THE ACT TREASURY FORUM
News and opinion from the ACT's November event

HEDGING AND THE BOARD
Ensure your strategy matches director expectations and needs

HOW AND WHEN TO SAY NO
Making a virtue out of standing firm is an essential business skill

The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ DECEMBER 2016/JANUARY 2017

"EQ is the key to empowering talented people"

Amanda Bradley, director of risk & strategy audit & assurance at GSK, on the importance of emotional intelligence

PLUS

SQUARE UP TO 2017
A panel of prominent treasurers discuss key challenges for the year ahead

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The Treasurer December 2016/January 2017 The Magazine of The Association of Corporate Treasurers www.treasurers.org/thetreasurer

ACT

LEADING TREASURY PROFESSIONALS

Editor's letter

You will have seen the jokes about this year: "Have we tried turning 2016 off at the wall, waiting a while and then turning it back on?" We're close to the end of 2016, but the point still stands. The degree to which we have to rethink what we know, or think we know, about politics, the world order and how we do business across borders has been well and truly rebooted.

There has been some analysis and survey data suggesting that business leaders are holding off on investment decisions. But, if anything, the rationale for deal-making and M&A activity seems to be gaining ground. It is to be hoped and certainly seems more likely that the impetus to move forward will more than outweigh the hesitancy and that the 'how do I get things done?' questions will direct business strategy and hopefully investment in technology and people, too. Trade agreements and norms are being challenged, for sure, as are institutions, such as the central banks and their activities. Boards will need to find answers amid the upheaval.

However, as the Archbishop of Canterbury, who is the ACT's ethical adviser, points out in his Christmas message on page 17, challenging received wisdom is an imperative all on its own. Independent thinking is what is needed in turbulent times.

This month in *The Treasurer* a panel of prominent treasurers took the time to explore some of the threats and opportunities they face as we head into 2017: from currency volatility to persistently low interest rates; from supply chain finance to the possibilities within technological innovations. Thanks go to our participants for sharing their views, which you can see on page 24.

In November, some 170 treasurers gathered in London for the ACT Treasury Forum. In discussion groups, they looked at how to approach investable cash, address cyber risk, regulatory realities and global cash management challenges. We track their findings and views on page 18.

In our profile for this issue, we talk to Amanda Bradley, director of risk & strategy in the audit & assurance function at GSK. A treasurer by background who has spent 10 years in the profession, four of them as senior director of the global treasury consultancy at GSK, Bradley is a forward-thinking operator who looks five years down the track to assess the risks GSK is likely to face. Read about how the MCT gave her a platform and credibility to talk about risk at the highest levels in a multinational business, on page 20.

I hope you enjoy the festive season and wish you a Happy New Year.

editor@treasurers.org
Follow us on Twitter @thetreasurermag

THIS MONTH'S CONTRIBUTORS

The Most Reverend Justin Welby Hon FCT is the Archbishop of Canterbury, ethical adviser to ACT members and a former corporate treasurer. In his Christmas message he warns of the danger of group think and explains how we need to avoid following the herd, on **page 17**

David Tilston has been a council member of the ACT and CFO four times over – for a private equity-backed entity following a stint as group treasurer for three listed companies. His article on formulating and communicating hedging policies can be found on **page 30**

Chris Merrington is author of *Why do smart people make such stupid mistakes?* His firm, Spring 80:20, works with businesses on their growth and success. He runs masterclasses on finding new clients, negotiations and trusted adviser selling. His article on saying no is on **page 40**

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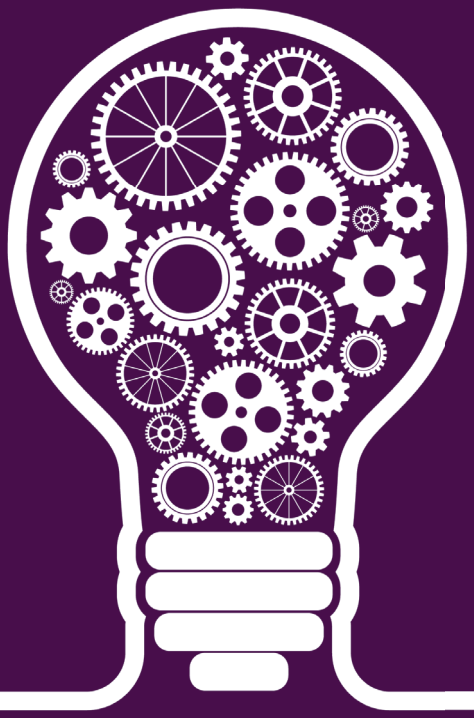

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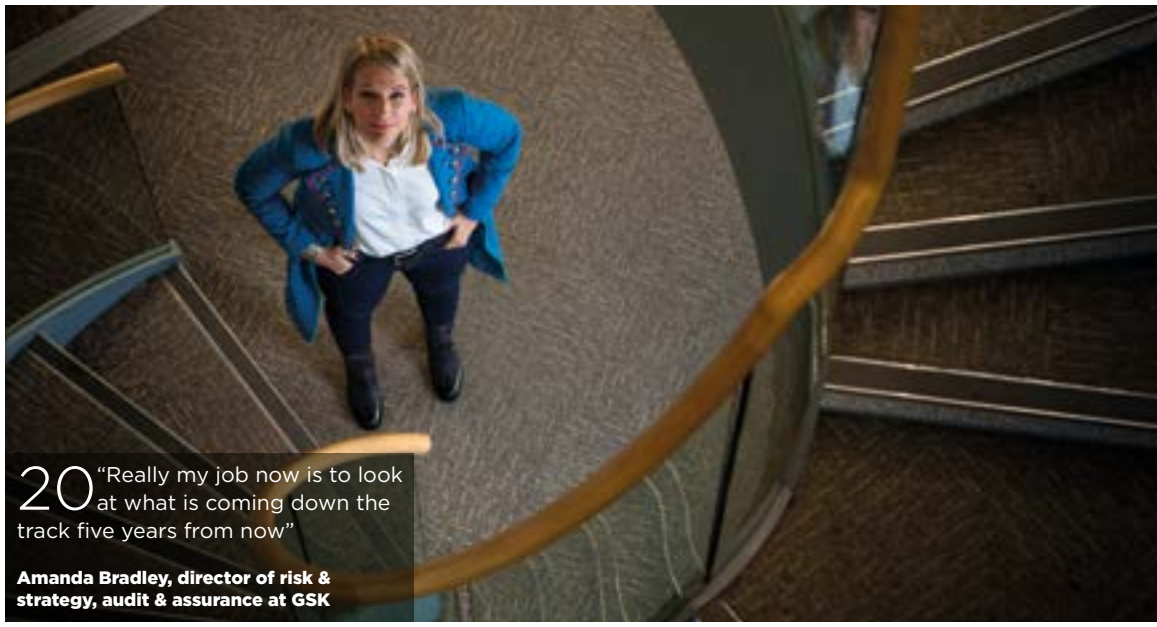

20 "Really my job now is to look at what is coming down the track five years from now"

Amanda Bradley, director of risk & strategy, audit & assurance at GSK

Agenda

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

{ CONTEXT OF TREASURY }

MARKETS POSITIVE IN THE WAKE OF TRUMP VICTORY

While it confounded public opinion and polling experts, Donald Trump's shock election win last month failed to cause the anticipated market shocks, such as were seen in the wake of the UK's vote to leave the EU.

Predications that a Trump win would add to global market uncertainty have largely failed to materialise. In fact, in the two-week period following the 8 November election, the S&P index rose by 2% and the dollar by 3.4%. The dollar fell back subsequently, falling against other major currencies, before rallying. At the time of writing, it maintains its upward trend.

The positive outlook was further buoyed by indications that the US Federal Reserve may increase interest rates at this month's meeting. Chairwoman Janet Yellen told the US Congress that the US

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economy was seeing above-trend job growth.

The landmark election result and the positive financial indicators that followed have been attributed to Trump's policy mix and the likelihood that when he takes office, he will be able to act on some of his intentions to cut corporation tax, increase infrastructure spending and reduce red tape for business, moves that should help boost US growth in the short to medium term.

However, his protectionist stance on international trade, his cited aim to effect punitive tariffs on Chinese and Mexican imports, along with his hostility towards agreements, including the Trans-Pacific Partnership and the North American Free Trade Agreement, have the potential to disrupt that growth curve in the long term, according to commentators.

The implication for the US economy will be higher cost of imports, and while it may be possible for the US economy to diversify towards domestic goods, the likelihood is that there will be higher inflation with the resultant squeeze on consumer income. Meanwhile, any retaliatory moves from China on the currency front would have wider implications for emerging-market currencies.

{ CORPORATE FINANCIAL MANAGEMENT }

More developed capital markets could unlock €200bn in capital

More developed capital markets in 11 countries within Central and Eastern Europe (CEE) could unlock more than €200bn in long-term capital, according to a report from the Association for Financial Markets in Europe (AFME).

The report, *The Benefits of Capital Markets to High Potential EU Economies*, focuses on 11 key economies in the region and makes the case for harnessing capital markets to accelerate GDP and productivity growth, and also argues that deeper capital markets in these economies would also unlock more than €40bn a year in additional funding for companies.

While the economies of CEE saw sustained growth in the previous decade, economic growth has halved since the financial crisis, says the report's authors, with the slowdown matched by a falling investment rate. Banks across the region have deleveraged, particularly in the Baltic and Balkan economies, which, in turn, has contributed to that lower investment rate, with companies in the 11 CEE countries relying heavily on retained profits to fund investment.

"Our report highlights the economic prize from continuing to deepen capital markets across Europe and suggests that the CEE countries could be the biggest beneficiaries of Capital Markets Union," says Paul McGhee, director of strategy at AFME.

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WORDS

"I don't intend to be part of the government."

Ivanka Trump steps back from the limelight to quash ideas that she was in line for a cabinet post in Donald Trump's presidential administration.

SOURCE: *THE TIMES MAGAZINE*, 19 NOVEMBER 2016

"Until the UK's exit is complete, Britain will certainly have to fulfil its commitments. Possibly there will be some commitments that last beyond the exit... even, in part, to 2030."

Germany's finance minister, Wolfgang Schäuble, warns that the UK's financial commitments to the EU have a longer time frame than Theresa May's government might have anticipated.

SOURCE: *FINANCIAL TIMES*, 17 NOVEMBER 2016

{ KEY FINDINGS FROM MAGISTER ADVISORS' EUROPEAN TECH M&A ANALYSIS }

6
the number of $5bn+ European technology deals agreed this year

$100bn the combined consideration of those mega deals

22
the number of European tech companies now valued at more than $5bn

2
notable payment company IPOs, Nets and Worldpay

$9bn
the amount Supercell attracted in inbound foreign investment

WHAT THEY SAID

"At this stage, I do think that the economy is making very good progress towards our goals... An increase in interest rates could well become appropriate relatively soon."

Chair of the Federal Reserve Janet Yellen responds to positive signs in the US economy, which the markets took to be indication of a rise in interest rates.

SOURCE: *WALL STREET JOURNAL*, 17 NOVEMBER 2016

What do you say?
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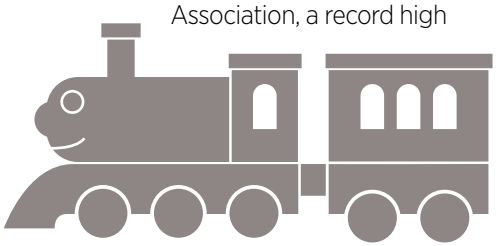
NUMBERS

£25bn
– the shortfall faced by chancellor Philip Hammond compared with previous forecasts for the public finance to 2019-20, according to the Institute for Fiscal Studies

2.4%
– the growth in annual retail sales for October compared with the previous year, driven by an 11.1% rise in online activity, according to the British Retail Consortium

11%
– the amount the number of houses built in the UK rose by last year, the highest level in eight years, according to government figures

£3.3bn – the forecast for UK toy sales for 2016, according to the Toy Retailers Association, a record high



5
– the number of places the UK has moved up in the World Bank's ranking of business-friendly tax regimes to reach 10th place

£4m
– the loss announced by British bookmaker Paddy Power, having paid out millions on a Donald Trump victory

{ CONTEXT OF TREASURY }

UK passporting 'at risk' list published

Financial institutions, including Bank of America Merrill Lynch, Barclays, BNP Paribas and Deutsche Bank, all feature on a list of companies compiled by the UK Financial Conduct Authority of organisations that stand to lose passporting rights in the wake of Brexit.

More than 5,400 UK-based companies feature on the list, which includes financial institutions of all sizes, as well as insurers, construction supply companies and travel companies. A further 8,000 companies registered elsewhere in the European Economic Area hold passports to offer financial services in the UK, according to market analysts MLex, which obtained the list via a Freedom of Information request.

UK ministers are working to establish alternatives to passporting arrangements, which allow companies to provide cross-border regulated services such as banking, brokering and e-payments with few restrictions. However, some commentators suggest that replicating passporting in the midst of a heated withdrawal negotiation will prove ineffective and unduly onerous in legal terms. Barney Reynolds, partner and global co-head of financial institutions at Shearman & Sterling, and author of *A Blueprint for Brexit* from think tank Politeia, there are alternative models, including 'equivalence', which would allow reciprocal arrangements between countries where the regulatory regimes are deemed to be materially similar.

Reynolds says a second scenario would be for the UK to adopt its own financial centre model based on global standards. The move would involve a rethink of the regulatory framework to arrive at an attractive and market-friendly set-up, he has argued.

Writing in *The Telegraph*, Reynolds said both models could be developed in time for Brexit, but advocated that ministers begin work on a financial centre model to limit concerns around firms moving away from the UK. "By making clear the UK is serious about promoting the sector's continued international attractions, large financial institutions would get the security they need," he said.

{ AROUND THE WORLD IN 30 DAYS }

HONG KONG, CHINA'S PRICES, AND THE UK AND EU

Hong Kong's anti-fraud measures

Hong Kong's anti-corruption reputation gained a boost on the back of news that enforcement agents at the Securities and Futures Commission (SFC) will consolidate their stance against corporate fraud, following a wide-ranging strategic review.

The SFC's new enforcement chief, Thomas Atkinson, told delegates at the Pan Asian Regulatory Summit that the review had emphasised the need for effective action. Atkinson and his team have given priority to issues relating to listed firms.

It is reckoned that listed companies, where wrongdoing is reckoned to have wiped $200bn in market capitalisation from Hong Kong's stock market, causing substantial losses to investors and significant damage to the market's reputation. Atkins has also targeted the sponsors of initial public offerings on the basis that conduct and professionalism among some sponsors was lacking.

China mulls price hikes

China's ability to undercut its competitors worldwide may be coming to a close as producers face rising costs that they can no longer absorb. Manufacturing prices in China rose in September for the first time in five years, according to reports from Bloomsberg.

Exporters are battling for margins as wages and costs of materials rise, the news service has said. The weaker yuan is driving up input costs, adding to inflationary pressures. China's five most significant markets – Hong Kong, Japan, Mexico, South Korea and the US – are likely to feel the effects first, in the event that Chinese exports are beginning to increase in price.

UK's obligations to EU set to rise

In an unwelcome side effect to the fall of sterling, the UK's euro-denominated contributions to the EU budgets are set to rise by hundreds of millions over the course of the next two years, according to reports in the *Financial Times*.

The UK would not be the only member state impacted, however, as the UK economy will appear smaller in currency terms, increasing the contributions for others.

Hong Kong Island and Victoria Harbour

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THE STATS

{ KEY FINDINGS FROM THE OLIVER WYMAN *EU RETAIL AND SME PAYMENTS* REPORT }

7% – the projects' year-on-year growth rate for Europe's payments market until 2020

€38bn – the estimated combined revenue for European payments market players

€55bn – the estimated revenue pool by 2020

€190 trillion – the aggregate value of transactions across the European market

{ TREASURY OPERATIONS }

TREASURERS GROUP MOVES ON MMF NEGOTIATIONS

The European Association of Corporate Treasurers (EACT) has intervened in EU talks around the reform of money market funds (MMFs), lobbying policymakers on the need to consider the needs of non-financial corporates.

In a letter addressed to the European Parliament's ECON Committee, the European Commission and the presidency, EACT chair Jean-Marc Servat set out three measures designed to ensure that corporates have viable options for managing their cash balances going forward.

