CYBERSECURITY ALERT
Keeping up to date with the latest threats and scams

DEALS OF THE YEAR
How the winners celebrated their success at Banking Hall

THE FINTECH REVOLUTION
What do the disruptors and their advances mean for banks?

The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ MARCH 2017

PLUS

ROBOTICS AND AI
How new technologies will encourage a deeper understanding of treasury

www.treasurers.org/thetreasurer

"In treasury you have to be a value creator"

Rohan Gunatillake, head of treasury at Swan Housing, on why understanding the business is fundamental to success

The Treasurer March 2017 The Magazine of The Association of Corporate Treasurers www.treasurers.org/thetreasurer

ACT
LEADING TREASURY PROFESSIONALS

Editor's letter

Could a robot do your job? It's a slightly unnerving question and one that is exercising the best minds. Even though we've yet to see the artificial intelligence (AI) revolution in full flood, far less witness this potentially transformative technology in effective partnership with other emerging innovations such as advanced analytics, we've probably seen and read enough to understand the possibilities and to know that the bulk of routine finance work is unlikely to make it as far as dignified old age.

Should it worry us? Not according to our lead feature on page 26. Strip away the hype and, as Sally Percy argues, AI is full of possibilities – capable of bringing enhancements to treasury operations that won't detract from treasurers' own analytical skills – far less their intuitive ones. Indeed, it seems likely that treasurers will find themselves in an enhanced role, freed up to manage the exceptional issues – the ones where their judgement is the deciding factor. No Luddites here.

For our profile this month, we delve into the fascinating world of housing trusts. Rohan Gunatillake swapped a stockbroking career in Sri Lanka for treasury roles in a sector that has become pivotal to the UK housing scene. Housing associations, regulated by government and partially funded by the public purse, straddle the private and public sectors, and provide ample occasions for treasury minds to shine. Our profile of him features on page 22.

The ACT is justly proud of its high achievers and more than ready to applaud high-performing individuals and teams. This month, we celebrate in words and pictures the Deals of the Year Awards winners in our write-up of Awards night at Banking Hall, London, which took place at the beginning of last month. You'll find this on page 10.

Exceptional performance is not reached without support along the way, and on page 20, we take a detailed look at the ACT's mentoring programme and what it brings both mentor and mentee. This valuable support mechanism has proved rewarding for all those involved.

All this plus international assignments, game theory and our regular technical updates.

I hope you enjoy the issue.

editor@treasurers.org
Follow us on Twitter @thetreasurermag

THIS MONTH'S CONTRIBUTORS

Wendy Kendall is a psychologist who specialises in helping individuals to build borderless careers and helps companies focus on creating return on investment through their employees' global assignments. Her article on international assignments is on **page 40**

Haim Shapira holds two PhDs from Tel Aviv University and is the author of seven bestselling books. He teaches mathematics, psychology, philosophy and literature, is a concert pianist and lectures on game theory around the world. His article can be found on **page 42**

Doug Williamson FCT is an independent treasury and finance coach, editor of *The Treasurer's Wiki* and former ACT chief examiner. He provides an entry-level explanation of forward FX contracts and forward points, from the corporate treasurer's point of view, on **page 44**

The Treasurer
is the official magazine of
The Association of Corporate Treasurers
68 King William Street, London EC4N 7DZ
United Kingdom
◆ +44 (0)20 7847 2540
◆ www.treasurers.org

Policy and technical Steve Baseby, Sarah Boyce, Michelle Price
Sponsorship director Denis Murphy
Technical review Ian Chisholm, Peter Matza, Alison Stevens, Neil Wadey, Peter Walker-Smith

ADVERTISE WITH US
For all enquiries, contact:
Tom Fountain
◆ +44 (0)20 3771 7250
◆ tom.fountain@thinkpublishing.co.uk
Dan Gallagher
◆ +44 (0)20 3771 7244
◆ dan.gallagher@thinkpublishing.co.uk

THE TREASURER ©2017
Published on behalf of the ACT by **Think**, Capital House, 25 Chapel Street, London NW1 5DH
◆ +44 (0)20 3771 7200
◆ www.thinkpublishing.co.uk

Editor Liz Loxton
Managing editor Rica Dearman
Design John Pender, Raymond Francis
Cover Will Amlot
Group account director Ruth Lake
Managing director Polly Arnold
SUBSCRIPTIONS
Europe, incl. UK (per annum)
1 year £260 | 2 years £370 | 3 years £480
Rest of world
1 year £295 | 2 years £455 | 3 years £600
Members, students and IGTA/ EACT members
[Self-certified members of national treasury associations, including the AFP in the US]
1 year £135 – UK and Europe (MUKEU)
1 year £175 – rest of world (MRoW)
For information, visit www.treasurers.org/thetreasurer/subscription

MIX Paper from responsible sources FSC® C004116
Printed by Pensord
ISSN: 0264-0937

Events and Publishing Forum
Members of the Events and Publishing Forum (EPF) provide the ACT with strategic and consultative support **a)** developing relevant issues with a medium-term horizon; **b)** apprising the ACT team of competitor developments; **c)** broadening the speaker and contributor network; and **d)** underpinning the ACT's overall aims (in education, membership growth, international development). If you are interested in participating in the EPF, please contact dmurphy@treasurers.org

ACT

Competency Framework

GLOBAL TREASURY STANDARDS

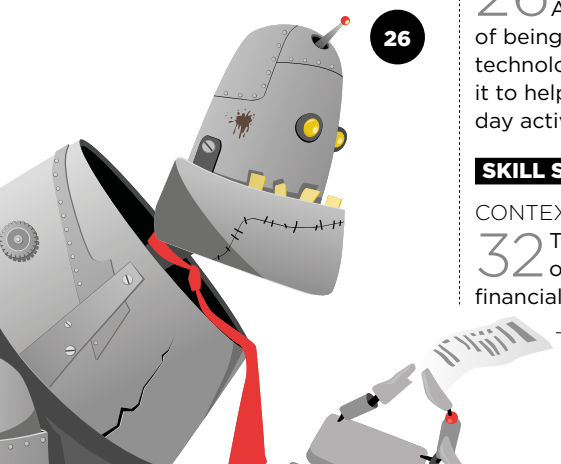
TREASURY SKILLS AND CAPABILITIES DEFINED

See how you measure up against the new professional treasury standards at:

treasurers.org/competencyframework

What do you think of this issue of *The Treasurer*? Please write to **editor@treasurers.org** or tweet **@thetreasurermag**

CONTENTS



26

22 "I'm a strong believer that learning should never stop"

Rohan Gunatillake, head of treasury, Swan Housing

40

17

Agenda

For the latest news and comment in the treasury world, follow us on Twitter **@thetreasurermag**

{ REGULATION }

OVERHAUL OF DODD-FRANK A "PRIORITY" FOR 2017

A campaign promise to overhaul Dodd-Frank, the regulations designed to counter systemic risk in the financial sector, has been given early attention in Donald Trump's presidency.

The president has ordered a review of the act, while chair of the US Financial Services Committee Jeb Hensarling has said he will reintroduce legislation he tabled last year giving banks the choice between complying with Dodd-Frank and holding more capital.

Last month, the president signed an executive action aimed at significantly scaling back the scope of the Dodd-Frank Act rules. Gary Cohn, director of the National

WIKIMEDIA

Economic Council, said the move is designed to lift restrictions on lending and lighten the regulatory burden on the financial sector. "All banks have been shackled," he said. "We need to get banks back in the lending business."

The Dodd-Frank Act, the detailed rules of which have yet to be fully implemented, gives the US Financial Stability Oversight Council (FSOC) scope to label financial institutions as 'systemically important' and subject to federal constraints.

As well as giving authority to FSOC, the act includes the Volcker Rule, which restricts banks that hold taxpayer-based deposits from making 'proprietary' trades, or ones based on their own discretion.

Hensarling signalled that reforming or dismantling Dodd-Frank was a "this-year priority" for the president.

{ CONTEXT OF TREASURY }

UK faces workforce shortages due to Brexit and ageing population

Without greater investment in automation and productivity gains, UK business and industry will face a widening workforce gap, according to a study from consultancy Mercer. Falling levels of migration due to Brexit will worsen the issue, Mercer's researchers argue.

The Mercer Workforce Monitor mapped the size of the UK's workforce from 2015 to 2030 based on possible changes to current levels of migration. Under all four of the scenarios that researchers modelled, the UK workforce shrinks even as the overall population grows.

Workforce size is a key economic issue, the study says. Since shortly after World War I, both the UK population and the workforce size have grown. A reduction in workforce growth, particularly when set against the backdrop of an ageing population, has major implications for economic growth.

Using workforce and population data from the Organisation for Economic Co-operation and Development, the UK Office for National Statistics, the Bank of England and other sources, Mercer modelled four possible scenarios: no change; a net migration limit of 100,000 per year (in line with stated government policy); a net migration limit of 40,000 per year; and a scenario in which the UK experiences a net outflow of EU-born and UK-born workers. Here, the working population would shrink by 700,000 to 32.6 million, while the overall population would grow to 70.2 million.

Gary Simmons, partner at Mercer, said: "Both the government and businesses have a Herculean task ahead of them in determining how we respond to the changing shape of our society. If they do not act now, they could find they do not have their share of the people and skills they need in future."

"There is nothing sacrosanct about achieving a surplus."

Economist Vicky Pryce comments on the Chancellor of the Exchequer's deficit reduction plans.

SOURCE: *THE EVENING STANDARD*, 8 FEBRUARY

"I do not advocate that we talk thoughtlessly about withdrawing the regulation we have created globally as a lesson from the financial and banking crisis. We have a number of volatilities – not just because of geopolitical risks to global economic development – that we can't take seriously enough."

Wolfgang Schäuble, Germany's federal minister of finance (pictured above), comments on US government plans to begin easing regulations developed after the financial crisis and intended to prevent a repeat.

SOURCE: BLOOMBERG, 17 FEBRUARY

SHUTTERSTOCK

{ KEY FINDINGS FROM THE BRITISH BANKERS' ASSOCIATION AND WEALTH MANAGEMENT ASSOCIATION'S *WEALTH OF OPPORTUNITIES* REPORT }

£825bn assets under management within the UK's private banking and wealth management sector

40% comparable value of those assets in terms of UK GDP

57% the growth of the sector since 2011

£6bn turnover generated by the sector

£146bn investments made in 2016

{ REGULATION }

NEW-GENERATION UK PAYMENT FIRMS RELIANT ON PASSPORTING

More than three in four payment companies authorised in the UK since 2009 have taken advantage of EU passporting arrangements to export their services to continental Europe.

That's according to findings by e-money and regulatory specialist Neopay.

The consultancy, which obtained the information via a Freedom of Information (FOI) request, found that 336 UK payment firms have made use of the arrangements since 2009. Over that period, 137 overseas payment firms have used passporting to import their services into the UK.

With UK members of parliament giving the government the green light to trigger Article 50 and make preparations to leave the EU, and with City lobbying group TheCityUK abandoning its campaign for the retention of passporting as a central plank in Brexit negotiations, the basis on which these firms will operate across borders is uncertain.

"Despite what the FOI has revealed, [TheCityUK] has dropped demands to maintain the EU passport regime and instead wants equivalence, or more bespoke agreements to mirror the existing regime. What is decided next in Brussels will be crucial in determining the future of the UK's financial services industry in Brexit Britain," said Craig James, Neopay's CEO.

{ CORRECTION }

In our coverage of *The Treasurer*'s Deals of the Year Awards in the February issue, we referred to the Hargreaves Services treasury team as a team of four people. We are happy to make it clear that the team is made up of two people.

What do you say?
Tweet us
@thetreasurermag

"If the economy remains solid and the pick-up in the nominal data continues, this could soon suggest an increase."

Bank of England monetary policy committee member Kristin Forbes on possible interest rate rises ahead.

SOURCE: *THE i NEWSPAPER*, 9 FEBRUARY

SHUTTERSTOCK

$60 the price oil would need to reach per barrel in order for BP to break even this year

179% the level of Greek government debt against GDP, an unsustainable level, according to the International Monetary Fund

€1bn the price tag mooted for cosmetic retailer The Body Shop being considered by L'Oréal

2% the rate of inflation the German economy is predicted to reach, according to research by Bundesbank forecasts

5.6% the year-on-year increase in retail sales for January in the US, in figures released by the US Commerce Department

74.6% the rate of employment in the UK at the end of 2016, the highest level since records began

{ AROUND THE WORLD IN 30 DAYS }

GREEK DEBT, EU-CANADA TREATY, US CORPORATION TAX

Greece debt at crisis levels

The International Monetary Fund (IMF) warned that Greece's debts were at dire levels in spite of its austerity measures and economic reforms. The IMF called on Europe to provide "significant debt relief" to Greece to address its public finance debts, in spite of Greece's EU creditors ruling that option out under its current arrangements, an EU-Greek debt-relief package, which expires in 2018.

The IMF has long argued in favour of relieving austerity by lowering budget surplus targets, putting it at odds with other international creditors, and did not join the third bailout agreed two years ago. Eurozone parliaments, including Germany and the Netherlands, believe the programme is only achievable with the fund's involvement. The EU dispatched its commissioner for economic affairs to Athens for talks.

EU ratifies deal with Canada

After seven years of back-and-forth negotiations and a significant hold-up last year when the Belgian region of Wallonia held out against the treaty between Canada and the EU, the agreement has been ratified by the European Parliament.

The Comprehensive Economic Trade Agreement brings the possibility of much reduced tariffs between Canada and EU countries, and is expected to increase trade between EU member states and Canada by 23% or £19bn. The arrangement has to be ratified by individual governments and is expected to be implemented by June.

Separately, Donald Trump downplayed his reformist intentions in relation to the North American Free Trade Agreement, following a meeting with Canada's prime minister, Justin Trudeau.

Trump sets his sights on corporation tax

Both the US dollar and bond yields rose on the back of comments from the US president that he will release plans for corporation tax. The dollar rose more than 1% against the yen and the euro fell against the dollar on the back of the announcement. Meanwhile, benchmark 10-year note yields rose. The S&P 500 index rose 1.06% as bond yields rose, and crude oil prices rose by 1.3%.

Is there another Greek debt crisis brewing?

SHUTTERSTOCK

THE STATS

{ KEY FINDINGS FROM KPMG'S EUROPEAN BANKS' NON-FINANCIAL RISKS SURVEY }

60% of European banks expect capital requirements against non-financial risks – cybercrime, IT failure, compliance risk – to increase significantly in the next three years

10% predict these risks will increase by more than 50%

10% the percentage of total losses accounted for by non-financial factors in nearly half of European banks

50% the proportion a handful of respondents attribute to non-financial risk

More than half of banks are planning a comprehensive overhaul of their risk assessment framework

{ CONTEXT OF TREASURY }

BANKS BRACE FOR CAPITAL INCREASES AS RISK DIVERSIFIES

Some 60% of European banks expect their capital requirements against non-financial risk to increase by more than half, according to research from KPMG.

With the plethora of risks affecting the sector widening, risk professionals are weighing the implications of incidents, such as IT failures, cybercrime and compliance issues alongside their operational exposures.

According to the study, non-financial risks account for 10% of total losses in nearly half of the European banks covered by the survey, while operational risk represents more than 10% of risk-weighted exposures. A handful of banks, however, attributed more than 50% of their total losses to non-financial risks.

The greater regulatory scrutiny the sector faces is a factor, with profitability, business models and risk culture all under the spotlight. As a result, around half are planning a comprehensive overhaul of their risk assessment framework.

Fiona Fry, head of KPMG's financial services centre of excellence, said: "Banks and regulators are clearly turning their attention to non-financial risks, while business and strategic risks are too often overlooked. In such a politically volatile environment, European banks need to be braced for change, and so strategic and business concerns should really come higher up the list of priorities."

MAKING THE NEWS


Artist JMW Turner will feature on the new £20 note

WIKIPEDIA

Small change

The Bank of England has launched a consultation on the production of the new polymer £20 notes due to be introduced in 2020. The bank spent £46m on printing waterproof and rip-resistant £5 notes prior to their introduction in September last year, but drew criticism from campaigners who protested about the use of animal fat in the their production.

The bank will not withdraw the £5 note or cancel the introduction of the £10 note in September 2017, but will consider the introduction of plant-based oils instead of the tallow used previously.

Meanwhile, the new 12-sided £1 coin will come into circulation later this month. The Royal Mint is producing 1.5 billion new coins, which are to replace existing round £1 coins, which are vulnerable to counterfeiters. Around one in 30 £1 coins in circulation is counterfeit, according to the Royal Mint.

Church of England joins executive pay debate

The Church of England has joined the chorus of dissent against high pay awards for the bosses of UK companies.

The Church Investors Group, whose members manage investments of more than £17bn, has written to FTSE 350 companies to outline its voting policy for 2017. The group's letter has reminded companies that it will place strong emphasis on whether company decisions on pay and incentive promote sustainable shareholder returns or whether rewards could be considered excessive.

The letter also registered the group's concerns about gender diversity, climate change and wider corporate governance issues.

Nearly half of FTSE 100 companies face binding shareholder votes on remuneration packages this year.

The letter follows a similar entreaty from Blackrock, the world's largest asset manager, which wrote to UK companies earlier in the year to say it would only approve salary rises for those firms that increased workforce wages by similar amounts.

Brent oil fields to be decommissioned

Detailed plans to decommission the Brent oil and gas field in the North Sea have been lodged with the UK government. With around 20 billion barrels of oil and gas remaining, Shell has begun decommissioning work at one platform and has published its plan for future removals.

