EMAIL MANAGEMENT
Get it under control so it doesn't control you

ROGUE TRADERS
How to spot the tell-tale signs of a lone wolf

THE GREAT BAILOUT MYTH
Why government-led rescues may only have made things worse

The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ DECEMBER 2015/JANUARY 2016

Credit ratings, interest rates, commodities – treasurers look up from their desks to talk about the year ahead

PLUS

RICHARD ABIGAIL
Group treasurer at Arup on why solid treasury principles are the order of the day at the design engineering consultancy

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ACT

LEADING TREASURY PROFESSIONALS

Editor's letter

What do we ask of the people around us, specifically, the people we work with?

I'm going to make an assumption we can broadly agree that the answer lies along these lines: friendship, generosity of spirit and professionalism.

It was all there on 11 November in the Great Room at London's Grosvenor House Hotel, with some 1,400 people congregating for the ACT Annual Dinner.

The ACT wisely times its dinner well ahead of the full season of Christmas festivities, which means it can sidestep diary clashes and count on a full house. Members return the favour and bring a proper level of commitment to the business of meeting friends and contacts over fine wines and good food.

Since this event might be said to mark the start of the season for thoughtful touches, the ACT arranged for Deborah Meaden and Karren Brady to speak. Meaden gave an impassioned presentation on the importance and continuing need for microfinance, the small loans and business education that MicroLoan Foundation, the ACT's chosen charity, provides to women across Africa. It's a testament to her effectiveness in delivering that message and the collective generosity within the Great Room that the silent auction and collection that night raised a record amount.

Brady was there to, well, unlock the secrets of business success. And if that sounds like a task too grand in scale for an after-dinner speech, I am here to tell you that she managed it. After an honest and really quite personal account of her early career, she set out the qualities that add up to operating effectively in business.

They broadly boiled down to persistence, grit and ambition. Standing up for yourself and adapting to your situation featured heavily in her story, as did teaching others to genuinely understand the importance of the team. Players at West Ham United FC have no one to perform for if the ticket sellers don't sell – and the ticket sellers don't have a job unless there are players people want to watch.

For me, the real takeaway was authenticity. Certainly, there will have been moments she bluffed her way through; she recounted some. But largely, this is someone who has stood by her position and used her judgement. (For more on the annual dinner, please see page 8.)

As 2016 approaches, and with uncertainties and political tensions mounting, we should perhaps look to the qualities we share and encourage. Friendship, generosity and professionalism seem like a decent start.

Liz Loxton

editor@treasurers.org
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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 says that following the terrorist attacks in Paris, we must respond in a way that rejects fear and complacency, and that professionalism still has a role, on **page 19**

Gary Gaetz is president and CEO of the Canadian Payments Association (CPA). The CPA underpins the Canadian financial system and economy by providing safe clearing and settlement of some $180bn every business day. He writes about Canada's approach to payment modernisation, on **page 30**

Ben Black, director of My Family Care, began his career as a City lawyer before buying and running a nanny agency. In 2005, he co-founded My Family Care to offer companies broad family-friendly benefit packages. He explains that companies and employees need to embrace the realities of flexible working and not just the theories, on **page 44**

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

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

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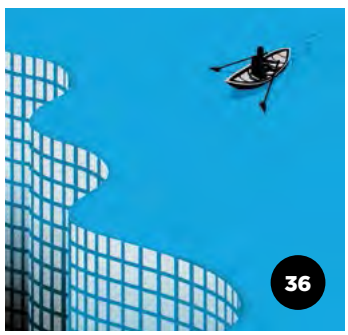
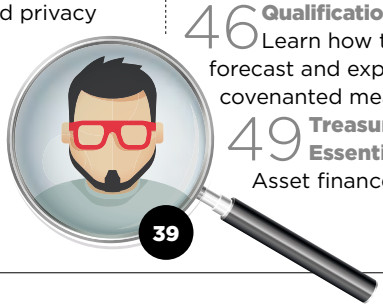
24 "Even as I have 'matured' into the treasury role, I keep referring back to the learnings from the AMCT courses"

Richard Abigail, group treasurer of Arup

LOUISE HAYWOOD-SCHIEFER





Agenda

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

"We're trying to get the whole business to understand and transfer risk to treasury. It's less about derivatives and hedging, and more about hearts and minds."

Arup group treasurer Richard Abigail, on the value of embedding sound treasury principles across the design engineering group.

SOURCE: *THE TREASURER*, DECEMBER 2015/JANUARY 2016, PAGE 24

"It's not just a shaken France talking about walls and barbed wire. Hungary just built a wall along its border with Serbia. India has walled itself off from Bangladesh... The tragedy is that walls hurt those who obey the law more than terrorists."

Peter Coy, economics editor at *Bloomberg Businessweek*.

BLOOMBERG BUSINESSWEEK, 23-29 NOVEMBER 2015

{ CONTEXT OF TREASURY }

ACT Annual Dinner guests donate record amount to microfinance charity

The ACT's 36th Annual Dinner in London raised a record £76,000 for a microfinance charity.

The event, held at London's Grosvenor House Hotel, was supported by the MicroLoan Foundation for the second year running. The charity provides loans and business education to women in rural Zambia and Malawi.


The dinner was held in the Great Room at the Grosvenor House Hotel

Guest speaker, businesswoman and advocate for MicroLoan, Deborah Meaden, spoke about the continuing importance of the role the charity plays in these communities.

ACT president and PwC partner Yann Umbricht and John Winter, CEO of corporate banking at Barclays, which sponsors the dinner, also spoke. Karren Brady, vice chair of West Ham United FC and star of the BBC's *The Apprentice* gave the after-dinner speech.

ACT engagement director Peter Matza said: "The ACT Annual Dinner is one of London's largest – and easily Europe's largest – event of its kind for the finance and business community. It's an opportunity for friends and colleagues to come together in a convivial atmosphere to reinforce the close ties between corporate treasurers and their banks, advisers and others in the treasury community."

Karren Brady

{ CORPORATE FINANCIAL MANAGEMENT }

REFORMS CONTINUE TO LIMIT INVESTMENT CHOICES

Treasurers are facing more and more constraints when it comes to decisions on how they invest surplus cash and manage their investment policies and processes, as an ever-widening array of regulation tightens its hold.

The potential effect of the US Securities and Exchange Commission's proposed money market funds rules, the change in the investment landscape due to Basel III, plus a lack of availability of suitable investment instruments came out as the top three concerns on the cash investment front, in a survey carried out by financial software house SunGard.

The report found that, while the proportion of companies that increased their cash balances fell back slightly over 2015 to 45%, from 49% for 2014, the overall trend remains upwards.

Of those who reported an increase in their cash balances, 26% said they had increased them by more than a third. That was in spite of a good level of market confidence and strong M&A activity in key markets.

The percentage of companies saying they have maintained a steady state in terms of the value of their surplus cash has fallen from 37% in 2012 to 31% in 2015.

Finding suitable repositories for cash is the top priority for 46% of the study's respondents. Operating around the constraints of Basel III is a key priority for 43%, compared to 20% in 2014.

When it comes to the reasons for holding surplus cash, financing capital investment or M&A comes out on top with 33%. Almost a quarter (24%) said they required cash for working capital financing, a figure that has remained fairly steady over the past three years. Initiatives to optimise working capital through better liquidity programmes and alternative financing do not appear to have fed through to corporate cash levels.

{ KEY FINDINGS FROM SUPPLY CHAIN FINANCE SURVEY CARRIED OUT BY AIG AND PRIMEREVENUE }

£29bn is the estimated amount tied up in unpaid invoices in the UK

£29,000000000?

20% **of customers of those surveyed insist on terms longer than the norm**

77% of companies say they have been asked to accept longer than standard payment terms, and **28%** said instances of this have increased over the past year

55% **say extended payment periods adversely affect cash flow**

One in five respondents report that they have lost business after denying customers longer payment terms

"The growth rates of global trade observed so far in 2015 have, in the past, been associated with global recessions. Trade appears to have stagnated or even declined."

OECD chief economist Catherine Mann (pictured), speaking at the think tank's outlook presentation in Paris about the worse-than-expected performance in 2015.

GETTY IMAGES

What do you say? Tweet us **@thetreasurermag**

{ CONTEXT OF TREASURY }

ALTERNATIVE FINANCE PROVIDERS AND SMEs

While traditional bank-based lending maintains its lead position as the foremost source of funding for UK SMEs, peer-to-peer (P2P) lending is continuing to raise its game.

UK SMEs are increasingly turning to alternative providers, to the tune of £76bn or 46% of the value of traditional term loans and overdrafts, according to figures from online business finance supermarket Funding Options. The website based its figures on Companies House filings of 180,000 SMEs. According to the Bank of England, bank loans and overdrafts to this sector have fallen 5% over the course of a year to mid-2015.

Ian McCafferty, external member of the Bank's rate-setting Monetary Policy Committee, has said that the UK is in the early stages of important changes to its business finance architecture. Alternative forms of finance remain a small proportion of the whole, but are growing fast, he said.

A survey conducted for Business Banking Insight, an HM Treasury-backed project intended to help support smaller businesses with funding decisions, has found information and communication business to be the most inclined to consider new forms of lending, such as P2P. Around 32% of these businesses said they would consider this form of finance compared to a national average of 23%. These kinds of businesses were also found to be the most likely to consider selling equity in their business to help raise funds for expansion.

{ CONTEXT OF TREASURY }

UK's status as premier banking centre under threat, says study

London's status as a world-class centre for wholesale banking is under threat, the British Banking Association (BBA) has warned.

In *Winning the Global Race*, the bank trade association's report, the BBA highlights a series of concerns, including a 12% fall in assets in the UK banking sector since 2011, compared to a 12% rise in the US, a 34% increase in Hong Kong and a 24% increase in Singapore.

Return on equity in wholesale banking in the UK has fallen from an average of 18% per year during 2000-2006 to just 10% for the period 2011-2014, the report says. It is estimated to fall another 3.5% by 2017.

Currently, the financial services sector as a whole in the UK makes the biggest contribution to the UK's balance of payments. The banking sector employs more than 405,000 people and contributed £31bn in tax in 2014, the report says.

Nevertheless, there is no room for complacency, says BBA chief executive Anthony Browne. "We have reached a watershed moment in Britain's competitiveness as an international banking centre. The balance of push and pull factors, including tax and capital treatment, unilateral and extraterritorial regulation and overall uncertainty, are weighing heavily in boardrooms across the industry. Many international banks have been moving jobs overseas or deciding not to invest in the UK."

The UK's share of activities, such as cross-border lending and IPOs, are static or falling, according to the report's authors. And the sector has seen an 8% decrease in employment since 2011.

69% – the percentage of people in the UK who volunteered in some capacity over 2014/15, according to a survey from the UK Cabinet Office

¥1.4bn – the amount raised by Japan's government from its flotation of Japan Post. It's the world's biggest IPO since Alibaba in 2014 and the biggest sale of a state asset since 1987, says *The Economist*

$12trn – the amount of outstanding household debt in the US for Q3 2015, approaching 2008 levels

154,000 – the number of Singaporean millionaires, according to the *Singapore Wealth Report 2015*. The figure is expected to grow by 18% over the next five years

9 out of 10 – the proportion of employers saying employees with an international outlook and experience enhance their bottom line

$60bn – the value per year of the Chinese beef market, fuelled by a growing middle class keen to expand their diet

{ KEY FINDINGS OF THE CMi2i *ANNUAL CORPORATE GOVERNANCE REPORT* SURVEYING VIEWS OF INVESTORS MANAGING $10.4 TRILLION IN ASSETS }

THE STATS

88% – of investors see risk management as a critical factor, versus 29% of companies

89% – consider strategy within a corporate governance context, compared to 59% of companies

38% – consider cybersecurity to be a critical area of risk, with the same number also concerned about social and environmental issues

94% – said they had been approached by other shareholders to discuss corporate governance issues in the past year

63% – expect to increase the level of contact they have with companies on corporate governance matters, up from 55% for 2014

{ AROUND THE WORLD IN 30 DAYS }

GREEK GOVERNMENT APPROVES RESCUE PACKAGE

Greece's parliament approved legislation to recapitalise the country's banks. The European Central Bank (ECB) found that the four biggest Greek banks had a capital shortfall of €14.4bn, lower than the €25bn set aside by international creditors as part of the summer's rescue package.

Following checks on the financial strength of the four banks – National Bank of Greece, Piraeus, Alpha Bank and Eurobank – the ECB said if the economy performs as expected, the banks would need €4.4bn. If economic performance worsened, the so-called adverse scenario, they would need in excess of €14bn. Much of the capital, which must be raised before the end of the year, is expected to come from private sources rather than bailout money from the eurozone's rescue fund.

SHUTTERSTOCK.COM

The Greek parliament, in Athens

Italian banks take a turn for the worse

While Italy's taxpayers were spared costly bank rescues during the financial crisis, the country's poor economic performance since has brought its banking sector close to crisis point, according to a report in *The Economist*.

Non-performing loans now amount to €350bn, or around 21% of Italy's GDP. And with capital tied up, banks are reluctant and unable to extend new credit lines.

Italy's government wants to address this by setting up an asset-management company to strip out bad loans and enable them to return to business in a scheme similar to those employed in Ireland and Spain.

Meanwhile, Italy's central bank has wound up four lenders with a combined asset value of just €47bn, in an arrangement that cost €3.6bn.

Combining the bad loans of the entire sector, however, would require state backing, which is problematic for Italy's policymakers when the country's debts as a share of GDP are second only to Greece. Italy's sovereign debt reached €2.2 trillion in the summer.

QE in Europe gets a muted response

Bond performance in Europe moved, if slightly, on expectations that ECB president Mario Draghi would extend quantitative easing (QE) in the EU.

Yields on German two-year bonds hit a new record low at -0.8%, while Draghi suggested that more action would be justified by inflation undershooting. The ECB looks likely to cut its deposit rate further from -0.2%, and ECB chief economist Peter Praet said expectations of inflation growth should be regarded as fragile.