The first is the preservation of government constant net asset value funds, which Servat says should remain as at least one of the options available to corporates. The second measure proposed is the deletion of a proposed 'sunset clause' for low-volatility net asset value funds, since fund managers are unlikely to invest in setting up limited life products, and corporate treasurers are unlikely to invest in them. The third measure proposed is a pragmatic approach to liquidity requirements, fees and redemption gates so as not to undermine funds' volatility.

Servat argued: "MMFs are an important cash management tool for businesses as they allow corporates to deposit their short-term cash balances in a secure manner and with quick access to their funds when needed.

"In addition, MMFs have the advantage of allowing diversification of corporates' cash deposits, thereby reducing counterparty risk."

Ratings agency Fitch has separately urged EU legislators to note the experience in the US around MMF reforms.

MAKING THE NEWS

Noteworthy

The Indian government attracted fire when it was found that newly issued 2,000 rupee notes, intended to replace some of the 22 billion currency notes recently withdrawn from circulation, are not compatible with ATM machines.

According to India's central bank, around $80bn worth of 500 and 1,000 rupee banknotes have been handed in at banks up and down the country. The government had announced their withdrawal in an attempt to clamp down on tax evasion. While the notes are no longer legal tender, depositors can pay them into bank accounts until the end of the year.

The sudden withdrawal looks likely to disrupt India's cash-based economy and may knock one full percentage point off the country's growth rate.

Sweden looks to digital future

Sweden edged closer to becoming a cash-free society when its central bank, the world's oldest, announced it would consider issuing a digital currency in place of notes and coins.

The Riksbank has said that the use of cash has fallen markedly in Sweden, declining by 40% since 2009. If Sweden adopts the 'ekrona', it will be the first time a major economy has given consumers access to a centrally issued digital currency.

Japanese prime minister Shinzō Abe

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Japan exports growth boost economy

Japan's economy grew faster than expected over the course of the third quarter, reaching an annual rate of 2.2%, marking three consecutive quarters of growth and boosting the record of prime minister Shinzō Abe. A rise in exports was behind the increase, although domestic consumption is reported to remain low. Concerns remain that the growth is unsustainable, since it is not balanced by domestic demand or any rise in capital expenditure.

Japan's government approved a stimulus package in August amounting to more than ¥28 trillion. However, commentators suggest the measures were not sufficiently far-reaching and say a slowdown is imminent.

{ TREASURY OPERATIONS }

Blockchain makes its mark on real-world transactions

The first trade transaction using blockchain technology has taken place. The transaction involved a fully digital suite of trade and export documentation, and covered the export of butter and cheese from dairy cooperative Ornua in Ireland, to the Seychelles.

The transaction took place on the Wave platform, which has been developed under the Barclays Bank Accelerator programme. The value of the transaction was under $100,000, but the speed of execution significantly faster than traditional methods. The bank said it took four hours for digital documentation to be created, checked off and signed compared with the seven to 10 days that traditional export letters of credit generally take.

{ TREASURY OPERATIONS }

TECHNOLOGY AND REGULATION SHAPE EUROPE'S PAYMENTS SECTOR

Increased disruption and innovation are set to boost the payments sector with Europe's payment players likely to benefit to the tune of 7% in year-on-year growth.

That's the conclusion of a study from management consultancy Oliver Wyman, which has found the overall growth in payment volumes along with growth in new types of payments, such as account-to-account payments, to be key drivers.

In the report, *EU Retail and SME Payments*, the authors argue that combined revenues within the European payments market will grow to around €55bn by 2020. Currently, those revenues stand at €38bn and cover some €190 trillion in transactions.

The report argues that new technologies as well as new players, such as third-party payment service providers, along with an evolving regulatory landscape, will impact on existing market models. Large players, such as vertically integrated payment companies participating across payment types, are likely to perform well, as are smaller niche players.

However, payment companies that lack clear value-added services or high volumes may struggle as the sector evolves. Matthew Sebag-Montefiore, partner at Oliver Wyman and lead author of the report, says: "The payments market is dynamic, but remains a scale industry. At-scale players participating in all areas will perform well, but many players are not at scale.

"They either need to have specific value-added services or consider participating in consolidation. Banks where payments serve as a non-core activity, for example, will need to decide either to become more committed or pull out altogether."

Market players also consider their response to regulatory changes. In particular, they need clarity on the implications for their business of the payments services directive.

CHANGE THROUGH BREXIT

The Brexit process rolls onwards; the US election is for Trump and change, and now we await the views of Dutch, French and German voters. Whoever wins, we can be assured that change is on the way – but that is business as usual for treasurers.

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 are willing to share, please email us at technical@treasurers.org

Steve Baseby is ACT associate policy and technical director
@BasebyStephen

{ IN DEPTH }

It's started, will it finish?

Last month, we wrote about the possible changes arising as a result of the disillusionment among Western electorates who appear to be questioning the economic and social norms established since World War II. This month, we consider the effort required to implement change through the lens of the Brexit process.

Debate over the legal process required to trigger Article 50 has shown just how little is really understood about the entire process. It had been generally assumed that David Cameron would issue notice of the UK's withdrawal once an exit vote was confirmed.

He did not and, at time of writing, the high court is of the opinion it would not have been his right to have done so without parliamentary approval.

Risk managers need to consider the possible impact of a parliamentary vote on triggering Article 50. For example, if parliament were to refuse to trigger Article 50, the resultant uncertainty (and the possibility of a UK election) would make life extremely difficult.

Furthermore, there is pressure from the media in particular that the Brexit negotiations should be conducted in public – every business person knows that this is not how to get the best outcome, but nevertheless, companies need to be planning as far as possible while negotiations go on behind closed doors.

In last month's technical briefing, we wrote on trade agreement options versus free trade agreements (FTAs). It is clear that FTAs are never straightforward and regularly go beyond the scope of that which most of us would call trade.

Theresa May's October trip to India showed that trade and worker movement are not only linked within the EU (search 'Immigration dominates Theresa May's trade mission to India' at FT.com). The difficulties concluding the EU/Canada Comprehensive Economic and Trade Agreement show that concerns over government liability may also play their part (search 'EU and Canada sign deal amid fears about future of trade policy' at FT.com). Other countries may want to link movements of goods and services with human rights, free movement of capital and people, tax systems

and perhaps even the location of supranational organisations.

Renegotiation of treaties is time-consuming and the UK will need some form of transitional treaty to get them beyond the two-year limit of Article 50, through the process of international negotiation, and into new FTAs. This will most likely come into effect towards the end of the two years, and adds to the range of uncertainties already being faced.

Treasurers will be concerned as to how these myriad and inter-related objectives impact on financial risk and their access to financial markets and services (and not only in the UK). The businesses they represent will be concerned about where and how they conduct their commercial operations.

A 'hard' Brexit probably means that London's financial markets would contract. This could mean a loss of financial counterparties with a greater reliance on a smaller pool of capital markets investors and banks. UK treasurers may need to increase the number of relationships to maintain coverage of their transactional requirements. This would, however, come at a time when many non-UK banks have reduced their UK operations to reflect shrinking balance sheets due to tighter regulation. This trend will continue as we approach the full implementation of Basel III, and banks honour commitments made to their domestic governments in return for bailouts following 2008.

As to employment, London financial services jobs are already at risk as the banking community grasps cost control through automation in response to customers who are no longer willing to absorb the burgeoning costs of making banks safe.

Further impact may arise in the real economy where the impact of losing jobs in the hyper-inflated South East may have an adverse local effect, and the loss of access to the EU's pool, and in particular to its Eastern European pool of willing and skilled labour, may prove difficult to replace.

View briefing notes, technical updates and policy submissions at www.treasurers.org/technical. Our library of Brexit-related resources can be found 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 }

KYC – COMMON SENSE

While we eagerly await development of technological solutions to the KYC dilemma (how many times and to how many people must you prove you exist?), there is a sign of common sense from the Financial Action Task Force (FATF – an inter-governmental body established to combat the likes of money laundering), which could go some way to resolving the problem where correspondent banks are required to settle international transactions (possibly because your domestic bank has withdrawn from international business).

In the October 2016 issue of *Correspondent Banking Services* (see www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Correspondent-Banking-Services.pdf), the FATF recommendations do not require financial institutions to conduct customer due diligence on the "customers of their customer".

This is a significant movement from business expectations that the concept of KYC is extending throughout the B2C chain.

{ WATCH THIS SPACE }

Dodd-Frank rethink?

We finally have reasonable convergence of financial regulation implemented, or being implemented, throughout the G20.

Donald Trump has noted that parts of the 2,800-page Dodd-Frank Act are counterproductive and he wants action.

What may emerge over the next few weeks is whether he will seek wholesale repeal and new acts where preferred or the more laborious process of picking through the clauses. We have managed to get our plea for continued convergence into the *Wall Street Journal* and indeed we have made the same plea to the UK government.

Neither EU-based nor US-based multinationals will want to find regulation diverging and adding to compliance costs.

UK banking separation

Separation of UK retail and commercial/investment banking is on course to be finalised in 2019.

The most material operational impact will be that some businesses may be required to adopt new sort codes. Bank systems have evolved to facilitate changes of sort code, although this is part of enabling customers to change bank.

We recommend members with UK bank accounts contact their banks to understand what they will be expected to do and within what timescale. The writer's experience is that a change of sort code for a high transaction volume enterprise can take a year to complete and requires considerable corporate input, even when able to optimise use of bank processes for change.

{ TECHNICAL ROUND-UP }

Standardisation of European Market Infrastructure Regulation reporting fields

The Global Financial Markets Association has issued some field specification definitions for reporting as part of broader efforts to remove inconsistencies in reporting. These have been agreed with the International Swaps and Derivatives Association-led EU/London financial services group and our members should expect their counterparts to adopt them. These include specifications for recording FX forwards among other field specifications.

Members will find their trade repositories updating their field specifications and those who submit their own reports will need to ensure they make the necessary changes to their reporting templates.

An opportune time to note that reporting formats will need to change over time as new products, and perhaps currencies, are created. Members should consider that reporting will remain an area of their systems, which will require updating on an almost ad-hoc basis.

UK Payment Strategy Forum

The strategy for developing the UK payments market was due to be published on 29 November after a consultation period on the draft strategy to which the ACT responded (see our response at www.treasurers.org/ACTmedia/Payments_Strategy_Forum_ACT_%20Response.pdf).

We generally agree with the proposed strategy, although we are concerned over apparent bias towards 'vulnerable consumers' for which an option may be to offer rights to vary payment dates. This 'Request to Pay' could affect the certainty of direct debit for the high-volume, low-value transaction businesses and government agencies.

JOEL CURRY
INTERNATIONAL CASH MANAGER, NSG GROUP

How did you get into treasury?
I was working for NSG in a project role when an opportunity to join the treasury department came up. It was an easy decision to make and the chance to study for the AMCT was part of the appeal.

What do you like about treasury?
There is a lot to like about treasury, but I think part of the appeal is that from the outside, treasury has a little bit of mystery around it.

What's the best thing about being a treasurer?
There's rarely a dull moment.

What's the best thing about being a member of the ACT?
It means being part of an established community. I think a career in treasury would be much more difficult in isolation.

Which ACT qualifications do you hold? For example, AMCT/MCT/CertITM
AMCT.

How has your qualification benefited you in your career so far?
There's clearly a need to have both formal and on-the-job training in treasury. It's also nice to hold a recognised qualification.

What's the most unusual responsibility that you have as a treasurer?
There are lots of opportunities in treasury to use new technology for various benefits; sometimes this means delving right into the systems, which I quite enjoy.

What's the most important lesson that you've learned during your career?
Even if I think I fully understand something, there can be another angle I'll only discover by speaking to someone with different experience.

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

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.

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www.treasurers.org/cashmanagement

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{ CENTRAL BANKS }

JEREMY WARNER

Central bankers are struggling to restore their reputation in the wake of the financial crisis, Brexit and now Trump's presidential victory

Is the era of central bank omnipotence – and independence – drawing to a close? It may still be too early to make that call, but post Donald Trump's election victory, we are certainly looking at a very different attitude to central banks and the role they play in the global economy.

Trump repeatedly questioned the US Federal Reserve's independence during his presidential campaign, calling for the resignation of its chair, Janet Yellen, and those around him have been vocal in their criticisms of the Fed's low interest rate and money-printing policies. Similar criticisms have been voiced in Britain post the referendum vote to leave the EU.

All of a sudden, central banks are finding their authority challenged as rarely before. Can they survive this onslaught in their current form? I've got my doubts.

A new biography of Alan Greenspan by the journalist Sebastian Mallaby has called him 'The Man Who Knew'. The title is presumably intended, at least in part, ironically.

Few seemed to embody the supposed all-seeing, all-knowing, almost superhuman powers of the global policymaking elite better than this long-serving former chairman of the US Federal Reserve.

And yet his reign ended in failure. Soon after he retired, the world's financial system crashed, shattering public confidence in those who had presided over it. If by voting for Donald Trump Americans were voting for change, Mr Greenspan and all he represented are right up there in the firing line. People were let down, and they are still hopping mad about it.

SHUTTERSTOCK

The great curiosity of the financial crisis is that central banks emerged more omnipotent than ever

At his peak, Greenspan appeared to have the attributes of a demigod. He was the undisputed maestro. Like some Delphic oracle, markets would hang on his every word, cryptic as they sometimes appeared to be, and when things went wrong, he was always there to calm the storm and jump-start the economy anew. And he was indeed right about many things.

But when it came to the biggest test of all, it turned out he was as fallible as everyone else. He failed to see the threat posed by the credit bubble, and he failed to see the role that his own policies were playing in creating it. His analysis was flawed on almost every level; spectacularly so.

Greenspan was, of course, only part of a collective delusion. And, as Mallaby notes, even if he had recognised the dangers, it's not clear he could have done much about them. His job was to keep the good times rolling. Anything else would have been unacceptable to the politicians.

Like other central bankers, his mandated focus on price stability led him to ignore the risks posed by financial instability. This doesn't excuse him from blame, but it does make his lack of foresight at least understandable.

Yet the great curiosity of the financial crisis is that despite their blindness, central banks emerged from the crisis more omnipotent than ever. In the absence of obvious alternatives, economies became almost wholly reliant on 'unconventional monetary policy' to sustain and invigorate them. In carrying out these policies, central banks have, in effect, stepped into areas that more properly belong to the political sphere.

Quantitative easing, for instance, is basically a form of fiscal policy with quite substantial distributional consequences. It also needs to be actively sanctioned and encouraged by participating governments.

The Fed, the Bank of England and the European Central Bank thereby find themselves doubly caught up in the perception of policy failure that has led to Trump and Brexit. Retaining legitimacy in the face of the populist backlash is going to be quite a battle.

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

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Trump, in practice

From January, Donald Trump's economic stance will face the test of Washington's apparatus. What will be the outcome?

The US is the largest and most systemically important economy in the world. Economic conditions in the US can shape global trends for the better or for the worse, as the boom until 2007 and the subsequent burst have shown. On 20 January 2017, Donald Trump will enter the White House. It remains to be seen just what impact his presidency will have on the US economy and the global economy. What parts of the mandate that got him elected will see the light of day? What parts will be watered down, decontaminated or even pronounced dead on arrival by the checks and balances of Washington?

The major economic risk for the global economy following the Trump victory is that a US shift towards isolationism and protectionism over the next four years might be mirrored by other countries. If Trump does what he said in the campaign, namely brand China as a currency manipulator and place a 45% punitive tariff on Chinese imports, he could trigger a trade war that could lead to other countries retaliating with their own tariffs on foreign imports. Such a turn of events could seriously suppress global trade flows and economic growth. Just look at how the anti-trade and isolationist policies of the 1930s worsened the damage of the Great Depression. While the checks and balances of Congress would block many of Trump's more extreme policy proposals, such a move would badly exacerbate a tilt in the Western world against globalisation.

Trump's promise to vastly expand infrastructure spending and reduce taxes is likely to get trimmed down significantly by the fiscal hawks among the Republicans in Congress, who will lean against any attempt to let deficits rise too much. The likelihood of a truly Reaganesque approach to economic policy looks slim. But a more expansionary fiscal stance plus some supply-side reforms to improve competition and slim down burdensome regulation, such as allowing interstate competition among healthcare insurers and legalising the imports of some Canadian pharmaceuticals, could support private investment and household consumption.