It is estimated that more than 100 platforms will be removed or partially removed from UK and Norwegian continental shelves in the North Sea by 2025.

{ CONTEXT OF TREASURY }

EBA FLOATS EUROPE-WIDE ENTITY FOR NON-PERFORMING LOANS

Andria Enria, head of the European Banking Authority (EBA), has put the case for a mammoth asset management entity under EU management to take on up to a quarter of the EU's non-performing loans (NPLs).

In a seminar on banking risk, Enria argued that NPLs represented the most significant of the EU's financial sector challenges. If Europe's banks maintain their current, €1 trillion level of bad-loan recognition, he argued, the EU would struggle to avoid the stagnation that Japan has seen and could take even longer than Japan to return to pre-crisis NPL numbers.

According to Enria, NPL sales have been marred by the absence of a cohesive market, which has led to low prices. Under his proposals, a pan-regional asset management company would purchase NPLs at specially assessed "real market values", and have three years to offload them.

Enria explained: "The average coverage ratio in Europe is 44%, or 60c on euro book value. The market price is around 20c. It is this steep, bid-ask divide that is blocking the secondary market for NPLs in Europe.

"If there was an efficient secondary market for NPLs, their real economic value would move to 40c. You need the public sector to bridge the gap between the inefficient secondary market today and an efficient secondary market tomorrow."

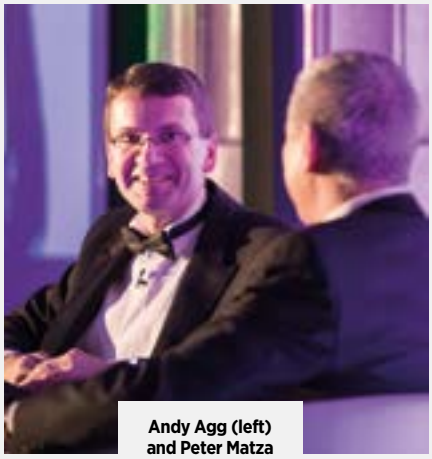
He added: "The real economic value would be reflected in state-aid practices. This is the form of intervention that an AMC could take. It would push banks to transfer their NPLs to the AMC at their real economic value. The AMC would then face a timeline to dispose of the assets in the secondary market."

Klaus Regling, head of watchdog the European Stability Mechanism, welcomed the concept – but remarked on the "sheer complexity and size" that the entity would require, particularly when dealing with private-sector debt. "The target is to move €200bn to €250bn of NPLs to the AMC," he said.

Jacques Molgo, group treasurer at Air Liquide (left), and his team were named European Treasury Team of the Year

The Deals of the Year Awards Dinner gave guests a chance to socialise

Lloyds Bank's Clare Francis



Andy Agg (left) and Peter Matza

Fiona Crisp, Caroline Stockmann and John Grout

Fiona Crisp, ACT president

SUCCESS IN TREASURY

The outstanding achievements of our Deals of the Year Awards winners were celebrated in style last month

Words: **Sharon Newell** / Photos: **Carol Moir**

Innovative, agile, flexible – these were the themes that shone at *The Treasurer*'s Deals of the Year Awards dinner last month at Banking Hall, Cornhill, held to celebrate and recognise excellence in corporate treasury.

One hundred and fifty guests were welcomed by Fiona Crisp, ACT president, Clare Francis, managing director, head of global corporates, Lloyds Bank Commercial Banking, and ACT's speakers' chair, Peter Matza. They included newly appointed ACT chief executive Caroline Stockmann, along with senior treasury and finance representatives from corporates across Europe.

In a new feature, Matza invited Andy Agg, group tax and treasury director, National Grid, to the stage to talk about challenge, strategy and success in the world of corporate treasury. The team was later announced UK Treasury Team of the Year (market cap above £2bn), their seventh win since the awards began, which puts them top of the winners' leader board.

Both Francis and Agg reflected on treasury as an engine room for change and the need to be at the forefront of adapting to this change as a leader in the wider organisation. Citing robotics, artificial intelligence and sustainability, Francis said: "Treasury success will require us all to be more agile and dynamic in the years ahead." With that requirement came a recognition that treasury can often be a lonely place, she went on, which is why these awards, and the work the ACT does in championing treasury success and fostering a collaborative platform for sharing ideas and best practice, are so important.

What makes the Deals of the Year Awards so special is that these are the only awards in Europe from a professional treasury association judged by treasurers for treasurers. Marking their 20th anniversary this year, these highly respected awards recognise all types of deal – bonds, loans and corporate finance transactions, nominated for their demonstration of sound treasury management, innovative structures and absolute success in the prevailing market conditions. In 2016, that meant operating against a backdrop of uncertainty and volatility around Brexit.

Introducing 2016's Deals of the Year Awards winners with Caroline Stockmann and Fiona Crisp

The evening started with a drinks reception in Cornhill's Counting Room

DEALS OF THE YEAR

Notwithstanding, the treasury teams nominated for this year's awards managed to secure more than £150bn in funding between them. In spite of the political shocks, credit markets remained mostly resilient and funding costs continued (at least for highly rated companies) to be remarkably low. This encouraged a number of corporates to take the plunge on strategic M&A, and one facet of this year's awards was the structuring and takeout of major deals.

In general, the judges were impressed with the ability of teams to execute all aspects of major transactions, while maintaining the quality of their day-to-day operations, and often on limited resources. What was very much apparent was the innovative approach a number of corporates took to readying themselves for the investment challenges to come. Supporting transformational acquisitions was also a recurring theme, demonstrating the range of skills and aptitude that successful treasurers and treasury teams need.

This year's nominations ranged across sectors and all sizes of deals, and featured a number of firsts among the commendations – a business that takes place entirely online; an innovative securitisation (a sector of corporate finance that has languished in recent years); a debut issue from the borrower; and a deal that involved 21 different international funding agencies and banks for a major mining project in Mongolia!

With so much quality and complexity on the table, picking just one entrant as overall winner is a challenge. This accolade usually goes to the team or deal that brings together timing, execution, relationship management, teamwork, market approval and peer acclamation in one comprehensive package. And this year was no exception.

Our congratulations go to Shire and to all the winners and highly commended treasury teams of the 2016 awards. And congratulations to another of this year's firsts: the first-time winner of the Emerging Treasurer of the Year Award, Hammerson's assistant treasurer, Oliver Choppin.

As Philip Learoyd, chair of the panel of judges, commented. "Oliver is an excellent example of a young treasurer with a hunger to get stuck in. I hope that we will have many more nominations in future years, highlighting the strength of the talent pipeline in the profession."

For full details of this year's winners, see www.treasurers.org/awards/2016/winners

Below: Speakers' chair Peter Matza

THIS MONTH

EQUIVALENCE AND LEASES

Time to review equivalence now the City of London has begun to appreciate that passporting is politically unacceptable for Brexit, while the EU political background continues to evolve. No hard output for treasurers from the Trump inauguration yet, but as the US begins to recognise that US dollar appreciation may not be helpful, continued FX volatility is likely.

If you have views you'd like to share with the ACT policy and technical team on any subject, or have your own submission you'd like to share, please email us at technical@treasurers.org

Steve Baseby is ACT associate policy and technical director @BasebyStephen

{ IN DEPTH }

Equivalence and passporting

Brexit has become a voyage of discovery, perhaps better described as probing the bounds of our ignorance. How breezily we talked in June 2016 of David Cameron whipping off a letter to Herr Juncker, notifying him of the UK's wish to leave the EU.

We last wrote on passporting and equivalence in the October 2016 technical briefing, but things move on (sometimes becoming clearer), and it's definitely an area that bears further consideration by treasurers, as it may impact their entire organisation.

In brief, equivalence is the willingness of one regulator to accept that another regulator's rules achieve the same regulatory outcomes as their own, and so some element of cross-border activity can be allowed. Equivalence must be agreed, but is subject to negotiation, market by market.

Passporting is the acceptance that once permitted to trade in one state, a business can trade in another without further compliance requirements. For those within the European Economic Area (EEA), it is easy to forget that the principle of passporting applies beyond the much publicised world of financial services (FS). A car made in Germany can be sold and driven in the UK. A driver licensed in the UK can drive in Germany. Materials imported into one EU country can be integrated into the common market and then move freely between EU countries.

And on financial services, skiers in France and Switzerland will find M&G Investments advertisements on the ski stations (even on the lift pylons), and Aberdeen Asset Management is one of this season's sponsors of the Matterhorn Ski & Snowboard School in Zermatt. This ease by which these service providers can cross borders relies on the concept of automatic passporting as a member of the EEA and the EU.

But, passporting has fallen out of favour as a panacea. TheCityUK, as one of the FS lobby groups, has ceased to list passporting as essential to Brexit negotiations (see www.thecityuk.com/news/thecityuk-sets-out-key-industry-priorities-for-brexit-negotiations).

This is not surprising. Passporting is politically impractical. The Theresa May government, should it have followed this dead end, would be trying to negotiate to stay in and out simultaneously, and would antagonise an electorate among which, of the 72% who bothered to vote, there is a will to leave and a desire to stop the free movement of people across the EU, which would be the price of passporting.

Equivalence, as the UK leaves the EU, appears simple. The UK should, by virtue of the proposed Great Repeal Act, have the same legislation and enforcement processes in place as the EU. There are, however, two vital points to keep in mind.

First, equivalence is granted and it is not certain. There will be many factors to trade off with EU members, as each party to the negotiations, of which there are 28 plus the non-EU members of the EEA, such as Switzerland, will start to identify those factors that they hold dear and those with which they can dispense. Equivalence in any field will be part of the Brexit negotiations.

Second, continued equivalence would require the UK's legislation and enforcement processes to remain in step with those of the EU to the satisfaction of both parties. Equivalence in financial services could not only be withdrawn because financial services legislation of the UK and the EU diverges, but because the EU or the UK no longer wishes it to be maintained.

We can foresee a long negotiating process between the UK and the EU, either as a precursor to, or running parallel to, negotiations with the rest of the world. While the UK ponders what it would prefer, member states of the EU are doing the same.

Finally, what has not been considered to date is that the underlying assumption of relative global stability through the Brexit process is fundamentally flawed. In the last decade alone, we had the global financial crisis, EU political and economic fragility, Russia pushing back against the eastward expansion of the EU, the emergence of China and the arrival of protectionist Donald Trump. Long-running negotiations will have to deal with shifting politics and economics.

As the song goes, "There may be trouble ahead."

View briefing notes, technical updates and policy submissions at www.treasurers.org/technical. UK members can find our library of Brexit-related resources at www.treasurers.org/brexit

For more immediate responses to events as they occur, the policy and technical team continues to write various blogs at https://blogs.treasurers.org

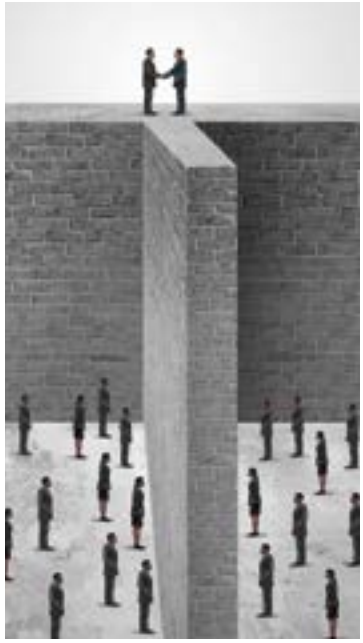
Please get in touch if you have something you'd like us to post as a blog on our website.

{ INTERNATIONAL }

THE WALLS GO UP – CROSS-BORDER FUNDING

Many treasurers are familiar with the challenges thrown up by doing business in China. In recent months, regulators have intervened to limit the outflow of capital from the country. Specifically, they have limited the amount an onshore entity can lend offshore and have relaxed FX rules to encourage capital to remain onshore. This has resulted in new challenges for treasurers' liquidity management strategies.

But this is not a China-specific issue; anxiety over foreign currency outflows is pushing many jurisdictions to come up with solutions to address the challenge from the flight of foreign capital. For example, Malaysia has cracked down on long-dated ringgit transactions,



and there are reports of difficulties with cross-border flows cropping up in some African countries.

In short, treasurers may need to reconsider local funding (despite all the complications that brings).

{ TECHNICAL ROUND-UP }

UK restrictions on interest rate deductibility

Further draft legislation was published in January on GOV.UK, superseding the draft published on 5 December 2016. This completes the definitions and sets the rules to enable tax accountants and tax inspectors to agree their computations.

As stated previously, members of businesses with UK-domiciled companies are encouraged to work closely with their tax colleagues to assess the impact on established and forecast capital models.

Treasurers need to be engaged in understanding how these changes will impact their day-to-day activities as well as longer-term funding plans, particularly given that restrictions on interest rate deductibility will come into effect in many jurisdictions over the coming years.

Changes to SWIFT messages

Businesses that are SWIFT participants, and those that upload data to bank counterparty portals should be aware of some changes required to Category 3 messages by November 2017. Three changes are for non-deliverable forwards and non-deliverable options, one expected to be used by participants of forex market infrastructure such as CLS, and the addition of an optional International Securities Identifying Number field for OTC derivatives.

Members using SWIFT Category 3 messages to report and confirm forex transactions and OTC derivatives are recommended to seek further information from SWIFT or their electronic trading platform suppliers, to ensure they are able to format messages by the November implementation date.

{ WATCH THIS SPACE }

Leases – it's not about accounting any more

Most readers will be familiar with the fact that (as a result of IFRS 16) in future all leases will need to be accounted for on balance sheet, whereas under IAS 17, operating leases were off balance sheet.

The details of the accounting treatment (and the US's slightly different rules, which impact profit and loss classifications) are all covered extensively elsewhere and, beyond the 'obvious' impact on financial covenants compliance, many treasurers may think that they do not need to concern themselves with leases.

However, the change in accounting treatment means that lease decisions should now focus on the cost of capital and the tenor of the lease transactions (and the resultant underlying funding costs).

For example, pension funds in particular are big buyers of real estate leases (the cash-flow profile 'works' for them), and as they are looking for long-term cash flows, the pricing may be more attractive for longer-dated leases. Hence, when considering how to fund real estate, there may be different pricing for differing length leases – a 12-year lease may attract real estate pricing, but a 25- or 30-year lease may be priced similarly to a bond – and the difference between the two can be material.

The result of the changes in accounting treatment moves the leasing decision from an on balance sheet/off balance sheet debate to a funding decision, and therefore very much into the sphere of the treasurer.

VIJAY CHAVDA

GROUP TREASURY MANAGER, BARRATT DEVELOPMENTS PLC

How did you get into treasury?
I had an opportunity to join treasury about five years ago. Although my knowledge in the area was initially limited, having qualified as an accountant and specialising in forecast planning and analysis to manage cash flow in particular, I was able to transition quite quickly – I have not looked back since.

What do you like about treasury?
In the various projects undertaken, I have had the opportunity to drive change positively and demonstrate a role where you can create value, which is the most rewarding part. I also enjoy managing relationships with banks and investors to support the company's requirements in view of an evolving financial backdrop.

How has your qualification benefited you in your career so far?
I am working to consolidate my accounting qualification (FCCA) with the AMCT qualification and progress further in treasury management.

What's the most important lesson that you've learned during your career?
Being prepared to 'do battle' with those who are fearful of change by drawing focus to the positives (a bit of hand-holding can sometimes also help!).

What would be your best piece of advice to someone else considering a career in treasury?
Two simple characteristics that will stand you in good stead: being approachable to stakeholders and having the right attitude to the task. Once established, the rest should fit into place.

What's your ultimate career goal?
Being able to manage and influence a larger treasury team.

If you weren't a corporate treasurer, what would you be and why?
I would have loved to be a chef in a Michelin star restaurant! I am the ultimate foodie and find cooking quite empowering. When travelling on business or leisure, the first thing I've always done is identify the best eateries and taken inspiration to create my own fusion.

If you would like to star in our 60-second interview slot, email editor@treasurers.org. Please provide a photo of yourself, your email address and telephone number. We won't publish your details – it's just so we can contact you in the event of queries.

ACT DIARY DATES

TRAINING, EVENTS & WEBINARS

2017 TRAINING COURSE DATES

21 March, London
Treasury in a day
A one-day introduction aimed at anyone new to treasury, looking to broaden their understanding of the function, or who wants to improve their ability to have better conversations with management, operations, banks or with treasurers as customers. You will learn about the role of a treasurer within the context of business, and you will be introduced to key treasury concepts and financial instruments commonly used.

22 March, London
Working capital optimisation
Understand why working capital management is vital for the generation of sustainable cash flow and survival of all companies. You will gain an appreciation of the techniques that can be employed to manage working capital and improve efficiencies within the supply chain. The course deals with the basic principles within payables, inventory and receivables management, and explores reporting implications for both smaller companies and larger enterprises.

23 March, London
Cash forecasting fundamentals
Join us on this interactive course where you will learn how to review or completely redesign your cash forecast framework and processes. Don't miss this great opportunity to broaden your understanding of the fundamentals of cash forecasting.

With increasing market volatility and business change, and access to financing harder and more expensive, organisations should focus on improved cash forecasting, to reduce unexpected and potentially costly surprises. Learn a 'best fit' methodology for assessing/designing an appropriate forecast environment for your organisation.

25 April, London
The nuts and bolts of cash management
Develop an in-depth understanding of the basic principles and practices of cash and liquidity management, its importance to the business and to the treasury function at this one-day introduction to cash management. The programme examines the basic building blocks of cash management from the domestic perspective and, through a series of case studies, extends these basic principles to tackling the complexities of international cash management.