The euro fell to a seven-month low against the US dollar on the same expectation.

Meanwhile, Standard & Poor's has raised the Netherlands' credit rating back to AAA on the back of a stronger than expected economic performance.

Markets are responding quietly, but commentators say the QE programme needs to be given time to work.

{ TREASURY OPERATIONS }

JURY STILL OUT ON BLOCKCHAIN

A survey of fintech companies and their investors has found divided opinion on the usefulness of blockchain.

In a poll of more than 100 fintech company founders and their backers, conducted by Silicon Valley Bank at a Fintech MashUp in New York, a majority of 54% said they most agreed with the statement blockchain "is providing a solution for financial institutions". However, a significant minority agreed with the statement blockchain "is a technology looking for a problem to solve".

Respondents remained confident that the disruption of the financial industry is set to accelerate. Some 24% said the greatest opportunity for disruption was in infrastructure, including blockchain and application program interface, while 23% said payments had the most potential.

When it came to barriers to innovation, regulatory changes represented the biggest threat, according to 43% of respondents. Companies' inertia around new technologies came first for 24%; changing consumer behaviour presented the biggest challenge for 18%; while access to funding was cited as the greatest obstacle for 15%.

The US was seen as the territory with greatest opportunity for expansion, with 35% putting it first. Asia came next with 23%, and Europe 14%.

The fintech experts surveyed are not alone in their view of the future. Speaking at Chatham House in London, former Barclays CEO Antony Jenkins said banks that failed to innovate faced a painful future and risked becoming "merely capital-providing utilities that operate in a highly regulated, less profitable environment".

Jenkins expects great pressure on mainstream banks, which are likely to struggle to implement new technologies at a sufficient pace compared to new, smaller rivals.

{ CONTEXT OF TREASURY }

Global payments sector faces disruption

The global payments industry is set to grow by 6% for the next five years, albeit with significant rebalancing away from markets in Asia-Pacific.

That's the verdict from *Global Payments 2015*, a study from consultancy McKinsey. According to the report, global payments revenues grew 9% in 2014, compared with 4% the year before.

Liquidity-related revenues – those linked to outstanding transaction account balances – made the largest contribution to revenue growth at 53%, but transaction-related revenues – those directly related to payments transactions – climbed more strongly in Europe, the Middle East, Africa and North America, contributing more to revenues than any other year since 2008. That transaction-related growth is expected to continue to rise through 2019 at a faster rate than liquidity revenues.

The global payments industry is set to grow

Revenue growth from Asia-Pacific will slow significantly, according to the study. Payment revenues grew by 18% over the past five years for Asia-Pacific and Latin America. Over the next five years, growth for Asia-Pacific will fall to 6.5% compared to 6% in North America.

Apart from the macroeconomic environment, McKinsey identified four key trends set to continue to disrupt the global payments industry:

- The entry of non-banking, digital players will change the customer experience and increase pressure on banks. The increasing use of smartphones for banking and rapidly evolving consumer expectations will only heighten the competitive landscape.
- The continuing efforts to modernise national payment infrastructures (see feature on page 30).
- New entrants will also affect cross-border payments, an area that mainstream banks have neglected to improve, the study says, and which remain expensive for customers.
- The digital revolution taking place in retail banking will extend its reach to the wholesale banking arena as customers demand equivalent convenience and service levels.

{ CONTEXT OF TREASURY }

TECH AND OUTSIDE COMPETITION

Global banks are set to increase IT and innovation budgets in moves to counter the growing threat that challenger banks and players such as Apple and Google represent.

A survey from financial institutions software vendor Temenos, carried out by consultancy Capgemini, found that only 26% of respondents saw mainstream banks as their biggest rivals. Non-banking companies, including technology players such as Google, present a larger threat, according to respondents. Some 27% said tech giants represented the threat that they were most concerned with.

Investment in IT systems and innovation programmes were the top priorities of banks set on counteracting the competitive threat from new entrants. Nearly two-thirds (64%) said IT spends are likely to increase considerably in 2016. Technology has moved from fourth-highest priority in 2014 to banks' top priority this year.

The survey, *Shifting Sands: Banking in the Digital Era*, found wider adoption of cloud-based applications than previous years' results. Nine out of 10 run at least one application in the cloud compared to only 50% in 2009. But a lack of internal expertise continues to impede progress in this area.

The survey found the top challenge remains meeting customer demands, but the number of banks reporting regulatory challenges as their most pressing hurdle fell.

China's crackdown leads to arrests

China's anti-corruption campaign has intensified with a series of arrests within China's financial sector. In the wake of the summer market crash, Chinese authorities have upped their stakes in their activities. At least 16 people have been arrested, are being investigated or have had duties taken away from them while they assist authorities with enquiries. China's response to the summer crisis has evolved from state-directed share purchases, a ban on initial public offerings, restrictions on previously permitted activity, such as short selling and trading in stock market futures to increased scrutiny on high-profile figures.

Egner named as EBA secretary general

Thomas Egner has been appointed as the new secretary general of the Euro Banking Association. Egner has worked in transaction banking for 23 years, most recently as director of banking operations at Commerzbank, where he has worked on clearing and settlement strategies, mainly in the volume payments space. He has been a member of the bank's Single Euro Payments Area programme management team and was responsible for implementing the Payment Services Directive at the bank.

Egner will take over from Gilbert Lichter in spring 2016, when Lichter retires after 26 years as secretary general.

Vatican arrests over leaked documents

Authorities at the Vatican arrested two individuals accused of leaking confidential reports about the Holy See's finances to journalists. The Vatican announced that it had arrested a high-ranking priest and a former employee on suspicion of leaking the documents.

Details from the reports in question form the basis of two books published early last month, alleging that the church possesses vast property wealth and has spent many euros on luxury accommodation and travel for clergy. Lucio Angel Vallejo Balda and Francesca Chaouqui were both arrested by the Vatican gendarmerie.

First spoofing conviction in US

A former high-frequency trader has been found guilty of spoofing – the practice of placing a large number of small orders electronically to create the illusion of high demand and drive up prices before cancelling the trades.

Michael Coscia's conviction by a Chicago jury is the first of its kind under a provision within Dodd-Frank. Coscia is the owner of New Jersey-based Panther Energy Trading. He was convicted on six counts of spoofing. Sentencing will take place in 2016.

THIS MONTH

EVOLVING REGULATION

Terrorism and refugees will dominate the international stage: economics and financial services are very much background issues. Regulation continues to evolve and this month we cover EMIR, CVA and the renminbi. Changes in Euribor setting are coming to market, and the UK's Treasury has put out its first shot at BEPS with a cap on interest deductions. If you'd like to share your views, email us at technical@treasurers.org

Steve Baseby is ACT associate policy and technical director @BasebyStephen

{ IN DEPTH }

REGULATION: THE FLURRY BECOMES A SNOWSTORM

Last month, we detailed changes in European Market Infrastructure Regulation (EMIR) and Credit Valuation Adjustment (CVA). Since then, we have suffered a flurry of regulatory output across the EU, and the European Association of Corporate Treasurers' (EACT's) monthly regulatory summary provides a handy reference point (see www.treasurers.org/ACTmedia/Monthly_Report_Regulatory_Issues_EACT_November_2015.pdf).

During the month, we have been: responding to draft regulations for the Prospectus Directive; polled members to join an EACT letter to the Euro Banking Association (EBA) on CVA; continued efforts to engage with the European Securities and Markets Authority (ESMA) and the EU Commission on EMIR; spoken with the EBA to clarify the scope of its shadow-banking initiative; and we are preparing to respond to the UK government's consultation on a limit to interest-rate tax relief in response to BEPS.

Prospectus Directive

The Commission is preparing draft regulations for the Prospectus Directive. The ACT will comment to HM Treasury and the Commission to raise concerns that: disclosure requirements, and therefore cost, would increase for bond issues to wholesale investors with no increase in investor protection; limits on risk disclosure designed to keep the prospectus simple for retail investors could mislead; default prospectus approval by domestic listing authorities would increase cost and time to issue where another EU jurisdiction is more appropriate for issue; restrictions on documents by incorporation would benefit from loosening – although we must acknowledge that the Capital Markets Union concept is beginning to meet the multilingual nature of the EU.

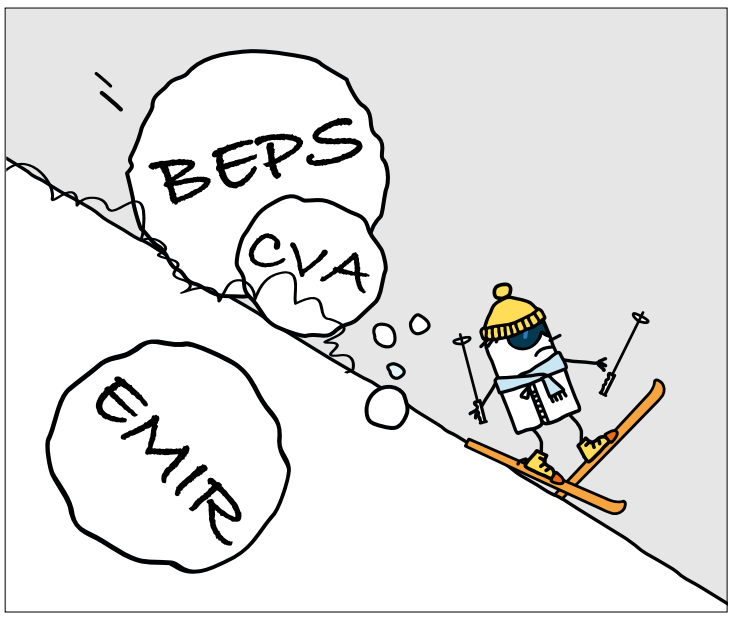
EMIR and CVA

We asked members of the 100+ Treasurers Forum to seek their employers' approval to join the EACT letter to the EBA to raise awareness of the added cost of CVA, which will feed through bank margins to corporate users of derivatives, so neutralising the commercial logic of EMIR's hedging exemption.

In parallel, we are endeavouring to present to ESMA and the Commission the corporate end user case for continuing the hedging exemption as is, and to move to single-sided reporting of derivative transactions.

EBA shadow-banking initiative

The EBA is working to extend the scope of banking regulation to cover those businesses that undertake credit intermediation, but are not governed by EU or member state regulation. We and the EACT responded to the March 2015 consultation paper and have made representations to the EBA on the unintended potential to include intragroup treasury activities and the payment terms of trade sales. We understand the EBA will respond to these concerns in its regulatory wording, which is being drafted.



BEPS and interest

HM Treasury has issued a consultation paper that discusses adoption on caps on interest-payment deductibility from taxable profits as part of its Base Erosion and Profit Shifting (BEPS) initiative. BEPS is primarily aimed at multinationals, which are accused of shifting profits to low tax jurisdictions. The proposed caps would bring the UK into line with other Organisation for Economic Co-operation and Development countries, which already cap interest deductions and so remove some of the benefit of accumulating debt service costs in the UK. We will review the proposals and comment where we believe they would disadvantage UK business.

View technical updates and policy submissions at www.treasurers.org/technical. Elsewhere on the web:

A reminder of *The Treasurer's Wiki*: www.treasurers.org/wiki

Interchange fees: HM Treasury confirms the *ad valorem* cap on card interchange fees: www.gov.uk/government/consultations/interchange-fee-regulation

{ TECHNICAL ROUND-UP }

CASH BALANCES, HYBRID DEBT, BANKNOTES, NDRC, FSB, RENMINBI AND IMF

TREASURERS WITH LARGE CASH BALANCES should be talking to their banks and planning how much each bank will accept over the upcoming year end. The European Financial Reporting Advisory Group has issued its endorsement of IFRS 9, but we are still awaiting the final approval by the Accounting Regulatory Committee. EU endorsement is expected sometime in 2016.

STANDARD & POOR'S has announced that, with immediate effect, there will be no credit given for the equity element of a hybrid capital instrument. Hybrids will be treated as 100% debt when calculating credit ratios, whereas previously, they had been treated as half debt and half equity.

UK £5 NOTES are to be printed on polymer (a thin and flexible plastic material) from H2 2016. The £10 note will follow around a year later. Australia first introduced polymer notes in 1988, with a number of countries following suit. (See www.bankofengland.co.uk/banknotes/polymer/Pages/default.aspx)

CHINA'S NATIONAL DEVELOPMENT and Reform Commission (NDRC) issued the *NDRC Circular on Promoting the Reform of the Filing and Registration Regime for Issuance of Foreign Debt by Enterprises*. This overhauls the requirement for prior approval of foreign debt issuance on a case-by-case basis, and imposes a national quota system and reporting regime.

THE FINANCIAL STABILITY BOARD (FSB) has updated its list of Global Systemically Important Banks (G-SIBs) for 2015. The list of 30 banks are those considered to be G-SIBs by the FSB and the Basel Committee on Banking Supervision. G-SIBs are under greater regulatory oversight than other banks and potentially higher costs of capital. (See www.financialstabilityboard.org/2015/11/2015-update-of-list-of-global-systemically-important-banks-g-sibs)

CHINA has announced that it will allow direct trading between the renminbi and Swiss franc in the interbank FX market. The Swiss franc is the 12th foreign currency that can be directly traded with the renminbi in the interbank market, and should lower trading costs for China and Switzerland.

THE INTERNATIONAL MONETARY FUND (IMF) executive board is expected to meet and discuss sometime in November whether the renminbi will be included within its special drawing right currency basket.

{ INTERNATIONAL }

EURIBOR

The European Money Markets Institute (EMMI) has published a consultation paper setting out proposed changes to the calculation of the Euro Interbank Offered Rate (Euribor) towards a transaction-based methodology. Unlike the proposed changes to Libor, which will allow expert judgement, EMMI proposes that Euribor should rely solely on transaction data.

