, and there is a noticeable trend of investment by organisations into cybersecurity tools and skills.

Increased trade activity between Africa and the rest of the world increases the probability of contagion from the negative geopolitical and economic shocks that impact our trade partners.

ASIA

WILSON KOH GROUP TREASURER AT GRAB



Grab Group head of treasury Wilson Koh is an accidental treasurer. Partway through his career with BP as a chartered

certified accountant, he applied for a finance role in London and a treasury role in Hong Kong. The Hong Kong offer came first, and he has not looked back from treasury since. "Treasury offers strategic insight into what drives cash in and out of corporations and sharpens your risk focus," says Koh, who is now Singapore-based, working in a tech unicorn.

Grab is Southeast Asia's leading online-to-offline (O2O) mobile platform. It has adopted an open platform strategy to become an 'everyday super-app' that helps millions of users carry out routine activities. Southeast Asia is one of the most culturally diverse regions in the world. The numerous countries within it account for more than 620 million people and there are large economic realities separating the region – such as differing central bank regulatory frameworks. This makes treasury work challenging, yet exciting.

Core concerns include:

Financial risk management – Grab adopts a hyperlocal approach to businesses by setting up a local presence in each country and working



closely with tax and banking regulators. We collaborate with global and local banking partners, and manage any changes to rules, regulations and practices that may present risks (or opportunities) to our emerging currency exposures, counterparty credit risk or yields.

Data privacy – We exercise extreme care when handling any personal information, regardless of whether this belongs to drivers, passengers, merchants or even employees' personal information. This will then allow us to continue to earn the trust and respect of our partners.

Real-world transportation problems – One of our key principles is 'Disrupt or be Disrupted' and we see this trend sweeping across various industries. In early June 2018, Grab Ventures was launched, as we recognised that partnering with dynamic start-ups and helping them develop and scale technologies would accelerate the solving of mobility, O2O and payment challenges.

Partnerships with other Southeast Asian tech companies – We are working with companies that exhibit strong synergies with Grab to rise together and build an increasing ecosystem of services that will provide more income and growth opportunities for its network of driver, delivery and merchant partners. The Grab Ventures opportunities extend beyond transportation and payments to include logistics, food and financial services. This builds on and expands an existing ecosystem with greater access to everyday services for both consumers and businesses.

What Grab brings to the table are world-class engineering, a developed tech platform with valuable assets like our huge base of drivers, delivery partners, consumers and merchants, as well as products that will help partners scale faster – not to mention the usual capability development, market access and start-up facilitation, regulatory support and grants. Existing Grab Ventures projects include GrabCycle (a bike-sharing marketplace app for multiple personal mobility partners); Kudo (Indonesia's leading O2O platform); US-based Drive.ai (AI solutions for autonomous vehicles); and iKaaz (an emerging-markets mobile payments platform).

MIDDLE EAST

FADEY ABIDAOU INSTRUCTOR AT THE COLLEGE OF THE NORTH ATLANTIC



Fadey Abidaou is an accounting instructor at the College of the North Atlantic in Doha, Qatar, where he has been based

since 2012. Prior to this, he was the treasurer of the Municipal Group of Companies where his role revolved around cash management, intracompany financing and credit administration. Before that, he was involved in commercial lending, first at Canadian Imperial Bank of Commerce in Canada and then at Barclays in the United Arab Emirates (UAE). He has an MBA from Saint Mary's University in Halifax, Nova Scotia, Canada, and a CMA designation through the Institute of Management Accountants.

The economies of the Middle East are driven by government spending, and government revenues are still driven by a dependence on hydrocarbons.

The Middle East has increased its dependence on non-renewable

hydrocarbons, but there is still uncertainty on whether this is a good position to be in. The price of oil can change dramatically and I have witnessed the effects of \$150 per barrel, as well as lows of \$20 per barrel, brought about by the effects of the financial crisis in 2008. This in turn affects the credit available – and how quickly a credit line can vanish under adverse conditions.

There are two key areas that affect the price of oil: supply chain uncertainty and the rapidly rising US shale production. If oil prices plunge back into the \$20 range, the region will need to look at how to raise debt and will look at both the equity and debt capital markets.

The bond capital markets seem to have an appetite for Gulf debt. As reported by Reuters, Qatar raised \$12bn back in April, despite the blockade imposed by its neighbours. Saudi Arabia raised \$1bn at the same time. Rates seem to be affordable, too, with rates close to 200 bps above US treasuries.

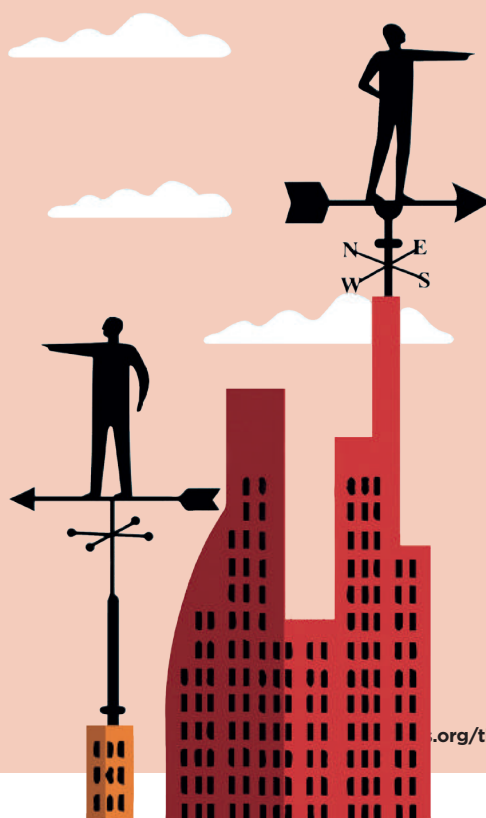
But there are other ways to finance government deficits. Everyone is aware of Saudi Arabia's plan to sell up to 5% of Aramco. The UAE has the Abu Dhabi National Oil Company and Qatar has Qatar Petroleum. Real estate is another option: investors like low-risk investments and the Gulf provides an opportunity for real estate investors.

Another area is the region's sovereign wealth funds, which possess the ability to manufacture economic growth and provide fiscal stimulus if required, albeit the funds remain opaque. They still possess the ability to manufacture economic growth and provide a fiscal stimulus if required. Additionally, insurance companies such as Qatar Insurance Company and Abu Dhabi National Insurance Company have available funds ready for input liquidity if required.

So, as a Middle Eastern treasurer, my concerns are about oil and gas prices. On a wider scale, I am also concerned about the US foreign policy and how it will affect all economies. ♦

Bond capital markets seem to have an appetite for Gulf debt

With thanks to all our contributors.



CASH CALLS

STOCKPILING CASH ACTS AS A SOLID RISK MANAGEMENT POLICY FOR SOME CORPORATES. OTHERS ARE AMASSING DEBT OR BURNING THROUGH CASH AT A FAST RATE. FRANCES COPPOLA LOOKS AT KEY US AND UK EXAMPLES, AND ASKS WHETHER IT IS TIME TO DELEVERAGE

Corporate cash piles have risen continually since the financial crisis and are now at historic highs. There has been widespread criticism of companies for hoarding cash, but at least they are well buffered against shocks. Corporate defaults and bankruptcies should be a thing of the past, shouldn't they?

But the devil is in the detail. The corporate cash mountain is concentrated in a small number of companies, predominantly technology and pharmaceutical. According to S&P, at the end of 2016, more than half of an estimated \$1.9 trillion in cash or cash equivalents on corporate balance sheets was held by 25 companies.¹ McKinsey estimates that \$1.5 trillion is excess cash, of which three-quarters belongs to just 10 companies.² Wealth inequality is not just a household phenomenon.

Underlying the cash mountain is rising debt. For giant cash-rich corporations, parking cash in low-tax jurisdictions

and issuing bonds to obtain cash for operations is an efficient way of managing a balance sheet. The bonds are effectively cash collateralised, which keeps bond yields well below the tax rate on repatriated cash. That is true not only for the US, but for many other countries, too. The exceptionally low interest rates of the past decade have created an incentive for companies to keep cash offshore and borrow onshore.

CASH IS COMING HOME

President Trump's tax reforms may disrupt this practice, if the tax cut proves sufficient to make bringing cash onshore attractive. Early indications are that cash is coming home: the Federal Reserve reports that foreign earnings held abroad by non-financial companies fell by \$632.7bn in the first quarter of 2018.³ But repatriating cash hoards doesn't necessarily make them shrink. If anything, cash reserves are increasing: gross corporate savings are now over £2.1 trillion.⁴

Of course, it is early days yet. Companies may still offload the cash they have repatriated. However, if the Trump administration was hoping they would do so in the form of new plant, equipment and jobs in America, it may be doomed to disappointment. There was never anything to stop tech and pharma giants investing their cash mountains. That they didn't do so suggests that the returns on that investment would be too low to make it worth their while.

Highly successful companies can find it virtually impossible to come across sufficient productive investments to absorb their cash revenues. Alphabet, Amazon, Apple, Facebook and Microsoft are each globally dominant in their own niche, which means they face little price competition. Arguably, therefore, their profits are higher than they would be in a more competitive market. This could help to explain their inability to find productive uses for their vast cash hoards.

Usually, companies return excess cash to shareholders, either as higher dividends or by buying back shares. It seems likely that



this will be the eventual fate of much of the cash repatriated to the US.

But it might take quite a while. Some of the giants make money from their cash reserves by lending them to other corporations. For example, Apple's offshore cash hoard is mostly not in the form of cash or near-cash equivalents such as US treasuries. Much of it is held as corporate bonds, mainly in other tech companies. The last thing Apple needs is to spook a general fall in tech bond prices by dumping its holdings to buy back its own shares.⁵

And not all of the cash will necessarily find its way back to shareholders anyway. *The Economist* magazine says the enormous cash reserves that these companies have built up is a form of self-insurance.⁶ In July 2018, Google was hit with a €4.34bn fine by EU regulators for "abusing the dominance" of its Android operating system for smartphones. This followed on from a €2.42bn fine in 2017 for favouring its own consumer shopping services in internet searches. Tellingly, Alphabet, Google's parent company, treated both fines as a cost of doing business.⁷ If cash reserves are large enough, no regulatory fine can force a company to change its behaviour. Anti-trust regulators may need stronger ammunition.

MONEY TO BURN

At the opposite extreme from the cash-rich tech and pharma giants, the high-tech manufacturer Tesla is burning cash at an extraordinary rate. In the first quarter of 2018, it got through \$1.1bn, depleting its cash balances by \$800bn. The rating agency Moody's warned at the time, that if it didn't get its cash burn under control, Tesla would need a rights issue later in 2018.



Tesla's co-founder and CEO, Elon Musk, irritably brushed off the criticism.⁸ But it is now evident that Tesla is suffering cash distress. It has asked its suppliers to keep it going by refunding some of the money it paid them as long ago as 2016.⁹

To be sure, high-tech manufacturing requires considerable upfront investment. Tesla argues that investors will see returns in due course, though it has yet to show a profit in 15 years. This raises an interesting question. Tesla is cash poor, but it is innovative. Apple was once cash poor and innovative, too. Now, Apple is hoarding cash – but what has happened to its innovation? Maybe what Apple is suffering from is not so much an excess of money as a lack of imagination.

It's not just Tesla that has taken a cavalier attitude to cash management. Some outsourcing conglomerations have been running asset-light, highly leveraged balance sheets with not much in the way of free cash. Normally, such a strategy would make them a poor investment. But banks and investors thought that because of the outsourcers' growing dominance in public-sector construction and services, they were implicitly backed by government. That is, until the failure of Carillion in January 2018.