26-27 April, London
Advanced cash management
The cash management marketplace is morphing: global banks are 'deglobalising' and corporates will increasingly be multibanked. New (and recycled) techniques are being introduced: Partner Banking, SWIFT Corporate Access, ISO20022. At the same time, the regulators – whether via SEPA or Basel III – are moving the goalposts, and enabling new types of competition to traditional banks. This two-day course will arm you with the knowledge to prepare for this rapidly changing environment.

To view more courses or to book online, visit academy.treasurers.org/training. For more information, contact Radmila Trkulja at rtrkulja@treasurers.org or call +44 (0)20 7847 2573

ACT EVENTS 2017

29 March, Düsseldorf, Germany
ACT Europe Conference
Now in its fourth year, this event is the ideal occasion for treasury and finance professionals from across Europe to share insight, experience and key challenges for the year ahead.
www.treasurers.org/europe

16-17 May, Manchester
ACT Annual Conference
The most powerful treasury and finance debate returns to Manchester. Our new two-day format delivers unrivalled content and networking opportunities, only in a smarter, more compact set-up that means less time out of the office.
www.treasurers.org/annualconference

27 September, Hong Kong
ACT Asia Treasury Leaders' Forum
Join more than 200 treasury and finance professionals from across Asia for the Asia Treasury Leaders' Forum to discover the latest developments in treasury tools, tactics and strategy. It is the perfect meeting place to share knowledge, experience and best practice, and build your professional network.
www.treasurers.org/asia2017

8 November, London
ACT Annual Dinner
Taking place in the elegant surroundings of the Great Room at the Grosvenor House Hotel, this event provides you with a fantastic opportunity to network with your peers while enjoying a superb three-course meal, fine wine and entertainment in one of the most prestigious venues in London.
www.treasurers.org/annualdinner

ACT WEBINARS

Join in the discussion and debate from the comfort of your desk
Led by the ACT's policy and technical experts, ACT webinars give direction on regulatory change and key treasury concerns direct to you, wherever you are in the world.

For details of our webinar programme, visit www.treasurers.org/webinars

To attend an ACT webinar, book online at www.treasurers.org/events. For more information, email events@treasurers.org or call +44 (0)20 7847 2589

{ ENERGY }

JEREMY WARNER

The accepted cost-supply cycle of oil has been turned on its head by new extraction technology. And renewables are asserting their role, too

Remember 'peak oil'? This was the idea popularised by a Shell geologist back in the 1970s, that because the world's reserves of oil were finite, and at that time thought to have been already largely discovered, production would soon peak and then go into precipitous decline. By now, we were meant to be running out, resulting in sky-high prices, rationing and descent into international conflict for scarce energy resources.

It never happened. In the event, more and more oil and gas keeps on being discovered. What's more, the technologies for extracting it at relatively low cost have also come on in leaps and bounds. Tight oil and shale gas in the US are only the most high-profile examples of this.

This has given rise to a new worry for fossil-fuel producers – 'peak demand'. Already, demand for hydrocarbons in advanced economies is beginning to fall. Rising use in the developing world ensures that, overall, global consumption should continue to grow for some years to come yet, but the peak may be much closer than generally appreciated.

In its latest *Energy Outlook*, BP expressed the view that for oil alone, known reserves are sufficient to satisfy expected global demand two times over for at least the next 25 years. Far from running out, there is an enormous abundance of the stuff, out into any foreseeable future.

SHUTTERSTOCK

A barrel of oil, it was commonly thought, might well be worth more left in the ground

As a commodity product, oil is quite unusual in that it manages to accommodate both low- and high-cost producers. This anomaly has a lot to do with the idea of 'peak oil'. A barrel of oil, it was commonly thought, might well be worth more left in the ground than extracted. Assuming demand remained stable or increased, its value would appreciate as global reserves began to deplete.

Big low-cost producers, such as Saudi Arabia, therefore have a vested interest in constraining supply, driving the price up to levels that support much higher-cost production. But if demand goes into decline while known reserves keep expanding, then everything is turned on its head. A substantial proportion of reserves will end up essentially valueless, or 'stranded', and therefore never extracted.

In such circumstances, it would pay for producers to forget their self-denying constraints and sell as much of the stuff as possible while they can still get a halfway decent price for it. This, in turn, would create a glut, and a permanently depressed price. OPEC's recent agreement to limit production would become the organisation's last hurrah, and wouldn't hold. Eventually, one or more members will go for broke.

Underpinning this way of looking at the future of oil is not just the constantly increasing size of known reserves, together with the likely falloff in demand as economies mature; another peril already biting at the industry's ankles is the growth of renewables.

You don't have to buy into the prevailing orthodoxy of man-made climate change to see that these 'clean energy' sources are fast approaching a tipping point, which, through economies of scale and improvements in efficiency, promises to make them cost-competitive, possibly quite soon, with more established forms of energy supply.

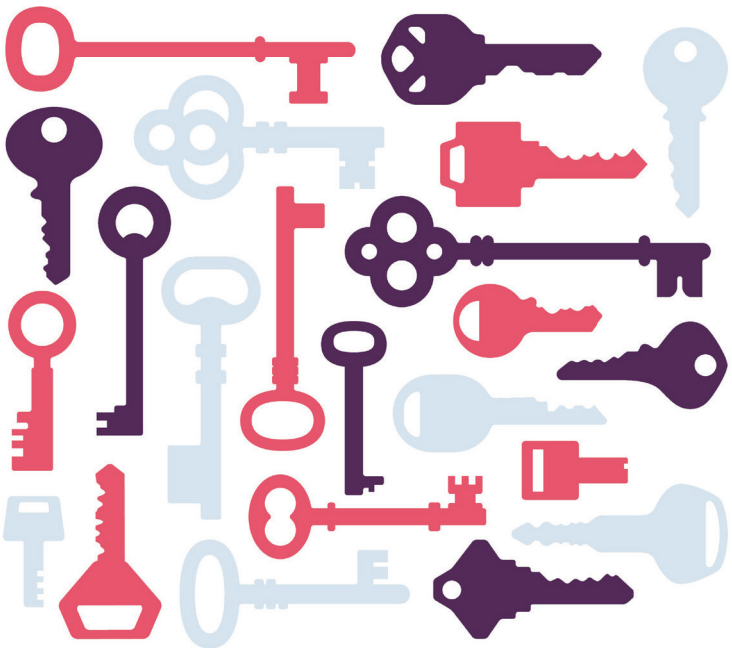
Eventually, subsidies and carbon taxes will no longer be required to ensure their success. Light-emitting diodes, onshore wind, solar power and electric vehicles have all achieved such momentum that it is now more appropriate to see them as a transformational tech shift than a regulatory response to global environmental challenges.

Renewables are very unlikely ever to replace hydrocarbons entirely – or at least not until a substitute for aviation fuel is found; oil and gas, if not coal, will remain a key part of our energy needs for quite a bit longer yet. But we could be looking at a much swifter decline than generally imagined, with big implications for the price of oil and, therefore, the future of its main producers.

Jeremy Warner is assistant editor of *The Daily Telegraph* and one of Britain's leading business and economics commentators

ACT

LEADING TREASURY PROFESSIONALS



UNLOCK YOUR POTENTIAL

ACT Career Hub: Develop the skills to succeed

Did you know that as an ACT member, whether you're in the early stages of your career or an experienced practitioner, you have free access to a wealth of articles, podcasts, videos and eLearning courses to help you develop your professional skills?

Packed with advice for a successful career, you'll also find insights, tips and job vacancies. You can use the hub to build key employability skills and make the most of your own career development opportunities.

Not a member? You can gain access to the ACT Career Hub by signing up for digital membership and becoming an eAffiliate. Find out more at **treasurers.org/eaffiliate**

treasurers.org/careerhub

on the UP

Western economies are likely to see the return of inflation in 2017, and with it the risk of too steep an increase in prices

After two years of low inflation in both Europe and the US, financial markets are welcoming rising inflation as a sign that economic prospects are improving. In a way, they are right. Economic fundamentals in the developed world are probably in their best shape in a decade. Despite serious political risks linked to populism on both sides of the Atlantic, the growth outlook looks very promising indeed. But, just as deflation concerns in 2015 and 2016 were overblown, markets are now at risk of overlooking the potential risks associated with the ongoing reflation.

The lesson of history is clear. While some historical periods of deflation were driven by strong improvements in productivity, you would be hard pressed to find a period of high inflation associated with a general improvement in economic conditions. Hyperinflation during the 1920s in the Weimar Republic and the West's stagflation of the 1970s serve as prime examples of the deleterious effects of high inflation on wealth and prosperity.

Inflation erodes the value of money and distorts the price signals that tell economic participants how best to allocate effort and resources. That Western economies achieved impressive economic growth from the 1980s until the recent global financial crisis as central banks sought to target a low and stable rate of inflation, is no coincidence.

The disinflationary effects of cheap oil since 2014 have supported solid gains in real incomes. Households have enjoyed a tax cut without the budget deficits. Unless wages begin to accelerate in line with the inflation pick-up – unlikely, but not impossible – households will see real incomes squeezed this year. Households could turn to credit and begin to draw down on savings to maintain their preferred level of consumption. This has already started to happen in the UK, with households again gearing up to support spending as rising import costs sap real income growth.

Financial markets benefit from low inflation, too. Low interest rates and large central bank balance sheets support asset prices. After hiking in December 2015, the Fed did not follow up shortly thereafter – as was expected at the time – because of the market turbulence at the start of 2016.

Responding to the same risk in the eurozone, the European Central Bank (ECB) stepped up its monthly asset purchases. In the UK, following the Brexit vote, the Bank of England easily justified cutting rates and increasing quantitative easing (QE), thanks to the low inflation at the time. As inflation rises towards central banks' targets, monetary policy makers will find it harder to justify their ultra-easy monetary policies.

Economic fundamentals are probably in their best shape in a decade

SHUTTERSTOCK

If the US and European economies avoid the political pitfalls, rising inflation will tilt central banks towards tighter monetary policies. The rise in government bond yields since late 2016 reflects rising market expectations of higher central bank interest rates. While the Fed will probably hike three times this year, the Bank of England could hike for the first time in the second half of 2017. In the eurozone, where the recovery is less advanced than in the US and UK, later this year, the ECB may signal when it intends to complete its QE programme – likely by mid-2018 – with markets taking that as a sign that interest rate hikes may follow soon after.

Although global economic prospects are improving and the post-Lehman caution is fading, the necessary repair to public- and private-sector balance sheets is not yet complete. The Western world is thus still highly vulnerable to downside risks. If a confidence crisis hits, we may need central banks to resume their erstwhile role as guardians of the recovery. But, if such risks materialise and central banks are forced to hesitate because inflation is rising above their targets, the real price of inflation could be much higher.

Kallum Pickering is senior UK economist at Berenberg Bank

ACT LEARNING ACADEMY

HOW MUCH MONEY DOES A SKUNK HAVE?

ONE SCENT

#dadjokes

Ok, we don't tell the greatest jokes, but we do have a nose for the best cash management learning solutions!

Smell success with commercially-relevant content and industry expert tutors.

Qualifications

- Award in Cash Management Fundamentals
- Certificate in International Cash Management

eLearning

- Corporate finance: finding money, spending money
- Cash management

Training

- The nuts and bolts of cash management
- Cash forecasting fundamentals
- Advanced cash management

academy.treasurers.org

{ INTRODUCING... }

CAROLINE STOCKMANN

The ACT's new chief executive on virtual teams, diversity and professional integrity

As I set out on a new journey in terms of my career, I have been thinking about whether I will find lots of parallels with previous roles or, indeed, how different things will be. I randomly selected something I thought would be very different, namely my recent experience at the British Council of setting up the global virtual teams who were fully part of building (and then delivering) our finance strategy. Here, at the ACT, my team is much smaller, it generally works in the same place, and there is less cultural diversity. But then I think about the membership we serve, which is large, global and culturally diverse, and I see that some of the same principles might apply here, too.

So, what were those principles? For me, they were: taking a consultative approach; inclusion and listening to others; synthesising inputs and driving outputs; letting others lead; and avoiding a completely centrally focused approach. Time will tell whether these are good principles to follow.

Embrace diversity

I certainly believe that having such a diverse membership as ours is a great strength. Studies by Professor Joseph DiStefano of the Institute for Management Development show that, while homogeneous teams can get good results, diverse teams outperform others, *as long as they embrace their diversity*. Again, I am thinking about how we can apply this in our context and ensure that we capture our diversity of thought (it is not always about ethnicity or gender), embrace it and, by so doing, together reach the best outcomes – whether it be in terms of content and delivery of events, dealing effectively on a regulatory matter affecting our members, or in how we develop and deliver our learning and assessment.

SHUTTERSTOCK

Another area, which is very important to me, is that of professional integrity. It has been a thread throughout my career, and is at the heart of the ACT's purpose. Our quality of product, be it qualification, event, publication or thought leadership, is critical to our success as an organisation – and it is all underpinned by professionalism and integrity.

> Today, more than ever, it is critical that the treasurer is given a place at the decision-making table

Values and ethics

The use of letters after your name tells the world that you also stand by these values – and sometimes that is not easy. I know from personal experience what it is like to have one's integrity threatened, and to be put under immense pressure to do or say something that is simply not right. I am certain that many of our members will have experienced the same at one time or another, and I hope that being an ACT member, and the support we can provide on ethical matters, has contributed positively in some way during those stressful times.

Today, more than ever, it is critical that the treasurer is given a place at the decision-making table, and is encouraged to contribute to the strategic direction of their organisation. Some of you have expressed concern should treasurers be put 'back in the box' and lose that place at the table. However, our *Contemporary Treasurer 2016* survey revealed that the amount of time treasury is spending on strategic issues is rising, and this was the area most expected to see increased activity over the following 12 months. Time spent on strategic issues was deemed to be 32% in 2016, up from 26% the previous year. I am very pleased to hear this.

I remember being quite shocked to read the results of an *Economist* survey a few years back, where a majority of CFOs wanted less time with their board as opposed to more! So, I am very much looking forward to our 2017 survey results, to see if we continue to progress in this very positive direction.

I look forward to meeting as many of you as possible over the coming months and years, and to working collaboratively with and for you. Please do not hesitate to get in touch if you would like to give me feedback, share your views or even just say 'hello'. I can be reached at cstockmann@treasurers.org

Caroline Stockmann is the ACT's new chief executive. Until recently, she was CFO at the British Council

THE ART OF MENTORING

THE ACT'S MENTORING PROGRAMME OPENS DOORS FOR MENTORS AND MENTEES, PROVIDING BOTH ENTER INTO IT WITH AN OPEN MIND. LOUISE TATHAM EXPLAINS

There are more than 50 definitions to describe what the term 'mentoring' may mean. At its very core, it is an informal relationship between an individual who has a specialist skill or knowledge (mentor) and an individual who would like to learn and would benefit from the mentor's support (mentee).

Wikipedia defines mentoring like this: "Mentoring is a process for the informal transmission of knowledge, social capital and the psychosocial support perceived by the recipient as relevant to work, career or professional development; mentoring entails informal communication, usually face-to-face and during a sustained period of time, between a person who is perceived to have greater relevant knowledge, wisdom or experience (the mentor) and a person who is perceived to have less (the protégé)."

The ACT's Mentoring Scheme started a little over a year ago, and we held our inaugural Mentee and Mentor of the Year awards in September. Our scheme provides a forum for the exchange of ideas, best practice and open discussion, and we have seen many positive instances that highlight the benefits, as our winning mentor and mentee can testify (see below).

If you are considering entering into a mentoring relationship, you need to think about your goals and objectives to ensure you focus on what matters. Although most relationships grow over time and can last many years, you are free to set short-term goals, which will enable you to celebrate accomplishments along the way.

SHUTTERSTOCK

MENTEE OF THE YEAR:

RAJ BALARAMAN
Senior manager, PwC
Balaraman was mentored by an experienced FCT member, based in Singapore.

Why did you decide to be mentored via the ACT's Mentor Me scheme?
To be honest, it was a spontaneous decision when I read about this in an ACT email. Having benefited from coaching sessions in the past from my professional network within the firm, this was an excellent opportunity to get new perspective and inputs from someone senior outside my immediate network and benefit from their vast experience.

How has being mentored helped your career?
I sought my mentor's inputs on my plan to transition to Asia from the UK. I received answers to my obvious questions on the work environment, clarified generic queries about the region and enhanced my motivation for the move, as well as the most important thing – contact with someone in the region even

before I landed on the other side of the world. I am always thankful to the ACT mentoring initiative for enabling this.

What advice would you give to anyone thinking of joining the scheme?
Be clear on your objective and be open with your mentor on what your goals and apprehensions are.

Any tips for getting the most out of the mentoring relationship?
Identifying the right mentor is essential, choosing someone who aligns with the input you are seeking. It was relatively easy for me as my objective was transition to Asia, so I chose someone who had done this in the past.

You need to be proactive in setting the objective and identifying the best way to have regular conversations. Consider time-zone differences, suitable times for your mentor and the intent of the chat. Dropping a note in advance of every chat to remind them of the intent and the inputs you want to seek will help the mentor and yourself to focus on the intended outcome efficiently.

HERE ARE FIVE TOP TIPS FOR ENHANCING YOUR MENTORING SKILLS:

1. Be yourself
and be honest. As a mentor and mentee it is important to share your success stories and failures. Mistakes are often the biggest lessons in life.