Moving from a quote-based to a transaction-based methodology will have an impact on the rate level and volatility of Euribor. EMMI has calculated the potential magnitudes of the changes based on data collected during 2012 and 2013. The calculated changes are all outlined in the consultation document, but as an example, the one-week Euribor rate will reduce by 8.6bps from current Euribor using the median methodology, and reduce by 9.6bps using the average methodology. These are significant movements, as one-week Euribor is currently around -0.155% (as at 13.11.15). The impact on 12-month Euribor is even greater and moves it from a current positive percentage into a negative one.

Users of Euribor should consider the impact on rate level and volatility going forward, and should respond either directly to the consultation (see www.emmi-benchmarks.eu/assets/files/Euribor_Paper.pdf) or send their input to technical@treasurers.org

{ WATCH THIS SPACE }

CHANGES TO SONIA

The Bank of England has announced that the daily publication of the sterling overnight index average (SONIA) benchmark interest rate will be moved to 9am on the business day following that to which the rate refers. It is currently published approximately 40 minutes after the 4.20pm close of the sterling money markets. This change will come into effect when the Bank takes over publishing SONIA (currently administered by the Wholesale Markets Brokers' Association (WMBA)), anticipated in Q2 2017.

SONIA is currently calculated as the daily weighted average interest rate of unsecured sterling overnight cash transactions over £25m, which are brokered in London by contributing members of the WMBA. The index tracks actual market overnight funding rates and is used as the reference rate for the sterling overnight index swap (OIS) market.

Back in March 2015, the Bank announced it was working with the WMBA on the future evolution of SONIA. Following its consultation in July 2015, *A new sterling money market data collection and the reform of SONIA*, the Bank has published its response (see www.bankofengland.co.uk/markets/Documents/sonia1115.pdf). Key areas of change are: to include trades booked by banks incorporated outside the UK authorised to accept deposits through a branch in the UK, or by any of those legal entities' branches located in the European Economic Area; and to include both secured (repos and reverse repos) and unsecured transactions. The Bank now anticipates publishing a consultation on the detailed methodology for SONIA in late summer 2016.

JIAMENG TEAH

ASSISTANT TREASURER, VODAFONE

How did you get into treasury?
I started my career in corporate tax at Deloitte, but never found the kick I was looking for in this field, until I worked on a treasury tax project. About 18 months after that project (I had to finish my accounting and tax exams first), I got my AMCT qualification, after which I left professional services for corporate treasury.

What do you like about treasury?
It's dynamic, it's important and relevant. But the best part is that it crosses many fields – accounting, tax, law, IT, financial markets, etc.

What's the best thing about being a treasurer?
Every day is different. And people often look at you in awe, calling you the expert.

What's the best thing about being a member of the ACT?
The network for experience sharing and mutual assistance. A sense of belonging.

Which ACT qualifications do you hold?
The AMCT.

How has your qualification benefited you in your career so far?
I had no real-life treasury experience when I joined corporate treasury. Without the qualification, I doubt any company would have taken me in without some form of demotion.

What's the most unusual responsibility that you have as a treasurer?
Keeping track of national holidays of different countries – for transaction-planning purposes.

What's the most important lesson that you've learned during your career?
Nothing beats robust fundamental knowledge and first principal thinking.

What would be your best piece of advice to someone else considering a career in treasury?
Down with herd behaviour; hail first-principal thinking!

What's your ultimate career goal?
I haven't decided yet. If I am staying in finance, CFO of a large multinational. If not, see the answer to the final question.

Who is your greatest inspiration and why?
It is hard for me to point to one person. I tend to take inspiration from a particular incident or something specific that someone did.

If you weren't a corporate treasurer, what would you be and why?
A full-time, round-the-world motorcyclist adventurer. Who can say no to that kind of freedom?

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

ACT TRAINING

15 March, London
Treasury in a day
Develop an insight into the activities of a corporate treasury department and how treasury can support business strategy – particularly when facing challenges such as market instability and international competition. This course will outline the key issues and terminology of this critical area of corporate financial management.

22 March, London
Working capital optimisation
Discover how to take a more strategic approach to working capital management, optimise business processes and unlock the cash tied up in your supply chain. You can also explore the metrics used to monitor working capital management performance in your daily role.

13 April, London
Foreign exchange
Find out about the different types of FX risk, and learn how to advise both commercial operations and senior management about FX risks.

14 April, London
Interest rate risk
Gain a deeper understanding of the many aspects of interest rate risk, how it affects different firms and its inevitability. This PC-based course will teach you the concepts for evaluating the different aspects of interest rate risk with hands-on modelling experience.

19 April, London
The nuts and bolts of cash management
Walk away with an in-depth knowledge of the basic principles and practices of cash and liquidity management, its importance to the business and to the treasury function.

20-21 April, London
Advanced cash management
If you're a corporate treasurer or finance professional responsible for payments, bank relationships or cash management processes, this session will give you an understanding of the challenges and potential solutions to cash management in a multi-currency environment.

9-13 May, London
The A-Z of corporate treasury
This is a highly interactive five-day course providing a comprehensive overview of treasury operations. This is the perfect forum for new entrants to the profession, bankers and those working alongside the treasury function. Learn about corporate treasury within the context of international markets, and build a deep insight into the core areas and how they function as a whole.

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

ACT EVENTS

10-11 February, London
ACT Cash Management Conference
Join Europe's largest conference devoted purely to cash management, featuring world-class case studies from leading corporates. Benefit from increased participation in sessions and get your questions answered.
www.treasurers.org/cashmanagement

9 March, Düsseldorf, Germany
ACT Europe Conference 2016
After two successful annual events, the ACT Europe Conference returns to Düsseldorf on 9 March. Organised in partnership with the Verband Deutscher Treasurer, it is the ideal occasion for treasury and finance professionals from across Europe to come together and discuss their key challenges.
www.treasurers.org/europe

18-20 May, ACC Liverpool, UK
ACT Annual Conference 2016
Designed for treasurers, by treasurers, our annual conference addresses the challenges facing the real economy over three inspiring days. We bring together more than 1,000 treasury professionals from every major industry and from all levels of their career to network, benchmark and share best practice to further the development of the profession. This year's theme is: Financing tomorrow – integrity, influence, innovation.
www.treasurers.org/annualconference

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For details of our 2016 webinar programme, visit www.treasurers.org/webinars

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{ CLIMATE CHANGE }

JEREMY WARNER

If investors start to abandon CO2-generating industries the value impact is likely to be earth-shattering

SHUTTERSTOCK

Mark Carney, Governor of the Bank of England, has been much criticised – by me included – for a keynote speech in which he waded into the climate change debate. Central banks have a big enough job just trying to deliver their mandates, which in most cases are about inflation targeting and promoting growth, without straying into territory that legitimately belongs to the politicians.

However, this is not to deny the import of the subject matter. In his speech, Carney raised some perfectly legitimate questions about whether investors had adequately thought through the consequences of the climate change agenda and the impact this would have on the hydrocarbons industry.

In the past, it has been possible to dismiss these concerns as little more than idealistic and largely unrealistic environmentalism that does not fundamentally alter the existing order of things. Despite relatively widespread acceptance of the science, the UN Copenhagen Climate Change Summit in 2009 broke down in acrimony and division, leaving the oil, gas and coal industries a seemingly long, and relatively prosperous, future ahead of them.

But this presumption may be out of date. Some 155 countries have so far submitted plans for the COP21 climate summit to be held by the UN in Paris this December, covering around 88% of global carbon emissions. The plans are judged to be nowhere near sufficient to limit temperature gain to the targeted 2%, and are in any case non-binding. But they are a step-change from only a few years back.

The vast majority of world leaders are now treating the challenge seriously, insisting they are committed to doing something about it, and seem willing to contemplate high carbon taxes to deliver the promised level of change. At the same time, the renewables industry is growing in leaps and bounds, and is now far ahead of where it was expected to be at the time of the Copenhagen conference.

Nowhere is this more apparent than in China, which, the International Energy Agency says, invested $80bn in renewable energy in 2014, as much as the US and the EU combined. Almost exponential growth is forecast from here on in.

All this plainly has profound implications for the hydrocarbons industry and the infrastructure around it. It is not in any danger of imminent death, but its future has never looked more time-limited. In an omen of what may be coming, New York prosecutors have subpoenaed emails and company documents from America's oil giant Exxon Mobil over alleged 'climate crimes', marking the most dramatic step to date in an escalating legal assault against the fossil fuel industry. The case revolves around warnings by Exxon's own scientists some 40 years ago that CO2 emissions were likely to drive up temperatures with potentially highly destructive consequences. Few expect the case to make much progress; if Exxon had not, as a matter of due diligence alone, examined the emerging science of climate change, you would want to know why.

> The vast majority of world leaders seem willing to contemplate high carbon taxes

Even so, the mood music around these industries is becoming increasingly hostile. Many institutional investors find themselves under growing pressure from the 'stranded assets' and fossil fuel divestment campaign. If it is true that around a third of known reserves will have to be left in the ground, or 'stranded', to limit climate change to just 2%, then there is a veritable bloodbath of value destruction to come, never mind what has already taken place as a result of low oil prices.

The implications for the global car industry, with hundreds of billions of dollars invested in internal combustion engine technology, are equally wide-ranging. One way or another, a massive upheaval is coming; it is not yet at all clear how these industries should respond, or even if they can.

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

ACT

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Policy paralysis and hike fright

Picking the right time to act is next to impossible when data is late, inaccurate or both. Kallum Pickering comes to the defence of central bankers

SIMON DUCROQUET/IKON IMAGES

Even with the very best intuition and models, the sheer number of random events that take place over a given time horizon makes accurate economic predictions difficult. This challenge is amplified by the lack of real-time data for key economic indicators on which policy decisions are based – such as GDP, inflation or unemployment. Such data is often published with more than a month's lag and sometimes revised heavily later on, meaning that prediction errors are discovered late. Altogether, this provides policymakers with a dilemma. It manifests itself in its most acute form in the realm of monetary policy where even small gaps in understanding can lead to big errors with serious consequences further down the line.

Because monetary policy affects the economy with a significant lag – sometimes up to two years – for optimum outcomes, policy ought to be as forward-looking as possible, trying to anticipate events instead of just reacting to them. So when it comes to monetary policy, a proactive policy is usually superior to reactive policy. The problem, however, is that this requires an accurate picture of the future. Beyond a few quarters ahead, this is almost impossible to achieve.

Central bankers, therefore, typically try to extrapolate and project clear trends from stylised facts and cast a judgement on what the appropriate policy should be. When data is either consistently very weak or very strong, making this judgement is easy. But when it is hazy and volatile, even if it is on a general upward trend, this approach can spell trouble.

Policymakers can never escape these problems. But, since 2008 – a period defined by economic underperformance in the developed world and heightened global uncertainty – they have intensified. Is it surprising then, that central bankers in the US and UK, lacking a clear, distinguished outlook, are nervous as they ponder whether to raise rates from near-zero after six years? Not in the least. Amid all of this uncertainty, central banks have become extra cautious and inclined to wait for more and more evidence before they act. However, waiting too long comes with its own problems much further down the line.

For the Federal Reserve and Bank of England (BoE), whose economies seem to be ready for rate rises, this fear to act reflects an apparent asymmetry in the way they view policy risk. The Fed is the most apt example. When it comes to easing, the Fed has a clear preference for action. Though evidence suggests that the several extensions to quantitative easing did little to further boost nominal demand, the Fed was more concerned about the risk of not acting. Let's call it an action bias. Yet, when it comes to a possible tightening of policy, which is where the Fed is now, the opposite is true. In this regard, the Fed has proved to have an inaction bias. For example, the Fed refrained from raising rates in June and September this year even though it had dropped heavy hints that it may act in the months before. Data have since shown that the US economy could very likely have handled a hike at these times.

What strategy should the Fed and BoE employ to overcome this residual fear, which strongly inclines them towards short-term risk aversion? First, they should act and articulate why with as much clarity as possible. The Fed and BoE have been in the unfortunate position for some time now of having to issue regular statements about their respective economies without changing policy. This has led to a disconnect between actions and words. Only a policy change will re-establish this link. Expectations are a crucial component of monetary policy and help to reinforce outcomes. Second, as they have clearly stated themselves, the Fed and BoE need to go slow after the first move. Gradual hikes will limit the scope for overshooting, which, over time, could grind their economies to a halt. But, the necessary condition for gradual hikes is that the first hike comes early enough. Will they get over their fears and do it? Let's hope so.

Expectations are a crucial component of monetary policy and help to reinforce outcomes

Kallum Pickering is senior UK economist at Berenberg Bank

{ INFLUENCE }

COLIN TYLER

The world is waking up to treasury's importance

Colin Tyler is chief executive of the ACT. Follow him on Twitter @ColinTyl

IMAGE SOURCE

As I look back at this year, it seems to me that a definite theme for 2015 has been how many so-called experts and commentators have talked about the 'new, strategic' role that treasury plays in non-financial corporates. Like many of you, I am wondering where they have been for the past 20 years.

As far as the ACT – and I am sure other professional treasury associations – are concerned, treasurers have been part of strategic financial and business management for all of that time. Indeed, the ACT has been teaching that interaction as part of what is now known as the MCT (Advanced Diploma), since, well, since we started teaching and qualifying treasurers!

More seriously and more to the point, in my view, it's a realisation from those observers about the importance of understanding what a business does, how it's financed and how business and financial risks are addressed that has revealed to them that treasurers and their capabilities and skills are an essential part of that conversation. We were there all the time; they have come only recently to realise it.

As the treasury profession becomes more mature and strategic thinking develops, treasurers will apply corporate finance theories and practical tools to real-life, complex issues and assess the choices. Their interaction with senior management, lenders, investment bankers, operational management, controllers and advisers will flow from the ways in which treasurers communicate those choices and offer outcomes for individual scenarios. I can't think of a better way in which the ACT can live up to its motto – Prosperity through stewardship.