Carillion literally ran out of cash. By the time it filed for compulsory liquidation, it had only £29m left, all of it encumbered by existing obligations. But its accounts showed that its debt obligations had exceeded its cash reserves by quite a margin since 2016, and it had almost nothing in the way of recoverable assets. It had been gambling for resurrection throughout 2017, relying on short-term borrowing to service existing debts, while taking on more and more contracts in the hope of generating sufficient cash flow to break the downward spiral. When

its banks pulled the plug on short-term funding, and the UK government refused to provide it with a bridging loan, the game was up.

The UK government's refusal to bail out Carillion amounted to withdrawal of a 'too big to fail' guarantee. Suddenly, the outsourcing sector looked vulnerable. Share prices fell across the board. Capita immediately announced a rights issue and restructuring plan; other outsourcers quietly started deleveraging. Cash is now king again in the outsourcing sector.

Cash should be king among second-tier companies, too. But according to S&P, aggregate cash holdings of companies outside the top 25 were only \$875bn at the end of 2016. Meanwhile, aggregate corporate debt has risen to \$5.1 trillion, and corporate leverage is higher than it was before the financial crisis. S&P says companies should deleverage before returning cash to shareholders. It warns that it might downgrade companies that don't do this.

It is a timely warning. Central banks are beginning to raise interest rates, potentially threatening the solvency of highly indebted companies. The economic outlook is becoming increasingly uncertain as trade tensions rise. In the UK, Brexit threatens to disrupt supply chains. In the light of all this, cash-rich balance sheets look attractive. Companies may need to adopt a more cautious approach to financial management, building up reserves and paying down debt. ♦

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TAX THE ROBOTS?

AS A SENIOR FIGURE AT THE BANK OF ENGLAND WARNS THAT AUTOMATION WILL HOLLOW OUT THE JOBS MARKET, WHICH SOCIAL-POLICY INITIATIVES COULD MITIGATE THE HUMAN COST?

MATT PACKER FINDS OUT

Those seeking reassurance about humanity's place in the workforce would have had a nasty shock if they had tuned in to BBC Radio 4's *Today Programme* on 20 August. For in that edition, none other than Bank of England chief economist Andy Haldane provided some sobering thoughts on how our species is likely to fare amid the inexorable rise of automation.

Nodding to the First Industrial Revolution, Haldane noted: "Jobs were effectively taken by machines of various types. There was a hollowing out of the jobs market, and that left a lot of people for a lengthy period out of work and struggling to make a living... That hollowing out is going to be potentially on a much greater scale in the future, when we have machines both thinking and doing – replacing the cognitive and technical skills of humans."

"This is the dark side of technological revolutions," he added. "And that dark side has always been there."

STANDARD OF LIVING

US scholar Professor John Russo has seen that dark side up close. For 30 years, he lived and worked in a deindustrialised community, teaching at a largely working-class university and witnessing first-hand the corrosive impact of new industries supplanting the old. Subsequently, in 1995, he and fellow academic Sherry Linkon co-founded the US's

first-ever Center for Working-Class Studies, based at Youngstown State University in Ohio. From 2000 to 2016, Youngstown experienced a population drop of more than 21%, as the US pivoted away from traditional industries – and jobs – in favour of the service economy. In Russo's assessment, "Artificial intelligence [AI] and automation will have a similar impact upon many workplaces, individuals and communities, unless support structures are created to deal with technological unemployment."

That impact, he notes, will be "a steady increase in the downsizing and reorganisation of corporate structures. Employees with valuable skills will benefit, and remain part of the core business. Meanwhile, lower-skilled workers will be displaced and/or become independent contractors, or part of the gig economy." That fragmentation, he warns, could trigger shock waves from sector to sector. "For example, displaced steelworkers from Youngstown and elsewhere who had pickup trucks and toolboxes went to work in construction – and lowered the standard of living among traditional workers in the building trades."

So, just how inevitable is technological attrition in the workplace? Global futurist Rohit Talwar tells *The Treasurer*: "The reality is that we are already seeing many of the tasks people perform, and whole jobs, being automated. And in practice, companies are

choosing to take those efficiency savings in the form of cost reduction, rather than releasing those people into new roles where they can add more value. When a tech company or consultancy goes in and bids for task and process automation work, they rarely pitch on the basis of enhancing human experience. They usually focus on the cost savings. So, I think a gap will open up between jobs lost through technology and any new ones that are created, and it may take some time to close it – if ever."

WINNERS AND LOSERS

For Talwar, Apple's recent watershed of becoming the first-ever company to reach a mind-boggling \$1 trillion market capitalisation vividly heralds the shaping role that tech firms will continue to play in the spread of automation.

"The top five companies in the world by valuation now are all tech companies," he points out. "As well as creating the technologies that everyone else relies on, they're using them well themselves. Tech firms are getting to the point where they could enter almost any sector on the planet, because through their AI tools, they are collecting the required data and understand how those industries work."

"They have insights into the dynamics at play within a range of sectors, and the relevant customer engagement models. And they tend to have much better engagement models themselves. That's why we're seeing them getting into everything from cars to air transport. So, while I think the potential is there for overall economic growth and wealth creation, it will be much more unevenly distributed than it is today."

It is important to note that not every thought leader agrees that destruction will outstrip creation in the jobs market. Indeed, PwC predicted in July that automation would have a broadly neutral effect in the UK, with 'winners' and 'losers' effectively balancing each other out. Speaking to *The Treasurer*, PwC UK AI leader Euan Cameron explains: "Technology is rarely adopted at scale if it does not increase either efficiency or quality, and thereby contribute to economic growth. We expect AI technologies to generate an additional 10% of GDP growth in the UK by 2030 – equivalent to more than £230bn of economic activity."

"As we have seen in previous technology cycles, wealth created in industries that benefit from new technology will generate additional demand and jobs across other areas of the economy. There is likely to be a particular increase in demand for roles that take advantage of human skills, in areas such as education, science and healthcare."

That said, Cameron is hardly convinced it will be plain sailing. "While we expect overall employment levels to remain roughly constant over the next 15 years," he notes, "we should expect plenty of disruption as old roles are displaced and new ones created."

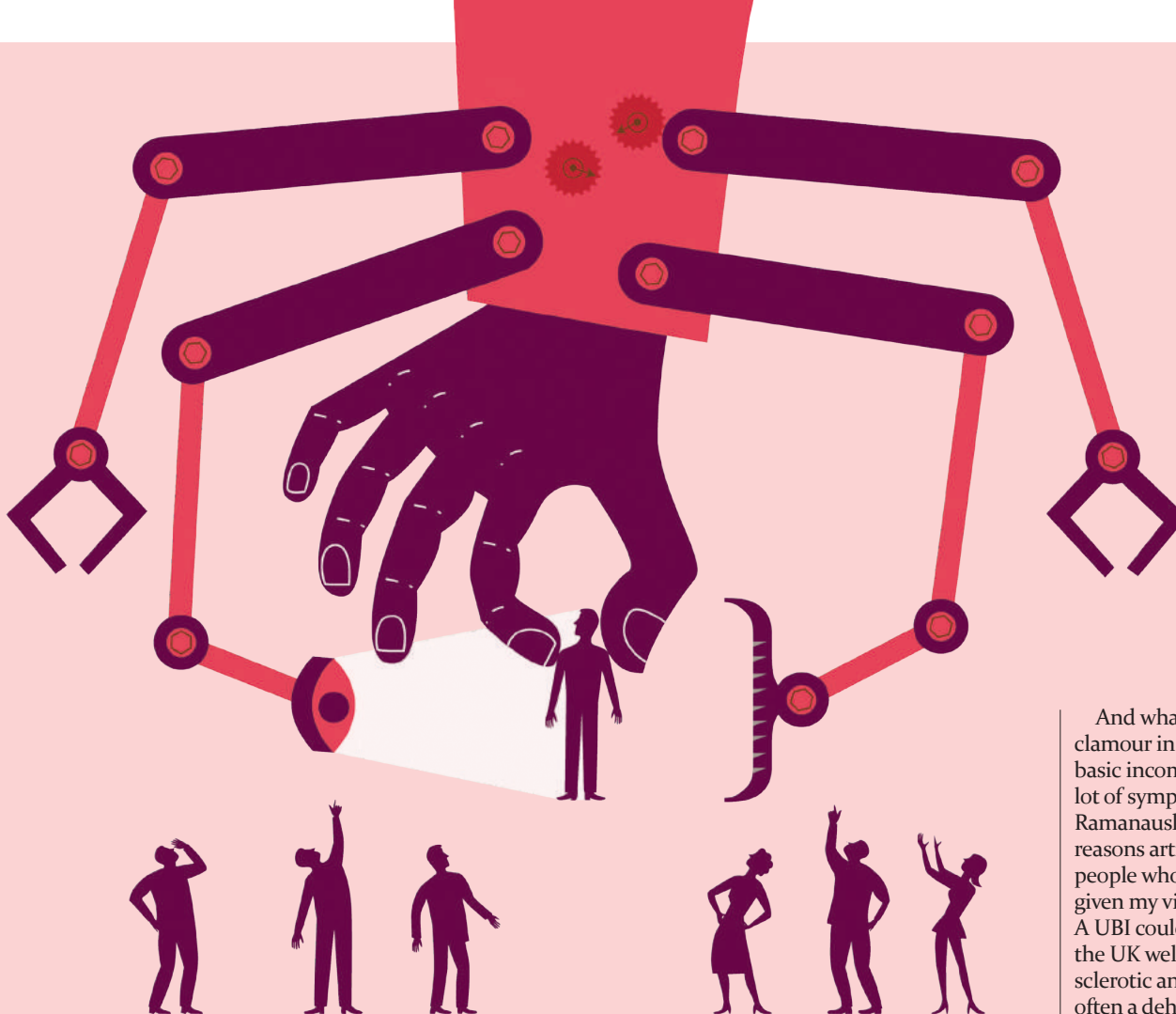
A TAXING QUANDARY

With that disruption in mind, Cameron suggests that a policy programme the government could implement by way of a cushion may involve creating:

1. An educational syllabus built around 'uniquely human skills' – for example, adaptability, creativity and emotional intelligence – together with core science, technology, engineering, and math skills;

"Automation is an investment in firms and, therefore, the wider economy"





2. Effective lifelong-learning and retraining schemes for adults;
3. An attractive business environment for AI enterprise; and potentially...
4. A more robust social safety net, should the pace of change prove particularly rapid.

Talwar favours “investing massively in raising people’s digital literacy, so they understand the technology behind automation and its implications”. He also says that governments “should start to think really deeply about the social policy challenges of people losing their jobs more often, having shorter periods in work and needing to retrain more regularly. This may be a transitional measure for the next five to 10 years, until we’ve seen the true impacts. By then, we may know whether we’re on a path towards a world where full employment is still possible, because we have a lot of new jobs and skills, and therefore

no longer need those social policy instruments; or a world where there are far fewer jobs – and having a job may be the least-common outcome for people.”

But what about a measure that could be seen as the most radical policy of all: levying taxes specifically against organisations that automate? Russo is clear on that point. “Corporations that create negative externalities for individuals, communities and the environment – whether caused by AI or other business activities – should no longer simply pass the costs along to governments and taxpayers,” he says. “Specific taxes on firms is one example of an array of strategies that policymakers could consider, which may also include basic incomes and guaranteed jobs.”

Talwar is of a similar mind. “We need experimentation in things such as guaranteed basic income,” he says. “But we also need guaranteed basic services, plus innovative approaches

to taxation – whether it’s just collecting what corporations owe, or targeted, additional taxes for companies that are replacing humans with technology.”