2. Listen
A good mentoring relationship is based on active, effective, focused and sensitive listening. If you are a mentor, putting yourself in the shoes of the mentee is vital for successful mentoring relationships. You need to be genuinely interested in your mentee as an individual. If you are a mentee, it is important to listen with patience and respect. You might not always agree with your mentor, but you should undertake to listen openly to what they say.

3. Set realistic expectations
according to your potential and your skills. Goals are achieved through a step-by-step process. Try to look at the professional challenges you might encounter and suggest ideas for overcoming them.

4. Be responsible, reasonable and respectful
The values of trust and respect are essential for an effective mentoring relationship. Always be patient and polite. By being reasonable and transparent in your approach, you will build trust.

5. Provide constructive feedback
This plays a key role in a healthy mentor-mentee relationship. As a mentor, giving a good balance of praise and constructive criticism is critical. As a mentee, it is important to provide your mentor with feedback, too – this is a two-way learning experience!

MENTOR OF THE YEAR:

BRIAN WELCH
Director, The UserCare Treasury Consultancy
Welch mentored a bursary student who was based in Nairobi.

Why did you become a mentor via the ACT's Mentor Me scheme?
Over my career, I have benefited from the advice of informal mentors. However, I do feel that a more formal and longer-term mentoring relationship may have been beneficial – especially from someone impartial. It was with this in mind that I put my name forward to be a mentor with the ACT.

What skills do you need to be a mentor?
You use all the skills you develop throughout your life – these can be professional skills, or wider life and career skills. The fact that the mentor has 'been through it already' means that they might be able to spot mistakes easily, and the mentee will be able to use this experience to come up with the best solution.

What have you gained through this mentoring experience?
My experience with the ACT scheme has been to ensure that you establish what both parties want and expect from the relationship early on – and to measure progress. It is critical that both the mentor and the mentee understand the relationship.

How did you approach your mentoring relationship?
The most important aspect was to ensure that both of us agreed on what we were going to achieve throughout the relationship. It was important for us to agree on the best way for me to support my mentee and we decided to focus on:

- Progression with the ACT qualifications;
- Progression with future job development;
- Guidance on CV building, LinkedIn profiles and other social media; and
- Acting as a confidential and independent 'friend', especially in relation to career plans and difficulties.

What has been the effect on your mentee?
My mentee has a new job, which really does sound exciting. I am really pleased that the support and advice I provided has been attributed to the success of them getting this new role. I'm really pleased to have been able to help.

Do you have any advice for someone who is thinking of becoming a mentor?
It has been a very enjoyable process and I hope to keep in touch with my mentee for many years to come. I think that it is a very useful process to offer to younger members. My advice to potential mentors is to understand what both parties want from the relationship, to be honest and candid in your dialogue and to enjoy the experience.

Mentoring can be a great way to develop yourself. If you are a mentor or mentee, don't forget to record this in your CPD record. For more, visit www.treasurers.org/mentoring

Be clear on your objective and be open with your mentor on what your goals and apprehensions are

Louise Tatham is head of professional development at the ACT

"LEARNING SHOULD NEVER STOP"

Swan Housing's head of treasury, Rohan Gunatillake, delivers value by maintaining a firm grip on risk management, and by constantly honing his skills and adding to his qualifications

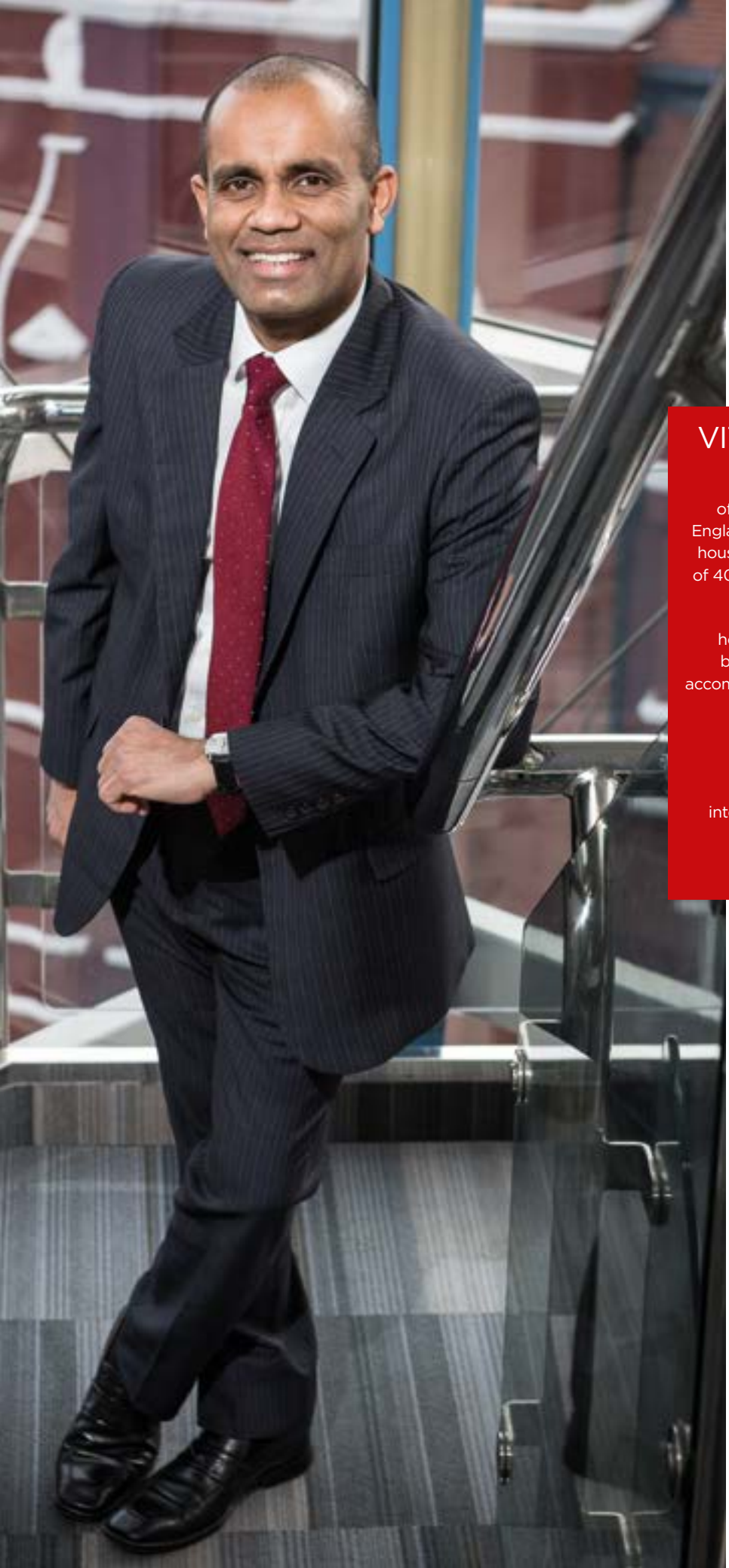
Words: **Liz Loxton** / Photos: **Will Amlot**

Since moving to the UK from Sri Lanka in summer 2006, Rohan Gunatillake has worked for organisations with a confirmed social purpose. From 2007 to 2015, he held a variety of financial management roles within NHS trusts, moving to the UK when his wife, a consultant radiologist, secured a post at Oxford University Hospitals. More recently, and partly thanks to the AMCT that he studied for and passed in 2008, he has changed direction. He became head of treasury and business planning at Watford Community Housing Trust (WCHT) in 2015, and then took up post as head of treasury at Swan Housing, which manages housing in Essex and east London, at the beginning of this year.

In a sense, housing associations represent a return to earlier interests and experiences for him. Gunatillake's first employer was John Keells Stock Brokers, a subsidiary of the largest quoted company on the Colombo Stock Exchange, where he was an investment adviser. From there, he moved to First Capital Group, a market leader in fixed-income markets. So, the funding issues that underpin the housing association sector reflect his interest in financial and capital markets, both equity and debt. "I have always been interested in financial markets and have considerable experience in both debt and equity," he says.

When Gunatillake applied for his role at WCHT, most candidates in the running had housing association experience, but no treasury qualification. Gunatillake made it very clear in the application process that his position was the opposite. "I had very little knowledge of the housing sector. For me, the biggest challenge was understanding the business, but I wasted no time doing that," he says. "I had already seen how some people in finance roles in the NHS sit at their desk generating reports. I tended to go out with the service directors. If you put yourself out there, then you will understand the business. I applied that principle to this job as well."

The move from accountancy to treasury came about when Gunatillake learned that his Chartered Institute of Management Accountants qualification made him eligible for a fast-tracked ACT qualification because of a degree of overlap. But he soon found that treasury had given him a broader perspective. "You can make



a real difference to the success of the organisation," he says. "The decisions you make will have a direct impact on performance and profitability."

As well as engaging with other professionals within the business, particularly the development team, Gunatillake is someone who likes to understand the significance of his organisation to its customers. Housing associations are, he says, sleeping giants and play an underappreciated role. One in 10 people in the UK live in a housing association home. The sector generates around £12bn in rental income from around 2.5 million properties. Last year, housing associations built a third of all the new homes in England, adding an estimated £13.9bn to the economy and supporting 37,000 full-time jobs.

The fact that these organisations are partially funded by grants and regulated by the government makes them vulnerable to policy shifts, however. So when former chancellor George Osborne announced that social housing tenants would see their rent reduced by 1% a year for four years from April 2016 in his 2015 Budget, he reversed an upward trend in social housing rental income. Associations had previously worked on the assumption that they would be able to increase rents by 1% above inflation (consumer price index) for the next 10 years from April 2015, in line with a formula that the coalition government had set out in 2013.

VITAL STATISTICS

One third
of all new homes built across England last year that were built by housing associations – an average of 40,000 affordable homes a year

11,000
homes owned and managed by Swan Housing, providing accommodation for 22,500 residents

£47,782
net debt per housing unit

220%
interest cover at Swan Housing

338
employees

"You can make a difference to the success of the organisation. The decisions you make will have a direct impact on performance and profitability"

Out of the blue

It was an unexpected move and one that has introduced significant disruption and risk. Suddenly, WCHT's finances were adrift by some £10m over four years. At the time of the announcement, there was an added personal complication. Gunatillake was on the eve of his holiday, when he was informed that the trust's business plan was based on assumptions that could no longer be counted on and would have to be redrawn along with a raft of other board papers.

Moreover, one week earlier, the trust had applied for a new funding programme loan, in the hope of securing cheaper funding fixed for over 25 years. Gunatillake was tasked not just with revising the trust's business plan, but resubmitting the loan application. All this against a backdrop of diminishing government grants coming into the sector and continued uncertainty on rent caps. "To this day, there is uncertainty around what is going to happen to rental income after 2020. As housing associations, we don't know what to incorporate into our business plans. There's no clarity at the moment, so that's a huge challenge."

To start bridging this funding gap, WCHT needed to look at its plans and tenure mix. For housing associations, there is the possibility of generating open-market sales at the end of a build programme so that profits can be reinvested. Gunatillake believes that the business plan is more robust and appropriate for the new conditions. That action is not risk free, however. "For traditional housing association work – sub-market affordable rents – the private sector cannot compete with you. There is a solid income stream and it's anti-cyclical. But if you are building for sale, you have to compete with the private sector, and if there is an economic downturn, there is a risk that you build, but you can't sell."

In the wake of the Budget announcement, WCHT learned that the housing regulator, the Homes and Communities Agency, was to undertake an in-depth assessment of its financial viability and governance. Gunatillake was part of the project team established when the trust was informed the regulator would be carrying out an assessment. But the process proved worthwhile when it awarded the trust an improved score on financial viability, moving it from a V2 rating to V1 for the first time in the trust's history.

Risk profile

Interest rate risk is another significant area where treasury skills come into play. Housing associations are long-term borrowers and use financial derivatives, such as interest rate swaps, to hedge interest rate risk and provide much-needed market certainty. The fall in interest rates following the EU referendum vote, however, has added to the market pressures, with investors seeking the safe haven of government bonds, further depressing yields. "Because market rates are down, the interest costs go down, but with a fixed-rate product, there is an adverse impact on my mark-to-market exposure. That is another challenge and potentially a requirement to come with more security with a lender. But that, in turn, means I will be left with fewer assets with which to secure lending going forward," he says.

Rating agencies can prove uncomfortable with the changes in the risk profile brought about by shifts towards more open-market and shared-ownership sales. In October last year,

ROHAN'S TOP TIPS FOR SUCCESS

1. **Put your heart and soul into what you do. Believe in yourself and never give up.**
2. **Get involved with the business and understand the strategic direction of the organisation.**
3. **Keep things simple and logical – stick to basics.**
4. **Never stop learning; continuously develop your knowledge and skills, and keep abreast of current affairs.**
5. **The secret of success: commitment, belief and resilience.**
6. **The AMCT has equipped me with the skills and confidence needed to work in treasury. Simply put, I wouldn't have been able to break into treasury or secure any treasury role without the AMCT.**
7. **The most difficult question my FD could ask is: what's next?**
8. **My favourite gadget is my iPhone. It was a BlackBerry until recently – it had a great keypad – but my daughter convinced me to switch.**
9. **The best way to wind down after a stressful day is spending time with the family.**

ROHAN'S CV

2017-present
Swan Housing, head of treasury
2015-2016
Watford Community Housing Trust, head of treasury and business planning
2007-2015
NHS (various financial management roles within UK trusts)
1998-2006
First Capital Group, Sri Lanka, manager – fixed-income securities
1994-1997
John Keells Stock Brokers, Sri Lanka, investment adviser/stockbroker

QUALIFICATIONS

FCMA (**2016**), CGMA (**2012**), AMCT (**2008**), ACMA (**2007**)

Standard & Poor's downgraded Swan Housing's rating, for instance, from A+ to A and gave it a negative outlook, because its increased reliance on market sales made its income profile more volatile. Across Essex and east London, Swan Housing has 11,000 units, owned and managed. A further 1,500 units are due to come on stream over the next three to four years, 65% of which are currently destined for open-market sales and another 20% for shared ownership. "So, only 15% goes into traditional housing association rental stock. The rating agency considers this to be a risk, because if there is a downturn, we will be competing with the private market," Gunatillake explains.

"We are monitoring the situation closely. Swan has a strong financial process and 'significant mitigating plans' in case of a market downturn, such as pausing or rescheduling development schemes, converting tenures from private sales to social rent, and a concerted effort on pre-selling. In addition, regeneration development generally comes with local authority support and is carried out in small phases, of about 150-200 units at a time."

> Housing association treasurers additionally have challenges around managing surpluses

Housing association treasurers additionally have challenges around managing surpluses, with a need to invest wisely and secure a return within the accepted parameters of the treasury policy. The interplay of these core areas – managing liquidity, counterparty risk and interest rate risk – is what makes treasury professionals so central to the viability of these organisations. Given housing associations' funding mix – for every £1 of public investment, they leverage another £6 in private or capital market funding – those three areas represent a dynamic and complex set-up. "Treasury is a very important function in this high-priority area," he says.

The future

While some may have considered a dual qualification in accountancy and treasury sufficient for their needs, Gunatillake is now squaring up to the final level of the Chartered Financial Analyst (CFA) qualification and is looking further forward at the MCT. He's not necessarily a fan of taking more exams; however, he finds the focus of the CFA interesting and believes further study to be a good way of broadening horizons and demonstrating his commitment to his career.

"I'm a strong believer that learning should never stop," he says. "In treasury, you have to be a value creator. I can't lay a brick to save my life, but I'm sure I can help the organisation achieve its corporate objectives by providing solutions to the risk management issues. Doing that, it's only right that I am up to date with my skills and knowledge."

Liz Loxton is editor of *The Treasurer*

THE ROBOTS ARE COMING

WILL ARTIFICIAL INTELLIGENCE ERODE THE ROLE OF TREASURERS OR BOOST THEIR PROFILE WITHIN BUSINESS? SALLY PERCY INVESTIGATES

Read too many articles about artificial intelligence (AI) and you could come to the conclusion that humankind collectively is heading for a career dead end.

A 2013 paper by academics at the University of Oxford predicted that 47% of US jobs were at risk of being automated over the next 20 years – with the jobs affected ranging from taxi drivers through to accountants.

A year later, a joint report by the same university, together with Deloitte, predicted that 10 million British jobs could be taken over by computers and robots over the same period.

Then, a 2016 study by salary benchmarking site Emolument revealed that nearly half (47%) of people working in financial services in several different countries thought that technological innovations, such as automated trading platforms, were putting their jobs at risk.

With the use of AI within business set to increase dramatically over the coming decades, where does this leave the treasurer? Will the profession even exist in 2030 or will it have been consigned to the history books? Let's find out.

BRAVE NEW WORLD?

There's presently so much hype about AI (see box, right) that you'd be forgiven for thinking that it was something new. Actually, it's been around in various guises since the 1950s, when computers first learned to play chess. One subset of AI – robotic process automation – is already widely used in treasuries today in the form of straight-through processing.

"We programme our treasury management system to look at bank statements and book certain items, such as interest or bank fees, directly to the general ledger with no human interaction," confirms Richard Abigail, group treasurer of engineering firm Arup. "The technology for this has been around for decades."

Yet, in future, AI could be used far more extensively in treasury than it is today, argues Bill North, head of global sales at Pelican, a provider of intelligent payment systems. In particular, he predicts that AI will bring "human-like reasoning" to the automation process as computer systems use historic data to work out which bank a payment should be made to, in what format and in which time frame.