SHUTTERSTOCK

As the most powerful and systemically important central bank in the world, the Federal Reserve is the conductor of the global orchestra on monetary policy. Still, it cannot change the laws of economics. While Trump may publicly criticise the Fed and threaten more oversight, it probably will not impact Fed policies much. The Fed will continue to set policy in relation to US economic conditions and the outlook for inflation. Whether appointed by a Democratic or a Republican president, Fed members tend to act independently once in office. They will always weigh the outlook for US growth and inflation upon setting Fed policy, learning by experience and adjusting their stance if it turns out that they may have been too accommodative or too restrictive in past decisions. Trump may influence monetary policy only insofar as his fiscal and supply-side policies impact the outlook for US GDP growth and inflation.

Upon assuming the role of president, Trump will likely shift somewhat into the centre. Diplomatic constraints will serve to limit his erratic behaviour and refine his rhetoric. During his campaign, his flip-flopping and contradictory behaviour to suit his audience, particularly on non-economic issues, indicate that Trump is an opportunistic pragmatist rather than ideologue.

If this assessment is inaccurate and Trump continues along the anti-establishment hard-right rhetoric that he pursued on the campaign trail, uncertainties and risks will persist. But in the end, such an approach would likely hit the rocks. The complex nature of policymaking in Washington would likely overwhelm Trump's efforts to effect change.

Remember, Trump enters as the White House outsider. He lacks a deep understanding of the internal political calculus that makes up Washington. There are hundreds of thousands of civil servants in Washington that influence and implement laws. The Washington machine should be able to constrain Trump in order to help his more positive policies cross the line while mostly blocking his negative proposals. Let's hope this is indeed the case.

The likelihood of a truly Reaganesque approach to economic policy looks slim

Kallum Pickering is senior UK economist at Berenberg Bank

{ CHRISTMAS MESSAGE }

JUSTIN WELBY

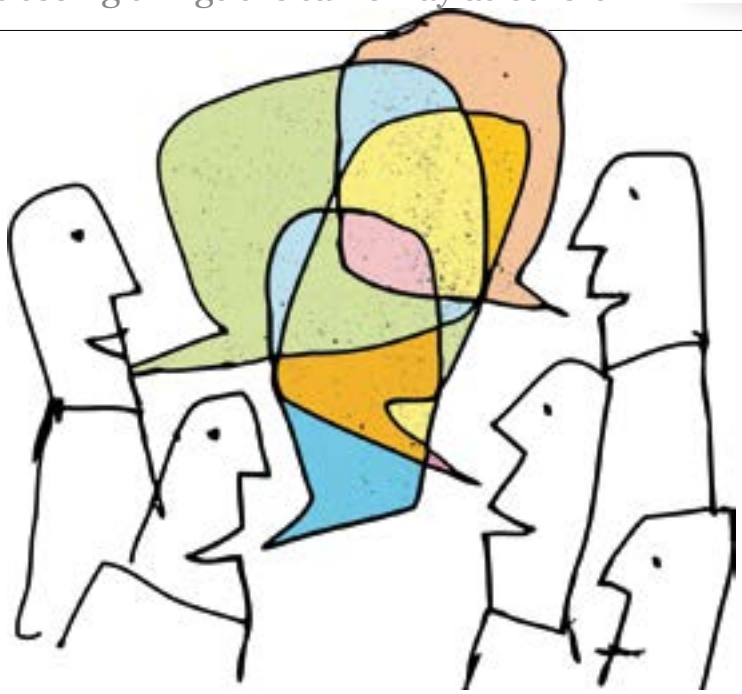
The hazards of always seeing things the same way as others

The Most Reverend Justin Welby Hon FCT is the Archbishop of Canterbury and confidential adviser to ACT members on ethical and personal issues

One of the biggest dangers most of us face is being within a bubble of those who think like us, or see the world as we do. When that happens, we cease to be able to hear clearly what other people are thinking and saying, and, as a result, we start making foolish mistakes.

It can be as personal as understanding one's role in life. At the time of the centenary of the Battle of the Somme, I went to France for the ceremony. As is usual in this job, there was a bit of an entourage, and the general (mistaken) assumption that the Archbishop of Canterbury is probably quite important. In my terms, to think such a thing is just begging for God to intervene, usually in a humorous way. As we came out of our hotel one of my colleagues heard someone say: "Isn't that the Archbishop of Canterbury?" His colleague answered: "No, too short."

The danger of being surrounded by those who look at things in the same way as we ourselves do is that we become convinced that that is the view of the whole world. Received wisdom is as often as not received foolishness (apart from the old adage: 'buy low, sell high', or the old saying that 'if something looks too good to be true in the financial markets, it almost always is'). When we look back at the year, there were very few of us who would have forecast the result of the referendum, or the impact that it would make. Those among my friends who are in favour of exit were convinced they were going to lose, and those among my friends who were going to vote remain were convinced they were going to win. Everybody round them told them they were right – and we all agreed. That is one of the reasons that the impact of the vote was so considerable psychologically.



SHUTTERSTOCK

In the markets, received wisdom is especially dangerous. It causes us to hunt with the herd, and to rationalise, even when markets have gone the other way, that they were wrong and we were right – it's just not enough people saw it that way. When we look back at the events of 2008, the fallout from which still has an impact on institutions and attitudes, we see that there was an enormous bubble, not only in asset prices, but also in attitudes and consciences. Pre-2008, the bubble protected certain groups from thinking that there might be something fundamentally wrong in the way they were looking at the world, and in the approach they took to risk and reward.

> There were very few of us who would have forecast the result of the referendum

What is the answer to group think? Part of it is setting up systems to avoid it. Here at Lambeth Palace, for big decisions we quite often set up two individuals or groups whose job is to argue for opposite decisions, so that we have a chance to hear both sides challenging the weaknesses of the other. Given the kinds of decisions that are mostly made in the markets, or here for that matter, few questions yield easy answers, but at least insisting issues are debated ensures that we've looked at things hard. Looking back over my time in this job in the past three and a half years, the biggest mistakes I've made have occurred when we have failed to do that.

Christians believe that our assumptions about how the world works and where we're all going are most distinctly challenged, and all bubbles burst, by the events of what theologians call the incarnation, and the rest of us call Christmas. That is to say the moment when, as Christians believe, God was born, not in strength and terrifying appearance, but in weakness with the poor and the marginalised, so that the world might know that God offered them freedom to choose their way or his, and his hope or their despair.

For me, Christmas is a moment of immense joy, celebrating with family and having a good time. That is always the case. Yet it is far more than that. In the services – huge ones at Canterbury Cathedral or small ones in rural parish churches – I am reminded that there is no one in this world who is unimportant to God, and that there is no horror in this world, or threat to our future, or worry about our lives, that is beyond his reach. A God who chooses to be born as a baby is greater than all the threats that can face us.

THE BIG PICTURE

For Amanda Bradley, director of risk & strategy, audit & assurance at GSK, a background in treasury has brought a broader perspective on risk, business and people

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

At various times, Amanda Bradley's career has been informed by the rigours of degree-level debate, her prowess as a championship-level rower and a fascination with psychology.

Her bachelor's degree in religious history from King's College, London ("an extremely relevant and useful degree", she says, smiling), helped her amass skills in assimilating information and presenting arguments. Her rowing abilities – she rowed at international level in her school years and beyond – was the decider in an early career choice when she observed that the teammates who most readily managed to continue in the sport were those who'd opted for accountancy. And the MSc in Transactional Analysis Psychotherapy that she has just embarked on reinforces her focus on relationships and personal drivers as the underpinnings of how we interact in business and in life.

In fact, Bradley's whole career to date has been full of lessons and a focus on development. But there has been a qualitative shift recently. "I would say the first part of my career has been all about IQ. But the past four years have been all about emotional intelligence," she says.

Her first job was perhaps her least rewarding – selling life assurance, but even that yielded an important lesson. "That's when I realised that it matters to me what I'm selling," she says. Having opted for accountancy, she embarked on the ACA qualification, joining the Reading office of the big four firm EY, which at the time was the firm's biotech and life sciences hub. This was a particularly rich time for biotech developments and it sparked an abiding interest in the life sciences sector. "The human genome was about to be cracked, for instance. I was working with companies that were conducting proteomic level research, decoding diseases and working at a level to create tailored medicine. The vision and the dedication were incredible."

Bradley qualified as a financial auditor, but quickly reached the 'same thing, different client' point and so ended up looking for something that would allow her to pursue her love of biotech. "I really wanted and still want to be a non-executive director of a biotech company. So pharma was the place to be, and at that point I set out to come and work at GSK. And my way in was internal audit.

"One of the things I think is really important for anyone's career development is to find a give and a take for both you as the individual going in to learn and for the employer to gain a way to benefit from your skills quite quickly. I knew biotech, so it wasn't a huge leap to learn about the pharma industry," she says.

Her first internal audit was of the treasury function, which she was immediately taken with. "I embarked on my first audit, saying: this is the most amazing function – and I spent the next two and a half years trying to get in."

Bradley's first treasury role was as treasury manager and 18 months after

"I really wanted to be a non-executive director of a biotech company. So pharma was the place to be, and at that point I set out to come and work at GSK"

VITAL STATISTICS

100,000
employees

15,000
in R&D

£23.9bn
group turnover (as at end of 2015)

20
assets to potentially file with regulators by 2020

40
potential new medicines and vaccines profiled at the last R&D event

that she became assistant treasurer, international. She spent the next seven years in treasury. Over that period, she was involved in GSK's $9bn bond issue, a piece of work that she led on, putting together the company's seasoned issuer profile in the US over six months, and witnessing first-hand the C-suite operating at optimum. "It was just a really good opportunity to see what it takes to operate at that level."

Returning to GSK after a period of maternity leave in 2010, she went straight back into a full-scale restructuring of the treasury function, from the dealing room to cash management to corporate finance.

"I just threw myself into helping to transform this part of the organisation. With any transformation, in senior management your job is to really challenge yourself to see whether what is proposed is good enough and is going to work, and whether your role is actually needed in it."

The restructuring was comprehensive – the dealing room, day-to-day cash management, the corporate finance model, regional treasury – and the resulting structure still operates today. Bradley became senior director for the global treasury consultancy team. Projects were challenging and wide ranging, with the post-deal integrations of companies like Human Genome Sciences in 2012, as well as day-to-day running of the business from the inside, such as getting capital in and out of

AMANDA'S TOP TIPS FOR SUCCESS

1. **Never stop learning. There's so much interesting stuff out there! The AMCT is just the start...**
2. **Give back through charity trustee work. A treasurer's skills are extremely valuable in the charity sector.**
3. **Always ask "why am I doing this?" It stretches us to execute better as treasurers, to exercise controls more mindfully and to grow as individuals by paying attention to our behaviours and leadership skills.**
4. **The MCT qualification gave me a platform for building a decade-long career in a brilliant part of the business. Applying what I've learnt through the MCT has given me credibility, particularly in M&As, to earn a seat at the table with senior stakeholders. That, in turn, has given me the kind of experiences that created interesting opportunities like the CEO's Future Strategy Group.**
5. **The secret to my career success is EQ – emotional intelligence is the lever for millennial business. It helped me build relationships and get through roadblocks in my time in treasury. It helps us build the connections we need to learn about future risk trends in my current role. It is the key to empowering talented people to deliver against strategic vision in ways I never imagined.**
6. **The most difficult question my FD could ask is: what is the value at risk? In treasury terms, that used to be more straightforward. We have a principal, a counterparty exposure, a currency volatility to fall back on. Trying to quantify that into enterprise risk terms is a brilliant challenge and one I'm using my treasury and charitable sector skills to try and solve. What is the value at risk on an audit finding? Answers on a postcard to the ACT if you think you've cracked it...**
7. **The best way to wind down after a stressful day is to turn off the work phone and spend quality time with my daughter until she goes to bed. Then I practise Bikram yoga. It's hard to think about work while balancing on one leg in 40-degree heat!**

Russia or pulling together a Euro Crisis response team.

There were some memorable moments, too, including supporting GSK's open offer for GSK Consumer Healthcare India with a share buyback on the still paper-based Indian stock exchange. "The bank literally had people going from village to village on bicycles to tell shareholders about the transaction."

Evolution

In 2013, Bradley decided to take a break from treasury when she was asked to join the CEO's Future Strategy Group. This sixth-month talent placement comprised an intense learning period and marked a turning point for Bradley.

"Half the job is learning about yourself, learning about what kind of leader you're going to be, and the other half of the job is to deliver a project of strategic significance. And it's that project that allows you to learn about yourself. And that's when I learned, for instance, that I don't work very well in a suit.

"My career went from leading a team of individual contributors to delivering through other people. That's a huge step in people's careers. When you're an individual contributor you can command and control yourself. When you're delivering through other people, you can't do it by putting your head down. At that point a career becomes much more about understanding how to inspire other people. How do you understand what their wants and needs are and set a really compelling vision, and then have the courage to let go of how they get there?"

Bradley moved from the Future Strategy Group straight into another transformation role and became head of transformation for audit & assurance. She worked closely with Helen Jones, GSK's head of audit & assurance (A&A) and formerly head of tax, on a project to overhaul how A&A operated. "A lot of the purpose of my role then, and to an extent now, was to give Helen the time to stop and think about the future of our function – 'what do we need to be to serve the corporation?'"

"My career went from leading a team of individual contributors to delivering through other people... a huge step in people's careers"

AMANDA'S CV

2002-present, GSK
Director, risk & strategy, audit & assurance (2015-present); head of transformation, audit & assurance (2014-present); assignee to GSK's CEO Future Strategy Group (January-July 2014); senior director, global treasury consultancy (2012-2013); assistant treasurer, international (2007-2011); treasury manager, Middle East & Africa (2005-2007); business risk consultant, global internal audit (2002-2005)

2013-2016
Trustee, the Mulberry Centre

1998-2002
Auditor, EY

QUALIFICATIONS

History, BA (Hons) King's College London (**1997**); FCA **2001**; AMCT **2005**; MCT **2006**

That piece of work morphed into Bradley's current role. She spends time with other companies or at conferences researching risk areas and future working models, thinking ahead to how the A&A function will assimilate and audit them. In September, she investigated supply chains and slavery issues, talking to retailers, such as Urban Outfitters and Marks & Spencer, to learn about their experience. More recently, she has been looking at machine learning, listening to companies like Amazon and Airbnb, to assess what is going to happen to working roles in the future and how that evolution will impact talent models in the future.

"Really my job now is to look at what is coming down the track five years from now in terms of the risks the organisation is going to face and to look at how we would go about auditing that. It's one thing to learn about other models. It's quite another to work out how you audit them," she says.

A keen study

So how have her years in treasury made a difference? Not only did Bradley love her years in treasury, she rates the MCT as transformative. She believes it goes beyond other finance qualifications in that it gets behind theoretical models to really probe the economics and business fundamentals of any given problem. "It also focuses on risk in a very pragmatic way," she says.

And she's not finished with study yet, having recently begun her MSc. Transactional analysis is a psychoanalytic method of analysing social transactions as a basis for understanding behaviour and what drives individuals. It encourages a relationship-based perspective. "The really astute individuals I've encountered have been the ones who really probe the ideas they don't agree with, who pace around thoughts and ideas, and ask: 'what else could we do?'" Bradley says.

It's of a piece with the executive coaching that she undertakes at GSK. Bradley is involved in Job Plus, a programme available to any GSK employee working towards a promotion or transitioning into a new role. There is also the Accelerated Difference Programme, aimed at assisting women to move into senior roles. She also coaches for a return-to-work programme run in GSK's HIV joint venture, ViiV Healthcare in partnership with the Terrence Higgins Trust.

Although it is an abiding interest and informs her own analysis of how we operate, she is, however, careful to leave the psychotherapy outside of work and coaching. "You have to be very sure which mode you're in. Are you counselling or are you coaching? The counselling mode goes much deeper and, to be honest, it's much more invasive and you need to be very clear with yourself and with your client which space you're operating in. But just being able to observe people and to help bring people's thinking along is a privilege. All your job is as a coach is to help people understand their thinking, understand themselves and their situation."

The main cornerstone of her job, she says, is to be curious, whether that is about risk, about the organisational structure of the division she works in or in coaching. And she encourages team members to be curious also. "We see risk being really well managed when people are transparent, and also when they aren't afraid to ask questions or to create thinking time to explore situations from multiple angles."

Fortunate then that she seems to have a natural affinity with seeking out thinking time and providing others with that facility.