However, TaxPayers’ Alliance policy analyst Ben Ramanauskas – who takes the view that automation will have a “positive impact” on human beings – says that a targeted ‘robot tax’ would be “not just unnecessary, but economically damaging”. He points out: “Automation is an investment in firms and, therefore, the wider economy. If firms find they can operate more effectively by using automation, but face taxes for doing so, then they are likely to move to a different country where they do not face such a tax. As the UK prepares to leave the EU, we need to ensure that our economy is competitive and seen as an attractive place to invest and do business. As such, we should be thinking of cutting taxes on businesses – not introducing more.”

And what of the growing clamour in the UK for a universal basic income (UBI)? “I have a lot of sympathy for a UBI,” says Ramanauskas, “but not for the reasons articulated by many people who are calling for one, given my views on automation. A UBI could help to simplify the UK welfare system, which is sclerotic and bureaucratic, and is often a dehumanising experience for many claimants, who find themselves falling through the cracks – and into financial difficulty – as a result. It could also enable people to do things that are more economically beneficial and socially useful, such as starting a business, or volunteering or caring for sick and elderly friends and relatives.”

Cameron is similarly intrigued by the potential scope for a UBI, but warns: “It should not be seen as a silver bullet. There are important questions to be answered around the impact on societal incentives, and the valuable role that work can play in providing individuals with a sense of community and purpose, as well as income.”

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A MIDDLE EAST EVOLUTION

AS THE ACT LOOKS FORWARD TO THE NEXT MIDDLE EAST TREASURY SUMMIT AND CELEBRATES 10 YEARS IN THE REGION, *THE TREASURER* LOOKS AT HOW THE PROFESSION AND TREASURY FUNCTIONS HAVE DEVELOPED

> This autumn, as more than 500 treasury professionals prepare to convene in Dubai at the ACT Middle East Treasury Summit, the ACT will celebrate 10 years in the region.

The transformation that corporate treasury has undergone in the Middle East in the past decade has been remarkable. “Treasury teams and functions in the region have matured and evolved at an unprecedented pace,” says Matthew Hurn, the ACT’s chair in the Middle East and CFO of alternative investments and infrastructure at Mubadala

Investment Company. “And alongside that development, the treasury community, finance and technology providers alike have upped their game to better support treasury teams, with growing prowess in the development of banking products and the sophistication and availability of debt and equity instruments.”

Like any region, the Middle East is not one homogenous economy, but a collection of marketplaces. Middle Eastern and international operators alike recognise that different national economies within the region and the Gulf

Cooperation Council can move at very different paces. Alongside that are differing capabilities from corporate to corporate in terms of treasury operations and great variability in terms of the availability of financial products.

“The degree of sophistication and support available in governmental and regulatory terms will also differ from one regional market to the next. For instance, Kuwait is generally held to be behind the curve in certain key respects, while Dubai’s evolution has taken it further on,” says Peter Matza, the ACT speakers’ chair.

Then there is the size of the corporate and its treasury function to take into account. The pace of change and adoption of technology have been greater and faster in larger corporates. Those larger treasury functions have adapted and improved substantially, in some cases, carrying out the equivalent of 20 to 25 years of corporate development over the course of a decade. In these kinds of organisations, payment mechanisms such as SWIFT have been more readily adopted, and fast-growing companies have been able

to avoid the legacy issues that have dogged corporates in more established markets. Those in the Middle East that have adapted and changed have helped to set the pace for other treasury functions in the region. "Where they have opened up to the outside world in terms of treasury technology and practice or the adoption of accounting regulations, they have been well placed to do better business in the Middle East and perform better in world markets as well," says Hurn.

Increased standing

Changing economic fortunes over the past decade have left their mark. Businesses in the Middle East, as elsewhere in the world, make hard calls on currency and commodity prices. If anything, the periods of volatility of the past decade have helped corporate treasurers to make their mark.

"The past 10 years have seen a vast change for corporate treasuries in the emerging markets, including the Middle East. The combination of both the financial crisis 10 years ago and the subsequent lower oil prices have led many corporates in the region to take corporate treasury seriously and set up fully fledged treasury departments," says Chris van Dijk, MD of treasury advisory firm Cugavadi. The reduced availability of liquidity at banks, combined with an overall need to run more efficient operations, has prompted corporates to set up in-house banks and payments factories, says van Dijk, who set up the region's first

in-house bank in 2011, at Easa Saleh Al Gurg Group.

And there have been qualitative changes as well. The world of finance in 2018 is very different compared with 10 years ago. The skills of the treasurer are increasingly valued in the Middle East, as elsewhere. "The treasurer has always been guided by their basic principles of a rigorous theoretical and practical approach to financial risk," says Gary Slawther, treasury director at Arabtec Holding. "It is for that very reason that the skill and art of the treasurer have, over time and through proven delivery, become recognised and valued. More and more, CFOs and CEOs are viewing the treasurer not as a luxury, but as an absolute must-have core member of their team. We are also starting to see treasury becoming a route to the role of CFO, with examples such as Shrimati Damal at retailer Majid Al Futtaim."

Mona Lockett, group head of treasury at Webcor, says the evolution of the treasurer's role from cash and liquidity management to holistic financial risk management has been reinforced by the past decade. "Risk management is becoming a major part of the treasurer's role. Treasurers now need to ensure their risk framework is watertight. With market volatility, country and interest rates risks and bank uncertainty, there is a lot to manage. Previously, an organisation's strategic treasury remained in the background – this is not the case now," she says.

Technological advancements have played a key role, van Dijk points out. "A lot of the advancements in the region could not have happened without the rapid development in the fintech industry. In a region where labour is cheap and physical paper is much loved, the move to a treasury management system [TMS] has not been cost-efficient for most organisations.

"However, the emergence of cloud-based technology providers that provide a more slimmed-down core treasury functionality, such as TreasuryXpress, have revolutionised the corporate treasury landscape. Ten years ago, there were perhaps fewer than 10 corporates in the region with a TMS installed. Now, there are probably at least 50," he says.

The future

The challenges faced by treasurers in the Middle East in 2008 were immense, but the challenges of 2018 and beyond are arguably just as pressing. For any international operator such as Webcor, working across the Middle East and other parts of the world brings up a plethora of compliance issues with little common ground from one provider to another, particularly around banking requirements and cultures, says Lockett.

"Factor in the need to work collaboratively with regulators and policymakers to ensure products and regulatory frameworks are developed to support industry and growth for the next 10 years – not to mention managing external influences such as Brexit, blockchain and the impact on the global stage of geopolitical trends, such as the threat of trade wars – and there is plenty

to challenge the profession," says Hurn.

It is certain that the new generation of Middle Eastern treasurers will not lack challenges, which should be seen as an opportunity. "For the driven and determined, this is the place to be," says Slawther. 📌

Middle East Summit

The ACT Middle East Treasury Summit – the third-largest treasury conference in the world run for treasury professionals – will reflect treasury's growing standing in the region, as well as showcasing a wealth of experience, knowledge and best practice.

From cybersecurity to blockchain, from evolving relationships with banks to unlocking new innovations in payments, the ACT's conference programme provides a myriad of opportunities for regional treasurers to both explore the cutting edge of treasury technologies and come to understand how their peers address and resolve cash and treasury management issues.

The event provides a first-class networking opportunity, drawing together treasurers alongside bankers, financial institutions and service providers – a concentration of expertise that is unparalleled in the region.

The summit takes place on 16-17 October at the Madinat Jumeirah in Dubai and will be celebrating 10 years of the ACT in the Middle East. For more details, visit www.treasurers.org/middleeastsummit

"Treasury teams and functions in the region have matured and evolved at a striking pace"



Intended to improve visibility and provide greater clarity for stakeholders to evaluate risk, the most recent round of financial regulation is causing headaches for treasurers concerned about staying within their banking covenants. The IASB's IFRS 16, coming into effect in January 2019, is proving particularly troublesome for corporates to adjust to. With the majority of companies using rentals or leasing, IFRS 16 could potentially herald the most significant upheaval to balance-sheet management in years.

As most treasurers are aware, IFRS 16 will make significant changes to the methodology of lease accounting. While accounting for lessors will remain largely unchanged, lessees will have to adjust to a completely new accounting model that will see all leases brought onto the balance sheet.

While the balance sheet provides a key insight into

ADJUSTING THE BALANCE

INCREASINGLY STRINGENT ACCOUNTING REGULATIONS SUCH AS IFRS 16 ARE PUTTING PRESSURE ON CORPORATE TREASURERS TO STAY WITHIN THEIR BANKING COVENANTS. COULD INVENTORY FINANCE SOLUTIONS PROVIDED BY SPECIALIST FINANCIERS BE A SOLUTION? **CHRISTOPHER HOWARTH** EXPLAINS

a company's financial health, businesses have become all too comfortable with the safety net of off-balance sheet financing. And with an estimated \$3 trillion in operating lease obligations currently buried in the notes of financial statements, the impending implementation of this new measure is certain to cause disruption – not least on companies' financial eligibility with respect to credit.

Increasing leverage ratios

So, how exactly will financial metrics be affected? Unsurprisingly, bringing leases on the balance sheet will increase leverage and debt-to-equity ratios, given that lease liabilities will be added to existing liabilities and increase the reported debt load. Asset turnover will also decrease, given that lease assets will increase the reported asset base with no change in sales. And, with bank lenders already buckling under increasingly restrictive measures such as Basel III – which requires the maintenance of significant liquidity coverage ratio – financing the supply chain will become that much more complicated.

Of course, IFRS 16 is simply the most recent in a steady stream of accounting regulatory changes impacting balance-sheet treatment. Other standards, such as IFRS 9 – which recently replaced IAS 39 – are also continuing to affect risk management regulation and, consequently, the balance sheet. Indeed, it was this predecessor that first incorporated measures to tackle the problems generated by the misrepresentation of repurchase agreements on the balance sheet.

Through the use of repo-to-maturity (RTM) transactions – whereby transferred securities (usually government bonds) mature on the same date a given repurchase agreement ends – borrowers were able to present deals on their balance sheet as sales due to the fact that the assets would not be recovered before they matured. The obligation to repurchase these securities was therefore not recorded and the underlying risk was not apparent on the balance sheet.

Indeed, this was the cause of the infamous downfall of MF Global, which bought up bonds issued by struggling eurozone countries and used them as collateral in RTMs profitably for some time. Yet, a wave of credit-rating

downgrades of the sovereign bonds resulted in MF Global's lenders making increasingly demanding margin calls, which – given the sheer size of these transactions – led to MF Global defaulting on its RTM transactions and, ultimately, being forced to file for bankruptcy.

And while MF Global's appetite for financial engineering was more exotic than most treasurers', it is clear that – given the direction in which regulation is travelling – a complete overhaul is under way with respect to how corporates manage their balance sheets. Given this, the impact on balance-sheet management, optimisation and the utilisation of debt instruments by corporate treasurers is likely to be profound.

What is certain is that the likes of IFRS 16 and IFRS 9 will bring about even stricter management of the balance sheet. Leverage ratios may increase, with many companies finding themselves unable to borrow without breaking lending covenants. Such radical accounting changes were unforeseen.

Indeed, holding large sums of debt on the balance sheet can have a significant and detrimental impact on a

Financing the supply chain will become that much more complicated

company's financial health. Deteriorating debt-to-equity ratios, as well as challenging lender covenants could have an effect on ratings, which could result in a drop in share prices and may cause a vicious downward spiral.