He says: "AI can learn from the past and say: 'This is how I made that payment in the past. Has anything changed? Do we still want to make the payment through this bank? Does the bank have a good history of servicing us? Does it have a high success rate of processing these transactions? Should we make it a two-day payment and pay a lower cost or should we wait another day and pay a same-day, real-time gross settlement cost because that one extra day of liquidity may be very important to us?'"

Data analysis is another area where AI will be able to benefit treasury. Going forward, machines will not only be able to analyse terabytes of data in the blink of an eye, they will also be able to analyse that data and learn from it.

This ability will be even more valuable if the distributed database technology blockchain takes off in the way that many experts predict. Blockchain operates on a consensus basis, where the majority of database users have to confirm that a new 'data block' is valid. Provided that blockchain can be scaled effectively – and this is something that the fintech community is currently working hard on – it has the potential to be a secure source of shared, good-quality data that will complement AI.

"Using AI, treasurers can start to identify patterns across thousands or hundreds of thousands of transactions that they wouldn't ordinarily have the resource or the time to do," says Rohit Talwar, futurist, author and CEO of think tank Fast Future Research. "The tools will get better at spotting issues in real time and providing customised reports without moving data between systems. They will also enable far more

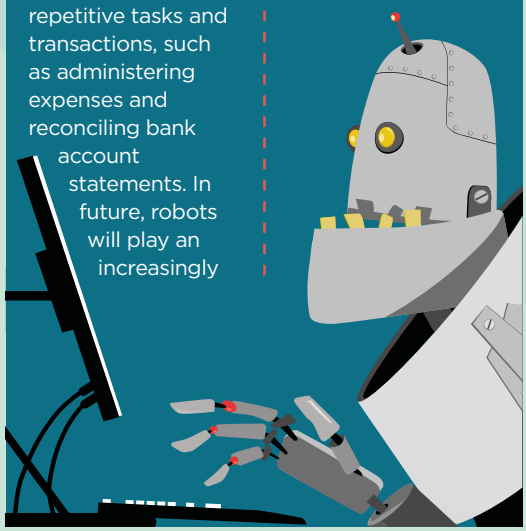
ABOUT ARTIFICIAL INTELLIGENCE

Artificial intelligence (AI) is the robotic technology that enables computer systems to perform tasks that previously required human intelligence, such as making decisions and recognising speech.

The most famous example of AI is arguably the fictional character C-3PO from the *Star Wars* films. AI covers a broad spectrum of technology, however, and in real life robots are more likely to be clever software rather than walking, talking, metallic humanoids.

Today, robotic process automation is already being used to automate repetitive tasks and transactions, such as administering expenses and reconciling bank account statements. In future, robots will play an increasingly important role in data analytics.

Thanks to so-called 'machine learning', they will have the ability to act on data without being explicitly programmed to do so. They may also work as 'intelligent agents' in call centres and other customer services environments.



"AI can learn from the past and say: 'This is how I made that payment in the past. Has anything changed?'"

SHUTTERSTOCK

automated production of reports and commentaries."

As if its capability in the areas of processing and data analysis was not already enough, AI also has massive implications for organisations' cybersecurity. "A machine has the ability to analyse a huge amount of data and spot anomalous communications changes and requests, for example, someone asking for a payment to a different bank account," says Alex Viall, head of regulatory intelligence at Behavox, a supplier of AI products to the banking and hedge fund industry. "That is something a human might let slip, but a machine would recognise instantly."

He adds: "We have clients who use our system to detect where people internally are sharing passwords, which could lead to a cyber breach. AI can be enormously helpful in alerting organisations to cyberthreats."

THE ROLE OF THE TREASURER

So, with systems potentially able to perform many functions that were previously the preserve of the treasurer, what will be the role of the – er – treasurer in 10 years' time?

> "Technology is going to give treasurers the ability to rapidly advise on how developments in the global financial markets will affect their organisation"

The good news is that, unlike some of their colleagues in the finance function, treasurers will still have a job – and it will probably be an even more interesting and rewarding job than before. "World-class treasury functions will focus on building a deeper understanding of the business, the types of products and services it is developing, the business models it is testing and the implications on cash flow," says Talwar. "They will get smarter at anticipating financial needs and modelling the best treasury strategies to support the organisation's direction of travel."

"Technology is going to give treasurers the ability to rapidly advise on how developments in the global financial markets will affect their organisation – everything from counterparty risk to FX to asset protection and sanctions screening," predicts North. "That will enable the treasurer to really be an adviser, not only to the CFO, management committee and board of directors, but also to every business unit across the world."

Touching on this theme in a blog last year, former ACT CEO Colin Tyler suggested that it would be a great result for treasurers if they could use technology to enhance their reputation as trusted business advisers. "The best of our type have always been intuitive – lauded for their keen and quick insight to situations as they develop," he wrote. "They are forward-looking, always trying to anticipate where the next financial risk or danger is coming from, often forming this view from an incomplete picture, but yet also have the technical skills and experience to put in place practical actions to manage the best business outcomes."

On a more prosaic note, treasurers will also have a role in making sure that technology is doing the job it is supposed to do and managing exceptions, such as a particularly large payment or a payment to a high-risk counterparty.

"There will always be a role for the human to supervise and oversee what the machine is producing and to perform the role of the analyst," says Viall. "The ultimate defence is where organisations are using these technologies, but they also have experienced analysts who are working with the technologies effectively, tuning them and back-testing the data."

"If you're making a payment to a firm, geographic area or individual that could potentially be sanctioned, you definitely want to make sure you catch that payment and don't send it out before it gets to your bank," says North. "Because once it gets to your bank, it has a duty to report to the regulator. I think that's an area where human interaction will still be there."

"Technology will make treasurers change and adapt," observes Abigail. "Moreover, they can become more strategically focused if a robot is doing the day-to-day stuff. But I don't think

SHUTTERSTOCK

WILL YOUR BANK STILL LOVE YOU TOMORROW?

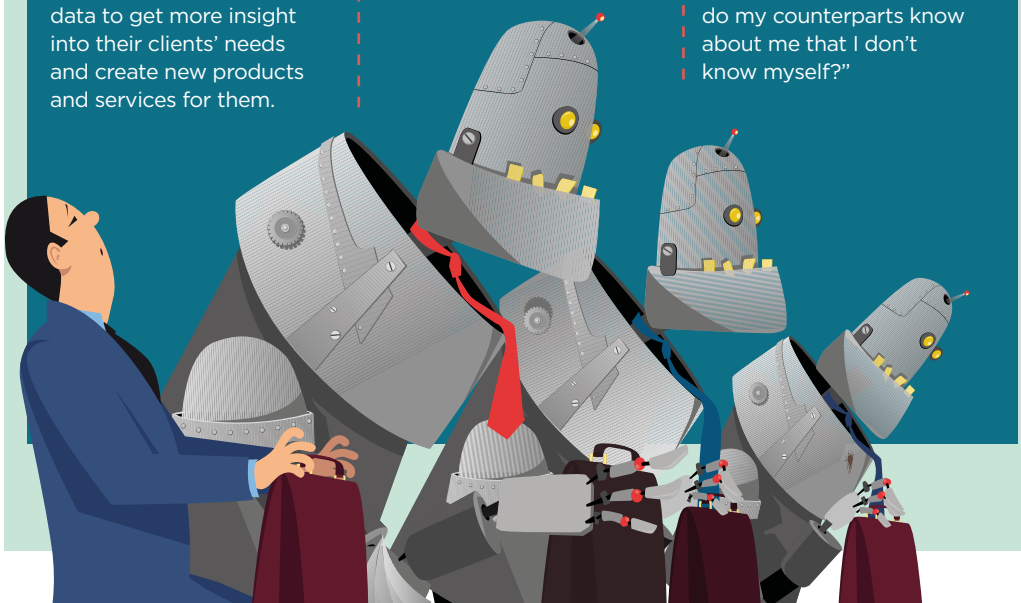
Artificial intelligence not only has the potential to change what treasurers do on a daily basis, it could also transform their relationships with banks.

Soon banks will use machine learning to crunch vast amounts of data that reveal everything from the quality of their relationships with clients to the real value of those clients in terms of profitability.

They will also use the data to get more insight into their clients' needs and create new products and services for them.

So, what will all this insight mean for those treasurer-banker relationships that have been so carefully nurtured over the years? Quite simply, it may mean that bankers start to look at some of their clients in a very different light and perhaps realise that they were over-servicing. This could put treasurers on the back foot.

"If your counterpart is analysing data in a way that you're not, they almost have an advantage over you," says Behavox's Alex Viall. "So treasurers will start to wonder, what do my counterparts know about me that I don't know myself?"



technology will replace all the activities of a treasurer."

EMBRACING THE FUTURE

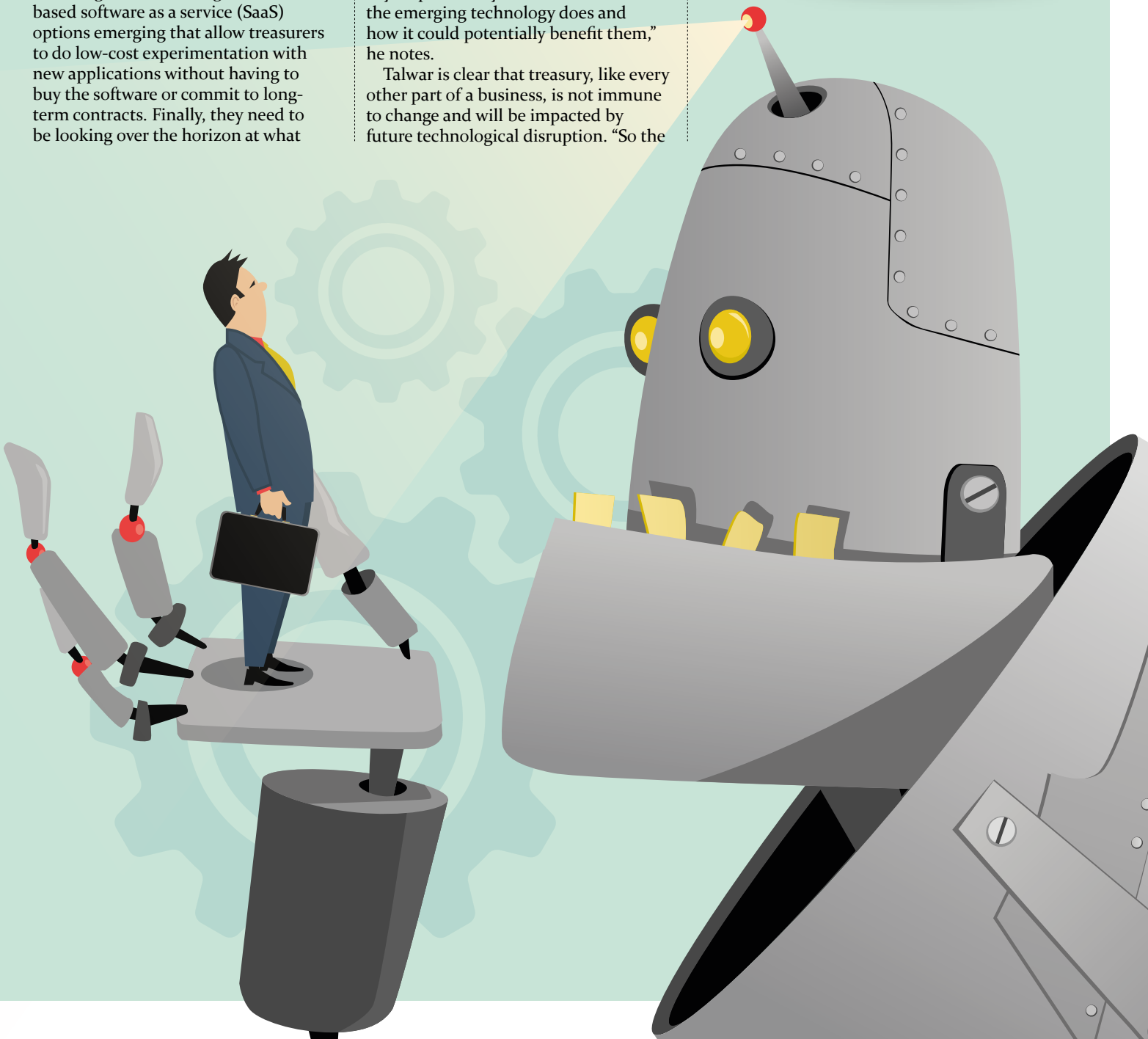
So, if their job is secure, what should treasurers be doing to make the best of an AI-enabled world?

"Firstly, they need to make sure they are using current technologies in the business well and that their team members have the right training to do so," says Talwar. "Secondly, they need to be looking for opportunities to adopt newer technology developments that will enhance the speed, efficiency, effectiveness and cost of what they are doing. There is a range of cloud-based software as a service (SaaS) options emerging that allow treasurers to do low-cost experimentation with new applications without having to buy the software or commit to long-term contracts. Finally, they need to be looking over the horizon at what technologies are emerging and exploring them to understand what benefits they could bring."

North says treasurers need to pay attention to what their banks are doing and learn from how they are applying technologies such as data analytics to crunch vast amounts of data. At the same time, he argues that treasurers shouldn't rely solely on their banks. They also need to do their own research by attending fintech conferences and other events on emerging technologies. This matters since AI increases the ability of treasuries to become more bank-agnostic. "The treasurer has a key responsibility to understand what the emerging technology does and how it could potentially benefit them," he notes.

Talwar is clear that treasury, like every other part of a business, is not immune to change and will be impacted by future technological disruption. "So the question for treasurers," he concludes, "is whether they want to plan and drive the adoption of these technologies in a controlled manner or be on the receiving end of enforced changes."

Sally Percy is a freelance financial journalist and author of *Reach the Top in Finance: The Ambitious Accountant's Guide to Career Success* (Bloomsbury)



Simplifying the complexity of multi-banking for corporates

As the treasurer of a multinational corporation, you may work with different banks for cash, trade and treasury services, no matter the size of your company.

Using SWIFT you can connect your business to multiple banks through a single, secure, bank-agnostic channel. Once connected, streamline and automate your business flows by communicating with your banking partners using our global standardised ISO and proprietary format (MT) messages.

SWIFT for Corporates offers much more than just connectivity and standardised messaging. Explore our portfolio of products and services and speak to us about how we can support you through your business challenges.

SWIFT for Corporates portfolio

A single channel to connect you with the financial world

Multi-channel common industry solutions supporting your treasury and trade operations, including:

- Reference Data
- Onboarding Solutions
- Compliance Services
- Identity & Mandate Management
- Global Industry Standards
- Banking Capabilities and Partner Programme

SWIFT for Corporates in numbers

as at end H1 2016

1,621
Corporate groups using SWIFT

2,651
Banks reached globally

30,000
Corporate entities on SWIFT
20 – 30 legal entities per corporate group on average

47%
Fortune 500 companies on SWIFT

38%
Less than USD 1 billion turnover

26%
Less than USD 0.5 billion turnover

Making life easier for multi-banked corporates

71%
of SWIFT-connected corporates deal with 5 banks or more

Total sent messages H1 2016

12,208,653

Total received messages

58,475,002

The Bank readiness programme

Banks certified for SWIFT for Corporates:

413 in EMEA

722 worldwilde

Bank Readiness provides corporates with standardised connectivity to the banking community and enables banks to improve their customer connectivity experience. Through SWIFT's Bank Readiness portal, corporates can easily identify the various SWIFT messaging standards and technologies that banks support and in which countries.