Liz Loxton is editor of *The Treasurer*

FRONT OF MIND

With each year, the list of developments, issues and problems that corporates must juggle seems to get longer. Without doubt, the day-to-day concerns and strategic challenges loom large for the treasury function. As 2017 draws closer, we asked a group of respected treasurers about their preoccupations – threats and opportunities. This is what they told us...

The treasurer's reputation for being able to handle all that commercial life can throw at them is a solid and well-founded one. A calm and measured approach to risk, an ability to analyse, assess and digest variables, and a willingness to commit to and convey considered opinion to stakeholders at all levels – these are qualities that set treasury professionals apart, ones that are carefully cultivated within the ACT's competency framework.

It's just as well. As 2016 draws to a close, it would be hard to conclude anything less than the fact that market, currency and geopolitical volatility is greater than before, that events of note come along with less and less breathing space in between. The trends we may once have expected to eventually work themselves out or somehow right themselves – ultra-low interest rates, currency swings and surges – persist. The left-field outcomes we might anticipate seeing only now and then in a lifetime – outsider wins in elections – come along with increasing frequency. For all that we can see that our new reality is very different, very much more uncertain, very much more subject to frequent change, one thing we can see for sure: we are far from off the hook when it comes to the business world's need for answers – or in the absence of answers – credible, workable assessments.

As Brexit and the election of Donald Trump as US president have shown us, the advent of radical populism has become a significant change agent. Politicians, the election-winning kind, are not all alike. And with German and French general elections looming, it seems unlikely that 2017 will prove less exciting on that front than 2016. It's not beyond imagination that, with each successive election shock, markets and currencies will start to move less significantly, however, as geopolitical risk gets priced into markets more realistically.

It's not just the economic and geopolitical context that is busying treasurers, however. Developments in technology bring their challenges, too. Innovations can be a frustration just as readily as they can solve problems, since they bring with them implementation and financing issues. However, given the will and the budget, this is an area where treasurers can hope to improve efficiency, manage liquidity better and enhance cross-border operations to the benefit of their organisations.

And, of course, within this apparent sea of problems and challenges, there is great opportunity, not least the chance to demonstrate the capabilities and qualities that treasurers have: the more complex and unpredictable the commercial outlook, the greater the possibilities for an enhanced profile for the treasury function.

Here's what our panel of treasurers had to say about the year ahead.

THREATS

TECHNOLOGY – BANKS LAGGING THEIR CLIENTS

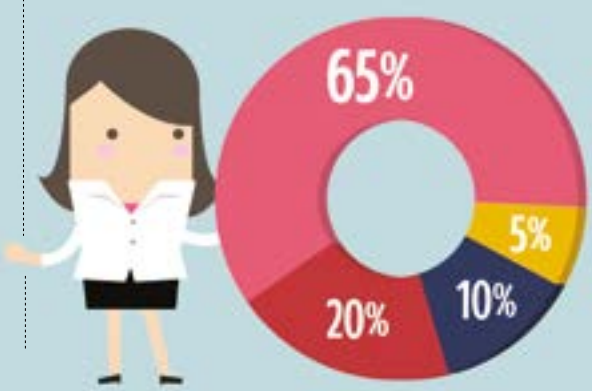
Engineering and design firm Atkins continues to develop its international reach and the ability to establish itself efficiently and effectively to support clients, wherever they may be, will be critical to the long-term success of the group. We need our banking partners to match our agility and our global strategy. Interaction of regulatory pressures, declining bank margins and bank spend on technology feels like a growing challenge from a bank's perspective, putting them several steps behind our own pace.

With increasing regulatory demands and costs, some of our banking partners appear to be distracted with retrenchment from non-core markets and internal restructurings. KYC checks are becoming more onerous and time-consuming, resulting in an increase in the time it takes now to establish basic banking operations in new territories. In addition, bank technology and practices remain fragmented and variable in terms of quality and consistency.

It concerns me that our international banking partners are becoming less global and increasingly distracted with inefficient and archaic operating models.

In order to keep pace with growing international businesses, whether in more or less developed markets, it would be great to see banks operate truly global business models with global standards and global technology that can at least match the aspirations of their clients.

Lesley Flowerdew
Group tax & treasury director, Atkins



> If anything, the increase in volatility means we need to be more dynamic

CURRENCY VOLATILITY

Currency markets have continued to grab the headlines, with fundamentals giving way to political headlines this year. Assumptions and correlations that used to hold no longer do, and markets are less liquid and efficient than before.

British American Tobacco (BAT) has a well-defined and stable hedging programme that seeks to reduce volatility of results, delivering more consistent returns to shareholders. The currency surprises over the past few years have proven the importance of sticking with a consistent approach and not being swayed by short-term market 'noise'. This doesn't mean there isn't scope to be opportunistic.

If anything, the increase in volatility means we need to be more dynamic – from execution timing to unconventional hedging. We have also worked hard over the past five years to improve visibility and understanding of the group's exposures. This hasn't been an easy feat given the geographic coverage of BAT, but I think we are finally there.

Neil Wadey
Group treasurer, British American Tobacco

NEGATIVE INTEREST RATES

Euro interest rates will most likely continue to be negative in 2017 and might fall even further. As it is against our nature to accept paying money for lending it to another party, we will continue to try to avoid this, as long as it is done in a low-risk manner.

However, I believe that the real risk of negative interest rates has not yet been realised. Risk is clearly mispriced in today's markets, which leads to bubbles. This is especially a challenge in long-term asset management for pension assets. One of our main challenges will be to anticipate where and when bubbles might burst and how this will affect us in treasury and our banks (counterparty risk). However, we should also think about the effects on our company as a whole and the markets we are in. There is still time to adjust our risk profile.

Rando Bruns
Head of group treasury, Merck

ECONOMIC UNCERTAINTY AND GEOPOLITICAL RISK

As a non-executive director, I am expecting strategic challenges in 2017 due to political and economic change. In 2016, the Brexit referendum caused sterling depreciation, which had divergent effects on equity valuations. Market volatility is likely to continue while different political outcomes are debated. There will be winners and losers. Changes in tariffs may increase costs, but may open up new business opportunities, for example, cheaper raw material imports from outside the EU.

We may see strong debate and controversy according to different businesses' interests. Anxiety about change will affect people and families, and may cause employees to adjust career plans. More than ever, businesses need to keep an open mind to risks and opportunities, considering not just the obvious risks from increased costs and changing regulation, but the implications of new types of competition. It will be important to engage with trade associations and bodies with political influence, to ensure all factors and interests are properly considered in the political debate.

> I believe that the real risk of negative interest rates has not yet been realised

Charlotte Morgan
Non-executive director, and advisory council member on the Financial Services Negotiation Forum (representing the ACT)

OPPORTUNITIES

THE INCREASING IMPORTANCE OF THE TREASURY FUNCTION IN THE CURRENT CLIMATE

For consumer products company PZ Cussons, in 2017, the challenging economic environment in Nigeria will continue to be a major focus. Over the past 18 months, the country has had to deal with a severe bout of US dollar illiquidity caused by a double whammy of global oil price decline alongside internal strife, which meant the country was unable to match its historic crude oil production levels.

As US dollar liquidity dried up, the Central Bank of Nigeria undertook a raft of measures, including devaluing the currency and introducing forwards both US dollar-settled and non-deliverable. Treasury's expanded role was driven by being at the forefront of understanding what would or wouldn't work under these new market conditions. The year ahead will see treasury continue to enlarge upon the supply of advice and practical solutions to aid the business's commercial decision-making.

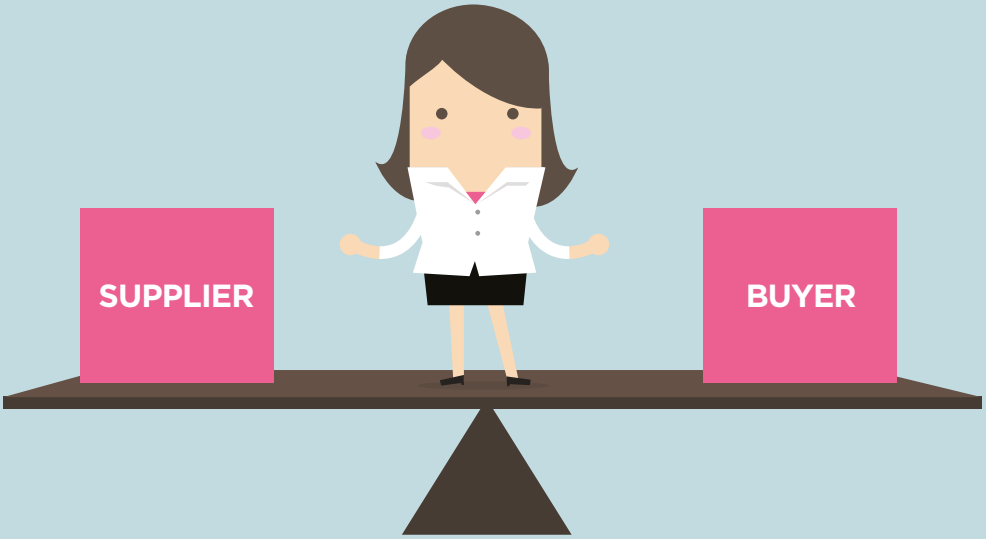
The illiquidity's impact upon working capital was the catalyst to undertake discussions early in 2016 with our European-based, long-term suppliers to Nigeria to try to extend payment terms. It was empowering to have visited the port with supply chain, local markets with the sales team and taken tours of factory operations. This first-hand knowledge helped when negotiating upon and successfully extending payment terms. Consequently, engaging with both my colleagues and the local banks next year on a face-to face basis shall continue.

Scot Morton
Group treasurer, PZ Cussons

INCREASING OPPORTUNITY IN SUPPLY CHAIN FINANCING

Current trends in global trade and supply chains are focused on changing trading patterns, volatile commodity prices, risk mitigation and access to liquidity. In volatile markets larger companies can become concerned about risk in their supply chains, but may also themselves have good access to liquidity and market information, while smaller companies will often have limited liquidity, and have to carry the cost of the supply chain, with the traditional sources of supplier funding being both expensive and inefficient.

Coupled with this, buyers and suppliers have naturally opposing objectives – one wishes to get paid as soon as possible, while the other will always seek to maximise trading terms. Supply chain financing (SCF) can help bridge that gap by having a



Upgrading or changing systems is expensive, both in terms of the costs and man hours required

bank advance the supplier with cash at competitive rates, while allowing buyers to deepen a supply relationship and optimise terms. Factoring, securitisation and receivables financing can offer similar benefits, but it will generally be the case that SCF will provide 100% advances and help achieve optimal commercial conditions for both the supplier and buyer.

More recent fintech-led innovations like dynamic discounting have gained traction as they become increasingly used, and offer even more flexibility, while presenting a challenge, and exciting opportunity for what has been traditional bank territory.

Simon Neville
Group treasury director, Reckitt Benckiser

VIRTUAL ACCOUNTS

Virtual accounts (VAs) have traditionally been utilised to enhance straight-through reconciliation rates in markets across Asia and Eastern Europe due to truncation of information through local clearing.

However, they have now become a key enabler to support 'the last mile' in the centralisation of the treasury function globally, as corporates seek maximum control over liquidity, risk positions and transaction flows. Virtual accounts help facilitate the optimal corporate owned, business only (COBO) model, and deliver benefits such as bank account rationalisation, simplified account/liquidity structures, reduced fees, enhanced visibility and increased standardisation and automation of processes. From an order to cash perspective – whether operating COBO structure or not – VAs enhance the cash application process through automatic customer matching. In addition, with the potential impact to notional pooling resulting from Basel III, VAs offer a viable and flexible alternative.

BAT has effectively deployed VAs across Europe and Asia-Pacific as part of COBO rollout and will look to continue the deployment in further regions in 2017 as a more consistent global solution begins to emerge from the bank group. Currently, there is a big divergence in product offering, with only two or three credible providers of robust VA tools, with the rest in varying stages of development and maturity. It is likely that 2017 will see a more level playing field as more banks begin to launch their VAs' proposition.

Neil Wadey
Group treasurer, British American Tobacco

TECHNOLOGY – TAKE THE LEAP TO AUTOMATE

Treasury departments are not known for being big spenders. One area where this is painfully evident is treasury technology, where many corporates still get by with outdated systems, heavy reliance on manual processes and Excel spreadsheets.

Unsurprisingly so, as upgrading or changing systems is an expensive affair, both in terms of the costs and man hours required for successful planning and implementation.

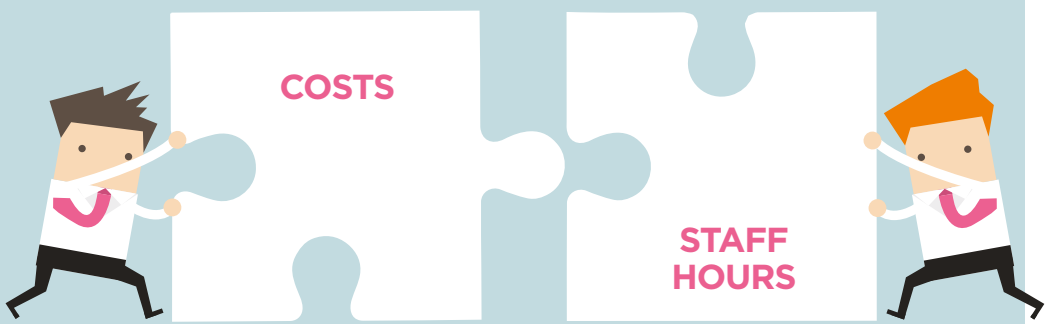
However, the growing prominence of the fintech industry and adoption of new technologies all the way down to the customer payments interface – combined with the greater complexity of risks faced by businesses – are driving an increasingly compelling case for making that investment.

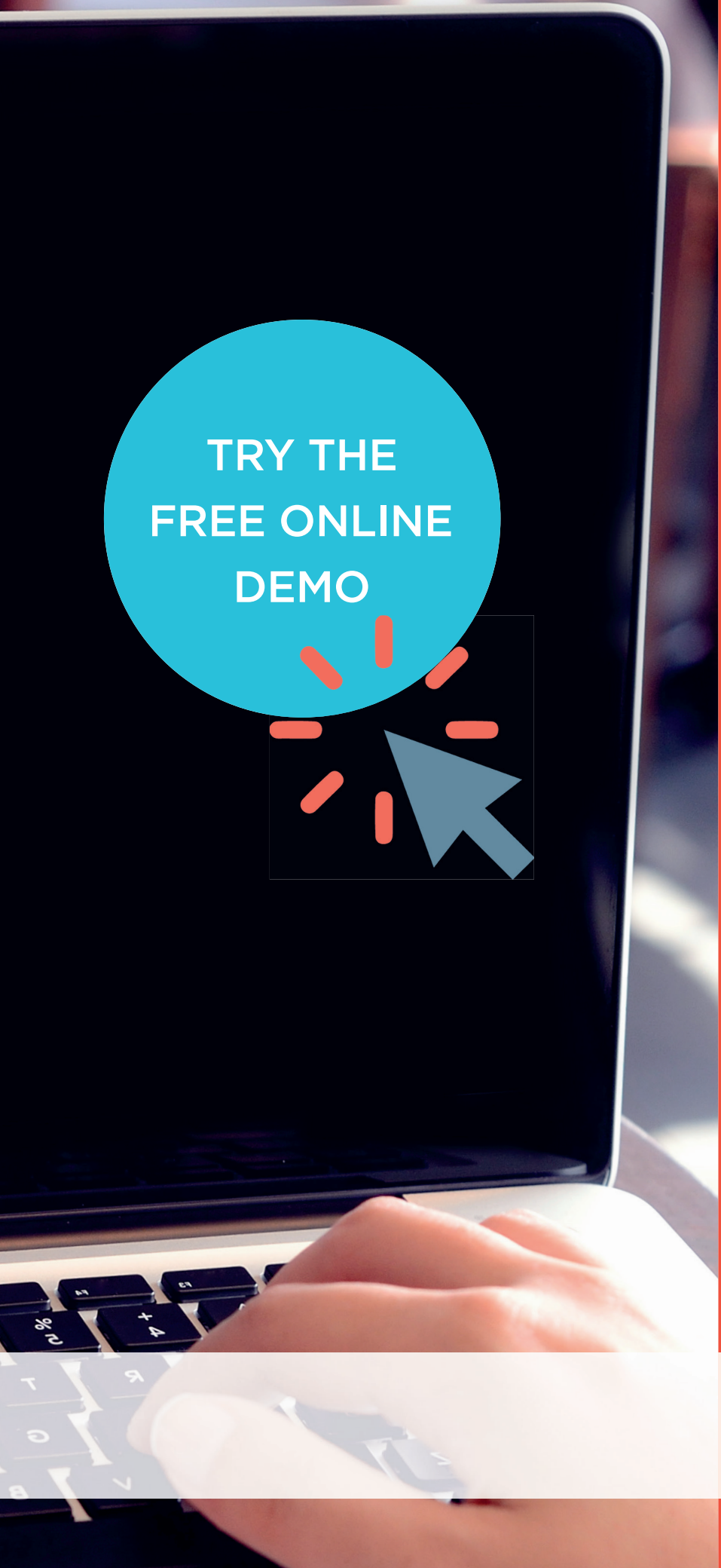
It is no longer just about attaining cost-efficiencies through automation, but also enabling the treasury function to more effectively manage liquidity and risks, and offer more insightful advice for strategic decision-making through improved analytics.