Financial regulation

Recent surveys of treasurers indicate strong support for the idea of profound change. According to *The Business of Treasury 2018* report carried out by the ACT earlier this year, the outlook suggests that regulation and capital management will become an increasing focus in the years ahead. Indeed, 82% of all those surveyed expressed some level of concern about financial regulation – suggesting IFRS 16 will have a particular impact on future accounting decisions. Furthermore, 45% of all those surveyed expect to spend more time on capital and liquidity management in 2019 than they do today – while 32% already spend most of their time on this area in the UK.

Such figures are backed up by an independent survey conducted by Falcon Group at the ACT's Liverpool conference in May. Some 25% of respondents to Falcon's survey said that the biggest driver of their key performance indicators (KPIs) was staying within banking covenants. On top of this, 23% stated that their biggest concern moving forward was their company's level of debt.

One unforeseen consequence of the new regulatory environment is the impact on inventory finance. As the survey results show, inventory days outstanding (between goods arriving in the warehouse and being monetised) stand at 75 days or more for 64% of those surveyed, which is already outside the bank's typical 60-day limit on financing

inventory. Meanwhile, as a result of Basel III and other post-crisis strictures, banks are deleveraging anyway – making treasurers come to the inevitable conclusion that, slowly but surely, diversification is increasingly important.

A new era for inventory finance

Enter the specialist finance companies less heavily governed by the strict capital requirements that banks must adhere to under regulations such as Basel III. These companies are able to take a more tailored approach on transactions, meaning they are able to focus on structuring bespoke solutions that solve the conundrums thrown up by IFRS 16 and other regulatory restrictions on balance-sheet optimisation.

A key area of focus is inventory. Specialist financiers such as Falcon Group are working alongside corporate treasurers to provide bespoke solutions that meet the increasing demand for 'just in time' inventory – which gives certainty and consistency in terms of cash flow – while also allowing companies to maintain their bank covenants, as it does not sit as debt on the balance sheet.

Traditionally, inventory finance existing solutions, such as revolving credit facilities and supplier credit, are normally recorded on the balance sheet, which means they do little to ease the growing liquidity constraints that new regulations such as IFRS 16 are introducing.

It is also uncertain how credit insurance markets will consider their lines once IFRS 16 comes into play. Certainly, this new regulation will impact the ratios that feed into the algorithms that are used to determine credit limits – impacting a company's credit rating from credit insurers and, subsequently, their willingness to extend their lines.

With this in mind, awareness of off-balance sheet inventory financing has never been more important. Certainly, specialist supply chain lending solutions, such as Falcon's solutions around inventory, present an optimistic future for an accounting landscape becoming mired in restriction and complexity. It not only complements existing banking products – meaning banks can maintain their existing

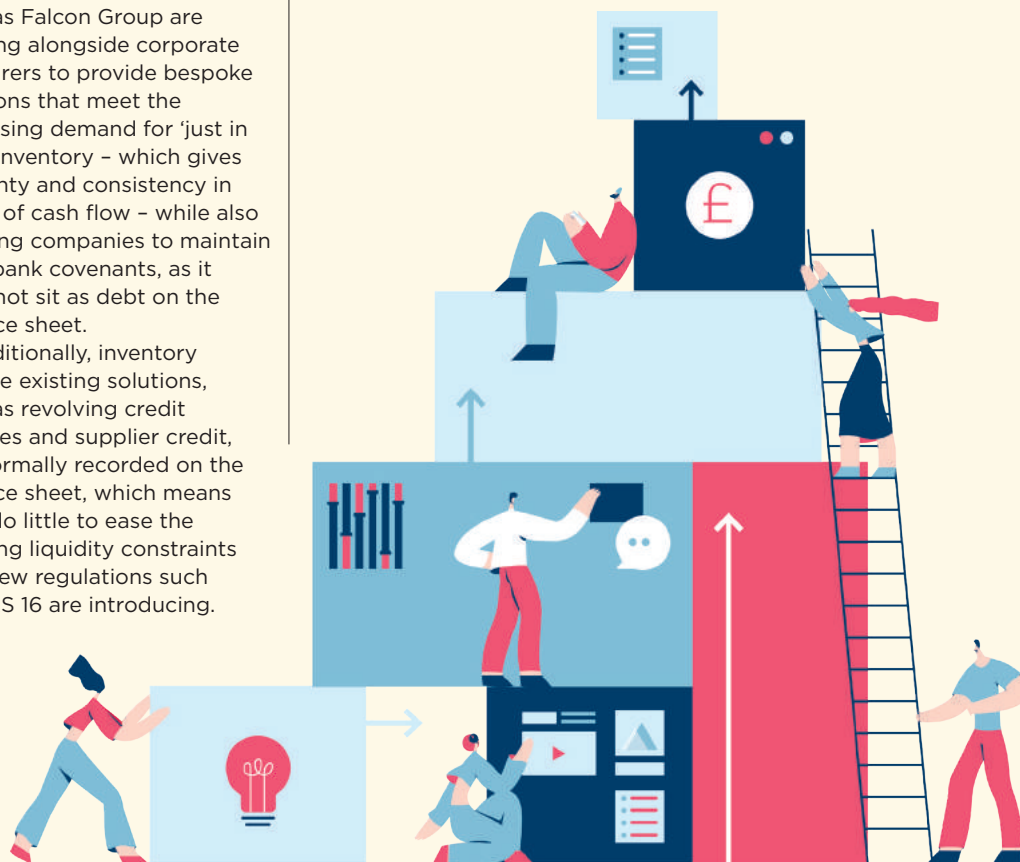
bank borrowing levels – but provides a more certain cash flow, allowing businesses to grow without jeopardising the balance sheet, and also work progressively to achieve the treasurer's KPIs.

No wonder then, that, according to the ACT's *Business of Treasury* report, in the past five years, the number of referrals to alternative finance sources has increased from 10% to 17%. A figure that can only be expected to grow. 📈

Christopher Howarth is group CFO at Falcon Group



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The price of oil

The oil price has had a notable effect on the management of working capital and supply chains in the region. A high oil price has been something of a mixed blessing in working capital management terms. While it might boost economic activity, liquidity and market confidence, it can lessen the incentive for corporates to manage working capital effectively.

A low oil price, meanwhile, exerts pressure on regional economies, as revenues and returns contract. Under these conditions, the cash-conversion cycle, a measure of a company's ability to turn working capital into cash, deteriorates steadily. The 2017 PWC Middle East Working Capital Study, for instance, highlights these impacts and reports a cash-conversion cycle of 137 days in 2016 – a historical high.

But the low oil price cycle also incentivises companies to look beyond their immediate markets and to assess their working capital and supply chains as a whole. As trade flows shift in favour of the region and uncertainties within the global economy continue – albeit against a backdrop of a strengthening oil price – Middle Eastern corporate treasurers have wisely continued to focus on cash and cost management. They are reviewing their own working capital and supply chain management, benchmarking it against their peers in the interests of identifying opportunities to realise cash and other benefits from their working capital.

Cash and costs – continuing focus

Working capital is, in essence, cash suspended in the supply

chain. Outstanding payments can mean increased interest costs, less cash on hand to purchase inventory and missed business opportunities. A more dynamic payment cycle eases cash flow and enables businesses to respond to opportunities and honour their own payment obligations, making them more reliable trading partners.

Clearly, companies understand the cost of carrying high levels of working capital in difficult economic periods. Instances when the oil price has been low have contributed to the pressure on treasurers and organisations to look for ways to optimise operational processes and deploy SCF solutions.

A low oil price, meanwhile, exerts pressure on regional economies

Etihad Airways, the United Arab Emirates' (UAE's) flag carrier, is a good example, working out an integrated procure-to-pay strategy to improve its working capital and supply chain picture as a whole. The airline hosts annual procurement and supply chain management symposia, attended by local and international suppliers, with a view to enhancing partnerships and facilitating its suppliers' access to sustainable working capital.

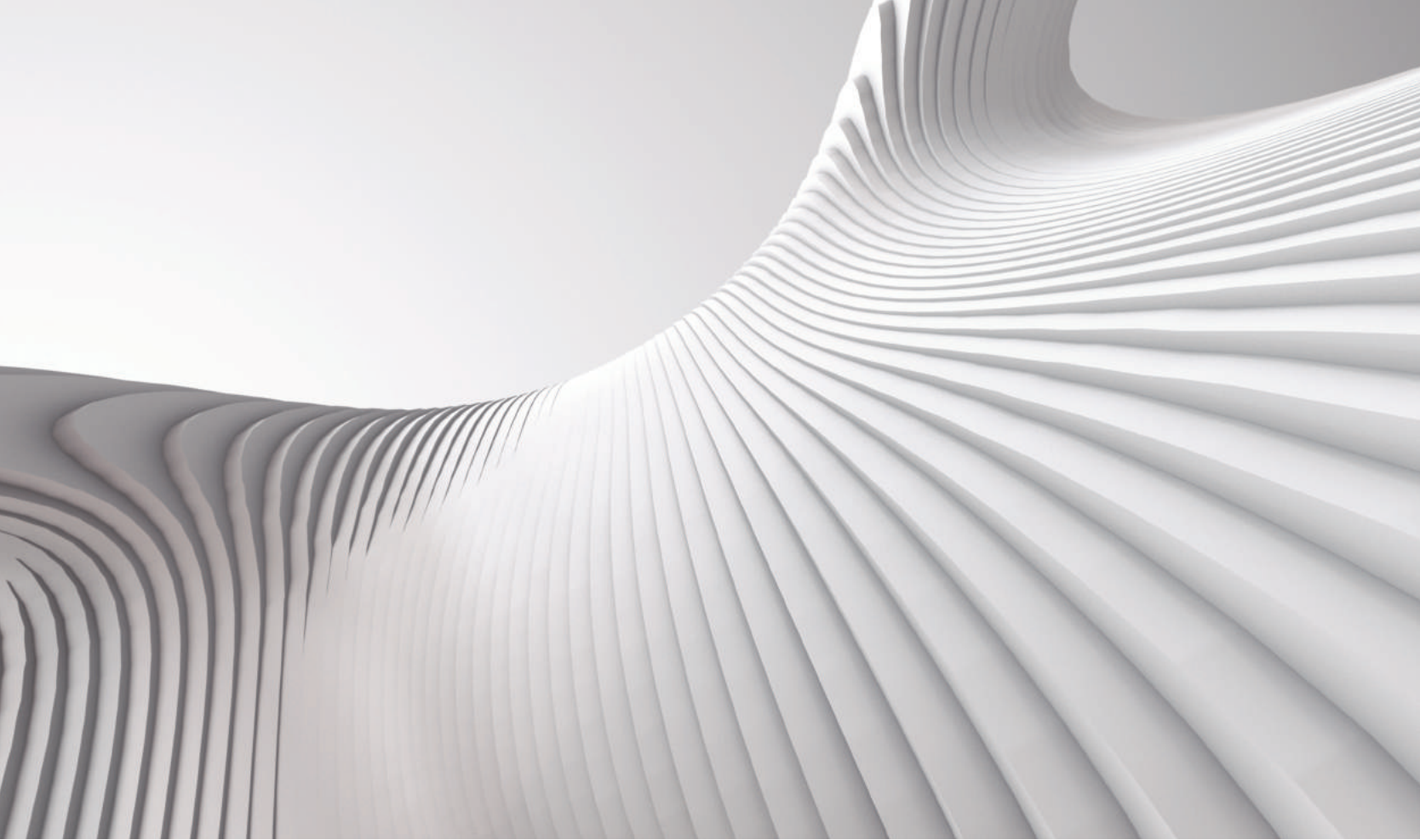
Cross-functional collaboration is one of the key drivers to unlocking the potential for working capital that lies tied up in supply chains. Steps towards building >

SUPPLY-SIDE

TREASURERS IN THE MIDDLE EAST ARE SHOWING GROWING INTEREST IN SUPPLY CHAIN FINANCE SOLUTIONS, AS WORKING CAPITAL MANAGEMENT PRINCIPLES TAKE HOLD. SEMIH OZKAN REPORTS

> Supply chain finance (SCF) solutions ranging from receivables discounting to payables finance to distributor finance are gaining ground in the Middle East, with growing support from

corporate treasurers. There have been a number of catalysts – low oil prices, a devil in disguise for the region, and a renewed focus on cash and cost management among them.