The main objectives of the programme:

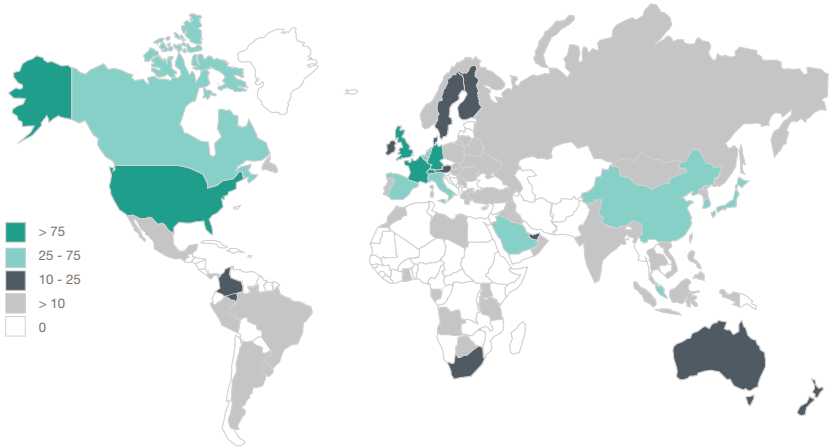
To publish banks' capabilities over SWIFT

To enable corporates to increase their bank reach globally using SWIFT

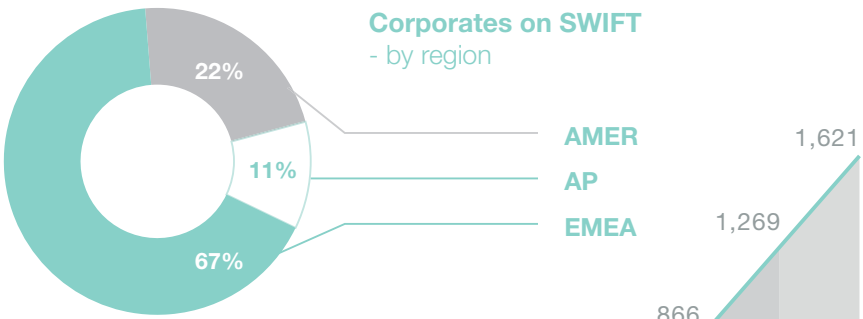
To promote the banks' operational capabilities

To measure the readiness progress

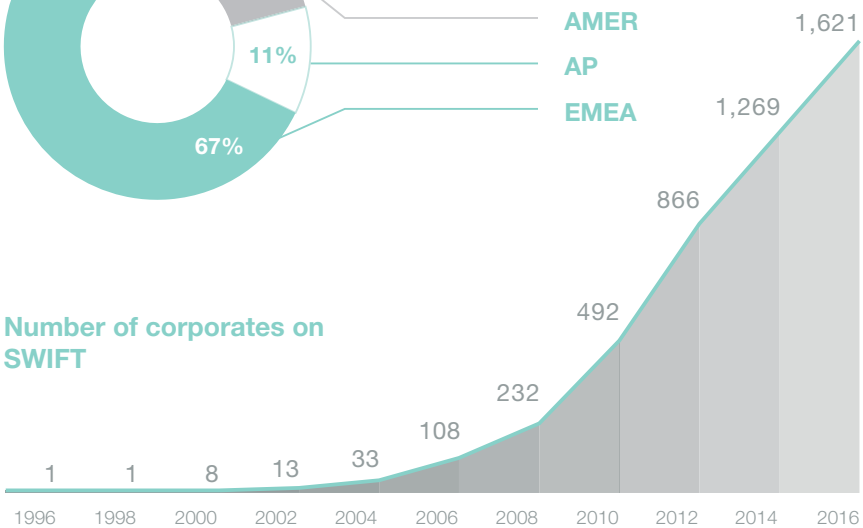
Corporates on SWIFT
- by country



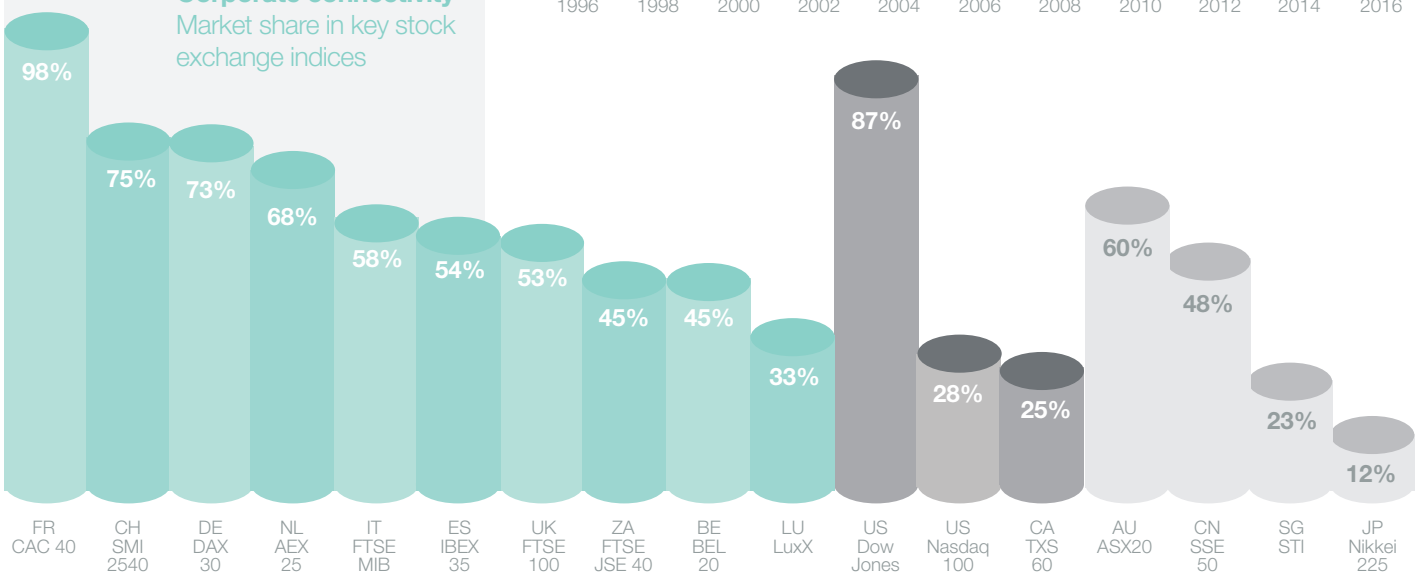
Corporates on SWIFT
- by region



Number of corporates on SWIFT



Corporate connectivity
Market share in key stock exchange indices



Find out more at corporates.swift.com

MAKING INROADS

DO THE ADVANCES IN THE FINTECH SECTOR ENDANGER TRADITIONAL COMMERCIAL BANKING? NICK HOOD TAKES A CLOSER LOOK

The business and personal finance media has for some time been awash with talk of fintech disruptors muscling in on the financial services market. A particular focus has been their apparent ability to take advantage of the malaise endemic across the banking market since the global financial crisis and the sector's antediluvian technology. It now seems that the threat to traditional banking has become official, after Bank of England governor Mark Carney warned in late January that, in time, fintech could "signal the end of universal banking as we know it".

In fact, the potential impact of fintech was confirmed as long ago as January 2015 when the Royal Bank of Scotland announced its intention to partner with a number of leading crowdfunding platforms, such as Funding Circle, referring on loan applicants that it had rejected. Traditional financial institutions have also been buying up fintech operations, either to learn from them or to use their innovative skills to generate alternatives to their existing software and operating systems. Banks are also looking to reinforce their economies of scale and broaden the scope of their business models.

The real magic of fintech is its ability to 'unbundle' banking, separating it out from existing providers into its core competencies: settling payments, handling maturity transformation, sharing risk and allocating capital. These functions can now all be handled by fintech entrants – payment service providers, aggregators and robo-advisers, peer-to-peer lenders and a whole range of tech-enabled trading platforms. This revolution has been driven, of course, by the ubiquity of the internet, the availability of ultra-high-speed computing, the emergence of mobile communications, advances in cryptography and, most important in terms of human impact, machine learning leading to potential artificial intelligence (AI) solutions. (See page 26 for more on AI.)

Customer flight

The impact on the banking system itself is one cause for concern. Customer loyalty has the potential to disintegrate as alternative financial service providers proliferate, much as it has in the insurance sector. One outcome could be a reduction in bank-funding capacity for commercial customers. New underwriting models, such as those under close scrutiny at the moment in the crowdfunding space, could reduce credit quality and pricing, thus lowering profitability for traditional funders and, therefore, capacity. Another worry is the functioning of some credit markets in the face of new investing and risk management paradigms. A useful parallel is what has happened in the retail sector as technology has revolutionised the interaction with consumers – dramatically raised investment costs and generally reduced profit margins.

An illustration of how power is shifting even in these early stages of the fintech revolution is in payment services. Traditionally, these have relied on cash, credit and debit cards, and wire transfers. Fintech providers are now offering domestic and international services on a significant scale, using 'digital wallets' and pre-funder 'e-money'. Part of the process is the gathering of all-encompassing customer transaction data, giving them control over this vital knowledge base, which can then be exploited for other purposes.

Central bank input

The whole area of credit availability and default rates is also being suborned by fintech providers. Carney cites the example of China, where advanced e-commerce platforms are using algorithms to analyse transaction and search data to improve credit scoring. The outcome has been increased credit and reduced bad debt rates. In the UK, peer-to-peer advances now represent 14% of new lending to SMEs. There are estimates that more than 50% of these credits would not have been offered by traditional banks.

Fintech solutions are also honing in on one of the most intractable areas of financial services: the whole payment, clearing and settlement infrastructure. This has long been bedevilled by inaccuracies, inefficiencies

Traditional financial institutions have also been buying up fintech operations

and security issues, and is a favourite hunting ground for fraudsters. Securities settlement processes with their high costs and risk profile are another clear target for the disruptors.

As with all rapid change in financial markets, the key issue for users of these new technologies is the effectiveness of regulation and the minimisation of systemic risk. History offers many lessons on the downside of financial innovation; booms and eventual busts stretching back to the Dutch tulip scandal in the 17th century and on into antiquity.

Fintech is facilitating the growing use of digital identities, supported by biometric and cryptography as consistent and reliable validation tools.

The extent to which this can be achieved can be seen from the extraordinary success in India, where the government has created more than 800 million digital identities for its citizens. However, the risk of exploitation of this technology by the unscrupulous is obvious.

The whole area of credit availability and default rates is also being suborned by fintech providers

Safekeeping

Data privacy and data protection is another troubling area. Traditional financial institutions have long sought to keep such data to themselves and are closely monitored through well-established regulatory regimes. This is, of course, far from foolproof as so many recent examples of customer data loss or theft demonstrate. Nevertheless, the instincts of fintech companies on these issues are more likely to be aligned to those of the social media giants. Customer data, whether they are on consumers or commercial entities, is seen as a resource to share and exploit. In theory, this should always be with the customer's consent, but, in practice, such permission is often granted unknowingly as part of routine internet access.

Consideration also has to be given to the effect of fintech on general global financial stability and the world's systemic regulatory frameworks. Fintech firms tend to be regulation averse, on the grounds of cost and the freedom to innovate. The UK's Financial Conduct Authority recently announced a review of the regulation of the crowdfunding market, and the action by the Securities and Exchange Board of India to rein in the activities of some crowdfunding platforms. This shows that the authorities recognise that the fintech revolution must not escape their scrutiny. The big questions are whether they can regulate effectively what many fear they may never fully understand, or if they can be sufficiently flexible to at least stay up to speed with such a rapidly evolving market.

At present, conduct regulation of fintech is progressing reasonably well in developed markets, but in due course, financial stability monitoring will have to catch up as more players broaden their services from payment processing and advisory services into what can be identified as banking. Also, no individual fintech companies are big enough at present to be systemic risks on their own, unlike Bear Stearns or Lehman Brothers in the global financial crisis. However, many observers believe that a period of consolidation in this market is inevitable, leading to the creation of far bigger operators with more significant issues on topics such as maturity transformation, leverage and liquidity mismatches. Increasing use of robo-advice and algorithms may also increase market volatility.

Last, but no means least, the fintech revolution plays into the narrative of cybersecurity and the apparent inability of even the most sophisticated operators to fend off the nefarious actions of hackers, whether they may be rogue lone operators or those with state-sponsored political motivation.

There is no doubt that banking and other financial services have already been changed by the advent of fintech disruptors. It is possible that within just a few years this sector will be unrecognisable to those who use it and those who work in it. It will be vital for treasurers to stay as informed and up to date as possible as this process unfolds, or else risk spending time stumbling into one financial elephant trap after another.

SHUTTERSTOCK

Nick Hood is a business risk analyst at Opus Business Services Group

REFORMATION AGE

UPDATED AND REFORMED MONEY MARKET FUND REGULATIONS WILL BE IMPLEMENTED THIS YEAR, PROVIDING CERTAINTY AND SUPPORT. JANE LOWE EXPLAINS

It may have taken years, but when the EU finally agreed its money market fund (MMF) reform legislation, things leapt forward very quickly. The Money Market Funds Regulation should now be in law by summer 2017. Full implementation will, however, take many months after this, which means there is time for everyone to prepare.

Fortunately, the EU chose to work from the existing base of MMF products. In addition, many existing provisions from the Institutional Money Market Funds Association (IMMFA) code of practice were in the event incorporated into the regulation. Much of the detail of the new regulation will therefore be familiar to institutional investors. This, together with a product range that recognisably links the old regime to the new, should help to provide continuity for investors.

It is worth emphasising that, after an extended period of uncertainty about the direction of regulation, the outcome very much supports a viable future money fund industry. Within the boundaries set by the regulation, fund managers should be able to develop a resilient range of funds to meet investors' needs and risk appetite.

What was agreed: the new product range

The new product rules reflect a clear risk/reward arc drawn across the permitted future range of four MMF types. Three types are classified as short-term MMFs:

- Public Debt CNAV MMF (akin to today's CNAV government MMF);
- Low Volatility NAV/LVNAV MMF (effectively the 'son of' CNAV prime/corporate MMF); and
- Variable NAV/VNAV MMF (floating NAV, as now).

(Key: NAV = net asset value; CNAV = constant net asset value; LVNAV = low-volatility net asset value; VNAV = variable net asset value.)

These product types thus mirror the guidance on MMFs issued in 2010 by the European Securities and Markets Authority (ESMA is the supervisory authority, made up of securities regulators from each member state), on which all current products are based. Although the new rules will, in some areas, become more stringent, particularly for the Public Debt CNAV and LVNAV funds, both are still recognisably MMFs that may value to a stable price and provide same-day liquidity to investors.

There is also a standard MMF. This equates to the ESMA 'Money Market Fund' type. It sits in the spectrum between short-term MMFs and short-term, fixed-income funds.

The regulation applies to investment funds that are established, managed and marketed as MMFs in the EU. Since the funds are already authorised and regulated, for instance via the UCITS Directive (undertakings for collective investment in transferable securities), the regulation provides for a 'top-up' authorisation.

Diversification and concentration risk are dealt with in detail, as one would expect. Both are cornerstones of investment fund regulation that had previously been covered in the IMMFA code of practice, in rating requirements (where credit ratings are obtained) and in the UCITS Directive.

The credit assessment process, another cornerstone of MMF management, is also included in the regulation in substantial detail. Again, the provisions bear much similarity to what the managers do now.

And, from the systemic risk perspective, a critical requirement has been to place a bar on banks, and similar institutions with a connection to an MMF, from providing balance-sheet support to that fund if it is in difficulty.

Understanding the process

So what is the purpose of the regulation? Fundamentally, it is meant to deal once and for all with systemic risk in the money markets that may be attributable to investment funds in the EU.

Although investor protection was not at the forefront of the MMF reforms, in practical terms,

New regulation has put in place detailed and exacting rules for European MMFs in the future

much of the rule-making will also benefit investors. Perhaps the most significant investor benefit will be the clarity over the product structure carried forward in the new regulation. At the same time, common investment rules applying by law to all MMFs should offer a significant degree of comfort to investors.

To recap, the legislation has followed a four-stage process. The European Commission proposed legislation in 2013 and the European Parliament and the member states, through the Council of Ministers, then each adopted a position on this, which occurred respectively in 2015 and 2016. Lastly, all three institutions tussled it out between them to arrive at a final political text. This was the point reached in December 2016.

Since then, the text has seen further work to sort out technical issues, a legal review has been undertaken and the text translated into the 24 languages applying across the Union. Once the text is fully polished, it will be confirmed by both European Parliament and member states. It is then published in the *Official Journal of the European Union* and becomes law 20 days later.

As the legislation takes the form of a regulation, it will apply directly in each member state without needing to be transposed into domestic law. As a law-making approach, it is often chosen because it means there will be no difference between rules applying in different countries in the EU.

Of course, that is still not quite the end. There is a limited amount of secondary legislation for the Commission to work on, which it will do with technical assistance from ESMA. ESMA has also to issue guidance annually on regulatory reporting and stress testing. But, relatively speaking, it will be dealing with points of detail and issues requiring clarification. It is therefore perfectly possible to see the whole shape of the regulation now.

The timetable

We do not yet know the exact date that the regulation will become law, although the assumption is around late May 2017.

From the date that the regulation does come into effect, each member state has up to 12 months to set up an authorisation process for MMFs, therefore by about May 2018. During this time, ESMA must prepare guidance (on stress testing and reporting to regulators) and must also respond to a mandate from the European Commission for advice on so-called 'Delegated Acts' – which, in due course, will then come into law. Topics include eligible collateral for reverse-repo trades, eligible securitisation and further guidance on credit assessments.

Existing MMFs are allowed more time to become authorised – 18 months. What this means in practical terms is that MMFs that are offered now *may* choose to become compliant with some or all of the new rules during the implementation period, but *must* be both compliant and re-authorised by about November 2018 at the latest.

In summary, the new regulation has put in place detailed and exacting rules for European MMFs in the future. While some clarification is still awaited, money fund managers are now able to design products that both meet investors' needs and will be compliant with the new regulation. Investors can, as soon as they choose, begin to assess the product offerings with a high degree of certainty.

IMMFA will publish its own guides to the new regulation, the aim of which will be to support investor understanding of the new MMF regime and the choices available under it. Feedback on this and other matters is always welcome from investors – please see our website at www.IMMFA.org

SHUTTERSTOCK

Jane Lowe is secretary general at IMMFA

PUSH AND PULL: A FINANCING SNAPSHOT

AGAINST A BACKDROP OF GEOPOLITICAL UNCERTAINTY, HOW WILL THE LOAN AND BOND MARKETS FARE IN 2017? WILL WE SEE SIMILAR TRENDS TO 2016, AND WILL CORPORATES TAKE ADVANTAGE OF A PERFECT STORM? IAN BAGGOTT EXPLORES THE ISSUES

Corporate borrowers are operating in a world where financing conditions are arguably as favourable as they have ever been. Yet the uncertain geopolitical environment is causing many boards to press pause on their strategic decision-making. This has been largely reflected in recent loan and bond market activity, but could things be about to change?

Rise and fall

By the end of 2016, European loan market volumes had reached $829bn. Not only was this a drop of circa 30% from 2015, it was also the lowest total recorded since 2012 (see graph, right). This trend was by no means unique to Europe, but certainly impacted the European market more than most jurisdictions. As an example, the US saw growth of 9% to $2.33 trillion, driven by a large increase in average deal size to $697m (662 transactions were over $1bn in value!), rather than deal numbers, which were down.