The key challenge is just how to quantify those benefits in pounds and pence.

Johanna Hytinnen
Head of funding and operations – treasury, Tesco

WITH THANKS TO ALL OUR PARTICIPANTS





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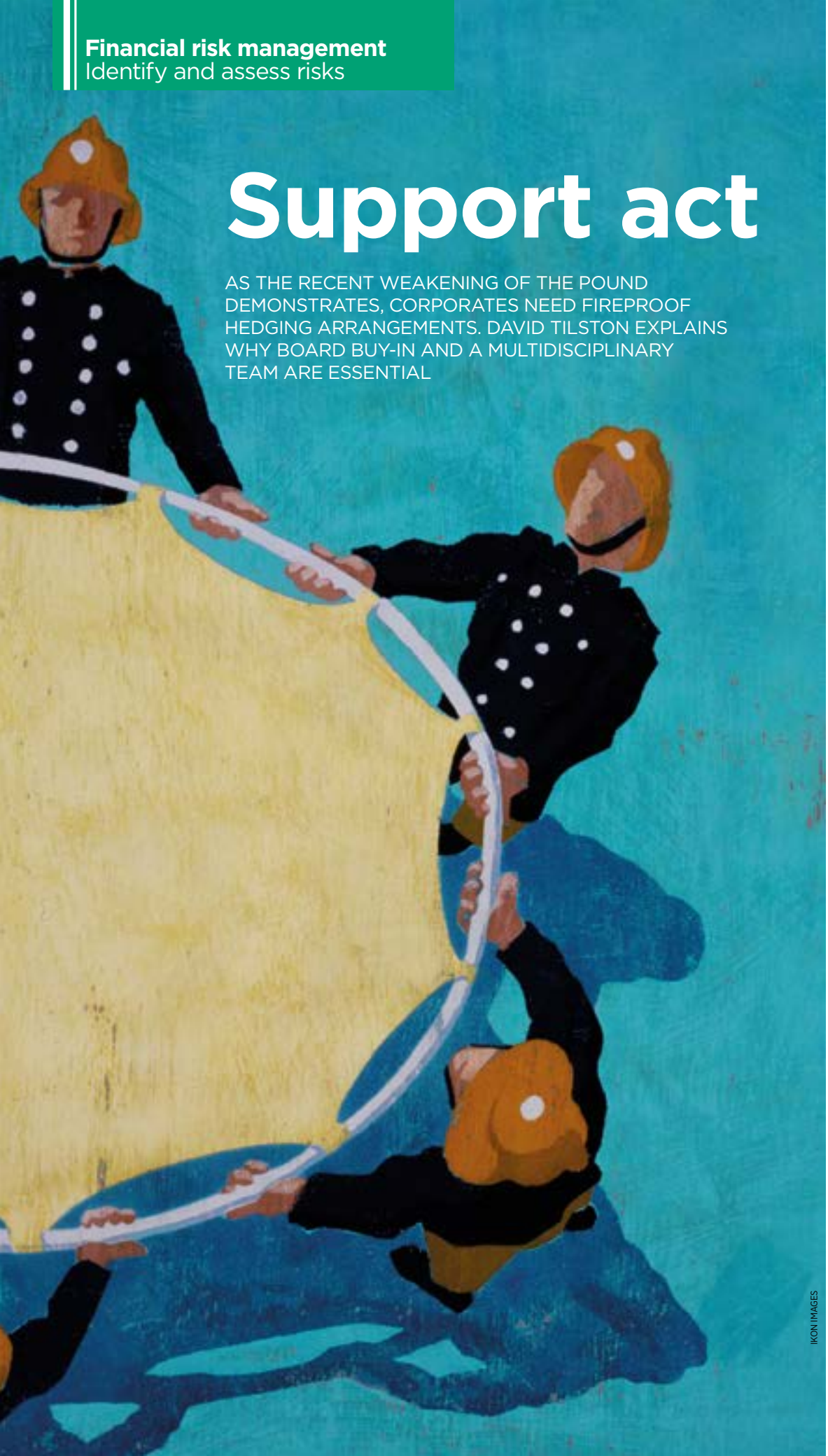


Support act

AS THE RECENT WEAKENING OF THE POUND DEMONSTRATES, CORPORATES NEED FIREPROOF HEDGING ARRANGEMENTS. DAVID TILSTON EXPLAINS WHY BOARD BUY-IN AND A MULTIDISCIPLINARY TEAM ARE ESSENTIAL

IKON IMAGES

No two organisations are exactly alike and, consequently, boards are faced with decisions around hedging policies that are normally bespoke to their circumstances. I set out below some of the companies I have worked for, the differing decisions they have taken and why these were arrived at. I draw some high-level conclusions and also offer some thoughts on implementation.

CASE 1
A UK-based manufacturer with significant exports

At the time, this company's costs were largely denominated in sterling due to its UK manufacturing base. It exported 97% of its sales from the UK and these were denominated in US dollars, euros and yen. It earned healthy margins and enjoyed very long-term relationships with its customer base. Procurement decisions were made by the customers' engineers, who would specify its product. As it supplied a very niche formulation, there were no directly competing suppliers then.

The company had experienced a significant shortfall in profitability due to currency fluctuation issues. The shareholders were very evenly split in their views as to what the management team should do. Half of them believed the company should increase its prices to preserve margins, as the customers had no alternative sources and switching costs would be high. The other half believed that it was very important for the business to preserve its long-term relationships, and that frequently moving prices would jeopardise this.

The board eventually decided that it should hedge a substantial portion of its foreseeable FX exposure out to 15 months ahead so that it

did not need to immediately react to short-term currency fluctuations. This also bought the management team time to decide what the most appropriate commercial response might be to any large currency fluctuations, and also allowed them a significant lead time to communicate with customers as appropriate.

CASE 2
A building materials group

This group primarily consisted of a UK timber importing and wholesaling business (sourcing from Canada, Russia and Sweden) and a builder's merchants chain. The trading dynamics were such that the business was cyclical, driven by housing starts and repair, maintenance and improvement expenditure, and interest rates that were considerably higher than currently. The group had a maximum target gearing level of 40% and, when I joined, they were extremely close to this level.

The hedging policies for transactions were relatively straightforward and related to the import of timber. Pricing within the industry was driven by the purchase price of wholesale supplies translated at spot FX rates. Consequently, we needed to maintain sufficient foreign-currency balances to meet short-term payment obligations, but did not undertake any longer-term hedging (as none of our competitors did).

The group had not previously undertaken any interest rate hedging. The board accepted the argument that rising interest rates caused a decline in trading in our industry leading to lower profitability. Rising interest rates would also increase our interest charge. This meant that our interest cover covenant could be squeezed by a simultaneous fall in profitability combined with higher interest costs when gearing was at a historically high level. Therefore, mitigating some of our covenant risk by introducing some interest rate hedging (we hedged 50% of our interest costs) made sense, and formed the basis of the policy that was ultimately approved.

CASE 3
A private equity-backed business

A private equity- (PE) backed business I was involved with was based in Europe and reported in euros, but also earned strong US dollars and other currency denominated cash flows, which were expected to persist over time. PE shareholders typically aim to exit their investment over a five-year time frame, and we had concerns as to whether adverse currency levels might inhibit a successful exit transaction at the relevant time. Given the dynamics of the debt markets at the time, the group had refinanced its borrowings in euros.

The analysis that the board eventually accepted was that any future sale price would probably be denominated in euros, but negotiated on multiples of EBITDA in the relevant currencies. Consequently, if the US dollar was weak against the euro at the time of the exit, then the sale price achieved was likely to be reduced. The solution was to introduce some US dollar and other currency debt equivalents in the form of cross-currency swaps, broadly in proportion to the relevant currency contributions to overall group EBITDA. This meant that, say, a reduction in value of the US dollar income stream in such a case would be partially offset by the reduction of the US dollar leg of the cross-currency swap, significantly reducing the downside risk (and also upside opportunity due purely to currency rates) of the likely outcome, which was demonstrated by running scenarios at varying extreme FX levels. It similarly reduced the amount of currency-driven upside opportunity, thereby limiting the likely range of possible outcomes.

> An important point is to ensure the key arguments are expressed in a way that the board can understand them

Board conclusions

These three real-life examples highlight the importance of understanding the risks boards tend to be concerned about and a sense of what their appetite is for mitigating such risks. An important point is to ensure the key arguments are expressed in a way that the board can understand them, most obviously in outcomes, rather than the detailed technicalities of any process to be followed, which only those with treasury expertise will grasp.

Management issues

There are a few methods that treasury professionals might like to consider associated with the operation of their treasury policies.

It sometimes helps to have other individuals involved in the management of a treasury policy rather than just the group treasurer and perhaps the CFO. For example, at the UK manufacturer, we formed a currency risk committee, which was chaired by the CEO and included the commercial director as well as the CFO and group treasurer. The benefit of this was that, as the hedging decisions were taken based on our forward trading projections, the CEO and commercial director had input whenever decisions to hedge were taken. This led to a much richer and timely debate around the reliability of the forecasts, and led to better decisions than could have been achieved by the finance function in isolation.

Clear communication to the board of compliance with policies is an essential corporate governance requirement. This should also include an annual review of the policies to ensure they are not based on assumptions that are now out of date due to other corporate developments. Similarly, clear communication to external interested parties, particularly shareholders, of what the policies aim to achieve and what they do not protect against is a valuable precaution, so they understand the group's risk profile.

Finally, internal training for non-finance staff who may encounter currency issues can be valuable. In one project-based organisation, we developed internally a very simple half-day training programme on the management of FX risk. This included a number of theoretical case studies, which we got groups of individuals to work through and discuss. Naturally, each case study was based on a real-life project that had incurred losses within the group, which we could name and quantify, and which everyone could therefore immediately identify with – invaluable when it came to driving the message home.

David Tilston is interim CFO at Consort Medical

BE PREPARED

LAST YEAR, 2.5 MILLION CYBERCRIMES WERE REPORTED IN THE UK ALONE. GILES TAYLOR AND NICK BURGE EXPLAIN WHAT CORPORATE TREASURERS CAN DO TO HELP PROTECT THEIR ORGANISATIONS AGAINST SUCH ATTACKS, AND WHY CYBER RISK IS NO LONGER JUST AN IT ISSUE

SHUTTERSTOCK

The beauty of digital systems is also their weakness. With most businesses going through a digital transformation, led by the deliverable promise of efficiency and lower costs, it is inevitable that more of their processes and customer interactions will pass through an IT-enabled platform.

Data confidentiality, integrity and availability can all be compromised by a cyberattack. Each has the potential to translate into significant financial losses – not least in the form of fines from regulators. What's more, when the EU's General Data Protection Regulation comes into force in 2018, UK businesses will likely face much stiffer regulatory penalties – with the maximum being 4% of global turnover, considerably higher than the current limit of £500,000.

The consequences of a cyberattack stretch far beyond simple financial impairment for business, however. For example, increasing dependence on technology has seen the rise of IT concentration risk. This means that certain industrial sectors have become reliant upon particular technologies.

An increasing number of businesses in industry sectors, such as media, depend on cloud-computing services as their main revenue-generation platforms. Were any of these platforms to be taken offline, the impact on the sector would be devastating, not just on the industry, but also across ancillary services, and other businesses.

Risk ownership

This creates a challenge for a business trying to understand its own risk profile. Amid all its physical and service suppliers, and connections to the outside world, its successful operation is contingent upon the containment of risk by a third party.

Such risk is considerably more difficult to quantify. It follows that if the risk cannot be appropriately quantified, then it becomes difficult for a board to understand the potential impact of a risk event on the business. How then can a business determine the financial consequences and appropriate liquidity and financial arrangements that might be needed following an attack?

Understanding that a business is more reliant on technology does not require management to be fully cognisant of the technicalities of the interconnected world. However, it does require a full grasp of the fact that connectivity generates certain risks, and that these risks, if manifested, can and do impact the bottom line.

The common assumption that if a company's commercial systems are dispersed across multiple locations means it is safe, is misguided. Current levels of integration and connection give attacks so much more reach.

It is essential for the board to incorporate a response to this new style of risk into company strategy. In meeting this need, it is vital to understand that a cyberattack can often be a discreet affair and that the average time it takes for a commercial breach to come to light is over 200 days. By then, it may be too late.

The threat

There are a number of ways in which a business may be attacked. Key among these (accounting for up to 90% of attacks) are the so-called 'phishing' and 'spear phishing' methods.

Phishing uses a blanket email to thousands of recipients (often from stolen email addresses) in the hope that some will click on a link. This allows the target system to be compromised in some way, often by uploading malware that sits in the now infected computer to do the attacker's bidding. This may be to steal data or engage the computer with other similarly compromised machines in a distributed denial-of-service (DDoS) attack, effectively overloading and shutting down a system. This was recently experienced by Amazon and Twitter.

Spear phishing will see a criminal seek out information about an individual, often a more senior company representative, through public sources of data (often just using the internet). The information gleaned will be used to personalise the approach such that it is very believable. Once the content is accessed, the system is open to attack; senior employees are often targeted because it gives access to potentially more valuable data, whether that is for purposes of industrial espionage, extracting money or corporate vandalism.

Be aware, too, that ransomware attacks are on the increase. All sizes of company may be targeted, but often it begins with a DDoS attack, followed by a message that threatens further shutting down of systems unless payment is made to the perpetrator (usually in untraceable Bitcoin).

Rising up the cybercriminal agenda is the concept of the crypto-locker. Entry is typically

via spear phishing. Access to systems will enable the attacker to begin encrypting company data, denying legitimate user access. The ransom note is then delivered, usually threatening further attacks of greater magnitude, and often applying an 'unlocking' price of increasing size as time passes.

The victim's response in each case will be a matter of policy, presuming there is one.

Lloyds Bank's work with TheCityUK, a financial and related professional services membership body, and insurance broker and risk adviser Marsh on its May 2016 document, *Cyber and the City: Making the UK financial and professional services sector more resilient to cyber attack*, evidences how too few firms are tackling the cyberthreat in a cohesive way. Only 50% of large UK firms have cyber in their top 10 risks, only 30% have tried to quantify their cyber exposure and only 25% have a cyber-incident response plan. And until policy is framed, breaches will neither cease nor diminish.

CYBER RISK: BE PREPARED

The following questions may assist your company in becoming more aware of, and protected against, cyberthreats:

1. Have we identified and understood the company's critical information, assets and services? Where are they stored and who has access to them? Consider suppliers, contractors, etc.
2. Have we considered who might want to attack us, why and what the impact of a successful attack might be?
3. Do we have a risk appetite for different types of cyber events impacting our business?
4. Do we know what vulnerabilities we have and do we have an effective and efficient vulnerability management process?
5. Have we risk assessed how well our critical assets are protected and produced a gap analysis?
6. Do we have a prioritised action plan to enhance our capability to protect our business against cyberattacks?
7. Have we ensured our colleagues (and, if appropriate, our clients) are aware of the cyberthreats, especially the risks associated with social engineering and phishing attacks?
8. How do we know our defences work – have we tested them or sought external assurance?
9. Do we have a plan (is our incident response and disaster recovery prepared) in the event of a successful cyberattack? Have we considered taking out adequate cyber-risk insurance cover?
10. Do we have a process to regularly review our key information, data assets and the cyberthreat to our business?

Finally, if your business is the victim of a cybercrime, you should contact Action Fraud (www.actionfraud.police.uk)

The weakest links

Of course, no company is likely to warrant the resources for full protection of every system; the cost will be prohibitive and, in practice, the results will be too restrictive on business processes. In defending an organisation, it is vital to get the basics right for both internal and external assurance.