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A win-win case

In an initiative recognised in the ACT Middle East Treasury Awards 2017, Asian Development Bank (ADB) partnered with retail and hospitality group Landmark to secure SCF for Landmark's SME supplier base.

The arrangement helps Landmark to improve its working capital and supply chain management, while providing around \$200m additional and sustainable working capital to many of the company's suppliers, including SMEs across developing countries in Asia. Access to cheaper and more secure working capital puts these suppliers in a better position to plan investment in their operations, expand production and hire additional personnel.

The solution, ADB's first ever SCF transaction in the Middle East addresses, albeit in a small way, the disadvantages SMEs experience when it comes to accessing trade finance.

- Designing an integrated procure-to-pay approach, considering various enterprise resource planning (ERP) and digital integration possibilities;
- Outlining a business case and getting it signed off across finance, procurement and management;
- Implementing improvements to operational processes or implementing SCF; and
- Encouraging a cash and cost-conscious culture.

The benefits of better management

Unlocking cash from working capital and supply chains might be the most referenced advantage arising from SCF solutions, but the benefits do not stop there.

Other advantages include:

- Access to additional and more sustainable working capital;
- Improved cash metrics, as well as other financial performance indicators;
- Reduced operating costs across supply chains; and
- Increased supply chain stability.

The PWC study highlights other benefits, such as support for inorganic corporate growth, and reduced debt and borrowing costs.

To realise these kinds of long-term and broad-based gains, cross-functional teams within corporates need to address fundamental questions on strategy, roles and responsibilities, and formulate target operating models to shape their approaches.

Recently, Landmark Group, one of the largest retail and hospitality groups in the Middle East, Africa and India, announced a SCF solution under the Asian Development Bank's

Treasurers have wisely continued to focus on cash and cost management

SCF Program that cooperates with anchor companies and partner financial institutions to enhance access to working capital for SMEs.

Companies in the region, regardless of size and sector, are assessing their working capital and supply chains, and demanding tailor-made solutions to serve their specific dynamics. And engagement is not limited to the private sector. Public-sector entities, such as the Dubai Electricity & Water Authority (DEWA), have also entered this arena. DEWA has established SCF solutions within its UAE operations aimed at benefiting itself and its suppliers, and creating further funding pools for local SMEs. Even mature sectors such as gas and oil are reviewing working capital and supply chain management in the interests of becoming more competitive on the international stage.

The recent uptake and engagement around SCF solutions in the Middle East

are encouraging and mark a shift towards an inclusive trade finance ecosystem. As corporate treasurers in the region increase their demand for best practices and solutions, development organisations such as Asian Development Bank (see box, left), financial institutions, alternative trade finance providers and logistics companies will respond to take the region to the next stage.

Corporate treasurers should resist any temptation to waver in their focus on cash and cost management to ensure they are able to make good on progress so far and to continue to realise the potential that lies within their working capital and supply chains. ➔

Semih Ozkan
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an internal case for SCF solutions include:

- Reviewing working capital and supply chains, including those of peers, to identify improvement opportunities;
- Quantifying identified opportunities across working capital from cash and liquidity management to trade receivables, inventories and trade payables;
- Building cross-functional alliances between procurement and finance and management;



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NEW DIGITAL ORDER

A NEW ERA OF DIGITISATION OFFERS THE PROSPECT OF EXPANSION FOR ISLAMIC TRANSACTION BANKING, SAYS **HAYTHAM EL MAAYERGI**

With the need to manage efficiency, liquidity and financial risks, treasurers are always on the lookout for new solutions to meet such objectives. Banks now understand the power of automation and digitisation to help treasurers attain these objectives; possessing a clear idea as to how it can help with their needs for control, visibility and centralisation.

Most Islamic banks, previously not known for their technological agility, are successfully adopting transformational programmes to become industry leaders in the digital era. Pioneering technology has allowed them to develop new propositions in the areas of payments, collection, liquidity management, FX, trade finance and other areas of the working capital cycle.

According to a report from the General Council for Islamic Banks and Financial Institutions, Islamic trade finance is estimated to constitute around \$186bn out of \$4.4 trillion worth of trade finance activity in Muslim-majority countries. The possibilities for market expansion across segments largely untapped by Islamic banks are therefore huge. Automation and digitisation have made it possible for Islamic banks to prepare themselves to capture such trade finance opportunities.

Historically, Islamic finance structures like murabaha and ijara involved contracts to purchase assets and sell or lease them to clients, which traditionally increased the turnaround time compared to conventional banking.

However, through automation and simplification, financing through these structures is now streamlined. Additionally, Islamic banks can now provide different optionality for financing to suit the needs of customers.

The digital revolution

The landscape has become extraordinarily demanding and competitive for banks with the digital revolution that is taking place. This has resulted in an increased number of solutions and unprecedented innovation, with fintechs and companies seeking to benefit from new technologies such as blockchain, Big Data, application programming interfaces and process automation.

Despite this, corporates these days will only engage with banks that offer advanced solutions. Therefore, Islamic banks need to invest in digital infrastructure to attract market share from their conventional peers. The adoption of new technologies into trade finance will transform the sector while also providing the greatest opportunity for Islamic finance by helping to lower costs, speed up sharia-compliant transactions and expand operational footprint.

Islamic banks are also expanding their target market, coming up with product

suites that cater not only to the needs of local large and small companies, but also multinationals operating across Islamic countries. Such solutions offer different Islamic structures and financing options for any underlying trade transaction with streamlined and standardised documentation. They also allow treasurers to view, control and forecast their cash flows across their different accounts and countries, while providing them with risk-mitigation tools.

In ADIB's experience, there are three clear reasons why companies working in Islamic countries should consider using Islamic banking services:

- They present a new approach compared to conventional banks that can help them meet their objectives, particularly in risk mitigation;
- They provide opportunity to diversify sources of finance by tapping into Islamic banking liquidity; and
- In Islamic countries, engaging with Islamic banks is essential if they are to become part of the financial fabric of the market.

The outlook for Islamic transaction banking is undoubtedly bright in the context of this new digital era. It is now up to individual banks to demonstrate their innovation and versatility to tap into this latent potential, and for treasurers to benefit from it. ♦

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ON THE TREASURER'S RADAR...

MICHELLE PRICE OFFERS SOME THOUGHTS ON FINANCIAL MARKETS REFORM TO HELP YOU STAY AHEAD OF THE GAME



Sometimes, there are topics that come across our desk which make us think: 'treasurers should be aware of this', and so this month, we are taking the opportunity to highlight a few of them. Some of these will change your world; others may make no impact – but all of them need to be on your radar, if only so you can answer that awkward question from the FD.

FMSB – relevance to corporate treasury

The Fixed Income, Currencies and Commodities (FICC) Markets Standards Board (FMSB) is an independent body set up by market participants in 2015, following conduct problems that arose in the global wholesale FICC markets during the financial crisis.

The FMSB is not a regulator or a trade association, and does not produce rules, laws or codes, but instead publishes voluntary standards and guidance notes designed to illustrate best practice and improve standards of conduct in wholesale FICC markets.

The relevance for members who work in financial institutions is clear, particularly given the recent Financial Conduct Authority (FCA) announcement that it will be recognising voluntary codes and taking them into consideration when reviewing regulated organisations. Why, then, should corporates be

interested in the workings of the FMSB?

The answer is that these standards of best practice may influence how banks operate. They describe a level of behaviour that corporates can expect from their financial counterparties. They also act as a valuable resource for corporates trying to understand market mechanics and what their own behaviours should be when transacting in those markets.

The FMSB website also has a fascinating database of misconduct cases in financial markets dating back to 1792, together with analysis covering the behavioural patterns. See www.fmsb.com/our-publications/#7

To ensure that the corporate community remains engaged in these developments, the ACT is a partner member of the FMSB, with Caroline Stockmann, our chief executive, representing us on both board and advisory panel. In addition, there are a number of corporates that are full members, including BAE Systems, BHP, BP, Rio Tinto, Royal Dutch Shell, Royal Mail Group and Vodafone.

A link to FMSB's standards can be found at www.fmsb.com/our-publications/#3

European MMF reform implementation

European Money Market Fund (MMF) reforms were signed into law in July 2017 and will become

effective for existing funds in January 2019. Understanding the reforms and the new fund types will be a priority for corporate investors, as fund managers market their new funds over the coming months. A link to a recording of the ACT's webinar with Fitch can be found at www.treasurers.org/webinar/MMFreform, together with a newly published document of Q&As that arose during the webinar. See www.treasurers.org/MMFreform


Don't rely on Libor continuing!

It's now over a year since Andrew Bailey, chief executive of the UK's FCA, announced the transition away from Libor by the end of 2021. This July, he gave another speech describing what the world of interest rate benchmarks after Libor may look like. The full text of the speech is at www.fca.org.uk/news/speeches/interest-rate-benchmark-reform-transition-world-without-libor

His key message was that firms should not place any reliance on the continuation of Libor or the creation of a synthetic Libor – something

mooted earlier in the year – but start to prepare now for life after Libor.

The ACT participates in various working groups moving through this transition to ensure that the corporate voice is heard through this process, and regularly updates the ACT Libor transition web page with all the latest news on this topic. For example, the ACT has produced a checklist for corporates to refer to, which can be found at www.treasurers.org/liborreform

There is also a UK corporate forum on Libor transition, which welcomes corporate members – so please get in touch if you'd like to be more closely involved. 

If you would like to get in touch or comment on any of these issues or any other policy or technical matter, get in touch at technical@treasurers.org

Michelle Price is associate policy and technical director at the ACT



HOW INVESTORS VIEW OUR ORGANISATION

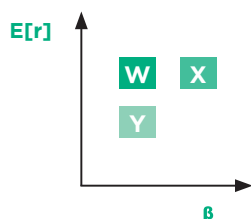
LENDERS AND SHAREHOLDERS SEE OUR COMPANY AS A FINANCIAL INVESTMENT. DOUG WILLIAMSON EXPLAINS WHY WE NEED TO SEE OURSELVES AS THEY SEE US

Companies need satisfied investors. Dissatisfied investors will sell their holdings and depress market values, with many bad consequences for the company. As treasurers, we must understand our investors' perspectives, and engage with them.

Let's explore our investors' viewpoint in a simplified case study. Imagine for now we are investors, with a portfolio of holdings that we're reviewing for potential disposal or retention.

Two key measures

Our analyst has prepared a helpful diagram, below. Expected return ($E[r]$) is on the vertical axis. Market risk, measured by beta (β), is on the horizontal axis. You can find out more about beta at wiki.treasurers.org/wiki/Beta



Profit-seeking

Given the same levels of risk, we always prefer higher rates of return. Looking at investments W and Y, each of them has the same risk. But W has a better

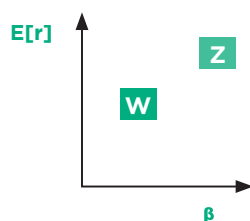
$E[r]$ compared with Y. So we'll always prefer W over Y.