A question remains, however, about what limits there could or should be to treasury responsibility. For example, I am not sure what treasury value-add there can be to marketing campaigns or health and safety training. The question becomes more serious in areas where there is treasury need, but most likely as part of a wider corporate issue. One issue that is in the news all the time, it seems, is cybersecurity for organisations, which meets this question head-on.

> A question remains about what limits there could be to treasury responsibility

It is becoming more important by the day to ensure that businesses, advisers, investors, regulators and other stakeholders understand the threat to cybersecurity. This is vital in corporate finance transactions, which are a major area of economic activity and source of entrepreneurship, innovation, expansion and growth for companies. Work by the ACT in the past couple of years on this topic has included being part of an expert task force along with other bodies, including the ICAEW Corporate Finance Faculty and the UK Cabinet Office. (See our article in *The Treasurer*, November 2015, page 18 and http://tinyurl.com/puuxp60)

There is still a question, however, whether all corporate exposures to cyberattack are relevant to treasury. Just the ones with treasury implications? Those with wider financial impact? And who will make the decisions on levels of importance?

In my view, this is the point at which treasury has a seat in the discussion and in particular because of the constant relationship between treasury and the financial services sector. I am not suggesting we all become instant tech gurus, far from it, but treasury skills and analytical capabilities can be put to valuable use in understanding what failure can mean for an organisation. And that brings me neatly back to the value of education and qualifications: a benchmark for understanding contemporary business issues and challenges.

As always, the ACT has a very busy autumn and winter schedule – and we're already planning for spring/summer 2016. So wherever it is, do please come and say hello or drop me a line if there's anything treasury on your mind.

What are your thoughts on the December 2015/January 2016 issue of *The Treasurer*? Email me at ctyler@treasurers.org or tweet @ColinTyl

{ CHRISTMAS MESSAGE }

JUSTIN WELBY

Love matters more than ever in a time of crisis

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

The past couple of weeks before writing this (in late November) have been so dark and terrible as to change the whole tone of what one wants to say in a Christmas letter.

When I first started thinking about this, I was planning a fairly light-hearted commentary on what has been an extraordinary year in many ways. We should still be light-hearted, and laugh and rejoice and celebrate at Christmas. Christmases had laughter even during World War II. Tragedy and human evil should not prevent us celebrating delight and human good.

Yet even when our immediate experiences are full of light, we have to be aware of the dark background. It is one of those extraordinary features of life, in my experience, that great world events break in and change one's perspective very rapidly. The challenge is to put them where they ought to be; to adapt one's life properly, and to be neither complacent nor fearful. Having lived in Paris for five years, and still having many friends there, the grief of the attacks on a place that I love, amid people who were just enjoying themselves, is profound.

Inevitably, all those who read *The Treasurer*, and therefore likely to be involved in the financial markets, have to deal with the outcomes of Paris – not only at a human level, with grief and sympathy and sorrow and anger, but at a professional level.

There is nothing wrong with that. We expect it of those involved in facing terrorism, and we should expect it of ourselves. It is not cold-hearted to work out how to do our job better in the light of the new situation in Europe that we face, any more than it is cold-hearted for the emergency services to seek to be as professional as possible. Grief and sorrow are proper and essential. Compassion and sympathy are inextricably part of anyone who is fully human. But so is a desire to respond properly.

Place de la République square in Paris, covered in tributes to the 130 people who lost their lives in the terrorist attack on the French capital on 13 November

THOMAS SAMSON/GETTY IMAGES

> To fret over what we can't manage is not only diverted energy, but also a way to despair and to fear

If our societies are so consumed with fear that they cease to function, not only in day-to-day human relationships, but also in the realities of business, then evil conquers.

A friend of mine has lived for the past 20 years in a part of the world that has been at war for all that time, and has seen one of his own children die as a result. He was talking to me recently about how to live in such a situation. He runs a church, with no resources, with shell holes in one wall, and with fear a constant reality. When I asked how he responded to the huge and inescapable demands around him, he replied: "I do what I can, not what I can't, and leave the rest to God."

I think that is one of the sanest and healthiest attitudes to such trauma that I've ever heard. To fret over what we can't manage is not only diverted energy, but also a way to despair and to fear. To handle what we can, with all the resources and strength and courage that we can muster, demonstrates our humanity, our wisdom and our trust in others, or even in God.

At Christmas we enjoy family time together. In that way I am particularly fortunate to have a large family, and to be able to enjoy love, teasing and laughter, serious conversation and hilarious absurdity. My experience was not always that, and so I relish it even more.

Yet I always remember that at the heart of Christian faith is the belief that God came to take a fully human life, not in strength and majesty, but in weakness and vulnerability. God so emptied himself in Jesus that he could only do what he could do, and had to leave the rest alone.

He did that, as one early Christian bishop put it, so that by becoming like us, he could open the way for us to become like him.

My prayer and hope for all readers is to have a wonderful Christmas, whatever their faith – to celebrate the good and to see off fear through the exercise of all the skills and gifts that they have.

10 HOT TRENDS FOR 2016

With the new year almost upon us, it seemed appropriate to ask treasurers about their foremost concerns for the year ahead – the day-to-day work that preoccupies them, as well as the strategic issues they will need to address over the course of the year ahead. Here then, is a smorgasbord of opinions – *The Treasurer*'s 10 hot topics for the year ahead

Professional treasury roles bring challenges aplenty. There are the tasks we need to carry out now, each day and each week, and then there are the longer-term issues that we need also to address and in some way embed so that they inform the working culture of our teams and our organisations more widely. The ACT addresses just that dichotomy through its curriculum, of course, but there's nothing like the day job to bring home the fact that leading from the front involves looking up from our desks and forming opinions on new legislation, political and economic upheaval, technological innovation and threats – change, in other words.

We asked 10 treasurers to tell us about their preoccupations for 2016. Here is what they said.

OPERATIONAL MATTERS

1 Rating agencies

Credit ratings are really important for Centrica as we head into 2016. Managing credit ratings can be challenging, particularly when the analyst or analytical team takes a strong view on your company or industry – it can be hard to educate them out of it. The regulatory requirements for mandatory rotation of analysts don't help, as you need to start from scratch every few years with a new person.

I'll be communicating regularly with my primary analysts at the agencies – not just at annual review time, but whenever we make an announcement or if things change in our industry, and I'll also continue to work on understanding how the analysts think about the company, its risks and financials. A good rating process requires strong communication from both sides, but I do see differences between agencies in how they run their processes. So I always try to provide good information and expect the same in return.

Katherine Horrell, group treasurer, Centrica


Katherine Horrell

ANDREW BAKER/IKON IMAGES


James Kelly

2 Bank relationship management

Our key concern is ensuring we get great service from our banks for our subsidiaries and strong execution when we raise finance. We do our best to ensure that banks are well briefed about our strategy, potential strategy and any upcoming opportunities for ancillary through regular meetings, and try to ensure that the banks have good access to senior management.

We are generally pleased with service levels, but we have been impacted by banks pulling out of markets where we are customers. This is a function of a tough macro environment for the banks, with growing regulatory costs reducing profit margins, while the continued low interest-rate environment in the UK, US and Europe means that there is little opportunity to make significant loan margin increases, while remaining competitive. We are seeing many banks focusing more on core competences and key geographies, as well as being more selective in their choice of who they lend to. Happily, for investment-grade borrowers, the loan markets are currently strong enough that finding a willing lending partner is not difficult, but it is important to ensure that within a bank group, there is a core of strategically aligned long-term partners who can be relied on come rain or shine, particularly when much banking business, especially cash management, is sticky.

James Kelly, head of treasury, Rentokil Initial

3 Interest rates

I'd like to think that, after 25 years in treasury, I have a pretty good handle on interest rates. So much so, that I'd like to make the prediction that rates will go up this year, but they might also go down or stay the same. In fact, it is precisely because it is hard to predict rates, irrespective of experience, that treasurers need to be prepared for all eventualities on both interest rates and inflation. If you studied the interest-rate curve in sterling today, you might say that rates are very low. Once you superimpose those rate curves from the eurozone, Switzerland and Japan, you might conclude that sterling is actually a high yielder! There is no impediment to rates going below zero – it may look 'weird', but, for example, real rates in index-linked gilts have been negative for years. Short-dated nominal euro rates are also negative.

Instead of predicting where rates might go, it is better to look at the interest-rate sensitivity of both your assets and liabilities, and try to understand what rate eventualities are going to cause you problems on, say, a cash-flow or covenant basis, and hedge accordingly. Oh, and by the way, rates are going up.

Andrew Kluth, head of treasury, UK Power Networks

4 Working capital

What do I want in 2016? More, and committed, working capital. What am I likely to get? Less, and uncommitted, working capital.

Now, Basel III has its own distorting role to play in this. A 20% capital weighting on statistically the asset class with the lowest default rate is, quite frankly, ridiculous. Regulators have once more used not just a sledgehammer, but also a pneumatic drill, a steamroller and possibly a small nuclear device, to crack a nut.

We are also seeing in the Middle Eastern states, liquidity drying up as lower oil prices reduce cash flows.

There has been much talk of funds, which don't suffer the same regulatory constraints, coming into a potentially profitable asset class. However, the pace of this doesn't appear as rapid as many of us would like – difficulties over taking security don't help.

I would say that the outlook for working capital in 2016 is for further tightening. The top credits will remain fine and will wonder what all the fuss is about, but for the rest of us, it will remain a challenge and commercial solutions will remain at the fore.

Treasury Insider

5 People management

Each business we work in is unique and we, as treasurers, need to understand the nuances – the critical periods, the key metrics, the cyclicality of the entire business and its divisions, and the way our systems work and talk to each other. In other words, we need to get under the skin of and understand what is important to the business.

This might mean discussions with divisional finance teams, service centre teams and regional teams – to understand pain points and determine root causes where possible. Those pain points generally come down to three areas: people, processes or technology.

Our long-term game plan has to be coming up with ideas and solutions by talking to the various teams and connecting the right people to get to the best solution. We can bring in external providers as needed, but often simple fixes can be made first and the ideas come from within – they often just need coaxing out of people.

Large organisations, for instance, have dedicated teams for areas like cash and banking operations, but for SMEs and depending on the sector, this may be covered by an accounts payable team whose focus is on the accounting. A discussion with treasury on how

Angela Kipping

different payment methods can yield huge time savings and improve controls is clearly going to benefit everyone.

The soft skills – the analysing of people and their roles and the problems that need addressing – are often overlooked. But the year ahead will look much better if we attend to them.

Angela Kipping (née Clarke), head of treasury, Misys

STRATEGIC ISSUES

6 Cybercrime

Do you know anybody who's had their email or social media hacked, or credit card cloned? That's how common cybercrime is, and it is just as annoying and disruptive as a physical break-in. It is a lucrative and relatively low-risk activity that involves perpetrators across the range, from inventive schoolchildren to trained professionals in organised groups – freelance criminals, organised crime and corporate- or even government-sponsored activity.

Treasurers, by definition, happen to be sitting on top of a high-value target – commercially sensitive data, bank account details and electronic fund transmission. What this means is that cyber risk is not going away for the rest of your career. Unless we get rid of all the computers, of course.

The good news is, you are aware and can start to prepare. The basics are simple: keeping passwords secure, backing up data, limiting access to sensitive systems and not opening attachments on unfamiliar emails. And as long as somebody else is forgetting these foundations, then they will be the easier, hence more attractive, target... generally.

Andrew Burgess, FX manager, GE Alstom

> Regulators have once more used not just a sledgehammer, but also a pneumatic drill, a steamroller and possibly a small nuclear device, to crack a nut

7 Global supply chain/political risk

One matter that has weighed on the global economy for a couple of years, and will continue to weigh for several years ahead, is the excess global productive capacity in commodity industries, in particular in China. Commodity products, such as chemicals, plastics and metals, rely on industry utilisation rates to provide margins. If capacities increase at a faster rate than demand growth, as they have done quite spectacularly, then utilisation rates fall and the ability to make profits decreases.

Further, much of this capacity growth has been predicated by quasi-government investment using cheap dollars; first of all, in the early 2000s, as the world believed in non-inflationary growth and then, as the reaction to the bursting of the asset bubble created by that belief, on more cheap money (quantitative easing) around a decade later. This has led to a massive debt overhang around the developing world.

Therefore, rises in the US dollar or even euro interest rates could cause the cost of the funding of this debt overhang to spark a further wave of uneconomic price cuts to retain incomes and market shares. In the short term, this can help keep inflation low, but the impact on aggregate demand through the supply chain could have an overall negative impact on global growth with the risk of a chain of debt default.

Gary Slawther, financing adviser to the CEO, Octal

8 Debt capital markets

In debt capital markets, we seem to be facing somewhat of a curate's egg. The good bits are that there is innovation evident that can

ANDREW BAKER/IKON IMAGES

help the treasurer achieve their funding aims in a more efficient and customised way – this can be seen particularly well within the US Private Placement market. More and more investors are prepared to offer deferred funding at low cost, in order to reduce the impact of cost of carry, and to offer funding in currencies other than the US dollar to reduce the treasurer's swap costs and preserve bank credit capacity. I do believe that increasing investor flexibility will continue to be a theme of debt capital markets.

On the downside, the lack of secondary liquidity in public bond markets, particularly sterling, is a worry. It is really problematic when it comes to pricing a new issue, when you are pricing wider something that you may not have had a lot of faith in to start with. This is a problem that the whole public bond community – issuers, banks and investors – has to solve.
John Jackson, group treasurer, Severn Trent

9 Pensions

I have been responsible for the corporate sponsorship of the BBC's defined benefit pension since 2015, providing a new and interesting challenge. The year 2016 is certainly going to be a big one. The next triennial valuation is due at 1 April 2016. With UK Gilt yields remaining stubbornly low, from a defined benefit (DB) pension perspective, the BBC, like most other corporates with a DB scheme, is facing a persistent deficit position. The objective of the valuation is to agree a funding plan with the scheme trustees that recovers the deficit over the long term, thereby securing the maximum resources to spend on creative content and the services our audiences love, while providing a strong and enduring financial covenant to the pension scheme and its members. Since the last valuation in 2013, we have taken steps to reduce volatility in the scheme by de-risking scheme investments and liabilities.