Governance guidance in the form of Lloyds Bank's 10 key cyber security considerations (see box, above) will help steer business in the right direction. The UK government's *Cyber Essentials* document series also goes some way to preparing the ground.

However it is tackled, the approach is best coordinated through a risk management programme. This must be capable of directing investment to the most important corporate assets: protection of key data is included here, but shielding business-critical systems, such as those for payments, production or logistics, must be part of this plan.

But cybercrime is not just an IT matter: people and processes also sit in the firing line. As a key financial player within a business, the treasurer will be a target. As guardian of banking and payments systems, fraudsters may seek to trick the unwary treasurer into changing or signing off transactions. Emailed last-minute 'urgent' large payment instructions from someone masquerading as the CFO are not unheard of.

Ensuring all personnel – especially senior staff, such as treasurers – are appropriately trained to recognise and deal with a threat is a vital and sometimes final line of defence against significant loss.

More than money

While potentially damaging for a business, fraud is just a part of cybercrime. The loss of systems and data may far exceed the immediate cost of any financially motivated attack. Operational downtime, consequent loss of revenues or other financial impact, reputational damage and loss of trust among customers and shareholders can prove calamitous.

Preparations should focus on ensuring the business can respond financially in the event of a serious attack. This may simply extend to taking out an insurance policy; specialist providers exist in this space. But insurance may not be enough. If an attack is of sufficient magnitude, the lag between attack and settlement of claim may disrupt the working capital position, revenues and even the capital position of the firm. Companies need to estimate the potential financial and liquidity impact of a cyber event. This will include familiarity with the types of attack and thinking through the consequence of a breach on the financial position and factoring this in to modelling the liquidity buffer needed to safeguard the business.

Putting in place and managing the liquidity buffer across the various components of available cash, committed facilities and other forms of liquidity mean that treasurers need to be cognisant of the risk, potential magnitude and duration of various types of cyber breach. This will enable the treasury to play a key role in ensuring resilience.

Action plan

To be truly effective, defence against cybercrime should not be thought of solely in terms of technology. Instead, think of it in terms of an overall business risk management strategy, covering people, processes and systems, and financial resilience.

For companies that are well-prepared, the overall impact of a cyberattack can be significantly reduced.

Nick Burge (pictured left) is head of global corporates structural & regulatory solutions; and **Giles Taylor** (pictured right) is head of data and cyber security at Lloyds Bank Commercial Banking

LLOYDS BANK

BETWEEN A ROCK AND A HARD PLACE

FLOORS IN FLOATING LOAN AGREEMENTS ADD COMPLEXITY AND COST TO RATE HEDGING DECISIONS. PAOLO ESPOSITO AND ZWI SACHO SET OUT THE ACCOUNTING AND ECONOMIC IMPLICATIONS

SHUTTERSTOCK

Floor features in floating loan agreements are nothing new. Today, however, due to the extended low interest rate levels in the eurozone, their presence has become standard, as acknowledged by the Loan Market Association in 2012. Lenders include floors in loan agreements to provide a minimum yield when interest rate levels are depressed, without needing to increase their loan margin. For example, a 1% Libor floor implies that when settings are below the 1% level, a minimum of 1% (plus spread) is payable on the loan. When settings are higher than 1%, the floor has no impact. Unfortunately, these seemingly innocuous terms in loan agreements can have significant and unintended consequences from both economic and accounting standpoints.

Economic impact

For borrowers, floors result in a missed benefit (a cost), since the borrower will not receive the advantage of rates being below the floor. On a €100m loan with four years to maturity, the presence of a 0% Euro Interbank Offered Rate (Euribor) floor results in the company not receiving the benefits from rates being below 0%. Currently, Euribor is expected to be negative for the next four years, such that the 0% floor results in significant cost: more than €900k in missed interest 'savings' over four years. In order to negate the floor, borrowers must purchase a floor from the market – this would cost around €1.5m. Similarly, on a £100m loan with a 1% GBP Libor floor, over the course of four years, the borrower would be missing £1.6m of interest expense benefit, and would need to pay more than £2.3m to repurchase the floor.

As a result of the Brexit referendum, mid- and long-term GBP Libor rates have lowered significantly: approximately 50 basis points (bps) in the immediate aftermath, just to recover almost 25bps in the following months. In August 2016, the Bank of England's Monetary Policy Committee responded by reducing the bank rate to 0.25%, down from the level of 0.5%, which had stayed in place for the past seven years. Even though the governor, Mark Carney, had denied the possibility of rates going negative, the market still considers it a possibility. Financial costs are thus significant for those considering hedging debt with embedded floors, though other challenges remain.

Risk management challenges

Floors create risk management challenges for companies that want to manage their interest rate exposure. Previously, companies would simply enter into a swap in order

Without the ability to apply hedge accounting to the derivatives, companies become exposed to mark-to-market fluctuations in their net income

to remove the volatility of the interest expense on their debt. This allowed them to fix in advance the effective rate of interest payable over time at the swap rate level. Without floors in the underlying loans, this solution was effective in any scenario of interest rates, positive or negative. With a floored loan, vanilla swaps only provide certainty when rates are above the floor. However, when rates are below the strike, the swaps no longer protect the company.

The company, in fact, ends up paying the agreed swap rate *plus* the absolute value of the rate that is below the floor strike. For example, assuming that there is a 0% floor on a Euribor loan, and that the company has hedged with a swap at 0.5%, now that Euribor rates are -0.31%, the company pays an all-in rate of 0.81%. And the more the rates fall, the more the company pays – inverting the risk to the company.

So what's the solution? An obvious solution is to first repurchase the floor, and then hedge with a swap. As we have seen, this comes at a significant price. Fortunately, depending on a specific company's business and risk sensitivities, there are more effective and economic ways of achieving the same result.

Accounting impact

A floor in a floating rate loan is economically equivalent to the borrower selling an option product to the lender. This floor has a market value on day one equivalent to the premium that would be payable to the borrower had it been executed as a standalone derivative.

The fair value of the floor comprises both intrinsic value (the difference between the floor strike and the underlying market rate) and time value (associated with the probability that the underlying index can be below the strike in the future). The accounting for such floors is highly dependent on the standard being applied.

Both IAS 39 and IFRS 9 require companies to consider whether the floor is considered a separable embedded derivative. The floor can be accounted for separately, or 'bifurcated', as an embedded derivative, depending on whether the floor is 'in the money', meaning that the 'market rate of interest' is below the floor strike rate at the inception of the loan. Since both IAS 39 and IFRS 9 do not define the term 'market rate of interest', there are a number of possible interpretations to determine if a floor is in the money from an accounting perspective.

If the floor has been evaluated as being in the money at inception, the borrower would need to bifurcate it from the loan, and then mark the floor to its fair value through profit and loss (P&L) each period. The loan instrument without the floor is then accounted for at amortised cost. While the current value of the floor might not be substantial at inception, its value can change considerably – up or down – resulting in P&L volatility. Furthermore, the ongoing need to value the floor for the entire life of the loan would introduce additional operational cost and complexity to the company.

On the other hand, FRS 102 does not include the concept of embedded derivatives. Therefore, a floating rate loan with an embedded floor would be classified in its entirety as 'basic' and accounted for at amortised cost.

Hedge accounting implications

Companies should consider a number of factors when seeking to apply hedge accounting to hedges of loans with embedded floors. These will depend on the type of derivative instrument used to hedge the interest rate risk and whether or not the floor in the loan has been bifurcated as an embedded derivative.

Borrowers may hedge their interest rate risk by entering into a swap with a purchased floor (known as a compound swap), effectively buying back the floor that was sold in the loan. The compound swap rate is increased by an additional spread to account for the cost of purchasing the floor, rather than making an upfront cash payment for the floor.

Although a compound swap will economically hedge interest rate risk on the loan, the hedge accounting implications of such a strategy need to be carefully considered. The swap rate can be substantially 'off market' as its inception fair value is equal to the premium of the purchased floor. There are various approaches that companies can take to designate such a compound swap for hedge accounting, depending, among other factors, on whether the floor has been bifurcated or not. However, companies should be careful, as any mismatch between the actual derivative and the hedged exposure will likely result in some hedge ineffectiveness over the term of the hedging relationship that will impact net income.

Companies that hedge their risk with standard swaps (without the floor) might not manage to apply hedge accounting due to the mismatch between the hedged risk (with a floor) and the hedge (without a floor). This issue is compounded in the current rate environment, when floors are in the money. Without the ability to apply hedge accounting to the derivatives, companies become exposed to mark-to-market fluctuations in their net income.

In summary, the current market environment creates challenges for corporate treasurers and CFOs looking to hedge their floating rate bank debt. The existence of floors adds complexity to the rate hedging decision at a minimum, and may add cost to both the hedge and the accounting and reporting for the derivatives at a maximum. Companies should attempt to negotiate out such floors in financings early and failing that ensure that all available alternatives are considered by both treasury and accounting in pursuing a hedging strategy.


Paolo Esposito is director of European corporate advisory; and **Zwi Sacho** is director of hedge accounting at Chatham Financial

Chatham Financial

TAKING THE FUNDING PULSE

LARGE CORPORATES STAND TO BENEFIT FROM HIGHLY ATTRACTIVE FUNDING CONDITIONS, ALTHOUGH LONGER-TERM UNCERTAINTIES PERSIST. PAUL WATTERS EXPLAINS

The Brexit vote on 23 June triggered another seismic shock that threatened to knock back the economic recovery in Europe and challenge European integration. So far, however, the economic impact has been surprisingly muted, though uncertainty about the relationship between the UK and Europe presents clear downside risks for growth in the longer run. In contrast, the financial markets have been very volatile.

For fixed income, buoyed by the Bank of England's (BoE's) aggressive monetary easing in early August, we saw long-term gilt yields fall sharply to historic lows, before concerns over the possibility of a hard Brexit caused a further lurch down in sterling (see chart 1, opposite), sending gilt yields back towards pre-referendum levels and supporting the equity market. Moreover, long-term real yields in the gilt market fell to zero, which we've never seen with inflation so low (see chart 2). This speaks to the level of concern over the strength of disinflationary forces in the economy.

A relative sweet spot

This also resonates from the corporate perspective. Speaking in an ACT webinar on funding conditions, Neil Garrod, group treasury director at Vodafone, said: "Operationally, we've not seen a hit to profitability from the Brexit vote so far because, from our point of view, nothing has really changed."

But from a financing viewpoint, conditions are good for lenders and even better for borrowers. Banks are borrowing very cheaply and are still generating good returns, given the still attractive level of credit spreads in the market. Borrowers able to tap into the capital markets are locking in low, long-term yields, helped in part by the BoE's launch of the Corporate Bond Purchase Scheme. Those reliant on banks for funding are finding that they are competing quite aggressively for lending at present.

SHUTTERSTOCK

Low rates: symptom or cause?

A subject of debate in the market are the reasons for the decline in gilt yields, in what appears to be a long-term structural trend over the past 20 to 30 years. Are low yields the symptom of a deeper problem or are central banks' unorthodox monetary policies stoking an asset bubble? While there is a cyclical element to the fall in long-term yields in response to low headline inflation caused by weak commodity prices, we believe structural factors are playing a bigger role. Whether it is an ageing population, low productivity, lack of investment or a global savings glut, the result is the same: growth in Europe (particularly for the eurozone) is likely to remain subdued, with short rates and long yields stuck at low levels for a considerable period.

"Low, flatter yield curves for longer are what we are expecting," said Garrod. "Since the end of Bretton Woods and the gold standard, debt has gone up exponentially, and rates have gone down to support that level of debt. Today's flatness of the yield curve extending 20 years, combined with the absence of inflationary concerns, is phenomenal."

Larger, better-rated corporates with access to long-dated money can eliminate

> Operationally, we've not seen a hit to profitability from the Brexit vote so far because nothing has really changed

the rollover risk and invest in long-term projects with certainty. Small and midsize enterprises that are the growth engines of Europe are more restricted. If they are looking to fund a project for 20 years, they may only be able to access five-year money, which means effectively rolling over the financing three times over the life of the projects.

"With rates so low, how can you be confident that you will be able to roll over at current levels?" Garrod asked. "I'm not sure whether the BoE's interest rate policy is slightly counterproductive, but it's making it quite difficult to evaluate investment projects from a financing perspective."

M&A: an area to watch

On the supply side, there's no shortage of bank lending for investment-grade corporates in most sectors, except where banks carry concentrated risks, such as in shipping, or where sector performance has been under pressure, for instance in energy and natural resources.

"M&A is one key area to watch, because low rates are certainly acting as an inducement, and banks are keen for such transactions because of the healthy fees they generate," said Garrod. And there are signs of that happening, with Bayer agreeing to buy Monsanto for $66bn in October. This deal relies heavily on debt financing – with potential negative rating implications – with banks more than willing to provide bridge financing.

Red-hot conditions for spec-grade corporates

And that plentiful supply of bank finance even stretches into leveraged finance – speculative-grade loans – conditions continue to be red hot. We're seeing enormous lending appetite from both banks and institutional investors that is outpacing the supply of primary deals. The bulk of refinancing has been carried out, so much of the current activity is focused on capturing lower credit spreads.

There is a logic in banks going down the credit curve: isn't that where banks should be, ultimately? With bank lending now being more capital-intensive, it makes sense for larger investment-grade corporates to seek term financing through the credit markets and other routes.

Even so, access for small and midsize corporates has in other ways loosened up from just a few years ago, in Garrod's view, with the development of the private placement market and especially the direct lending market. There are about 70 alternative lenders in Europe, providing upwards of €16-22bn a year in the region.

Regarding credit prospects in the near term, until Article 50 is triggered in March 2017, it's largely business as usual in the UK. However, given what's happened in the financial markets, multinationals, exporters and companies dependent on inbound tourism are better protected than domestic companies, which are likely to face headwinds. Also, consumers' real disposable incomes are likely to get squeezed as the cost of oil and other imported products rise, following the sharp fall in sterling since the 23 June referendum.

More broadly, at a macroeconomic level, the outlook for inflation is certainly not yet a concern. To get rid of Europe's debt pile, central banks are trying to engineer a step-up in the actual level of inflation, which still seems some way off. In combination, higher real growth and a sustained pick-up in inflation would be an effective way to reduce the burden of debt. But it's a tricky thing to achieve. Until that happens, low interest rates and an extended credit cycle seem likely to persist.

Regional and global risks

At S&P Global, the idea that low interest rates are here for the longer run are one of the key global and regional risks that concern us. The global and regional risks to corporate credit that we are tracking not only include additional bouts of credit market volatility, but also geopolitical and political routs.

These risks could destabilise the credit outlook in Europe, not least because key elections in France and Germany next year could stoke up populism, diverting attention away from measures required to support further economic and political integration in the region. There is also the elevated risk that a disorderly deleveraging of China's outsized and growing corporate debt burden could upend heavy global industries suffering from overinvestment, much of which is China-facing. That's a cloud that will be hanging over us for quite a long time.

CHART 1: STERLING WEAKNESS BUOYS FTSE 100 SINCE THE BREXIT VOTE

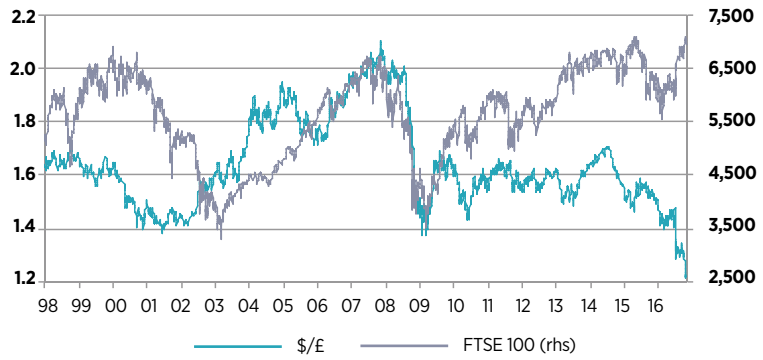
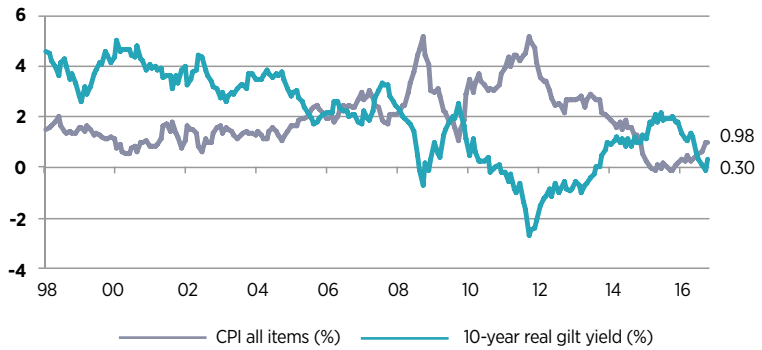


CHART 2: REAL YIELDS PLUMMETED AS HEADLINE INFLATION STABILISES



Source: S&P Capital IQ. For illustrative purposes only

This article is based on a webinar produced by the ACT that took place on 29 September 2016, with Paul Watters, head of corporate research in Europe at S&P Global Ratings, and Neil Garrod, group treasury director at Vodafone. The comments from Garrod are his own and do not necessarily reflect the views of S&P Global Ratings.