Risk-averse

We also prefer less risk, for the same rate of return. In this case, W and X have the same $E[r]$. However, X has greater risk. So we'll prefer W over X, as well as over Y. Investment W is dominant over both the other holdings.

Risk-return trade-off

Our analyst identifies another holding for review, Z, summarised below.



Should we favour Z over W? Not necessarily. Z has a superior return, but it also has higher market risk. We need another evaluation tool, and more data about both W and Z. Our analyst provides the following additional information:

	$E[r]$	β
W	9%	1
Z	19%	3

Risk-free rate (R_f) is 2%; and market risk premium (MRP) is 6%.

Required return

Now we can assess both W and Z using the capital asset pricing model (CAPM) and required rates of return (R_e). The greater market risk an investor is exposed to, the higher R_e it requires, to compensate for the risk. If the $E[r]$ is lower than the R_e , the CAPM predicts investors will sell, pushing down market prices.

Apply CAPM

The CAPM assumes a straight-line relationship between β and R_e :
 $R_e = R_f + (\beta \times \text{MRP})$

W's R_e , for its β of 1 is:
 $2\% + (1 \times 6\%) = 8\%$
Happily, W's $E[r]$ of 9% exceeds its R_e of 8%. Under the CAPM, we should consider W for retention in our portfolio.

Z's R_e , for its β of 3 is:
 $2\% + (3 \times 6\%) = 20\%$
Z's $E[r]$ of 19% is lower than its R_e of 20%. The CAPM suggests we should sell Z.

That's a surprise, given Z's $E[r]$ is so high. At first glance, doesn't Z look like a winning investment? It would be if it were lower risk. But on these figures, even a 19% return isn't enough to compensate for its excessive investment risk.

CAPM health warning

Like most models, the CAPM is a simplification with a number of shortcomings. Advanced practitioners use it in combination with other tools. Even so, its key insight is fundamental for companies. Risk must be managed and communicated effectively to financial markets.

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Getting better

By understanding the perspectives of other stakeholders, we can improve our performance as treasurers. Add to your skill set by taking ACT's risk management online course – see academy.treasurers.org/training/risk-management

A framework for risk

View the podcast with James Lockyer, ACT development director, and Tom Gilliam, treasury manager SABMiller plc, at treasurers.org/cpd/podcast

With much appreciation to James Leather FCT and Paul Cowdell FCT for their valued insights.

Doug Williamson
FCT is a treasury and finance coach





DETERRENT EFFECT

THE LANDSCAPE OF INTERNATIONAL SANCTIONS IS EVOLVING AS NEVER BEFORE. HERE, **BEN KINGSLEY**, **KATHRINE MELONI** AND **LATIFAH MOHAMED** SET OUT WHAT IT ALL MEANS FOR TREASURERS AND THEIR FINANCING DECISIONS

International sanctions are by nature a moving feast, but this year's dynamic and somewhat volatile geopolitical environment has led to restrictions imposed by the US, the EU and elsewhere evolving more rapidly perhaps than ever before. The US has stepped up sanctions against Russia,

and the recent reimposition of US sanctions against Iran has caused many businesses to withdraw from engagement with the Islamic country.

Given the potentially severe regulatory, contractual and reputational penalties for non-compliance, it remains critical that treasurers keep sanctions compliance at the forefront of

their agenda. Keeping abreast of changes in applicable sanctions is, however, increasingly challenging, and assessing their impact on treasury operations even more so. Sanctions rules are often complicated to interpret, requiring treasurers to exercise judgement to ensure compliance in a manner

proportionate to the risk profile of their company.

This article does not explore particular sanctions, not least because, by the time of publication, there is every chance they will have been superseded. Instead, it highlights some key issues for treasurers in relation to international

Keeping up to date with developments is the first step in ensuring sanctions compliance

transaction in question has no US nexus. The US's withdrawal from the Iran nuclear agreement, for example, has resulted in the reimposition of secondary sanctions against Iran, which essentially prohibit non-US companies from engaging in a wide range of economic and commercial activities with Iran, which are otherwise legal under domestic sanctions regimes.

Facilitating compliance

Having established which regimes require monitoring, the second question is how best to keep track of developments and ensure compliance. For some companies, ad hoc monitoring of sanctions lists may be appropriate. For those whose activities might be at a higher risk of invoking international sanctions, a software solution might be a proportionate investment.

Whatever monitoring process is put in place should operate to raise red flags, but given the nature of certain sanctions rules, will not necessarily indicate conclusively whether a particular transaction or line of business may or may not proceed. For example, US and EU sanctions imposed on Russia have targeted specific sectors of the Russian economy, including the energy, defence and financial sectors, so that basic namechecks for counterparties may not by themselves be sufficient. Sectoral sanctions often

require more detailed analysis to determine their scope.

In other cases, sanctions rules may be drafted in a somewhat opaque way, requiring interpretation and knowledge of the authorities' enforcement stance in practice. Both US and EU sanctions, for example, can be interpreted to extend to entities owned or controlled by a named sanctions target. What constitutes 'control' for this purpose can depend on quite specific circumstances.

Treasurers therefore need to work closely with their internal compliance or business integrity teams and, where appropriate, external advisers, to develop sanctions policies and to assess particular situations. This may include developing a policy on contractual protections in agreements with counterparties that give comfort as to their sanction status and compliance with sanctions laws. Whether contractual protections are necessary in a particular case will depend on the level of risk assessed, both generally and in relation to the particular counterparty. There is no 'market standard' for such provisions – the broad risks covered, as well as the precise detail of each provision, tend to be negotiable on a case-by-case basis.

Determining the most appropriate approach to sanctions compliance will ultimately require each company to undertake a detailed assessment of risk exposure and to exercise



RESTRICTED AREA KEEP OUT RESTRICTED AREA

sanctions in the context of their financing activities.

Which rules need to be monitored?

Keeping up to date with developments is the first step in ensuring sanctions compliance. With no single comprehensive source of information as a reference point, this has never been straightforward. Companies need to monitor sanctions lists in all relevant countries.

The first question is: which countries' sanctions regimes are relevant? The starting point is to assess the geographic footprint of the company in question.

This will include restrictions applicable in the company's countries of operation. It is also normally necessary, however, to consider the extraterritorial effects of rules in other countries.

The US regime has a particularly wide reach, and will be relevant to any company with US nationals in senior positions, with business interests in the US or with aspirations to do business in the US. In fact, in most cases, the US regime needs to be taken into account, even by non-US companies, and even where the activity or

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judgement as to what might be a proportionate response. Whatever approach is taken, it is important that all companies keep their internal sanctions policies up to date and under regular review.

Managing conflicting rules

Sanctions policies also need to address the company's approach to conflicting rules, which are often the result of divergent foreign policy priorities in the US and other countries.

The US's reimposition of sanctions against Iran prompted the European Commission to expand the scope of the 1996 EU Blocking Regulation (the 'Blocking Regulation'), which prohibits EU companies from complying with certain extraterritorial US sanctions. The revised Blocking Regulation, which entered into force in August to coincide with the first phase of reimposition of US measures, in essence prohibits EU companies from complying with the reimposed US sanctions against Iran.

The Blocking Regulation is often described as putting those within its scope (EU companies, nationals and others within the EU) between a rock and a hard place. Non-compliance may give rise to civil and, potentially, criminal penalties. However, the penalties for a non-US person failing to comply with the US's secondary sanctions can include being cut off from the US financial system – and being unable to deal with US persons.

This places affected companies in the difficult position of having to choose to comply either with US sanctions policy or EU law, unless waivers can be obtained. The most appropriate approach will involve assessing the scope of the company's

activities in the affected country and weighing up the risks involved in complying with each set of rules.

In practice, many companies have withdrawn from Iran to avoid being put in the position of having to comply with the Blocking Regulation. A factor in the decision can be that the company's debt providers prioritise compliance with US sanctions above the Blocking Regulation.

The position taken by debt providers in instances such as this may not, however, and often will not, always align with those of other stakeholders within the business. This can make for difficult and, at times, frustrating internal stakeholder management for treasurers.

Contractual obligations in debt documentation

In addition to imposing contractual obligations on counterparties, treasurers also need to be aware of the contractual obligations to which their companies are subject in relation to sanctions compliance, and to ensure these dovetail with sanctions policies and procedures.

This will be a relevant consideration for a range of contractual arrangements, including, for example, bank account documentation. It will be particularly relevant in relation to loan and other debt documentation, which now routinely includes such contractual obligations for the borrower/issuer in favour of the finance providers.

In this context, as in relation to sanctions provisions generally, there is no 'market standard' for such contractual obligations, which instead must be settled on a case-by-case basis.

Treasurers must ensure they have a good understanding of the precise scope and detail

of the existing contractual provisions relating to sanctions compliance to which they are subject. This will be especially important when assessing the impact on the business of any sanctions-related development.

In a similar vein, treasurers should take extra care when agreeing to sanctions-related contractual obligations going forward. Given the pace of recent developments, it is likely that contractual counterparties, in particular lenders, will be increasingly focused on sanctions provisions when negotiating new documentation or amendments to existing documentation.

It is possible, for example, that lenders might seek to extend the scope of sanctions-related representations and undertakings in loan documentation, arguing that they need to be sure the provisions are broad enough to capture future developments in sanctions policy, whatever these might be. Treasurers should carefully consider the implications of, and their ability to comply with, any such requests.

Looking ahead

While no one knows for certain in which direction the international sanctions landscape is heading, what is certain is the continuing importance of ensuring and monitoring sanctions compliance within each company. With potentially severe penalties for non-compliance, companies

KEY ISSUES FOR TREASURERS

- Ensure regular monitoring of applicable sanctions;
- Keep sanctions policies under regular review;
- Maintain dialogue with internal and external advisers on the scope of sanctions risks;
- Consider seeking contractual protections from counterparties in relation to sanctions;
- Monitor extent of contractual obligations of the group in terms of sanctions compliance in debt and other documentation; and
- Exercise judgement and formulate a proportionate response.

need to focus on putting in place processes and systems to achieve sanctions compliance across the whole business, which are proportionate to the level of risk assessed. Companies also need to pay careful attention to the contractual restrictions to which they are subject, seeking to ensure that they, too, are proportionate to the risk that their business poses to the relevant contractual counterparty. ➔

For further information on sanctions provisions in lending documentation, please refer to The ACT Borrower's Guide to the LMA's Investment Grade Agreements.



Ben Kingsley (left) is a partner, **Kathrine Meloni** (middle) is a special adviser and **Latifah Mohamed** (right) is a professional support lawyer at Slaughter and May

THE SEARCH FOR CONSENSUS

THE OECD'S DISCUSSION DRAFT ON THE TRANSFER PRICING OF FINANCIAL TRANSACTIONS MAY HAVE SIGNIFICANT IMPLICATIONS FOR TREASURERS.

MARTIN RYBAK EXPLORES THE ISSUES

The Organisation for Economic Co-operation and Development (OECD) has recently published commentary on the transfer pricing of financial transactions. The commentary provides support for a wide range of potential outcomes. However, it also introduces a number of concepts that may have a significant impact on how treasury teams interact with other parts of the business when implementing treasury policies.

The release of this public discussion draft on 3 July 2018 was originally mandated as a part of the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan initiated in 2013.

While final guidance is not expected until April 2019, this non-consensus discussion draft provides insight into the direction of the OECD's thinking. Specifically, the discussion draft sets out commentary on a number of specific areas. Here, I'll look at those areas that may represent a material change for treasurers.