Stephen Wheatcroft, group treasurer, BBC

10 Impact of regulation on the market

Until now, it's been difficult to get a clear understanding about the impact of regulation on the banks' behaviour. The reduction in interchange fees are estimated to take around £700m out of the banks' income. The impact of Basel III is coming into effect. There is still a lot of liquidity at good prices, but the raw returns on debt don't meet the hurdle rates, and there is even more of a dependency on the 'ancillary wallet'. The model is straining and some banks appear to be starting to take a more economic view in the rationing of credit.

So, where is it going and what are the implications for treasurers now? Most major refinancings have been done, but I am ensuring my bank liquidity is locked down for the medium term (and beyond) on current pricing. Ring-fencing is also getting much nearer. Non-ring-fenced customers may not always be supported by a deposit-based bank, but an open-market-funded one. So, again, who will be where and for what products, and where does that leave the future cost of banking services? Securing a place in a ring-fenced bank could be key.

Joanna Hawkes, group treasurer, Marks and Spencer

THE STUDY OF COMPLEX FORMS

Richard Abigail's tenure at design engineering consultancy Arup has been marked by a willingness to embrace technology and change. Arup, as well as its treasury function, is reaping the benefits. Liz Loxton reports

Words: **Liz Loxton** Photography: **Louise Haywood-Schiefer**

Design engineering firm Arup quietly dominates a small intersection in London W1. Occupying number 8 Fitzroy Street and the building opposite at number 13, Arup's headquarters also overlook the Sainsbury Wellcome Centre, a University College London research site, across the way on Howland Street.

The building is a worthy neighbour for an organisation like Arup, whose engineers worked on its design and construction. An exemplar of modern architecture with an undulating white façade and glimpses from the street into pristine lecture halls, it provides facilities for scientists working at the cutting edge of neuroscientific investigation.

Cutting edge is, of course, where Arup's experts live and work. Specialisms at the firm range across core structural and design disciplines right through to renewable energy, acoustics and audiovisual, and multimedia design. Some 12,000 employees are based across the globe in 92 offices.

Arup is owned by trusts. The beneficiaries are employees, and the idea behind that is to ensure that the culture set out by founder, engineer and philosopher Ove Arup in 1946 is adhered to. The organisation's structure is a conscious act of design, too. It's there to ensure that the company cannot be sold, which, in turn, protects independence, limits external influence and ensures Arup engineers don't have to confine themselves to bread-and-butter assignments, and can concentrate on addressing the more interesting and complex challenges the built environment has to offer.

Still, the Wellcome building is only one manifestation of Arup's achievements globally. The firm is famous for its work on such architectural and engineering flights of fancy as the Sydney Opera House, Lloyd's of London, the Beijing National Stadium or Bird's Nest, Coventry Cathedral and the Allianz Arena, the first stadium in the world with an exterior that can change colour, and home to FC Bayern Munich since 2005.

A quick recap

Group treasurer Richard Abigail passed his CertICM and AMCT while setting up a new treasury department at Arup. He is keen to ensure that Arup's treasury function is as supportive as possible of both the firm's ethos and its projects. His route into treasury is a well-trodden one. He studied Economics at the London School of Economics and Political Science from 1993 to 1996. On graduating, he joined Coopers & Lybrand, which was to become PwC in 1997, and stayed at the firm until 2002.

By that point, dotcom fever had come and gone, but still had brought a change of direction for many. But rather than joining an overheated start-up, many of which had in any case fallen by the wayside, Abigail joined premium rate telephony and information company iTouch, which, among other things, provided ringtones during what might be described as the Crazy Frog era. iTouch also provided the WeatherCall phone-in service – a service that was ultimately to be killed by the advent of the smartphone.

The five years Abigail spent at iTouch provided solid corporate finance experience: the company delisted by means of a management buyout in 2007. When he joined Arup in 2008, having been recruited to the central finance team by FD Matt Tweedie, his initial focus was once again corporate finance. Arup was going through a number of mergers with affiliated companies, as well as purchasing its head office building. In 2011, however, Tweedie set about reorganising

VITAL STATISTICS

10,000
the number of Arup projects under way at any one time

2,194
the number of pre-cast concrete shells that make up the Sydney Opera House sails. They are held together by 350km of tensioned steel cable

42,000
the amount of steel (in tonnes) that went into the construction of Beijing's Bird Nest

15,500
the number of light bulbs that are changed every year in the Sydney Opera House

$888m
the amount spent to update New York's Fulton Center, bringing together six subway stations and 12 underground lines in Lower Manhattan

12,000+
the number of people who are employed by Arup, in 92 offices across 40 countries

RICHARD'S CV

2011-present
Group treasurer, Arup
2008-2011
Financial controller, Arup Middle East and Africa
2002-2007
Group financial controller, iTouch
1996-2002
Manager, PwC

QUALIFICATIONS

AMCT (2012), FCA (1999), BSc in Economics from the London School of Economics and Political Science (1996)

the finance team and asked Abigail to become head of a newly established treasury function.

At this point, treasury at Arup was a blank canvas, says Abigail. "It was about cash for bills and salaries; it was reactive, there wasn't a mandate. We had talked about cash pooling, but nothing more than that."

Creating a central cash pool

So what followed was a steep learning curve, inside and outside of the day job, as he familiarised himself with treasury operations and worked his way through ACT qualifications, passing CertICM and then the AMCT with distinction.

Abigail liked treasury from the start: "I really enjoyed the fact that it made for a more interesting dialogue with banks and technology providers. My early experience was shaped from nascent technologies. I try and use that experience of change and lack of fear of change," he says.

Preoccupation number one was liquidity and visibility of cash. Members of Arup's dispersed network of entities worldwide were used to controlling their own cash and, while they were quite good at reporting on their cash position, they also had a tendency to hold on to the stuff. Pooling and sweeping were new habits and required an educational exercise.

Abigail needed to do more than simply catch up with the rest of the corporate world, however. So while he started by putting in a basic pool, with his eye on the long-term goal of bringing all Arup's outposts into the fold, he had in mind a more sophisticated set-up. Arup's mortgage is a revolving credit facility and the pool also includes a captive insurance company. "It's about not being afraid to innovate," he says.

Arup Poland is the most recent affiliate to be brought in, so now the złoty sweeps into the central pool. Arup Japan has joined the fold, while Mexico is a work in progress. Arup was one of HSBC's first clients to introduce automated sweeping out of China, a complex task, and the organisation is now sweeping in every country where it is legally permissible. "There are countries where you can't sweep, of course – South Africa is a significant one for us, but other than that, the aim is for all outposts to hold cash at zero," he says.

There's been a significant upside. Pooling and sweeping saves Arup around £1m a year in interest costs, Abigail says. Importantly, the exercise has also brought the conversation within the wider finance and senior teams at Arup around to the issue of risk.

FX risk will be Abigail's prime focus for 2016, and addressing it will be very much an education and communication exercise. "It's about approaching an organisation that hasn't had formal FX risk management and taking it forward," he says. His approach leans very heavily on ACT teaching, using the ACT framework right through to the exam material. "Risk is a transformative project in that we're trying to get the whole business to understand and transfer risk to treasury. It's less about derivatives and hedging, and more about hearts and minds. We've had situations where the project leaders deal with FX themselves and we've had projects that have recorded a loss because of the FX impact. Part of my job is to protect managers and also to transfer that risk to treasury people and the banks, who are equipped to deal with it and allow engineers the freedom to look to their core tasks."

Connectivity

Abigail's work has also included a treasury management system implementation and integration with the main accounting platform. As far as possible, he's aimed at a reduction in any manual keying-in of data and straight-through processing. The SunGard Integrity installation meant he could eliminate routine accounting tasks. On the FX side, the process has been cut down from five different steps to one or two.

Connectivity and being at the cutting edge of technological change is important to him, but with a focus very much on simplicity and common sense. A change will be introduced only if it is intuitively the right thing to do. "It's the Apple model I'm trying to get to. I want to be able to take the data straight through," he says.

> "Risk is a transformative project... we're trying to get the whole business to understand and transfer risk to treasury"

And while Arup might be famous for enabling the most flamboyant architectural ideas to take shape – a Garden Bridge or a Centre Pompidou – Abigail enjoys its more prosaic and useful iterations, such as London's King's Cross St Pancras station or the development of Crossrail. "I like these hidden projects," he says, "the useful ones."

That's not to say that he finds Arup's culture flashy. In fact, he consciously tries to ensure that treasury embodies that design-led ethos that is written through the organisation's DNA. "I want to have that ethos within treasury, to bring that same mindset into treasury," he says.

And true to the cross-disciplinary approach that is also a hallmark of the firm, he understands that relationships are key to project success.

Building relationships among suppliers, ensuring they are long-term suppliers, knowing your bank well, understanding what the pressure points are – these are an important part of the role, he says.

Building bridges, it seems, is not just for engineers.

Liz Loxton is editor of *The Treasurer*

RICHARD'S TOP TIPS FOR SUCCESS

What are your top tips for other treasurers?
I heard someone say that the treasurer is the 'adult in the room' in a company. I've interpreted that to mean we are the sensible, level-headed ones, who try and find solutions while managing our remit in a conservative, but progressive, manner.

I also believe a treasurer has to be a visionary. Treasury is leading other parts of the finance function when it comes to adopting new technology and ways of working – for example, embracing software as a service. A treasurer needs to create a picture of the future in the minds of their colleagues and strive to obtain that future.

How has the AMCT qualification helped you to succeed?
As a new treasurer, the AMCT qualification provided a much-needed introduction to the building blocks of treasury. It allowed me to speak with banks and other suppliers with confidence.

Even as I have 'matured' into the treasury role, I keep referring back to the learnings from the AMCT courses. Arup has just become an accredited employer with the ACT because I see the value in strengthening ties with the association. I also promote the qualification to all staff involved with, or have an interest in, treasury.

What is the secret to your career success?
I don't think I am successful in my career; there is always something new to learn, understand and develop. When I feel successful it will probably be the time to move on and try something new.

What is the most difficult question that your FD is most likely to ask?
The most difficult question my FD asks is: "How are we going to convince others that this is the right course of action?" This means we revisit the problem and solution from first principles and ensure the communication and delivery plans are stress-tested.

What is your 'favourite gadget'?
My iPhone is my favourite gadget. My first computer in 1983 was a ZX81, so I am still amazed at the power and versatility of an iPhone. I use it to catch up on the daily news, answer emails, play games to while away the drudgery of the London commute, and maintain contact with friends and family.

What's the best way to wind down after a stressful day?
A meal out with friends and family, or just vegging in front of the television. For a special occasion, I really enjoy a visit to a favourite restaurant with my wife and son.

A downward spiral

In their efforts to shore up failing banks and promote financial stability, state-led rescues in the eurozone may have done lasting harm. Dr Renatas Kizys tracks the ebb and flow of value

The global financial crisis that followed the default of Lehman Brothers in September 2008 put the threat of collapse of financial institutions centre stage, alarmed the authorities, triggered large-scale state-funded capital injections in the banking sector and led to an astounding increase in banks' credit default swap (BCDS) spreads.

Those bank bailouts triggered an unparalleled deterioration of public finances of the world's major advanced economies in a peacetime period. Deteriorating public finances by turn provoked fiscal imbalances in the euro area, reflected in the unprecedented increase in sovereign credit default swap spreads (SCDSs).

Recapitalising banks

There is a widespread belief that governments acquiring banks can recapitalise those banks, provide reassurance and boost the confidence of bank customers and shareholders. By means of state-funded bank bailouts, credit risk can be transferred from the banking to the public sector. However, we only saw temporary improvement in the levels of perceived credit risk in the banking sector after bank bailouts in the euro area in the aftermath of the global financial crisis. For instance, by the first quarter of 2009, BCDS contracts were traded again at par with SCDS contracts.

Since November 2009, several euro-area countries, including Greece, Ireland, Italy Portugal and Spain, underwent episodes of instability in their sovereign debt markets and their SCDS spreads have risen. However, the downside of large-scale capital injections to problematic banks and bank bailouts have become subject to scrutiny by academics, investors and policymakers only recently. For instance, non-performing assets taken over from the banking sector may impair the government's balance sheet.

LEVERAGE

The procyclicality of lending refers to the extent to which credit supply fluctuates as a consequence of how banks manage their leverage in response to changing economic conditions. Leverage tends to be high during upturns and low during downswings. The procyclicality phenomenon is one of the reasons why business cycles occur and why the economy grows unsustainably fast in business cycle upturns and then experiences a low and often negative rate of growth in business cycle downturns. Indeed, the banking sector can influence the extent to which economic growth deviates from the long-run trend.

Our research provides evidence of significant two-way interconnectedness between public finances and banking sector stability. On the one hand, a systemic banking crisis triggers a business-cycle recession, which causes fiscal imbalances and leads to a higher default risk of sovereign bonds. Banks and other financial institutions that suffer unanticipated outflow of deposits and encounter funding and liquidity issues in the wholesale market are forced to reduce their lending activity and to deleverage their balance sheets. As less credit becomes available to companies and individuals, economic growth slows down and eventually becomes negative. Thus, a systemic banking crisis causes a recessionary effect on investment, consumption, income and taxation income. Consequently, government debt rises and sovereign credit default risk increases.

CREDIT DEFAULT SWAPS

The credit default swap (CDS) – a derivative financial instrument – is used by investors to hedge against a deterioration of credit quality and the risk of default of the issuer of the underlying debt instrument.

If the issuer defaults, the seller of the CDS is obliged to pay the difference between the principal amount protected by the CDS and the market value of the debt. CDS contracts provide protection against the default of corporations, sovereign issuers, mortgage payers and other borrowers. For instance, when Lehman Brothers defaulted, its debt was worth about 8% of its notional value, hence sellers of protection had to pay about 92% of the notional dollar of debt they had guaranteed.

treasury bills as collateral – declines due to the lower collateral value of sovereign debt. More generally, a sovereign default affects financial markets and the economy via two intertwined channels, the credit channel and the investment channel. First, a sovereign default can cause a contraction in the credit market via the credit channel. Second, it can lead to a decrease in investments by negatively affecting firms' net worth and making collateral constraints more stringent. The interaction and synchronicity between these two channels determines the overall size of the loss.