Meanwhile, volume in Asia-Pacific (including Japan), was broadly flat at $737bn. Within Asia, however, syndicated loans in China hit record levels in 2016, rising from $40bn in 2010 to $170bn last year, thanks to a record-breaking 395 deals.

In addition to growing awareness of the China market, we believe much of this growth is coming from rapid and ambitious corporate expansion both onshore and offshore.

Driving forces

Looking more closely at the decline in European loan volumes last year, the most significant fall was in refinancing activity, as opposed to event-driven financing. Over the past two to three years, persistently low rates and an extremely competitive banking market have meant that treasurers have been able to lock in attractive financing for longer – with five years now the norm in most sectors.

Since companies generally only refinance when their existing arrangement is close to its maturity or there is an economic benefit, ie when pricing becomes tighter, loan market activity in 2016 was notably low. For the same reasons, we do not expect to see a significant pick-up in loan market volumes during 2017, although activity may start to climb during 2018, as 2013 and 2014 vintage transactions approach maturity.

While funding costs remain low overall, they have risen in recent months, particularly in currencies such as the US dollar. Across Europe, the Middle East and Africa, we saw big variances in industry volume. As an example, the oil and gas sector decreased 35% year-on-year to $82bn, driven by the volatility in the oil price, while healthcare grew 16%, led by Bayer's $66bn takeover of Monsanto.

Bonds are back

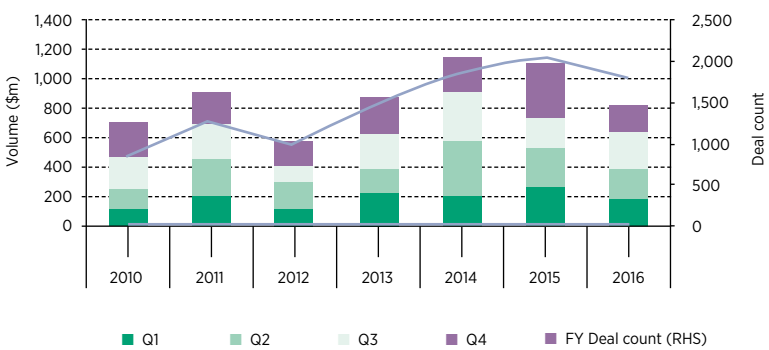
Meanwhile, European corporate bond issuance rose circa 14% to $340bn in 2016 from $300bn in 2015. A contributing factor to that growth, at least in the UK, was the Bank of England's (BoE) Corporate Bond Purchasing Scheme, which was announced shortly after the EU referendum result.

With the BoE looking to purchase a portfolio of up to £10bn of sterling investment-grade bonds, this meant that corporate bond issuers had, in theory, a good level of ready-made buyer demand, which helped volumes.

Interestingly, despite the increasing focus on the green agenda, we saw a small reduction in green bond issuance last year, down from circa $10.7bn in 2015 to $8.3bn. However, we continue to see demand for such products and expect a pick-up in volume this year, including from the loan arena, as more banks begin to look at green loans as a specific product class.

Despite the growth in corporate bond issuance during 2016, M&A activity was

LOAN VOLUMES



There has rarely been a better time for UK companies to look to finance an acquisition

relatively limited by the number of deals. While some large acquisitions were announced, there were fewer deals than we would normally expect to see in such a favourable financing environment.

M&A pipeline

This is in large part because companies are adopting a 'wait and see' approach. Understandably, boards have reservations about making strategic investment decisions, while the true impact of events, such as the UK triggering Article 50 and Donald Trump's presidency in the US, become clearer. Elections in France and Germany, where anti-establishment voting is an increasing risk, are also adding to the environment of uncertainty.

Nevertheless, as 2017 progresses and the knock-on effect of geopolitical events becomes evident, we expect to see an uptick in M&A. Already, British American Tobacco's $49bn acquisition of RJ Reynolds in the US is adding some momentum to the market. Mars has also announced an acquisition of pet healthcare business VCA for circa $9.1bn, and this is expected to close in Q3 2017.

Moreover, the fundamentals are in place for the M&A pipeline to remain robust throughout 2017. Not only do we expect to see more inward investment in UK companies from overseas, given the favourable currency dynamic provided by a weak sterling, but we also predict greater outbound activity by UK Plc in cases where there is a strong commercial rationale.

Certainly, from a financing perspective, there has rarely been a better time for UK companies to look to finance an acquisition, as evidenced by the chart above. Not only are rates extremely low and the market highly competitive, but acquiring overseas could offer borrowers an opportunity to diversify their income streams, with natural currency hedges offering them protection from some of the geopolitical uncertainty.

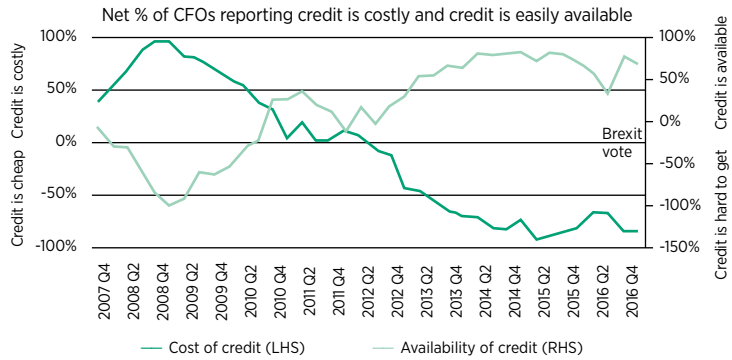
Bricks and mortar

Questions raised by recent political events have also been hanging over the corporate real estate (CRE) sector in 2016. Immediately after the EU referendum result, there was an obvious hiatus while investors sought to determine whether the valuations of properties were going to fall as much as some predictions had suggested. As an example, some experts had mooted a potential decline in central London office valuations of 25%+.

Even though overseas investors, such as Chinese buyers, have had the benefit of sterling weakness on their side, determining the correct purchase price of CRE assets has proved challenging.

So, despite the fact that CRE remains an attractive asset class, in particular in the UK where surplus land and office space is quite limited and demand is therefore strong, it is understandable that there has been some buyer caution.

COST AND AVAILABILITY OF CREDIT



A time for conviction

Reflecting on 2016 and the uptake of loan and bond financing, it's clear that many companies have decided against making strategic investment decisions. In an operating environment overshadowed by geopolitical uncertainty, some boards have felt that large investments, such as M&A, have been too much of a risk to take. As such, 'wait and see' has been the order of the day for many.

But doing nothing also carries a level of risk. While companies put their plans on hold, the world around them is evolving. Markets are changing, technologies are changing and so are competitors.

Businesses cannot afford to simply press pause on their strategic investments, especially when the finer details of the UK's future could take years to emerge. And, with the cost of capital so low, rarely has there been a better time for corporate treasurers to raise event-driven financing.

SHUTTERSTOCK

Ian Baggott is managing director, head of loan markets, at Lloyds Bank

LLOYDS BANK

CONSTANT VIGILANCE

CYBERSECURITY BREACHES AND CYBERCRIME ARE A GROWING PROBLEM FOR TREASURERS. BUT IF YOU WANT TO EXPLOIT TECHNOLOGY DEVELOPMENTS, YOU ALSO NEED TO PROTECT AGAINST THEM. LESLEY MEALL REPORTS

You are being watched. You are being targeted. You need to be careful. Your name, job title, colleagues and contacts have been collected from social media. Details of your customers and suppliers have been sourced, verified, sifted and prioritised. You are now a pawn in a cybercrime scam. You may be on the brink of your very own personal or professional cybersecurity nightmare.

Over the past year or so, cybersecurity breaches and cybercrime threats have rarely been out of the headlines – and their magnitude, sophistication and success seem to be on the increase. Notable incidents include:

- Leoni AG, Europe's largest manufacturer of electrical cables, and its loss of €40m in what was widely reported as an 'email scam';
- Theft of money from the personal accounts of 20,000 customers of Tesco Bank in what it describes as a "systematic, sophisticated attack";
- Use of an employee login to hack into systems at Three Mobile and steal the personal data of its customers; and
- Use of the SWIFT credentials of Bangladesh Central Bank employees in fraudulent money transfers amounting to an estimated $81m.

Clearly, bank infrastructure and corporate payment systems are popular targets – and a worry for corporate treasurers. When you are responsible for managing and controlling your group's cash, initiating and approving treasury, vendor and employee payments (and protecting the related personal and financial data), you have a crucial role to play in protecting those assets from cyberthreats.

Raise your game

It makes sense for treasurers to take a more proactive role in the development of the processes and people skills that will help to reduce the risk that cybercrime may have a negative impact on their areas of responsibility. However, when treasurers do become involved in broader company-wide and cross-functional discussions around cybersecurity, they will need some knowledge of the main cyberthreats.

Acquiring this can be a stretch. There is lots of public-domain information and guidance out there (perhaps too much). Inconveniently, it tends to be either too general or too focused on technology. In 2014, the ACT worked with government and other professional bodies to create specific guidance, and you can find *Cyber-Security in Corporate Finance* at www.treasurers.org/node/9799

At www.treasurers.org/cybersecurity you will find a recording of an ACT webinar from 2015. In this, ACT specialists and an external banking security specialist (from RBS) discuss key cybersecurity threats facing the public and private sectors – and offer some practical hints and tips on what treasurers can do to minimise the potential for associated disruption, fraud and reputational damage.

SHUTTERSTOCK

Reality check

Yet in PwC's recent research report *The 'virtual reality' of treasury*, only 19% of treasurers list security as a critical concern. Sebastian di Paola, global corporate treasury leader at PwC, suggests that treasurers should be "collaborating more with the business, shared services and banks and raising their game in IT security and financial risk management".

On the face of it, raising your game in IT security may seem challenging. Although the consumerisation of digital technologies has made many aspects of IT seem less complex and mysterious,

> "Many of us think we have a good handle on different types of security risks, but the reality may be a little different"

cybersecurity has become more so. Threats such as phishing, ransomware, spoofing and whaling can make cybersecurity (and crime) appear more impenetrable than a firewall.

Even less opaque terms such as 'hacker' and 'email scam' can obfuscate or enlighten. "Many of us probably think we have a pretty good handle on the different types of security risks that can threaten our business. But the reality may be a little different," says Ian Kilpatrick, cybersecurity vice president at Nuvias Group. Treasurers may need to read between the lines in IT security as cleverly as they can in finance.

Between the lines

Let's consider the widely reported 'email scam' at the German company Leoni AG. A company statement confirmed that it became "the victim of fraudulent activity with the help of falsified documents and... the use of electronic communications channels". It put the "outflow of liquidity totalling around €40m" into perspective, by noting that its liquidity situation was not "adversely affected in any material way".

Treasurers know what a slippery customer materiality can be. So can phrases such as 'falsified documents' and 'electronic communications channels'. Apparently, the perpetrators spoofed emails to appear like official payment requests from Leoni in Germany, then sent them to a finance exec at just one of Leoni's four Romanian factories: the only one with the authority to make money transfers.

Perpetrators of email scams do not only target companies in a position to lose millions. The treasurer at a mid-sized non-profit has also been targeted; to conceal his identity, we'll pretend he's female and call him Claudia. "I'm proactive about IT security," she says. "Even before the scam, I had initiated a dialogue with the IT manager, to tighten up procedures to protect my login and payment credentials."

Unfortunately, this didn't prevent a fraudster's email prompting a change to the bank details of a regular supplier, which led to two electronic transfers (amounting to £20,000). "Accounts payable accepted the email as genuine. The FD signed the TT [treasury transaction] forms, then I authorised the supplier payments. Twice," she says. "Now any request to change customer or supplier bank details is verified."

Socially engineered

The frauds in Romania and the UK were both enabled by technology (spoofed emails), and made easier by technology (electronic payments can be liquidated more quickly and easily than cheques). However, only the victims and criminal investigators have any chance of establishing whether identification of the weak points in their internal policies and processes owed more to technology or to people.

Either way, in both cases, the frauds were successful because, at the final stage of the process, the victims' employees were either directly or indirectly 'socially engineered' into willingly handing over company money, because they believed that they were engaged in legitimate transactions. In their defence, there are some 'very good reasons' why they were so easy to manipulate.

> "An organisation that has bulletproof doors and windows won't necessarily be able to protect against someone who can walk in as if they were a trusted individual"

Jayan Perera, an associate director in cyber consulting at Control Risks, says: "An organisation that has bulletproof doors and windows won't necessarily be able to protect against someone who can walk in as if they were a trusted individual." As he observes, social engineering attacks and other more advanced attacks are easily by-passing the reinforced perimeter walls we have spent years erecting.

Mixed blessings

These frauds and the false sense of security that may be created by strong perimeter defences (such as the firewalls and other tools we rely on to keep out the baddies), raise some interesting issues for treasurers. They also highlight why it may be easier than it at first seems, to follow di Paola's advice to "raise your game in IT security" – without becoming an expert on it.

Many of the steps that need to be taken to protect the software and systems (and data) that impact on treasury (and how effectively it can manage cash and liquidity and financial risk) cannot be addressed only with cybersecurity technology. To be successful, they also require organisations to devote resources to the development of appropriate processes and people skills.

Treasury has a vital role in raising awareness and developing guidance for others in the financial supply chain; but collaboration will be key. PwC's research found that just one third of people involved in treasury processes report in to the treasurer. So di Paola suggests that "treasury should be seen very much as a process rather than a department".

Plan for action

More detailed guidance for those involved in treasury processes is available in *Cyber Fraud – the Impact on Treasury* (www.bellin.com/resources/whitepapers), which was written by Royston Da Costa, group assistant treasurer at Wolseley. He says: "My hope is that treasurers will read it and if they have not already done so, conduct a full review of their key treasury processes including payments."

As cybersecurity is a fast-moving area, threat monitory must be an ongoing process. During 2016, 'whaling' emerged as a major social-engineering threat; using the names of legitimate senior executives and (spoofed) email addresses to dupe employees into wiring criminals sensitive documents or money. This year is likely to bring more of the same – plus some new cybersecurity nightmares.

Lesley Meall is a freelance journalist specialising in technology and finance

THE FANTASTIC JOURNEY

OVERSEAS JOB MOVES CAN BRING RICH REWARDS, BUT COMPANIES AND INDIVIDUALS DON'T ALWAYS FULLY CAPITALISE ON ASSIGNEES' EXPERIENCE, AS WENDY KENDALL EXPLAINS

Cross-border career moves are increasingly common and, despite (or even because of) recent political events, such as the Brexit vote and the rise of nationalist governments, corporations and people are considering the potential payoff an overseas move could bring. These global career moves are costly, though. The typical cost of moving someone to an overseas position is said to be three to five times annual salary. This doesn't include the personal, social and human cost to you as a person and to your family. The key question is: how can you make sure the move is really worth it for you, your family and your company?

As your career develops, you can benefit from increasing your ability to developing your strategic thinking, enhance your ability to grow multilateral relationships, grow and leverage your networks, develop your ability to think and work innovatively, be exposed to a more global perspective on your industry, and develop your capacity to manage and lead a wide array of people. A cross-border job move can boost all of these elements and it is often this potential for future career enhancement that people focus on as the 'value returned'. However, it is less common for people to be really clear about the near-term value they can create. It can be helpful to take a return on investment (ROI) approach to your global career move, but one that takes a wider perspective on the costs and sources of value.

SHUTTERSTOCK

Potential costs

Many of the costs of an overseas job move will be familiar to you already. Things you lose in the move include knowledge of your local business environment and your key contacts and networks. You also lose a degree of reputation and credibility, which you will have to re-establish. Your company will lose continuity of relationships with clients and the specialist and individual knowledge you have brought to your current environment. Your family members may lose their career momentum, professional standing and professional and personal relationships.

> The typical cost of moving someone to an overseas position is said to be three to five times annual salary

You may be encouraged to take classes or read guides to help you overcome some of these issues, for example, language or intercultural classes. But an approach that only focuses on reducing costs is not the most effective way to get an overall ROI. To do that, you should also focus on the different types of value that can be created – and it goes beyond your personal and professional learning.

Potential value

Contrary to popular thinking, don't be in too much of a hurry to think and act like the locals and 'become integrated'. You have a golden opportunity when you move abroad to see your surroundings with fresh eyes and to bring a spark of innovation and creativity to your new working environment. This is incredibly valuable as it helps you to think and act more creatively, like you're experiencing a living 'innovation lab'.

If you approach your experience with curiosity and openness, a willingness to ask questions and share your different ideas, and a desire to work collaboratively with people around you, you can create immense learning value for yourself. You will develop new skills, hone your talents in new ways, and develop a more strategic mindset and broader business horizons, which will help you to think more critically and make better decisions.

You can create value for your colleagues by learning how to bring together diverse international teams and harness those differences so that you unleash others' potential and creativity. You will enrich your own networks after moving overseas, but, in addition, if you take the opportunity to connect people in your new place with your colleagues 'back home', you will be building even greater 'social capital' around you. This can stimulate new business and career opportunities for others, and will enhance your reputation and credibility, too.

> The value you create through your global job move can also be fed back into the wider company in the form of new knowledge or enhanced networks

The value you create through your global job move can also be fed back into the wider company in the form of new knowledge or enhanced networks. This is typically an area that many organisations neglect. Companies are leaving millions of dollars of value on the table by not integrating the value their global assignees are creating more widely. For example, I worked with a very successful assignee who went on a short-term, one-year assignment to South America, helping to establish the supply chain. At the end of the assignment, he returned to head office on promotion – and not one person asked him to feed his experiences back into the company. He had learned valuable lessons in establishing supply chains in emerging economies, but all that experience stayed in his head.