Delineation of the transaction

The concept of accurate delineation for a transaction may be alien for treasurers, as it considers whether a transaction should be priced in accordance with its legal form, or whether the legal form should be ignored such that the transaction is

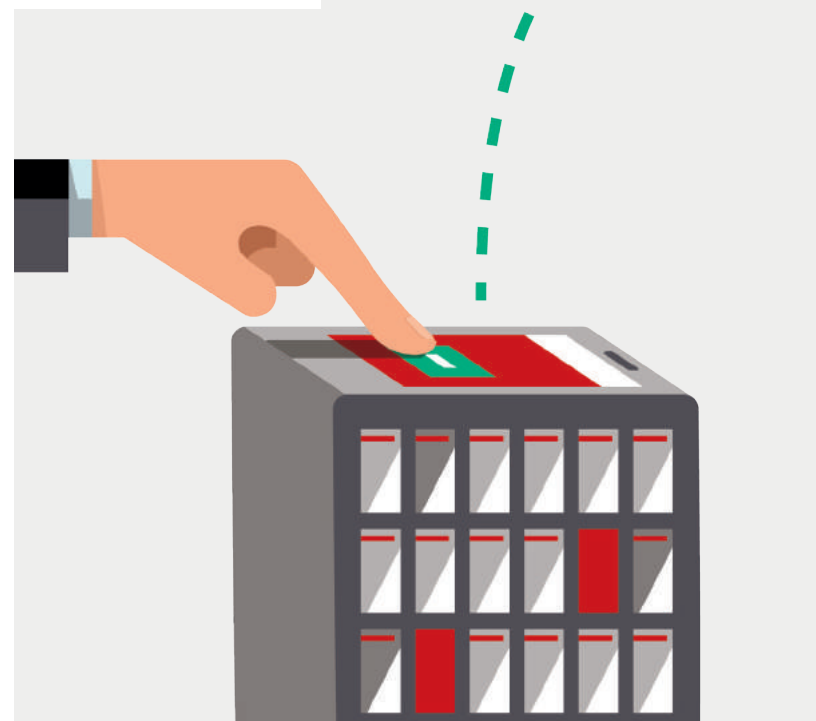
priced in accordance with its economic substance. Typical examples of where a difference between the legal form and the substance of a transaction are likely to impact on its arm's length price include:

- Where an intragroup loan should be regarded as equity (ie an accurate delineation as equity may render the identification of an interest rate as irrelevant and preclude an interest deduction for tax purposes); or
- Where a cash-pool deposit should be regarded as a loan, or as being part of a group netting arrangement (ie an accurate delineation as either alternative is likely to result in a different transfer pricing outcome).

Treasurers may therefore need to coordinate closely with transfer-pricing colleagues, in order to identify anomalies and ensure a consistency of methodology.

Treasury function

The discussion draft suggests that treasury functions are generally a support service and that strategic treasury decisions and the control of associated risks are usually undertaken at a group level, rather than being undertaken by the treasury function itself. The inference of this is that a treasury function should only receive a limited level of remuneration.



In practice, many groups may have treated their treasury functions as controlling the risks associated with financial transactions and may therefore have provided their treasury functions with an entrepreneurial level of return (for example, the spread from intragroup lending and borrowing, or the netting benefits from pooling arrangements). If final guidance is consistent with the discussion draft, such arrangements may attract an increased level of challenge from tax authorities across multiple territories. Treasurers may, however, be able to proactively contribute to defending against such challenges by providing differential insight into their conduct in controlling relevant risks.

Intragroup loans

Treasury teams will be familiar with the idea of taking into account specific risk characteristics when pricing a loan (for example, credit risk, currency and tenor). However, the discussion draft refers to pricing loans on the basis of the terms and conditions that would have been implemented at arm's length, as opposed to simply pricing the terms in place. An example may include pricing a loan by taking account of the security available to the borrower, as opposed to pricing the loan on an unsecured basis simply because that follows the legal form of the intragroup arrangement.

A further area of potential change for treasurers is the expectation that a borrower's strategic importance within

The discussion draft suggests that treasury functions are generally a support service



a group should be taken into account. The idea here is that a borrower of more strategic importance to a group will enjoy a greater level of support from its group. As a consequence, even without any legally enforceable support (ie an explicit guarantee), a lender would recognise a perceived enhancement in risk profile by providing debt at a lower rate of interest.

The discussion draft also states that transactions should be considered from the perspective of the options realistically available to each of the relevant parties. In the context of the options realistically available to group companies, these may in practice be restricted by group treasury policy. This may pose challenges in the context of

each group company being treated as if it is operating at arm's length. For example, if an overseas subsidiary could earn a higher return by placing a deposit with a third party than it would by placing the deposit with the group's treasury company, a local tax authority may challenge why the subsidiary is not receiving the higher rate of return available in the market.

Cash pooling and captive insurance arrangements

Cash pooling and captive insurance transactions are cited as examples of where arrangements should be looked at in their totality. Specifically, the discussion draft recognises that the benefits of such arrangements are only achieved by the coordinated

action of group members. In practice, the pricing of many such arrangements may have resulted in the majority of any benefits being allocated to the leader of the arrangements. As such, the discussion draft infers that analysis may be needed to determine the extent to which the pricing of such arrangements should be revised to allocate the majority of any benefits between group participants.

Hedging

The discussion draft recognises that the decision to hedge or not may be influenced by group policy and that situations arise where a multinational group is hedged on a consolidated basis but that, at a particular entity level, it is left unhedged. The OECD has sought feedback on how an entity in this position should be compensated.

Guarantees

The discussion draft introduces the concept that, where a guarantee enables a higher level of borrowing, the portion of the loan that has only been advanced as a result of the guarantee may be viewed as a loan from the lender to the guarantor and an equity contribution from the guarantor to the borrower. The OECD has sought feedback on this concept and on the pricing of cross guarantees. As such arrangements may not have been given considered by existing treasury policies, further coordinated review may be required.

Implications

The OECD discussion draft has significant implications for the transfer pricing of intragroup financial transactions and for the remuneration supportable for the treasury functions of a wide range of multinational groups. Given the complexity and variety of approaches

that treasurers take to such transactions, the opportunity to influence the final output of the OECD may be welcomed.

However, to ensure that the pricing of financial transactions and the level of return for a treasury function are both supportable as being consistent with transfer pricing principles, treasurers should work with tax, legal, accounting and operational teams to:

- Monitor related developments from both the OECD and local tax authorities;
- By reference to the discussion draft, review existing arrangements to identify areas of potential inconsistency;
- Consider whether apparent inconsistencies can be rectified i) prospectively by making substantive changes in conduct with regard to the control of risks; or ii) retrospectively where existing arrangements simply need to be more rigorously documented;
- Design and implement practical treasury policies for intragroup financial transactions that are based on commercial reality and that related legal agreements capture this consistently;
- Ensure that transfer-pricing outcomes are aligned with the underlying policies and that robust empirical support for the pricing methodology is documented consistently; and
- Take steps to ensure that a coordinated strategy is in place to manage the risks posed by the types of challenges that may be anticipated from tax authorities in multiple territories. ➔

Martin Rybak is an associate partner at EY, specialising in financial transactions transfer pricing



WHAT I'VE LEARNT

THINKING OUTSIDE THE BOX

IMPROVING TREASURY AND CASH MANAGEMENT ACTIVITIES CAN MEAN LOOKING ACROSS A WHOLE ENTITY RATHER THAN SOLELY AT THE TREASURY FUNCTION



In many cases, companies setting out to manage cash more effectively – or embarking on a treasury management system (TMS) implementation – regard the exercise as a self-contained treasury function project with perhaps some information requirements from subsidiaries. But when one company needed to transform its cash and treasury management activities, the treasurer opted for a more far-reaching approach.

"The business is growing quickly by acquisition and has quite a decentralised culture, with a lot of bank accounts and disparate financial and banking

systems," says David Stebbings (pictured on the right), director, treasury advisory at PwC. "At the same time, the company operates in a constantly changing business environment. As such, they needed to have a better handle on their cash and risks, and improve central oversight over their banking arrangements globally."

Objects of the exercise

The treasurer, therefore, initiated a project to improve visibility over cash and enable more effective management of financial risks and positions. The goals of the project also included streamlining processes, moving users away from older systems and spreadsheets, implementing global standards around the newly formed group and achieving efficiencies through automation to better enable

time to be spent on more value-add insight activities.

With a clear view of the desired outcome, the company sought advice from PwC about how to achieve its aims. This involved developing a revised treasury and cash operating model, with the implementation of technology being used to facilitate the change. The chosen technology solution included a new TMS aligned with a SWIFT component, and a bank account management module.

Seeing the bigger picture

The key challenge for this project has been implementing a more centralised treasury and cash operating model in a company that is well served by its decentralised business model. Hence, this project involved looking at the TMS not as an isolated system for

use by one department, but as a technology with many interfaces, processes, users and requirements all around the business. "It's not a treasury project as such – it's a treasury and cash activity project for the whole businesses wherever those activities occur," explains Stebbings. "A few of the users do sit in central treasury, but the vast majority of them work in shared service centres and finance teams around the world."

As a result, such an exercise is actually a more complex business change project. As Birgita Gjirja (pictured on the left), senior manager, treasury advisory at PwC, observes, "In designing the operating model and systems landscape, it's important to take a step back and think about where those interactions are between treasury and other finance and business functions and systems worldwide."

In order to achieve success, the company's treasurer needs to look beyond the scope of their own responsibilities, becoming more strategic and working closely with other senior stakeholders across the organisation. While this added project complexity and challenge, the benefits to the treasurer can be considerable – not just in achieving the desired level of visibility and overall control, but allowing the treasury remit to move more easily to a strategic level. Widening the scope also helps build a more compelling business case for change.

The treasurer found this to be a highly effective approach for this project, which is currently due to go live in the coming months. 🍀

As told to freelance treasury journalist Rebecca Brace

KEY LESSONS

- 1. When treasury is positioned** as a central function serving a decentralised business, achieving the required oversight of risk and cash can be a challenge.
- 2. Implementation of technology** can often be a good agent to change disparate processes that may be developed over time.
- 3. Think outside the box** – many treasury, cash and banking activities may fall outside the treasurer's remit yet should be included in the change.
- 4. The business case** for change can be stronger if the scope of the change extends beyond the remit of the treasurer.
- 5. If you are taking this approach,** make sure you bring the necessary people on the journey with you. They will need to embrace the new technology and associated processes, which means involving them in the project from the outset and giving them a clear understanding of how it will help them to achieve their goals, as well as those of the treasurer.

Above all

Remember that a TMS can be a very powerful tool and change agent if designed and implemented appropriately. So make sure you invest the required time and resources into the project, particularly if you are including treasury and cash activities outside of treasury.