This article can be found on RatingsDirect® on the S&P Capital IQ platform.

Paul Watters FCT
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S&P Global Ratings

IN SEARCH OF YIELD

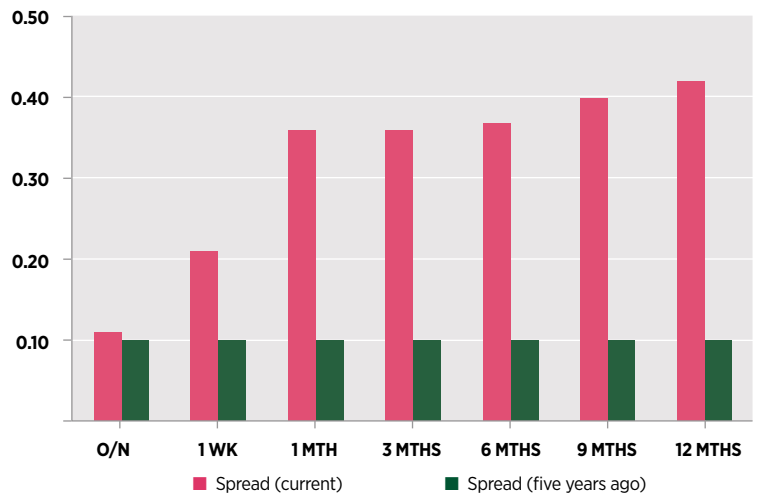
REGULATION CONTINUES TO EXERT PRESSURE ON MONEY MARKET FUNDS. ROBERT O'RIORDAN ARGUES GOVERNMENT LIQUIDITY FUNDS CAN ACHIEVE YIELDS COMPARABLE TO PRIME MONEY MARKET FUNDS

As the weight of regulation bears down on banks, treasurers are working with asset managers to circumvent banks to access counterparties that were once out of their reach. At Insight, we believe bank disintermediation will have a profound impact on how treasurers invest their cash going forward.

Regulatory headwinds

The regulatory environment has undergone significant changes since the global financial crisis. While it is affecting cash investors and banks in different ways, both parties are feeling the squeeze. Basel III, which sets out to reform how banks approach capital and liquidity, is having a noticeable impact on banks' appetite for short-term cash. Where banks are accepting short-term cash investments, a lower yield is usually offered to cover the cost of the new capital requirements required by the regulation.

FIGURE 1: STRUCTURAL SHIFT IN REPO SPREADS AS BASEL III HAS CAUSED BANK REPO SPREADS TO WIDEN



SOURCE: INSIGHT INVESTMENT AS AT 19 AUGUST 2016. CURRENT RATES PROVIDED BY ONE BANK COUNTERPARTY, WHICH INSIGHT DEEMS TO BE REPRESENTATIVE OF SPREADS AVAILABLE ACROSS THE MARKET. FOR ILLUSTRATIVE PURPOSES

Treasurers have increasingly turned to prime money market funds (MMFs) as an alternative to bank deposits. But prime funds themselves are facing regulatory headwinds, causing investors to reconsider their long-term viability. In the US, since the implementation of new MMF regulations in October of this year, prime funds have converted to variable net asset values (NAVs) causing $1 trillion of assets to switch out of them into government MMFs, which have maintained a constant NAV. In Europe, MMF regulation is being finalised and is expected to be issued in early 2017. The seismic shift out of prime funds in the US has meant that many sterling investors are keeping a close eye on the European regulations and are considering their options.

The silver lining

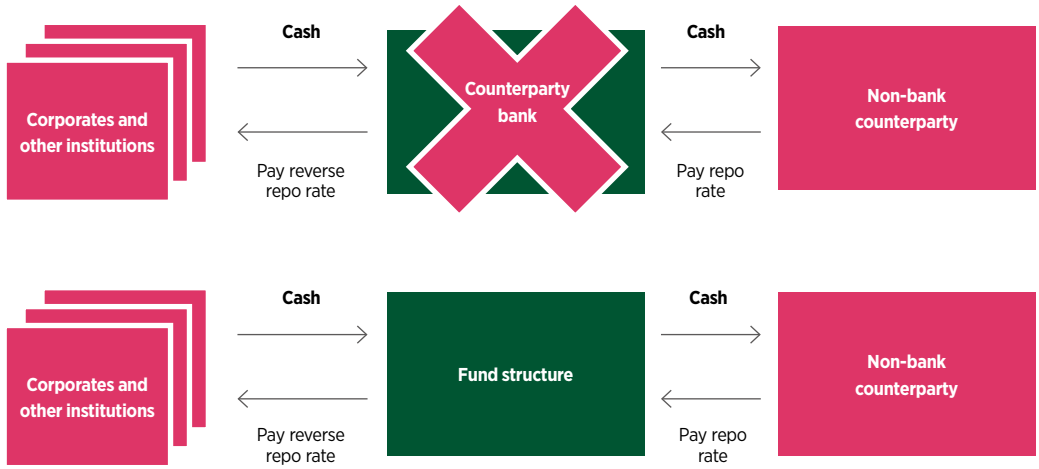
Inefficiencies caused by bank regulation are opening up new avenues for cash investors that have historically not been available. By working with asset managers to disintermediate banks, treasurers have been given the opportunity to transact directly with non-bank counterparties, often for the first time.

This is particularly prevalent in the bank repo market where banks sit in the middle between cash investors and cash borrowers. The banks take a spread between the interest they pay cash investors (the reverse repo rate) and the interest they receive from cash borrowers (the repo rate). As a result of Basel III, banks have to hold more capital against their gross repo books leading to a significant widening of bank repo spreads. To put this in context, over the past five years the bank spread for gilt repos has increased from levels of 5-10 bps to as much as 40 bps where it stands today (see Figure 1, opposite).

It is increasingly possible for treasurers to go directly to cash borrowers, thus avoiding the large repo spread bank regulation is causing. Many of these non-bank counterparties offer gilts as security for the cash they borrow giving treasurers the security they desire for a yield enhancement over what they would receive if they went directly to a bank.

Moreover, bank disintermediation built into a MMF structure offers investors a more straightforward solution that potentially holds additional benefits (see Figure 2, above).

FIGURE 2: BANK DISINTERMEDIATION OFFERS INVESTORS A MORE STRAIGHTFORWARD SOLUTION



Gilt security with an enhanced yield and daily liquidity

The highest form of security for sterling cash holders is gilts; however, the pervasive low-yield environment has deterred many investors. By circumventing the banks and going directly to their counterparties, treasurers could potentially experience a significant uptick in yield for the same security. In a MMF structure investors have the added benefit of having daily access to their cash, instead of being locked in to term contracts.

Diversification away from banks

There are not many avenues available to treasurers to diversify their cash away from banks. Considering the volatility in the sector, treasurers are increasingly turning their focus to reducing bank risk. Investing in a fund that diversifies away from banks goes some way to achieving this objective.

Future-proofing MMF regulation

Under the proposed European MMF regulations, funds that invest 99.5% in government debt securities can maintain a constant NAV. Historically, investors have shied away from investing in government MMFs due to the low yields they typically offer. Under the new structure of bank disintermediation, government liquidity funds with non-bank counterparties seek to achieve yields comparable to prime MMFs while still maintaining a constant NAV.

Treasurers seeking gilt security could find significant advantages investing directly through non-bank counterparties as they are not subject to the regulation set out by Basel III and so are better placed to offer improved yields to cash investors. Non-bank counterparties also diversify bank risk for cash investors, insulating them from volatility in the banking sector. In a MMF structure, treasurers can maintain a constant NAV while retaining the daily liquidity they require.

At Insight, we have been working with treasurers to give them access to non-bank counterparties, seeking to increase security on cash investments, enhance diversification and maintain yield.

Inefficiencies caused by bank regulation are opening up new avenues for cash investors

Robert O'Riordan is institutional business development director at Insight Investment

Insight INVESTMENT

The hardest word

IN LIFE AND BUSINESS WE OFTEN SAY YES WHEN WE'D RATHER SAY NO. CHRIS MERRINGTON EXPLAINS THE BENEFITS AND SHARES SOME STRATEGIES ON HOW TO SAY NO WHEN APPROPRIATE

You are sitting in a restaurant and the waiter or waitress asks "is everything all right?" Even if things aren't all right, many of us will say that they are, and then turn to our dining companion to explain what it is that we're not happy about – be it the food or the service. Why do we do that? Why didn't we tell the truth to the waiter? Is it because we can't be bothered, we're avoiding confrontation or is it perhaps because we don't want to embarrass ourselves or our companion?

In my workshops with senior teams I find many individuals are people pleasers. It's as if we are wired to always say yes. We may have been conditioned from an early age that saying no is rude, unfriendly or unhelpful. Yet our ability to say no is a critical part of being assertive, as well as essential to effective negotiating and simply leading an assertive life and career. Many of us feel guilty saying no. We need to bear in mind that saying no doesn't make us a bad person. Sometimes we need to prioritise our needs over others. It's not that we are being selfish.

Of course, there are some people who will use tactics to make it really hard for us to say no so that we end up saying yes to them. Examples of such tactics include whining, bullying, guilt and compliments. History is littered with the results of these tactics. However, as financier Warren Buffett said: "What we learn from history is that people don't learn from history."

What's the problem with always answering yes? The danger is it will set a precedent. If it's something we don't want to do, because we've said yes, it's likely we end up doing it begrudgingly. Saying yes to everything tends to reduce other people's respect for us. Once they think you're a pushover, the very real danger is that they will always think of you that way. When you do say no, often there is a power shift towards you. How much is your 'yes' costing you?

We shouldn't underestimate the importance of this skill. There are times when we need to say no to ensure our businesses adhere to ethical or professional guidelines. The ability to say no to something that looks like a business opportunity, but in fact leaves us exposed from a corporate governance perspective, could hardly be more important.

Mindset and confidence

Dove, the toiletries brand, produced a film on YouTube where it labelled two adjacent doors into a department store. One sign said 'Average', the other said 'Beautiful'. In the film, some people are very clear about which to use, others pause and can't decide. I wonder if this is about our how we see ourselves, or perhaps our concerns about how others see us. How we see ourselves is a fundamental part of our mindset and confidence. The right mindset in business is vital. Confidence is vital in business. Which door would you go through?

Surely we all have the power to say no? If a customer is trying to drive your price down, do you hold your price, do you drop your price or do you propose another solution? No ifs, no buts: if the customer doesn't have the budget, then offer a lower priced alternative, or take out some value. As if by magic, the customer often finds the extra money.

Sometimes, a client will walk away. There's always that risk. That's business and we need to be prepared to lose on occasion. Not all clients will be able to afford our price and we shouldn't try to appeal to everyone or go for the lowest common denominator. Marks & Spencer shouldn't try to appeal to Lidl or Aldi customers. Which are you in your marketplace? There is no right or wrong – it's about knowing who your customers are. Your price needs to reflect your worth or your value.

Here are seven tips to help you become more comfortable saying no:

1. If no is the appropriate answer, say it assertively in a clear and direct voice. Stay calm. Be assertive with the right body language and say it without apology, please. Explain why if it's appropriate. Give alternatives if relevant.

> Many of us feel guilty saying no. We need to bear in mind that saying no doesn't make us a bad person. We need to prioritise our needs over others

IKON IMAGES

Anticipate what the other party might say and plan your response in advance. You could also pre-empt their response and head it off beforehand.

2. Ensure you have the right relationship with the people you deal with, including clients and customers. You need a peer-to-peer relationship based on respect, not a buyer-supplier relationship, which is transactional. Saying no can be very hard in emotional or personal relationships, such as in the case of a parent saying no to their child. Sometimes, however, we need to exercise 'tough love'. We say no, because doing so is the right thing to do long term – as opposed to saying yes in the interests of securing a quiet life.
3. Follow your instincts if you believe saying yes to a request might compromise you or your business from an ethical, legal or professional standpoint.
4. Have the right mindset based on confidence and knowing what you provide is excellent. Be clear what's in your sweet spot and what isn't. Concentrate on what you'll be brilliant at, not what you'll be average at. One danger of taking on work or saying yes outside our sweet spot is that you may even compromise the reputation of what you're brilliant at.
5. Providing different options can be a great strategy. Giving gold, silver, bronze options are psychologically powerful. The person you're dealing with then ends up weighing up 'which' rather than 'whether'. If two bottles of wine are offered, typically around two-thirds of us choose the cheapest one. If another, higher-priced, bottle is introduced into the mix, roughly two-thirds will choose the middle-priced option. That's not about the wine, but the context.
6. Next time colleagues or clients ask you to do something you aren't happy about, give them a positive no: "I can't do that, but I can do this." A positive no is collaborative and cooperative, while you also avoid doing something you don't want to do. For example, "I can't do it for tomorrow due to a heavy workload, but I can do it for next week."
7. Qualify opportunities hard and fast. Beware of being sucked into (or should that be 'suckered into'?) opportunities. After the first, or at worst, second meeting with a new prospect, explain to the client or prospect there is now a development fee going forward. Do not give away too much free consultancy, product or service. A taster only.

In short, don't assume that once you say yes to something, all will be well. The business of business is business. Commercial realism needs to be second nature – as does your professionalism. So next time you find yourself about to say yes when you really want to say no, be brave, be courageous and be prepared for what may happen next.

Chris Merrington is an author, consultant and trainer with Spring 80:20

The difference between you and me...

UNDERSTANDING THE INTROVERT/EXTROVERT DISTINCTION IS FUNDAMENTAL TO GOOD MANAGEMENT. YET TOO FEW OF US FAMILIARISE OURSELVES WITH PERSONALITY TRAITS. VANESSA HARWOOD-WHITCHER DELVES INTO THE DETAIL

In September's *The Treasurer*, I wrote about the perfect storm brewing for treasurers where the skills demanded by employers are becoming much broader, with a particular emphasis on the need for strategic influencing skills.

This article explores some well-known personality types and looks at how they impact the way that treasurers communicate, influence and behave in the workplace.

The introvert/extrovert myth

Many people, when asked to describe introverts and extroverts, describe a very narrow view of both personality types. Usually extroverts are described as the kind of people you'd find at a party, dancing on the tables and being very noisy, while introverts would prefer not to be at the party at all, and if they really had to go, they'd be quietly sitting in the corner thinking what idiots the extroverts at the party were.

There is some element of truth in these descriptions, but in reality, being an introvert or extrovert is much more complex and subtle than this.

As employees, we are often asked to go through personality tests at work. Many of these are based on Carl Jung's studies of personality, with some of the more common ones being Myers-Briggs and 16PF. All will highlight the person's preferences towards intro- or extroversion, but what does that actually mean?

Introverts and extroverts clearly relate to the world in very different ways. In any management role, it is important to consider our own preferences as well as those of our teams and peers. Understanding how people relate to the world can give real insight into why people behave in certain ways and say the things they do.

Research varies on the proportion of introverts to extroverts in society, with the split ranging from 50:50 to one third introverts to two thirds extroverts. When asked which personality type it was better to be, people will generally cite being an extrovert as better.[1]

Much of this favouring of extrovertism comes down to our perception that being sociable, and therefore popular, is important right from school age. Western business culture also tends to praise and exemplify extrovert behaviours over introvert behaviours. For example, people who are decisive or can work in a team or have confidence to lead (all extrovert behaviours) are likely to be the ones who get noticed and promoted.