The main holders of sovereign debt are banks and other financial institutions

Sovereign debt

As the probability of default on sovereign debt rises, investors will require higher risk premium on investment in sovereign bonds, which depresses the price of a bond. It is worth noting that the main holders of sovereign debt are banks and some other financial institutions.

If the bond price decreases, banks will be willing to sell off sovereign debt. This provokes a further decline in the value of sovereign debt. A rise in credit risk on sovereign debt will lead to an increase in the banking sector's credit risk through a reduction in the value of banks' assets. This places a constraint on the volume of collateralised lending and borrowing in the interbank market. The volume of repurchase agreements – short-term collateralised loans that use

Historically, episodes of sovereign defaults that occurred in emerging-market economies, notably in Ecuador and Russia, led to large losses in their national banking sectors. Also, the expectation of support from national governments encourages banks to boost leverage, which makes them even more vulnerable to sovereign defaults. Moreover, stronger financial institutions tend to be more leveraged and thus more exposed to systemic risk.

Our research has important implications for macroeconomic policy. Quite intriguingly, our findings implicitly suggest that bank bailouts should be countercyclical rather than procyclical. In other words, to minimise potentially adverse effects of government intervention in the banking sector, the government should behave as a profit-seeking private investor. That is, it should purchase bank stocks when banks are financially stronger and should sell them when the bank's market value is lower. If the government becomes a majority shareholder, then it can also warrant responsible lending and thus prevent future banking crises from occurring.

But the government does not have sufficient expertise to run financial institutions. An established view is that state-owned banks are relatively inefficient and they cannot compete with private banks. If the government sells off its share of the banking sector, then banks again become vulnerable to adverse shocks to systemic risk. There is the belief among academics and policymakers that the financial and banking sectors are inherently procyclical.

A natural question is whether and, if so, how the government could ameliorate the procyclicality phenomenon. To this end, academic research has designed a range of tools for macro-prudential supervision. These involve countercyclical capital buffers (ie countercyclical reserve requirements and leverage targets) and caps on debt-to-income and loan-to-value rations. For instance, in the UK, when the Financial Policy Committee of the Bank of England anticipates an accelerated increase in credit growth, it may decide to raise the countercyclical capital buffer rate that applies to banks, building societies and large investment firms. It is expected that these macro-prudential measures will help prevent banking crises in the future from occurring and will avoid large costs to be imposed on the economy and the society, should massive capital injections and bank bailouts recur.

Conclusion

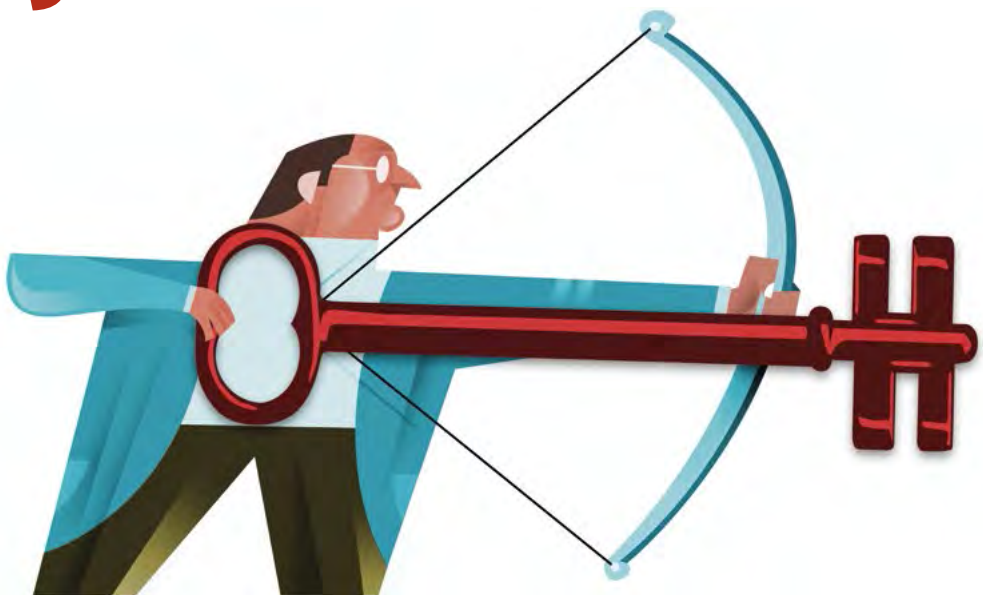
Our research findings are supportive of macro-prudential policy tools, but not of capital and liquidity to non-performing banks. Indeed, we find that – contrary to the conventional wisdom – taxpayer-financed massive government rescue packages actually destabilise the banking sector. We also shed light on the existence of a significant and adverse effect of bank bailouts on public finances, the risk of investment in sovereign debt and the price of insurance against such risk.

Moreover, financial crises and government interventions in the banking sector can alter the structure of such effects, thus aggravating the two-way banking-fiscal interconnectedness. Therefore, bank bailouts can be counterproductive and hence other regulatory measures and policymaking actions should be considered.

Dr Renatas Kizys is a senior lecturer in economics and finance at the University of Portsmouth

This article is based on: The quest for banking stability in the euro area: The role of government interventions, co-authored by Nikos Paltalidis and Konstantinos Vergos, and published in *Journal of International Financial Markets, Institutions & Money*. See www.sciencedirect.com/science/article/pii/S104244311500102X

Faster, faster... safer!



Our need for near-instant transfers and settlements is the force behind efforts to modernise national payment infrastructures the world over. Gerry Gaetz looks at Canada's modernisation programme, as well as global trends

IMAGE SOURCE

Around the globe, technology has conditioned us to expect instant access to the things we want. And payments are no exception. In a world where Google can retrieve thousands of search results in the blink of an eye, getting a payment safely from sender to recipient is no longer enough.

Consumers and merchants also want faster access to funds, security and privacy – all at a low cost. Businesses, on the other hand, want richer payment data and operating environments that promote efficiencies like straight-through processing (STP). Industry players must evolve to remain current and relevant. In response to changing user needs, regulatory and technological drivers, more than 30 countries around the world, including Canada, have launched major initiatives to modernise their national payments infrastructure.

The impetus for global modernisation

Together with new customer expectations, a number of connected factors are driving modernisation around the world. Coming out of the global financial crisis, and given the rapid evolution of the retail payments space, regulators want to ensure that evolving payment services offer greater protection, transparency and reduced risk for consumers and businesses. As a result, they're holding financial market infrastructures to more stringent risk management standards. This is true for credit and liquidity risk, but also operational risks, such as cyber and data security.

In Canada, there is a new and tangible example of this – legislation has given the Bank of Canada the power to oversee retail payment systems that could cause disruption and impact to the economy if not functioning properly.

At the same time, globalisation is driving modernisation and spurring the adoption of the payment standard ISO 20022 around the world. This international standard for the development of payment messages allows richer payment data (remittance information, such as invoice details) to travel along with a payment. This creates the opportunity for businesses to automate their accounts payable/accounts receivable functions and more fully enjoy the benefits of electronic payments, such as STP and automated error correction. The enhanced remittance information also provides greater transparency, enabling easier payment tracking, issue resolution and system reconciliation for financial institutions and their customers. Since ISO 20022 operates independently of any specific technology platform, it promotes interoperability and will enhance the efficiency of cross-border payments.

Faster and real-time payments

In most countries, payment system modernisation has concentrated on the development of faster or real-time payment systems. The focus has been on retail (in particular, customer-initiated electronic and mobile) transactions.

It's important to distinguish here between payment

GLOBAL DEVELOPMENTS

- **CANADA** CPA modernisation
- **MEXICO** SPEI® payment system
- **BRAZIL** STR RTGS system
- **US** The Clearing House faster payments
- **UK** Faster Payments Service
- **FINLAND** Finvoice
- **POLAND** Express Elixir system
- **EUROPE** EBA Clearing pan-European instant payment infrastructure solution
- **SINGAPORE** Fast and Secure Transfers payments
- **AUSTRALIA** New Payments Platform
- **SOUTH AFRICA** Real-time clearing system

SOURCE: *McKinsey Literature Review*

speed and settlement speed. Customers want payment speed – the ability to see transactions reflected in their accounts within a few seconds – and immediate access to funds. The popularity of these characteristics is reflected in the success of the UK's Faster Payments Service (FPS), which has experienced solid growth since its launch (a compound annual growth rate of 34.6% during 2009-13)[1]. Although that growth has slowed somewhat, FPS is expected to drive the continued growth of non-cash payments in the UK well into the future and provide a platform for further innovation. However, immediate access to funds for customers doesn't necessarily mean that settlement between payment system participants has to be immediate. Faster settlement isn't driven by customer demand – it's more about reducing credit and liquidity risk in a payments system, which is of primary importance to regulators.

Similar to the way the government drove the agenda that led to the development of the FPS, modernisation in many countries has been initiated by government or central banks. In Australia, for example, financial institutions are collaborating to develop a New Payments Platform in response to the central bank's strategic objectives on payments innovation. In the US, the Federal Reserve has formed a Faster Payments Task Force to help determine the way forward for more than 12,000 financial institutions of all sizes and business models.

Market forces are also spurring the development of faster payment services in the US. Recently, The Clearing House announced that it will work with VocaLink, a UK-based international payment systems provider, to develop a real-time payments network that will enable individuals and businesses in the US to make immediate payments. It will also include data, such as invoices for business payments.

The Canadian approach

In Canada, the Department of Finance and the Bank of Canada have expressed strong support for payment system modernisation, and system participants are aligning on ISO 20022, faster payments and other possible enhancements.

The Canadian Payments Association (CPA), Canada's financial market infrastructure for payments, is leading a holistic, collaborative initiative to modernise the payments system for the benefit of the overall financial system.

In September, the CPA and the Bank of Canada released joint research[2] outlining the most critical issues the industry must investigate to improve the payment system. The research translates the government's public policy objectives (PPOs) for the broad payments ecosystem into desired outcomes for CPA payment systems. Then it develops a taxonomy for clearly describing the defining attributes of a payment system: access, functionality, interoperability, timeliness of payments and risk management. Lastly, it develops an analytic framework to consider the trade-offs of the various attributes to achieve the PPOs for the Canadian payments ecosystem and recommends the most critical issues for the CPA to investigate as it considers the modernisation of its own systems. A disruption or failure in the CPA's retail payments system has the potential to adversely affect Canadian economic activity and general confidence in the payments system. Therefore, under the new legislation, this system is expected to be designated for oversight by the Bank of Canada, and will need to meet new and higher standards.

In line with other countries further along the path to payment system modernisation, the CPA is bringing the ISO 20022 standard for payment messages to Canada and actively promoting harmonisation at the international level. In August of 2015, as part of its modernisation initiative, it launched a consultation on its ISO 20022 message standard for direct debits and credits. In early 2016, the new ISO 20022-enabled messages for Automated Funds Transfers will be made available for use in the market.

While the global focus on real-time payments is very important, the CPA is taking a broader, more holistic look at the future of payments in Canada. Working with McKinsey & Company, the CPA is conducting interviews and interactive workshops with industry participants and stakeholders – another key component of its modernisation initiative.

Finding common ground and aligning industry players from across the payments ecosystem is not without its challenges. Many of these organisations are highly focused on regulatory compliance, and subject to varying levels of oversight. Consistent oversight and/or collateral requirements to ensure Canadians' funds are safely stewarded are of primary importance to payment system users. Access rules for clearing and settlement systems that support innovation and maintain trust are also a priority.

In 2016, once the shared vision has been established, the CPA will turn its attention to developing proposals for its core clearing and settlement systems to support the vision.

Through research, engagement and collaboration, the CPA will find the best opportunities to modernise for the benefit of payment system participants, businesses and all Canadians.

Regulators want to ensure that evolving payment services offer greater protection and reduced risk

GLOBAL DRIVERS

Changing user needs and expectations, including near real-time payments with availability beyond traditional hours of operation, and a growing demand for mobile and electronic channels, giving rise to new entrants

Convergence towards global payments standards, including cross-border consumer and corporate needs

Accelerating advancement in technology, including cloud, agile development, data analytics and hosted services viability

Growing regulatory requirements and demands for enhanced risk management both inside and outside government (for example, risk management, payment security, etc)

SOURCE: McKinsey Payments Practice

Gerry Gaetz is President and CEO of the Canadian Payments Association

1 *World Payments Report 2015* by Capgemini and the Royal Bank of Scotland
2 *Public Policy Objectives and the Next Generation of CPA Systems: An Analytical Framework*, available on the CPA website, www.cdnpay.ca

New World Bank order

After seven decades, the World Bank has reformed its procurement protocols for investment project financing. Alison Geary explains the parameters

On 21 July 2015, the World Bank's board of executive directors approved a comprehensive reform of procurement in World Bank financed projects.[1] Managers at the bank conducted 61 consultations in 37 countries to produce a new procurement framework, to be implemented in 2016, aimed at improving the transparency and flexibility of the procurement process. This was the first such review undertaken by the World Bank in its 71-year history.

Although consultation feedback identified fraud and corruption as the major problems currently facing procurement, changes to fraud and corruption provisions in the new framework are minimal.

Nevertheless, many of the changes will be welcomed by contractors and bidders alike. It will be hoped that increased support for borrowers by bank staff will create a more consistent and efficient procurement process across different agencies and countries. The bank hopes to achieve this by providing for the tailoring of integrity measures to the procurement method and the particular procurement chosen. This may be achieved by bank staff providing expanded supervision or independent third-party monitors (such as Transparency International) reviewing the process. Bidders will have to adapt their proposal or bid processes to each project and may need to devote further resources to this critical area.