This leads to another ROI problem for companies: the more they invest in their international 'talents' through global assignments, the more valuable those people become to other companies and the more prone they are to leaving. The value to the business is then mostly lost, along with the ROI, but this last crucial process means value can still be retained even if the employee leaves.

As an employee, feeding your experience back into the company creates new value by enhancing your reputation; developing your strategic perspective; and helping you understand your value to the company. This may be through:

- innovative approaches to helping the business grow;
- seeing new opportunities for reducing costs;
- establishing new relationships that lead to new business ventures; or
- creating other new opportunities for professional and business growth for yourself and your colleagues.

Finally, it is key to engage your family in discussions about the value a global job move will deliver to them. Figure out how they will develop their social or professional networks. What new opportunities, knowledge and skills will they be able to create? The global move needs to create value for them, too.

What we focus on, grows

We are typically very aware of the costs of moving our career overseas, but it can make a world of difference to you, your family and your company if you focus on the ways in which you can create value. Remembering the maxim 'what we focus on, grows', it is hard to create maximum ROI from a global career move by focusing on cost avoidance and by failing to identify the value you can create.

You can also greatly maximise the returns by broadening your perspective to include creating value for your colleagues, your company and your family, as well as for yourself.

Ways to increase your global career ROI

- Before you move, remember to engage your key stakeholders in specific conversations about how they envisage you creating value in your new overseas position.
- Keep your fresh eyes for as long as possible and focus on leveraging your differences to spark innovation and creativity.
- Embrace the possibilities that come from not seeing things the way 'the locals' see them. Ask, explore and get curious. Challenge the people around you through your questions to see things with new eyes, too.
- The value you create goes beyond your own learning and development, and will include new relationships, new perspectives and new visions for the company.
- Encourage your company to learn from your global assignment, too – take your learning points to the next level and set them in the broader company context.
- Where you can, note the monetary value that you have been able to create through your global job move and feed this information back to your stakeholders so that they get a picture of the company's ROI, too.
- Engage your family in a detailed conversation about how they will create new value through their overseas experience, too. What will ensure a positive return on their investment in this global move, beyond the enhancement to your career fortunes?

Wendy Kendall is a psychologist who works with companies and individuals on international assignments; www.wendykendall.com

GAMES AND JUSTICE

When we're about to make a decision, while playing a game whose result depends on the decisions of others, we should assume that, in most cases, the other players are as smart and as egotistical as we are.

Game theory deals with formalising the reciprocity between rational players, assuming that each player's goal is to maximise his or her benefit, whatever that may be. Players may be friends, foes, political parties, states or anything that behaves interactively. The reward is not only measured in money, but it is the satisfaction players receive from the results of the game. These results could be positive (money, fame, clients, more 'likes' on Facebook, pride and so on) or negative (fines, wasted time, ruined property, disillusionment and so on).

There are many ways to apply game theory to life situations: business or political negotiations; designing auctions (choosing between the English model, where the price continually rises, and the Dutch model, where the initial price is high and continually falls); brinkmanship models (the Cuban missile crisis, the Isis threat to the Western world); product pricing (should Coca-Cola lower prices before Christmas or raise them? How would Pepsi respond?); street peddlers haggling with accidental tourists (what's the optimal speed of lowering the price of their goods? Going too fast might signal that the product isn't worth much, whereas going too slow might make the tourist lose patience and walk away); whaling restrictions (all countries that keep on whaling as usual want restrictions to apply to others – since, without those restrictions, whales might become extinct); finding clever strategies for board games; understanding the evolution of cooperation; courtship strategies (human and animal); military strategies...

The questions raised include: can game theory really help to improve the way people make their daily decisions? And do game players have an advantage over others? This is where opinions vary. Certain experts are convinced of the game theoreticians' crucial impact on almost everything; yet there are no lesser experts who believe that game theory is nothing more than handsome mathematics. I believe the truth is somewhere in between... though not really in the middle. In any event, it's a fascinating field of thought that offers numerous insights into a wide variety of issues in our lives.

I am going to present a game that will give us some insights about justice.

The ultimatum game

In 1982, three German scientists (Werner Güth, Rolf Schmittberger and Bernd Schwarze) wrote an article about an experiment they'd conducted whose results surprised economists (but almost no one else). Known as the ultimatum game, the experiment has since become one of the most famous and most studied games in the world.

IKON IMAGES

The game goes like this. Two players who don't know each other are in a room. Let's call them Maurice and Boris. Boris (the proposer in this instance) is given $100 and instructed to share it with Maurice (who is the responder) in whatever way he sees fit. The only condition here is that Maurice the responder must agree to Boris's method of division; if he doesn't, the $100 will be taken away and both players will end up with nothing.

It should be noted that this is a game of two fully informed players. Thus, if Boris offers $10 and Maurice accepts, Boris ends up walking away with $90. Yet, if Maurice is displeased with this offer (remember, he knows Boris has $100), both will remain empty-handed.

I believe that this game points to the huge tension that often exists between a decision based on mathematical principles (a 'normative' decision) and one based on intuitive principles and psychology (a 'positive' decision).

Mathematically, this game is easily resolved, but the

HOW MUCH DOES BRINKMANSHIP PLAY A PART IN NEGOTIATIONS, AND WHAT LIGHT CAN GAME THEORY THROW ON THIS ASPECT OF LIFE AND BUSINESS? HAIM SHAPIRA INTRODUCES THE ULTIMATUM GAME

wonderful easy solution isn't exactly wise. If Boris wants to maximise his personal gain, he should propose one dollar (assuming that we play with whole dollars, not cents). Presented with this proposal, Maurice faces a Shakespearean dilemma: 'To take or not to take, that is the question.' If Maurice is an ordinary *Homo economicus mathematicus statisticus* – that is, a maths buff and sworn rationalist – he would ask himself just one question: 'Which is more: $1 or $0?' In just a few moments, he'll remember that his kindergarten teacher used to say that 'One is better than none' and he'll take the dollar, leaving Boris with $99. There's just one little problem: surely an actual game would never go this way. It really doesn't make sense for Maurice to accept the single dollar, unless he truly loves Boris and wants to be his benefactor. It's much more likely that the proposal would insult Maurice. After all, Maurice isn't such an extreme rationalist. He has human feelings – known as anger, cravings for decency, schadenfreude, jealousy, a sense of justice. Knowing that, what do you think Boris should offer to make the entire deal happen?

Maybe, instead of maximising his personal gain, Boris should go for the simple just solution and simply equally split the sum.

I have always found this game irresistibly appealing and have made several experiments with it. As in many real-life situations, I've seen people turn down insulting offers, many refusing to accept, for example, less than 25% of the total (naturally, the 25% barrier applies only when the game is played for relatively small sums).

In Israel I saw people who were displeased when offered 200 shekels out of 500: deciding between 200 and 0, they chose zero! This seems like a great moment to reveal a recent major discovery in mathematics: 200 is more than 0. This being the case, why do people make such choices? The responder knows that the proposer keeps 300 and will not accept the situation, believing it to be unfair and insulting. Zero is better for their nerves. In the past, mathematicians didn't pay enough respect to people's sense of justice. They do now.

The ultimatum game is fascinating from a sociological standpoint, because it illustrates the human unwillingness to accept injustice, as well as highlighting the significance of honour. The unwillingness to accept injustice is found in children and chimpanzees. Sarah Brosnan and Frans de Waal of the Yerkes National Primate Research Center in Atlanta discovered that monkeys don't like being subjected to treatment they deem unjust (their famous 'cucumber versus grape' experiment is one of the most watched clips on YouTube). This discovery points to a genetic basis in our injustice aversion.

The psychologist and anthropologist Francisco Gil-White from the University of Pennsylvania found that in small-scale societies in Mongolia, the proposers tended to offer even splits regardless of knowing that unequal splits are almost always accepted. Maybe a good reputation is more valuable than economic reward?

People are not *Homo economicus*; we are much more complicated than this...

In the past, mathematicians didn't pay enough respect to people's sense of justice. They do now

Haim Shapira is a mathematician and author. His book *Gladiators, Pirates and Games of Trust* explores how game theory influences decision-making

FORWARD THINKING

FORWARD CONTRACTS AND FORWARD POINTS

FORWARD FX CONTRACTS ARE AN ESSENTIAL RISK MANAGEMENT TOOL FOR TREASURERS. DOUG WILLIAMSON EXPLAINS THEIR MAIN BENEFITS, AND HOW TO APPLY FORWARD POINTS

Market prices change fast, and unpredictably. Exchange rates are particularly volatile. If treasurers are unprepared, the results can be disastrous. Painful consequences include dwindling assets, ballooning liabilities and consequential problems.

In this article we'll learn about a key tool that treasurers use to manage FX risk, applied to a practical case study.

BritPlant, part 1

You are the treasurer of BritPlant plc, a capital-intensive UK business whose revenues are mainly in GBP (sterling).

BritPlant is about to place an order for a major item of plant. The price is €100m. Payment will be required in euros in 12 months' time.

Explain what will happen to the cost in domestic currency, if an FX payment is due, and the currency in which it is payable strengthens.

Based on a Certificate in Treasury (CertT) 2016 question

Transaction risk

We are due to pay a fixed foreign currency amount of €100m, at a fixed future date. We will need to buy these euros at their market price, in pounds.

If the exchange rate is £1 = €1.32, the cost in pounds will be:

100 / 1.32
= **£76m** (to the nearest whole million)

If the foreign currency were to strengthen against sterling, buying the €100m would cost us more pounds. This is an example of FX transaction risk.

Do you remember the Brexit vote?

If the euro were to strengthen from £1 = €1.32, to €1.20, the cost of buying €100m would rise to:

100 / 1.20
= **£83m**

Following this change in exchange rates, we would be worse off, paying £83m rather than £76m.

SHUTTERSTOCK

Exchange rates did indeed change by roughly this amount, overnight on 23-24 June 2016, following the Brexit referendum result. Those who were exposed and unprepared lost a lot of money.

Forward contract

Is there anything we can do to protect ourselves against transaction risk? Yes, happily there is. One response is a forward contract.

A forward FX contract is:

- A mutually binding agreement;
- To make an exchange of currencies;
- On a specific future date; and
- At a pre-agreed rate.

BritPlant, part 2

Continuing our BritPlant plc case study, identify the main benefit for the company of using a forward FX contract, compared with taking no action.

Based on CertT 2016

Effective fix

The main benefit for BritPlant is to effectively fix the cost of buying the plant in pounds. The forward FX contract hedges against future exchange-rate volatility.

With the forward contract, this FX risk is transferred to the forward contract counterparty, usually a bank.

How it works

We will need €100m to pay our supplier on the future date, and we don't yet have €100m.

A forward contract fixes the future amount of sterling we will give, in exchange for receiving the €100m we need to pay the supplier. If we hedge forward at the rate of £1 = €1.32, the €100m will cost us £76m.

On the other hand, if we take no hedging action and the rate moves against us, we may suffer a big exchange loss. As we've seen, if the unhedged market rate moves adversely to £1 = €1.20, our sterling cost for the plant will increase substantially, to £83m.

More problems

Sadly, risk transfer using a forward contract isn't entirely free of its own risks and cost. Disadvantages of forward contracts include loss of flexibility, additional complexity and additional cost.

To understand this additional cost better, let's consider the point of view of our bank.

Bank's compensation

A bank quoting market prices takes on risk and work. The bank's compensation is reflected in the difference between its buying and selling prices. This difference is known as the bank's 'spread'.

For example, a bank might quote its spot exchange rate as:

GBP/EUR 1.3118-53

35 points spread

The bank's spot spread is 1.3153 less 1.3118 = 0.0035. This is often known as '35 points'. One 'point' here is €0.0001 per £1 exchanged.

In simple terms, the spread in favour of the bank is a cost borne by the customer.

Forward spreads are wider

When a bank quotes a forward FX rate, it takes on more risk. This is because the contract is longer-dated. Accordingly, forward rate spreads are wider, compared with spot rate spreads.

The wider forward spread reflects more benefit for the bank, and more cost for the customer. The wider forward spread is part of the customer's additional cost of hedging forward.

Straight to the point

The differences between spot and forward rates are often expressed as 'forward points'. For example, one-year forward points of '82-99'.

Forward points are applied to the spot rate, to calculate the forward rate.

The detailed meaning of the points depends on the context. If one-year points of 82-99 are quoted for a GBP/EUR spot exchange rate of 1.3118-53, it means the points are €0.0082 and €0.0099, per £1.

But should we add the forward points, or deduct them?

Widen the spread

We always apply the points to the spot rate in such a way as to widen the spread.

HELP FOR ACT STUDENTS

Download further useful study information from the Resources area of the ACT Learning Academy at learning.treasurers.org and from *The Treasurer's Wiki* at wiki.treasurers.org

Points		
82-99	Ascending	**Add**
99-82	Descending	**Deduct**

Euro forward rates, part 1

The following table shows quotes for the spot rate and forward points, for GBP/EUR:

Spot	6-month	1-year
1.3118-53	70-80	82-99

Calculate the appropriate rates for a customer buying or selling euros one year forward.

Based on CertT 2016

Add ascending points

The one-year points are ascending, so we add them to the spot rate:

Spot	1.3118	1.3153
+ Points	0.0082	0.0099
= Forward	**1.3200**	**1.3252**

Sense check

Notice the forward spread has widened, as expected, compared with the spot spread.

The forward spread is 252 – 200 = 52 points, compared with the 35 points spread for the spot rate.

Your turn now

Euro forward rates, part 2

Using the rates under 'Euro forward rates, part 1', calculate the appropriate rates for a customer buying or selling euros six months forward.

(Check your answer.)*

With many thanks to Jonathan Jeffery for his valued suggestions.

Doug Williamson is a treasury and finance coach

*Answer: 1.3188-1.3233. Spot quote plus ascending six-month points 70-80

THE INTERVIEW

Mr Treasurer thinks it's time to move on

"Where do you see yourself in five years' time?" asked the interviewer.

Mr Treasurer knew that this was exactly the sort of question that job interviewers liked to ask. He had turned it over in his mind time and time again and, as he sat in the office of National Global plc, he desperately tried to remember the various answers he had come up with. He remained outwardly calm, then said with all the focused determination he could muster, "That depends."

He had started the new year with an inkling that it was time for him to move on from his current employer, Manufacturing Retail plc, where he had been treasurer for quite a few years, now. Yes, quite a few years. Time, perhaps, for something new.

"Hmm?" said the interviewer, in a manner that suggested she either hadn't heard his response or was politely ignoring it.

"It depends on whether I get this job," said Mr Treasurer.

"If you were a colour of the rainbow, what colour would you be?"

"Beige," said Mr Treasurer, starting to feel as though he had walked into a junior school drama class.

"Is beige a colour of the rainbow?" asked the interviewer, doubtfully.

"It should be," said Mr Treasurer.

"If you were a snake, what kind of snake would you be?" asked the interviewer.

"A...?" he spluttered.

"A snake. What kind?"

He thought for a long moment. What kinds of snake did he know? Inspiration struck: "A rattlesnake. It uses its rattle to give warnings of danger. A good treasurer is alert to potential risks and gives due warning to his colleagues," he said. "Or *her* colleagues, of course," he added quickly.

"Hmm?" said the interviewer, in a fashion that was seriously starting to grate on his nerves.

"Or a python," he said. "Squeezing out the cash."

"Do pythons squeeze?" asked the interviewer.

Mr Treasurer thought to himself, Well, if you don't know any more about snakes than I do, why did you ask the flipping question? "Boa constrictor?" he said, somewhat lamely.

"If you were on a desert island with a screwdriver, a tea towel and a fig, how would you feed yourself?" asked the interviewer.

Mr Treasurer resisted the temptation to ask what kind of screwdriver: slot head or crosshead? "I'd forget about the screwdriver, the tea towel and the fig, and scour the island in search of something to eat," Mr Treasurer said firmly.

This sort of nonsense carried on for another 20 minutes or so, after which the interviewer stood up, stuck out her arm stiffly to shake hands and said, "Thank you, Mr Treasurer. We'll be in touch."

Mr Treasurer headed for home after his gruelling ordeal, detouring via the Silver Sixpence for a restorative pint or two. As he opened the door to his house a few hours later, he noticed the winking red light on his answering machine. He pressed the 'play' button. "Mr Treasurer!" said a familiar and very excited voice. "We didn't want to keep you waiting a minute longer. We'd like to offer you the job. Please call me on this number and we'll sort out terms..."

Mr Treasurer pressed 'play' again, partly because of his incredulity at first hearing and partly because he found it rather pleasing to hear. Then, after barely a second's thought, he pressed 'erase'.

Andrew Sawers is a freelance business and financial journalist. He is a former editor of *Financial Director* and has worked on *Accountancy Age*, *Business Age* and *Commercial Lawyer*. He tweets as @Mr_Numbers

IN THIS ISSUE:

The highlights of the March 2017 issue of *The Treasurer* include: We celebrate the winners and runners-up in the 2016 Deals of the Year Awards, on page 10. Swan Housing's head of treasury, Rohan Gunatillake, talks about risk management and keeping his qualifications up to date, on page 22. How might artificial intelligence affect the treasurer's role? Find out on page 26. The effect of game theory on negotiations in life and business, on page 42