> Introverts and extroverts clearly relate to the world in very different ways

But is that really right? The flip side of that decisive, people-orientated leader is an individual who might make decisions without weighing them up properly and tend to be so dominant and overconfident that they railroad people rather than lead them. The point here is that both personality types are equally important and to favour one style of behaviour over the other is a mistake.

Susan Cain, who wrote *Quiet: The Power of Introverts in a World That Can't Stop Talking*, explores this obsession with extroverted behaviour and makes a strong case for the contribution of the introvert. She talks about the current trend for 'group think' in business, which favours extroverts' ability to have quick, vocal thoughts. She explains, however, that introverts have their place in creativity, but need to be given independent time and space for thoughts and ideas to evolve. Indeed, research has shown a direct link between solitude and the ability to be creative.

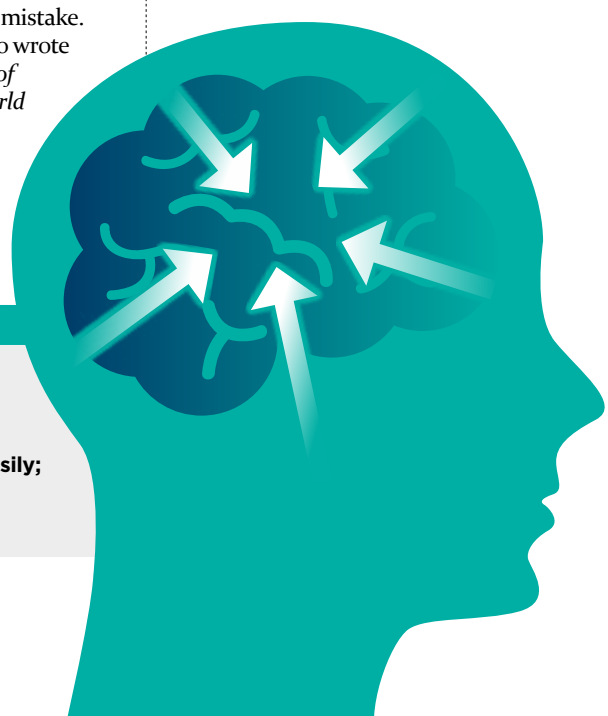
Influencing depending on your style

Treasurers' roles demand a high level of influencing skills, not only with internal stakeholders, the board and senior management, but also with external relationships with the markets, banks and investors.

When it comes to influencing skills, treasurers need to think about how they can affect the behaviours and actions of others in order to meet a certain objective or agreement.

INTROVERTS:

- ✔ **Are energised by their inner world;**
- ✔ **Will reflect on things before acting;**
- ✔ **Prefer to work independently;**
- ✔ **Are quiet in nature and won't do small talk easily;**
- ✔ **Prefer writing to speaking; and**
- ✔ **Like depth in thinking and discussions.**



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To be able to influence successfully, treasurers need to:

- Listen to and understand others;
- Build rapport;
- Choose appropriate times to be assertive;
- Handle objections;
- Be able to back up their arguments;
- Communicate effectively; and
- Negotiate and/or know when to compromise.

It is really important to understand influencing styles in any business discussions. Not only is it important that the influencer understands their own style, but also that they understand that of the person or people they are working with. Flexibility is key in adjusting communication styles depending on the circumstances.

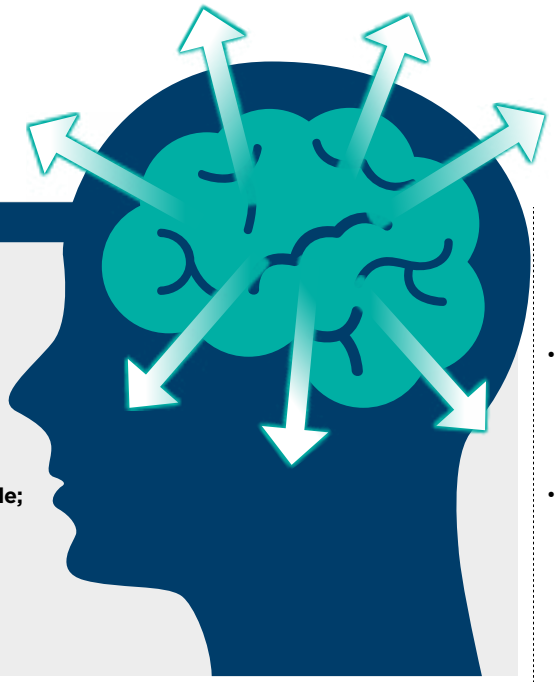
Influencing as an extrovert

Firstly, remember that not everyone being negotiated will be an extrovert, so being aware of your blind side is important. The person sitting across the desk from you could be an introvert and be picking up on all of the extrovert's annoying traits.

On the positive side, extroverts are generally comfortable in social situations, even tough ones, and are responsive to others, which helps them build rapport quickly. They are generally proactive in building relationships, have good communication skills and will happily take the lead in negotiations. They tend to be decisive and can think on their feet, which means negotiations will be open and flexible.

EXTROVERTS:

- ✔ **Are energised by being with others;**
- ✔ **Will talk their thoughts out loud to aid thinking;**
- ✔ **Tend to be spontaneous: act first, think later;**
- ✔ **Know a lot of people;**
- ✔ **Like working in teams/groups; and**
- ✔ **Like breadth in thinking and discussions.**



These traits have downsides, of course. We need to be aware that extroverts can be seen as overconfident, loud or pushy. They can look shallow, or even insincere, if relationships are formed too quickly. In negotiating situations they can come across as aggressive and they may overlook negotiating positions in their haste to promote their own agenda. Finally, there can be a tendency in extroverts to take decisions too quickly.

Influencing as an introvert

As with extroverts above, introverts need to be aware of their strengths and blind spots, and remember that the person they may be trying to influence might not be the same as them.

On the positive side, introverts will be well prepared for discussions and calm and methodical in communicating their agenda. They tend to be even-tempered and less likely to get rattled under pressure. They tend to be reliable and will follow through on their position. They are likely to come up with creative solutions to problems encountered and can back up ideas with detail.

The flip side of these qualities include the fact they may over-prepare, only to find themselves wrong-footed by a left-field comment or idea they hadn't anticipated. They can come over as calculating or unemotional and may also seem reserved and perhaps trying to hide something, a factor that can lead to mistrust in negotiations. Their reliability can make them predictable, which may, in turn, limit their influence. And they may take too long to get to ideas, losing the opportunity to use them at the right moment.

Putting it altogether

Now that the positives and negatives of each personality style have been explored, it is important to revisit how treasurers can become true strategic influencers in their organisations.

The key to this is self-awareness. Most people will say that they know what makes them tick as individuals, but this isn't always the case. All of us have blind spots, after all.

Use the following as a checklist to help you develop your sense of self-awareness, so the next time you need to influence something important, you will be ready:

- Keep an open mind – remember that not everyone is the same. And if they are different to you, value the difference, as it may just make up for your own shortfalls.
- Know your personality profiles. Take an online test or get feedback from colleagues – how do they perceive you?
- Take time to reflect on what impact your style has on situations (but not too long, introverts!). Think of a recent situation that really mattered; what went well and what could you have done differently?
- Know what pushes your buttons emotionally – is that quiet reflector driving you crazy because they never talk to you? Be mindful of how you react to them and how it changes your behaviour.
- Set yourself some personal goals – if you know that you never let anyone else speak because your ideas are the quickest and the best, just try listening and see what happens.
- Visit the ACT's Career Hub where there are a range of videos and e-learning, as well as a personality test to try out.

Being introvert or extrovert is neither right nor wrong: they are just different. Valuing these differences and flexing communication styles accordingly can work wonders in business. Who knows, it could lead you to a whole new place.

1 www.bbc.co.uk/news/magazine-17510163

It is important to revisit how treasurers can become strategic influencers in their organisations

Vanessa Harwood-Whitcher is the ACT's director of professional standards and learning

TO EFFECTIVENESS AND BEYOND

EFFECTIVE ANNUAL RATES ARE ESSENTIAL FOUNDATIONS FOR TREASURY DECISION-MAKING. DOUG WILLIAMSON SHOWS HOW TO ESTABLISH THESE RATES SOUNDLY, AND BUILD ON THEM

Treasurers often need to evaluate alternative investments or borrowings. To make the best decisions, we need to make alternatives properly comparable. Headline interest rates are important, but they don't tell the whole story.

How much and how often

Two key numbers treasurers always need are:
1. The nominal annual rate of interest (R); and
2. How often the interest is compounded per year (n).

The frequency of the interest can have a significant impact on the value of the deal. Let's see how this works, with a practical example.

Once per year

Say we're in the happy position of having £100m to deposit, for 12 months. The first deal we look at pays 6% per annum, compounded once per year. This means the interest is calculated and added to the balance once only, at the end of the 12-month period.

Interest and effective annual rate (EAR)

We invest our £100m. The amount of interest is:

100 x 0.06 = £6m

The whole £6m is paid at the end of the 12-month period.

The EAR is the total accumulated interest, divided by the initial investment. In this case:

£6m / £100m = 6%

A better deal?

Now we find a similar 6% deal, with one important difference. The compounding frequency will be greater. Interest will be calculated and added twice per year (n = 2).

The nominal annual rate (R) is still 6%, the same as for the first deal.

Periodic interest rate (r)

The periodic interest rate per six months is now:

r = R / n
= 6% / 2 = 0.03 per six months

Half as much, twice as often

Previously, we were getting 6% at the end of 12 months. Now, we'll receive 3% every six months.

It's always beneficial to receive money earlier. In this case, we get half our interest six months early. Can we quantify this timing benefit? Happily, we can.

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How much better?

The EAR puts a number on the benefit of the timing (n), combined with any differences in nominal annual rates (R). We will often be weighing up a better EAR against greater risks or other costs.

Treasurers use EAR evaluations both for investments and for borrowings. We'll continue to focus on investments, but the principles are exactly the same for borrowings.

EAR definition

EAR usefully benchmarks the rates on different investments, on a standardised comparable basis.

The EAR is the equivalent rate of interest paid and compounded annually, which would give the same result as the deal we're considering.

EAR assumptions

The definition of EAR makes two important assumptions:

(1) Intermediate interest is reinvested; and
(2) The rate on the reinvested interest is the same as the rate on the original deal.

Let's investigate, using an example based on a recent exam question.

Compound interest

Based on compound interest, your organisation deposits £100m at a periodic interest rate of 3% per six months, for a total of 12 months.

Calculate:
(a) The balances at the end of each six-month period;
(b) The total interest earned in the 12 months; and
(c) The effective annual rate.

Based on CertTF 2016 question

(a) Balances: interest on interest

The key to understanding this question is to recognise there is interest on interest. We assume the periodic interest is rolled up within the investment.

Interest rolling up

£m	Pd1	Pd2
Opening	100	103.00
+ Interest at 3%	3	3.09
= Closing	**103**	**106.09**

(b) Total interest

The total accumulated interest for the year is:

106.09 – 100 = **£6.09m**

(c) Effective annual rate

To make deals comparable, it's useful to express this accumulated total interest as an annual percentage.

6.09 / 100 = **6.09%**

Why it's more than 6%

The EAR of 6.09% exceeds the nominal annual rate (R) of 6%, by 0.09%. This is because of the interest on interest assumed in the EAR definition:

3% x 3% = **0.09%**

HELP FOR ACT STUDENTS

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

EAR formula

We can also work out the EAR with a formula:

$EAR = (1 + r)^n - 1$

Where:
r = periodic interest rate
n = number of compounding periods per year

Applying the formula

r = 0.03 per six months; n = 2
$EAR = 1.03^2 - 1$
= **6.09%**, the same answer as we got before

The greater the EAR, the better the rate of income we enjoy.

Let's try increasing the compounding frequency again, and see if we get a further improvement.

Quarterly interest

Your organisation deposits £100m at a nominal annual interest rate of 6%. Interest is calculated and added to the rolled-up balance every quarter.

Calculate:
(a) The effective annual rate; and
(b) The total interest earned for the 12 months.

Based on CertT 2016 question

(a) EAR = $(1 + r)^n - 1$

R = 0.06; n = 4
r = 0.06 / 4 = 0.015
$EAR = 1.015^4 - 1$
= **6.14%** (to the nearest 0.01%)

(b) Total interest for year

This is the initial investment multiplied by the EAR:

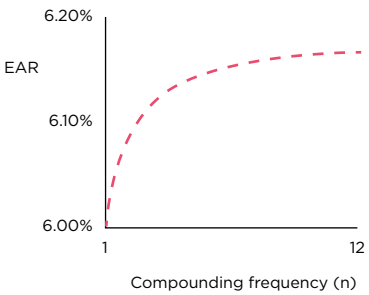
100 x 0.0614 = **£6.14m**

That's even better than the £6.09m we enjoyed with six-monthly compounding.

Even more often

If we continue our calculations, increasing the compounding frequency even more, we see a clear pattern. The more often the interest is compounded, the greater the EAR becomes.

Greater (n) = greater EAR



If the alternatives being compared were identical in all other ways, we would normally choose the one with the best EAR.

Best choices

However, the best EAR won't necessarily be the best deal overall. We need to consider other factors, beyond EAR. These important factors include risk, liquidity, flexibility, maturity and treasury policy. For example, higher risk investments are often prohibited.

The greater any financial stresses or other constraints, the more risk averse our approach will be. To make the best choices, we must master EAR, and then go beyond it.

With many thanks to Paul Cowdell for his valued advice.

Doug Williamson is a treasury and finance coach

TREASURY IN WONDERLAND

Alice's adventures began when she woke up from a dream that wasn't...

"Curiouser and curiouser," said Alice the corporate treasurer. "Leicester City won the football game, Great Britain decided to leave its European friends and now this: Mr Trump is to be the next President of America! There's no use trying to hedge. One can't believe so many impossible things!"

"I daresay you haven't had much practice," said the Red Queen of the Boardroom. "When I was younger, I always did it for half an hour a day. Why, sometimes I've believed as many as six impossible things before breakfast."

"But Mr Trump has said such beastly things!" said Alice.

"When I use a word," said Trumpty Dumpty in a rather scornful tone, "it means just what I choose it to mean. Neither more, nor less."

"The question is, whether you can make words mean so many different things," said Alice.

"The question is," said Trumpty Dumpty, "which is to be master? That's all."

Just then, Tweedledum and Tweedledee came out the woods and agreed to have a battle. "The markets are going up!" said Tweedledum.

"The markets are going down!" said Tweedledee.

Alice the corporate treasurer did not like to see or hear such upsetting tussles. "I was thinking," said Alice, "which is the best way out of here?"

Tweedledum and Tweedledee did not interrupt their quarrel, but agreed to carry on with it until 6 o'clock and then have dinner. A grinning Cheshire consultant came up to Alice the corporate treasurer and said, "That depends a good deal on where you want to get to."

"I don't much care where," said Alice.

"Then it doesn't matter which way you go," said the consultant.

"So long as I get somewhere," added Alice.

Alice began to run. As she ran away from the consultant, she noticed he had completely disappeared, apart from his grin. She ran and ran and ran. "Faster! Faster!" shouted the Red Queen of the Boardroom as she took Alice by the hand. But Alice the corporate treasurer felt she could not go any faster. And, most curious of all, nothing seemed to change – however fast she went, she never passed anything at all.

"Are we nearly there?" asked Alice, as she continued to run.

"Nearly there?" replied the Red Queen of the Boardroom. "We passed it 10 minutes ago! Faster!"

"But we've been under this tree the whole time!" said Alice. "Everything is just as it was!"

"Today, you see, it takes all the running you can do just to stay still," said the Queen. "If you want to get somewhere else, you must run at least twice as fast as that!"

This all seemed quite mad to Alice. "Mad! We're all mad here," said the Cheshire consultant, who had reappeared from nowhere. "I'm mad, you're mad!"

"How do you know I'm mad?" asked Alice.

"You must be," said the consultant. "Or you wouldn't have come here."

And then Alice the corporate treasurer saw the most curious sight she ever did see. Trumpty Dumpty was building a wall.

"Is that a good idea?" she asked. "I fear you'll have a great fall!"

SHUTTERSTOCK

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

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The highlights of the December 2016/January 2017 issue of *The Treasurer* include: Amanda Bradley, director of risk & strategy, audit & assurance at GSK, on how a treasury background has benefited her career, on page 20. Treasurers share their views on what corporates might face in 2017, on page 24. How organisations can help to protect themselves against cyber attacks, on page 32. Strategies on how to say no when appropriate in business, on page 40