Bidding processes

Improvements in the production of bidding documents and the time to conduct procurement processes will no doubt be welcomed by all parties. Allowing borrowers to use value for money and sustainable development criteria rather than focusing solely on lowest-price bidding may also be welcomed by smaller and more specialist firms that target specific development outcomes and that previously may have struggled to compete on large projects.

SHUTTERSTOCK

There are changes to the integrity provisions in the procurement process, commencing with the removal of the slight inconsistency in definition between the Procurement Guidelines and Consultant Guidelines, and the Anti-Corruption Guidelines. The Procurement Guidelines themselves are currently limited to a set of footnotes circumscribing targets of bribery and other corrupt practices to include only public officials acting in relation to procurement.[2] The current Anti-Corruption Guidelines contain no such limitations, having a broad remit governing procedures that determine the use of bank funds – including procurement – as well as project implementation. The Procurement Guidelines are set to be replaced by the Procurement Regulations for Borrowers. Anticipated changes to the Anti-Corruption Guidelines have been described as 'technical and editorial (non-substantive)' in nature.

Ensuring transparency

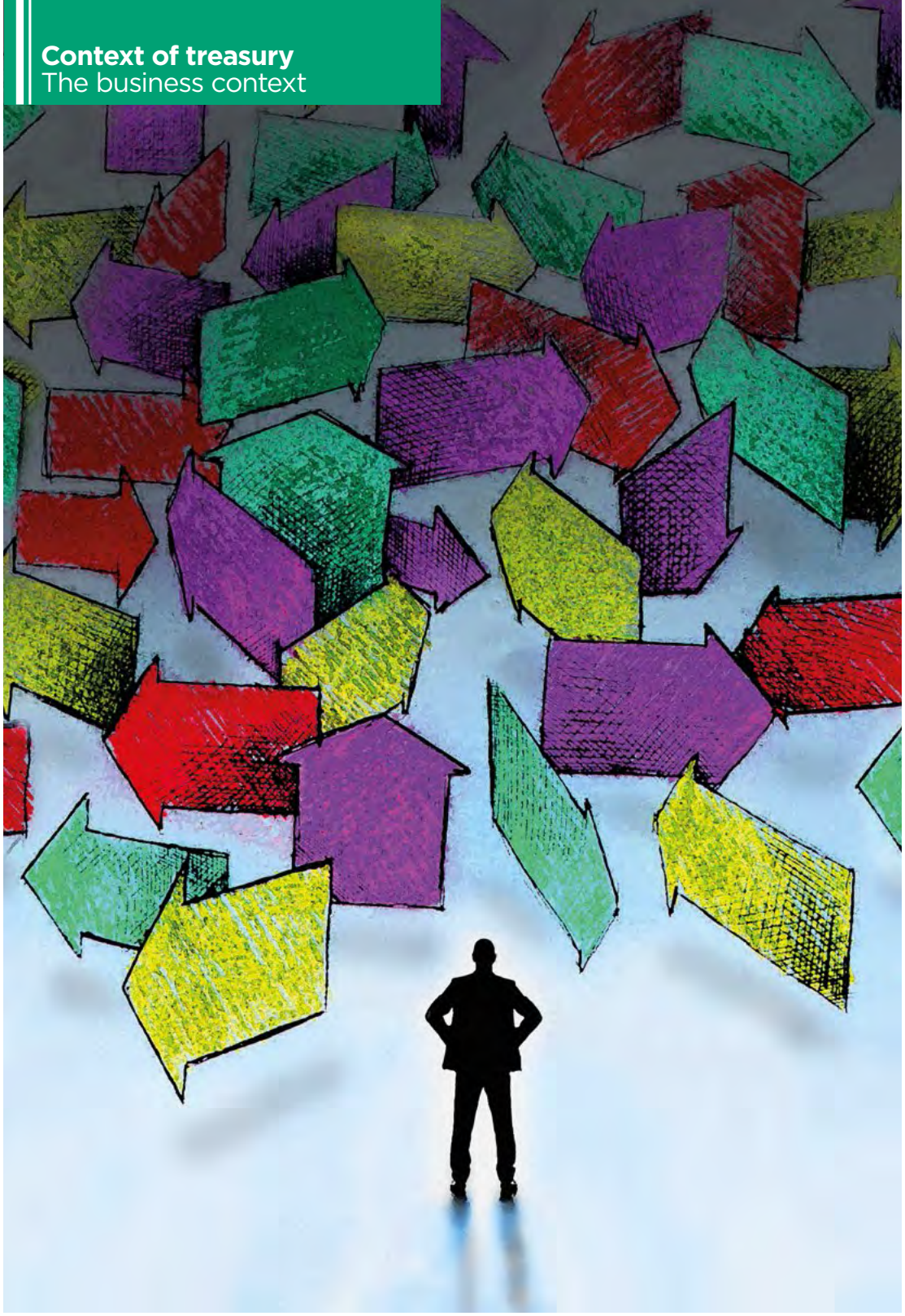
Further integrity changes may impact upon the bidding processes at firms. The World Bank intends to examine options to collect and make available the beneficial ownership information of legal entities participating in bank-financed procurements. This is in line with global trends in anti-corruption regulation, such as the EU's Fourth Money-Laundering Directive. This is an important step in ensuring transparency in the procurement process, but it may place an additional burden upon bidders to produce the necessary supporting documentation and may present an additional reputational risk to large organisations that have subsidiaries providing services in this sector.

Companies and individuals anticipating involvement in World Bank projects under the proposed new regime would not have to make substantial adjustments to their existing anti-corruption measures in respect of its provisions related to the World Bank sanctions programme. However, if the World Bank takes further action on beneficial ownership disclosure, companies should anticipate a more substantial change in transparency requirements; although in what form, and under pain of what sanction – if any – remains unknown.

Alison Geary is senior associate of the London white-collar crime practice at WilmerHale

Improvements in the production of bidding documents and the time to conduct procurement processes will no doubt be welcomed by all parties

1 *Procurement in World Bank Investment Project Financing: Phase II The New Procurement Framework*
2 *Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers*



Reading the signs

WHAT DOES 2016 HOLD IN STORE FOR THE LOAN AND BOND MARKETS? CAN WE EXPECT SIMILAR TRENDS TO THOSE SEEN IN 2015, OR ARE THERE NEW FORCES AT WORK? SIMON ALLOCCA SHARES HIS INSIGHTS

As is becoming something of a tradition, at the beginning of 2015, I made a number of predictions for the year ahead – looking at what challenges and opportunities the loan market might present. Twelve months on, it seems pertinent to review those predictions and to refresh them for 2016, analysing what all this means for you, the treasurer.

Activity in 2015

Compared to 2014, European loan market volumes were generally lower in 2015, totalling $632bn in Q3, down from $935bn the previous year. This was in part due to a lower number of large transactions (>$1bn), but volumes were also depressed as a result of the anticipated slowdown in the corporate refinancing wave. Nevertheless, year-to-date loan volumes as at Q3 2015 were above the levels seen in Q3 2012 and 2013.

Loan issuance also remained higher than bond issuance throughout Q3 2015. Due to an abundance of liquidity, loan market spreads tightened over the quarter, whereas bond spreads widened as a result of market uncertainty and global growth concerns. This divergence is expected to continue in 2016, and is likely to be a consideration in the financing decisions of lower-rated issuers.

Mergers and acquisitions

In line with my predictions, M&A experienced a significant uptick during 2015, notably in the pharmaceutical sector. The M&A boom has largely been driven by the availability of cheap money created by quantitative easing and a prolonged period of record low interest rates. Corporates have understandably taken advantage of market conditions and will no doubt undertake more M&A in 2016, given the continued borrower-friendly pricing.

Although the majority of large (>£5bn) M&A deals

GARY WATERS/IKON IMAGES

in 2015 were equity- rather than debt-funded, those that involved debt facilities saw several borrowers asking existing lenders to step up into a club deal. AB InBev's takeover of SABMiller is one such example – the company has secured a debt package worth up to $70bn from 21 banks.[1] This trend looks set to continue in 2016.

In terms of key sectors and themes for M&A activity over the next year, pharmaceuticals and general healthcare will likely remain active. Oil and gas, commodities and automotives will also be sectors to watch closely.

Corporate real estate

As forecast, 2015 saw continued growth in corporate real estate financing, and this was a strong source of overall loan market activity. Growth was driven by the increasing number of financings coming to the market and strong investor appetite. Lender confidence also strengthened due to a healthy outlook for the UK economy and improving property fundamentals. Meanwhile, the sustained low interest-rate environment and accommodative credit conditions also supported investment.

Growth looks set to continue in 2016, but traditional lenders are only likely to see more competition from corporate or investment banks (global players, not just European ones) as they look for alternative markets in the sector. Non-bank lenders, such as insurance companies and hedge funds, are also likely to continue to gain market share throughout 2016.

Innovation and regulation

Last year, I predicted that innovation would be most prevalent in the infrastructure and energy (I&E) financing space. While I expect further strategic I&E investment as we move into 2016, I also forecast that innovation will broaden out over the course of the next 12 months. In fact, some innovation is already surfacing in areas such as real estate and trade finance.

To a certain extent, future innovation will be driven by the advent of IFRS 9, *Financial Instruments*, which comes into effect on 1 January 2018. As the replacement for IAS 39, IFRS 9 will impact treasurers' hedge accounting practices. For banks, however, the new accounting standard requires lifetime loss provisioning on their lending from day one (the longer the maturity, the higher the provisioning). Estimates suggest that this could see Europe's top banks having to recognise an additional €61.5bn[2] in total loan losses. So, with longer-dated lending becoming more expensive for banks, there is a window of opportunity for innovative financing solutions, notably in the medium-term space, as well as increased involvement from institutional investors who aren't impacted by IFRS 9.

Bigger picture

Looking ahead, many of the geopolitical events that have dominated the headlines over the past 18 months will continue to influence the wider financial markets in 2016 and beyond. These include the atrocities in Paris, tensions between Ukraine and Russia, the slowing Chinese economy and the country's stock market turmoil, economic woes in southern Europe and Greece, and the Fed's lack of decisive action around raising interest rates.

While the loan market remains resilient at present, as the macro burden continues to grow and potentially impacts European loan volumes and corporate confidence for M&A, downward pressure on pricing is likely to intensify. Naturally, borrowers will look to take advantage of any favourable market dynamic to negotiate increased flexibility (in terms of covenants and baskets) in facility documentation.

That said, it is important for treasurers negotiating deals to think about the next transaction, as well as the current one. Success isn't necessarily about securing the lowest pricing, the tightest structure and the longest maturity; it's about negotiating a package that is suitable for the current environment, but that leaves the door open for another successful deal in the future.

The Asia opportunity

Elsewhere, the inward and outward trade and finance flows between the UK and Asia will be key for the British economy, and therefore for loan and bond markets in 2016. Asian corporates are actively looking to diversify their investments and business overseas – identifying investment opportunities in the UK in areas such as corporate real estate. This provides a new investor base for UK corporates and also opens up a gateway into new markets.

Green bonds

One asset class that Asian investors, as well as UK investors, continue to show increased interest in is green, or Environmental, Social and Governance (ESG) bonds. Although the green bond market has historically been dominated by sovereign issuers, a growing number of corporate and financial institution issuers are coming to market.

Moody's recently predicted that new issues could exceed £40bn in 2015, up from £36bn in 2014. Sectors that are likely to see increased ESG activity in 2016 include auto manufacturers, food manufacturers and retailers, as they attempt to demonstrate their green credentials.[3]

Finding solutions

So, as we head into 2016, how can corporate treasurers position themselves to successfully navigate the loan and bond markets?

First and foremost, it is important to be mindful of the current macroeconomic environment, while keeping one eye on your next transaction. This should help ensure that these markets can be tapped successfully both today and in the future.

Obtaining good counsel from your core relationship banks will also be a vital ingredient in leveraging loan and bond market opportunities over the next 12 months. And importantly, 'good counsel' means not being afraid to innovate or to challenge the status quo. Ultimately, with the right experience and mindset, it should be possible to find a solution to any financing challenge.