ACT TRAINING COURSES

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Nuts and Bolts of Cash Management

If you're new to the challenges of cash and liquidity management, there is a training course that will help you understand the major elements and issues of this treasury segment. This course provides a broad understanding of the basic principles and practices of cash and liquidity management and its importance to the business and treasury function. You'll walk away with practical insights into the basic building blocks of good cash management. For more information and to book online, visit academy.treasurers.org/training/cash-management

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www.treasurers.org/medinner2018

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www.treasurers.org/middleeastsummit

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www.treasurers.org/treasuryforum

14 November, London

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www.treasurers.org/annualdinner



The ACT Middle East Treasury Summit will be held at Madinat Jumeirah in Dubai



The Great Room of the Grosvenor Hotel in London will once again hold the ACT Annual Dinner in November

28 November, London

ACT Working Capital Conference

Efficient and careful management of working capital is crucial to the survival and growth of businesses. This conference will delve into current trends, best practice and industry-specific case studies, including working capital management technology solutions and services available to treasurers, from cash forecasting to trade finance instruments.

www.treasurers.org/workingcapital

treasury practitioners, recognise those individuals and their organisations that have shown innovation and excellence in corporate treasury over the past 12 months. Don't forget to submit your nominations!

www.treasurers.org/awards/2018

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www.treasurers.org/annualconference



7 February 2019, London

The Treasurer's Deals of the Year Awards Dinner

The winners of *The Treasurer's Deals of the Year Awards* 2018 will be announced at this invitation-only dinner. These highly respected awards, judged by our panel of

HOW TO GAIN **SELF-CONFIDENCE**



AMANDA BRADLEY PROVIDES AN INSIGHT INTO HARNESSING AWARENESS TO BUILD CONFIDENCE AND ACCELERATE PERSONAL PERFORMANCE

How well do you know yourself? How would your friends or your family describe you? Hard-working? Helpful? A real trooper? Super organised? Would you agree with that description, or is there more to it? Does what they see match with how you feel? What others see of us and what we are showing to the world is rarely the full picture.

Often, clients come to me to work on 'being more confident'. So, in this article, I'll focus on one way to start to do just that. Let's get specific to start with, though – what is confidence? The *Oxford English Dictionary* defines it as 'a feeling of self-assurance arising from an appreciation of one's own abilities or qualities'. I understand that as knowing what we're capable of and using that as fuel to drive us onward.

A lot has been written about how to appear confident. Open body posture, maintaining eye contact and taking our physical space all help. But if our insides don't match our outsides, it's hard for us to feel self-assured. We can end up feeling the exact opposite. This is commonly referred to as Impostor Syndrome. Impostor Syndrome is a lurking, dreadful feeling that no matter what you've achieved and how senior you are, one day someone will spot all the inadequacies you're carefully hiding and show them to the world. Impostor Syndrome is exhausting. It leaves us feeling like frauds and makes us second-guess ourselves. And yet, it also drives us to greatness.

Yes, you read that correctly – it drives us to greatness. Impostor Syndrome can make us great at what we do.

Because here's the whole story: the outward behaviours we develop are there to protect us and help us feel acceptable to the world around us. But the problem with building our outsides to make us acceptable to the world around us is that, as careers progress, the benchmark for acceptable changes and the defences we have so carefully constructed become redundant at best, and self-defeating at worst. So, yes, they can drive us to greatness, but that drive can suddenly run out of steam.

Reading the *Oxford English Dictionary* definition again, it's easy to focus on 'our own abilities'. These are things like our technical qualifications, the deals we've done and the reflected status of the jobs we've been in. But the full definition places equal weight on our *qualities*, the behaviours we exhibit rather than the things we've achieved: being hard-working, helpful, organised, a good team player. These behaviours are good things in themselves, but they also form our defences. In other words, if you know your defences are sound and your behaviours are acceptable, you'll feel confident. So, when our defences stop helping us, it's time to pay attention to our behaviours.

Tom Hardy Plays Bugs Bunny

The first step to greater confidence and aligning ourselves inside and out is to become intimately acquainted with our defences. To do this, it helps to have clear words to describe them. Fortunately, for me, Taibi Kahler and Hedges Capers already did the hard work on this when

they identified the Five Drivers¹, which I remember by thinking of the trigger 'Tom Hardy Plays Bugs Bunny':

- Try Hard;
- Hurry Up;
- Please Others;
- Be Strong; and
- Be Perfect.

Our behaviours can help us work out which of the drivers are protecting us. If you find yourself feeling impatient, clenching your fists, saying "I'll try" or "it's hard", it may be the Try Hard driver. Tapping fingers or jogging knees, moving quickly and saying "let's get on with it" indicates the Hurry Up driver. Lots of head nodding and "you know", "could you" and a higher pitched voice could indicate Please Others. A more rigid posture with arms folded and a harder edge to speech indicates the Be Strong driver. Tending to say "of course", "obviously", "clearly", "I think" or, if you find yourself saying things like "firstly, secondly" as you walk through points, chances are you are being motivated by the Be Perfect driver.

If you spot yourself exhibiting any of these behaviours, take some time to be curious about what's happening for you and what the underlying feeling might be that you're trying to defend against. Typically, each driver protects us against specific messages. Try Hard defends against "you've got to try harder"; for Hurry Up the message is "you'll never get it done"; Please Others defends against "you're not good enough", the big Impostor Syndrome contributor; Be Strong defends against "you can't show your

Once you know your behavioural cue, you can start to attend to the real feeling underneath

weakness"; and Be Perfect fends off the message "you should be better".

How does knowing this help me?

Once you know your behavioural cue, you can start to attend to the real feeling underneath. At this point I want to be clear. I'm not asking you to stop doing what you're doing. That would leave you defenceless. Instead, I'm suggesting you aim to find something better. So, spot your defence. Understand it. Love and respect it for what it's already done for you. Then, work out what you could do instead. Build healthier options for yourself, which let the inside and the outside match a bit better. And respectfully stand the old defence down.

If you feel yourself rushing, remind yourself it's OK to take your time. The swell of perfection can be adjusted by considering that it's OK to be yourself. Please Others? It's OK to have a duty of care to yourself. Be Strong – it's OK to be open, and Try Hard – it's OK to just do it. All we are trying to do as we move out of the drivers is find a better alternative that takes less energy and helps us feel more authentic.

So, how do I find an alternative?

Start with your awareness. Consider what's happening and look for patterns. What is happening when you start

feeling the urge to Hurry Up? Maybe you've got a deadline that feels overwhelming. Maybe it feels like everyone's counting on you to deliver. Perhaps you've been asked to speak in front of a big audience and the thought of doing it is so frightening, the only way to do it is to rush at it. And maybe, for today, rushing it is the best way for you to go. But by inviting the awareness of how we are behaving, we also invite the possibility that there's an alternative. Knowing the conditions in which we would automatically adopt old defence behaviours gives us the chance to try something new. Then we stand a chance of finding a better coping mechanism where we can be more congruent inside and outside.

So, when you're starting to feel under pressure, consider Tom Hardy Plays Bugs Bunny. If nothing else, you'll conjure a mental image to make you laugh and find a moment's relief. At best, you might increase your awareness of what's happening on the inside, unlock new ways of thinking and behaving, increase resilience and accelerate your performance. ➔

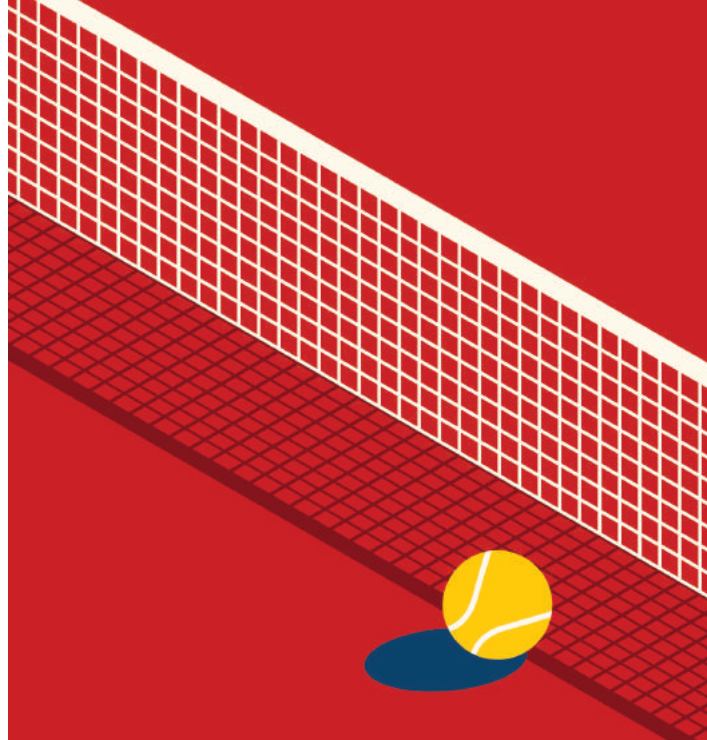
¹ Taibi Kahler & Hedges Capers (1974) *The Miniscript, Transactional Analysis Journal*, 4:1, 26-42

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CALLED TO THE NET

THE HIGHS AND LOWS OF INTERNATIONAL TENNIS REVEALED BY FORMER PROFESSIONAL PLAYER **ROB SEARLE**



As is often the way with sports enthusiasts, my love of playing and competing at tennis began very early in life. I have played competitively since the age of four and have had some fantastic experiences participating in national and international tournaments.

I have been an under-18s doubles winner and an under-18s singles finalist at a national level, competing at junior grand slams and pitting my skills against some superb players from around the world.

In 2002, to further my tennis career and develop my skills, I went to Rice University in Texas on a tennis scholarship, where I competed as a member of the Rice University team in national competitions. In the US, university sport is a very serious business and represents an amazing training environment. Before graduation, I took part in the World University Games in 2005 in Turkey and, after graduating, competed in the 2007 World University Games in Thailand. Both were amazing opportunities to stretch myself as a tennis player and – importantly – they proved to be fantastic fun as well.



In all, I played professionally for just under two years, reaching a world ranking of 840 as a singles player and 748 as doubles player. That period of my life was marked with lots of travel for tournaments – part and parcel of competing at international level, of course, but hard work in itself.

Except at the very highest levels, however, it is difficult to make a living as a professional tennis player. When I was 22, and after competing at the World University Games for

a second time, I came to the conclusion that I needed the fallback of a job outside sport and decided on a career in finance. My first job was at a brokerage and I moved to Barclays in 2008, where I've been ever since.

Tennis has continued to be a fascination. I play for the county of Kent in men's competitions; I'm a board member of the county Lawn Tennis Association; I'm also a member of the All England Lawn Tennis Association. My most recent competitive experience was as part of a European side playing in the Finance Cup in Paris last year against a US team.

If I look back to my earlier days in the sport, I'm proud of the standard I reached. The World University Games were very rewarding. I was a national champion in the under-18s doubles; I made the doubles semi-finals at Junior Wimbledon in 2002, playing on some of the bigger courts in what is essentially hallowed ground for tennis players. I'm pretty proud of those achievements.

Competing at this level is an experience you take a lot from. I'm results-oriented, so the tangible rewards of tennis work for me. But I know, too, that there's a process you go through in order to reach that competitive level. Training and competing is where I get my work ethic from, and that became ingrained in me from a very early age. There's no shortage of competition or a need to knuckle down in treasury and banking.

As an individual sport, tennis can be quite lonely, but that, too, has its upsides because you become quite competent at managing yourself. And there are still high points. I'm active in my local club and I remain plugged into the British tennis scene. Last year, for instance, I had a practice session with Andy Murray – a hard-to-beat experience.

Some tennis tournament facts

- The World University Games, or the Universiade, take place every two years. This international multisport event is open to university athletes, is organised by the International University Sports Federation and is the largest multisport tournament in the world after the Olympic Games.
- The Junior National Tennis Championships are open to youngsters aged from 12 to 18, and represent the highest level of domestic competition for junior tennis players in Great Britain.
- Internationally, many junior tournaments fall under the remit of the International Tennis Federation (ITF), which organises grand slams, the ITF Junior Masters and the tennis event at the Youth Olympic Games, among other events.

Rob Searle is relationship director at Barclays, and member of the ACT's Future Leaders in Treasury group

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