Many of the geopolitical events that have dominated the headlines over the past 18 months will continue to influence the wider financial markets in 2016 and beyond

1 www.ft.com/cms/s/0/dbe8bb04-7d4e-11e5-a1fe-567b37f80b64.html#axzz3r23RKZre
2 www.ft.com/cms/s/0/dd190a8e-50ac-11e5-b029-b9d50a74fd14.html#axzz3r2
3 www.environmental-finance.com/content/news/green-bond-issues-surpass-2014-total-to-set-new-record.html

Simon Allocca is MD, head of loan markets at Lloyds Bank

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Beyond limits

WHAT DOES A ROGUE TRADER LOOK LIKE AND HOW CAN YOU PROTECT YOUR ORGANISATION AGAINST THEM? SCOTT RAEBURN EXPLAINS HOW THEY OPERATE AND HOW TO SPOT ONE

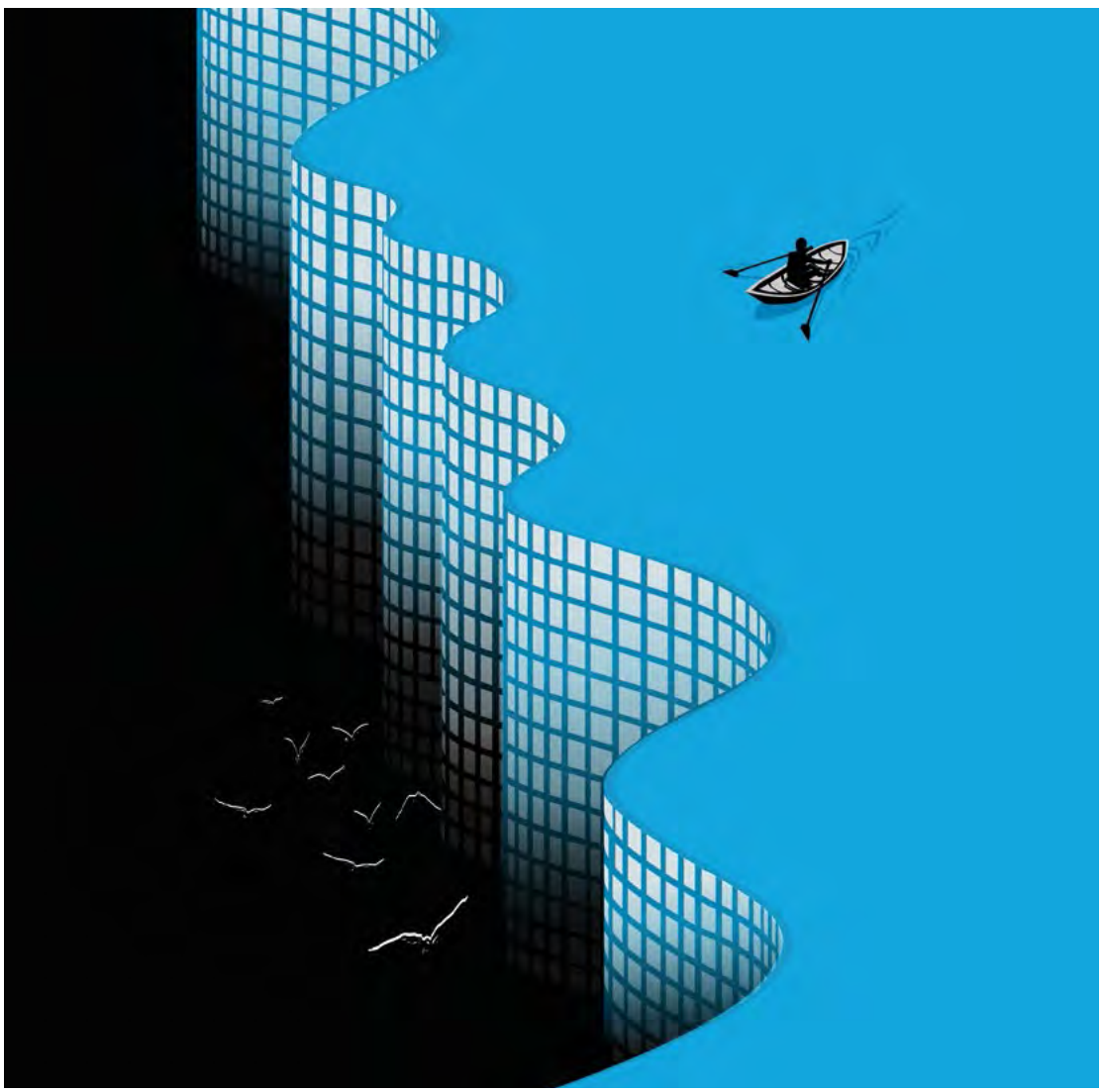


IMAGE SOURCE

What do we think of when we hear the term 'rogue trading'? Footage of a youngish bank trader making massive losses with a few reckless, fraudulently entered trades being dragged before the courts on the evening news? That's a simple and familiar image, but comfortably far removed from anything to do with our business, surely.

Unfortunately, it's not quite that neat and straightforward. We hear about rogue trading when it's big and goes spectacularly wrong, such as in the famous ones (see the box on page 37). That is when it's too late to do anything and the ensuring events become a spectacle. The more interesting questions for treasury professionals are around the cases we haven't heard about yet.

So, what is a rogue trade? It's not an unprofitable trade, or an undeclared one, or even an unwise one. It is simply an unauthorised trade. These are not trades carried out by people who shouldn't be trading, but those with access to trading mechanisms who are breaking the rules around scale, risk or the instruments they are allowed to use. A rogue trader is someone in a position of trust misusing it, then concealing their actions – rather like a spy does.

The rogue trades that are most often reported occur in banks, because the scale and impact is often dramatic and newsworthy. But these abuses can happen anywhere there is trading in play – commodity and FX markets would be the most likely contexts for corporates. More complex and leveraged instruments can magnify the scale and help conceal the true underlying risks. But a simple spot deal could actually be rogue, depending on the reasons it was placed. Even refraining from making a trade that policy would indicate the need for might, strictly speaking, put an individual outside the rules.

What motivates somebody to be a rogue trader?

To continue the spy analogy, espionage recruiters look for one or more of four classic behavioural drivers to induce insiders to act against their own organisations. Collectively, these attributes go by the acronym MICE:

Money, while the simplest motivation, is often not the stated issue here. Rogues often say they make 'no personal gain' from their activities, beyond bonuses at least. To an outsider, these are relatively modest compared to the career risks being run by people supposedly expert in assessing the value of risk.

Ideology could be a possible motivator, where the trader fundamentally disagrees with the policy they seek to circumvent. The individual feels the need to prove their correctness in the irrefutable arena of market success.

Conscience is surprisingly common as a partial reason at least for rogue trading. The rogue trader justifies their action as being for the good of the employer, particularly when bending trading rules to recover losses. Partly, that's also a desire to avoid trouble, but the individual often convinces themselves they are acting out of loyalty.

Ego plays a large part. An inability to admit to error and an insistence that reality conforms to one's needs and expectations – these are not just the preserve of the amateur small investor.

And what sort of setting might unwittingly encourage rogue trading? If official policy is zero-risk tolerance, but active trading can result in rewards like recognition, promotion or bonuses... then rogue trading is more likely to occur.

Perhaps the worst thing that can happen is when a first-time rogue trader meets with early success – the trading behaviour pays off and they manage to cover their tracks, so the behaviour is reinforced and encouraged. As for those alleged cases where managers were aware of and tolerated off-the-books trading because of the results, it stops being clear who is the rules-breaking rogue and who is merely inputting the trades.

A culture that does not address the possible motives behind rogue trading allows them to build up. If a junior trader can't question the reasoning for a policy and expect a reasoned answer, sooner or later somebody will try their own experiment. If only those with unconventional results get recognition or reward, then everyone will be seeking to emulate them. Similarly, a culture that doesn't tolerate admissions of failure will tend to have problems.

Rogue trading often draws in others. The rogue trader has to put time and effort into concealing their actions and that may involve others – other traders or accountancy staff to amend the records. In the case of Toshihide Iguchi (see box, below), it was the stress of concealment that eventually led to him coming forwards, after 12 years of clandestine trading activity.

While rogue trades are hidden from others within the organisation, they're not out of sight from counterparties – settlement will eventually become necessary and, when this is a loss, an organisation's liquidity risk is heightened. Nick Leeson (see box, below) might have continued for years if his authorised overnight position hadn't suddenly been revalued by the Kobe earthquake.

What to do if you're a rogue trader? If you're ahead, walk away now. Has it really been worth it? If you're in trouble, is it really fair to your firm and colleagues to take even greater risks to bail you out? Coming forward takes courage, but may allow for a more controlled solution for your employer. On a more self-interested note, it might conceivably improve your legal position.

How to spot rogue traders

If a rogue trader comes to light in your organisation, remember they know the actual situation fully and will be best placed to shed light on it, help resolve it and perhaps even improve controls to avoid reoccurrence.

Whether the culprit is you or someone else, there are two key tasks. The first is assessing the positions and resolving them with the least disruption possible to business health and activity. The second is dealing with the possibility of other rogue traders in the organisation by improving controls and auditing all activity thoroughly, ideally with the assistance of somebody who knows how to bypass the controls. Consider allowing a very short amnesty period for others to come forward.

If you're tempted to place a trade outside your firm's rules, examine your reasons. If the trade would be in the organisation's best interests, but outside its current rules, make your case openly, propose some policy amendments or get the reasons you don't yet know for why the policy makes sense.

If you've not got any good reasons for the trade, or are unwilling to voice them, then prepare to become a rogue trader. And remember, all you need to do is have the Great Humbler (also known as the market) react with the values and timings you want for every trade. But that should be easy... the rules don't apply to you, do they?

FAMOUS ROGUE TRADERS

Name	Organisation	Instrument used	Value lost	Time as rogue
Jérôme Kerviel	Société Générale	Index futures	$6.9bn	2006-2008
Yasuo Hamanaka	Sumitomo Corp	Copper	$2.6bn	'years' to 1996
Kweku Adoboli	UBS	Stock futures	$2.3bn	2008-2011
Nick Leeson	Barings	Index futures	$1.3bn	1992-1995
Toshihide Iguchi	Resona Holdings	Treasury bonds	$1.1bn	1983-1995

DANGER SIGNS

APPARENT DILIGENCE The rogue trader is always in first to amend overnight reports in private and often never takes holidays, as they can't risk giveaway signs coming to light in their absence.

UNEXPLAINED PROFITS OR LOSSES Some rogue traders deliberately create losing positions to offset and disguise excess profits.

CONSISTENT PROFITS or trading results, especially if they coincide with the reaching of targets. Very few people in the market are lucky all the time; those who are tend to celebrate it.

EDITED, DESTROYED OR LOST trading records might hide rogue activity, but a read-only, or activity-logged duplicate of all trades entered into at a secondary location would be harder to tamper with.

Scott Raeburn is a treasury professional in the industrial manufacturing sector

Know your third party – a framework for corporates

COMPANIES DON'T NEED TO RULE OUT BUSINESS WITH APPARENTLY RISKY THIRD PARTIES OR SUPPLIERS, PROVIDING THEY DO THEIR RESEARCH AND LOOK AT THE WHOLE PICTURE. JAMES SWENSON SETS OUT SOME GUIDANCE

The drive to improve profitability and streamline operations motivates many organisations to collaborate with other businesses, increase outsourcing of non-core activities and to expand their global footprint into unknown territories. While these decisions can and do result in economic benefits, these organisations must also give due attention to the potential increased costs to ensure those third parties adhere to legal requirements as well as implied standards of conduct.

In today's business environment, organisations are held responsible for the actions of suppliers, vendors and partners in addition to their own internal activities. Knowledge and understanding of supplier and third-party risk (KY3P) is of the utmost importance. Regulators enforce tax, bribery, sanction and money-laundering rules and fines, while reputational damage awaits firms that don't check for forced labour or other bad practices.

Therefore, it is critical that a robust risk management programme includes due diligence in the selection of business partners and third parties, as well as ongoing monitoring activities.

A framework for corporate treasurers looking to improve their KY3P due diligence or establish a structure for efficiency should begin with an understanding of their supply chain and its composition, including joint venture partners. Treasurers need to also remember that each company is different. For example, a manufacturer will have suppliers, while a software firm will have lots of distributors.

Once businesses have a complete picture of their supply chain, they can then look to focus on risk by assessing their company against the four key risk variables of:

- Jurisdiction (some countries are more corrupt than others – use sources such as the World Bank and Transparency International reports to grade them);
- Exposure to government officials (look for politically exposed persons – PEPs – sanctions, etc);
- Type of relationship (stationery suppliers are less important than a part supplier); and
- Business sector (a retail partner is less risky than an oil or defence firm).

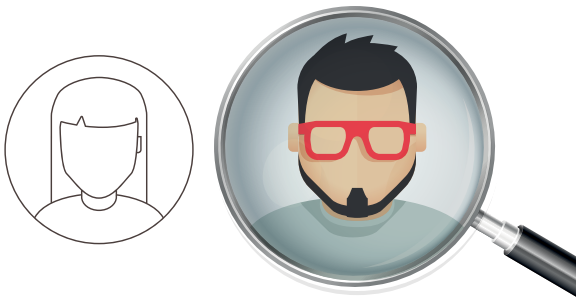
Thanks to the advancements in treasury technology, companies can now run an algorithm based on exposure to the variables, identifying low-, medium- and high-risk scenarios. A high-risk scenario might be an oil firm in a medium-risk country, such as Malaysia, for instance, which requires a government permit to operate. A low risk would be a retailer that merely wants to place some product in Canada.

Treasurers should also remember that, just because an organisation or country of origin is designated as high risk, doesn't mean the organisation shouldn't proceed with the relationship or venture. It does mean, however, that they will need to ensure heightened scrutiny, ongoing oversight and auditability.

To mitigate risk, companies should automatically look at sanction and PEP lists, and carry out adverse media search investigations. For medium risk, add company status verification registries to your policy, such as Companies House documents in the UK, and a look at the directors and beneficial owners. For high-risk scenarios, a site visit might be required. Asking questions around office location, whether or not the direct supplier is newly incorporated, or, if it's a third party, if they are subject to the same rules, and, if the firm is offshore and holds a track record; these are all helpful when it comes to assessing risk.

Firms should certainly look to use public records; commercial databases and open-source data via the internet in their risk procedures and to always monitor partners and update policies to keep abreast of new regulations and threats.

In conclusion, if companies follow these procedures, they will be able to cope with the USA PATRIOT Act; supranational Foreign Account Tax Compliance Act regulations; UK Bribery Act; fourth EU Money-Laundering Directive; sanctions versus Russia; and much else besides. Ethical and corporate social responsibility concerns around forced, bonded or child labour – effectively modern slavery, a hot topic in 2015 – can also be mitigated.



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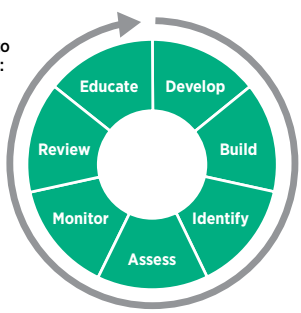
KY3P RISK MANAGEMENT

In order to prevent, detect and investigate supplier and third-party risk, organisations need to implement a simple framework:

1. Develop your programme
2. Build and operate controls
3. Identify the risks
4. Assess the results
5. Monitor and report
6. Review and align
7. Train and educate



James Swenson is **head of operations and delivery for Thomson Reuters enhanced due diligence business**

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CURRENCIES IN FREE FALL

EMERGING-MARKET CURRENCIES ARE DEPRECIATING SHARPLY, A TREND THAT SHOWS LITTLE SIGN OF ABATING. THE PRESSURE IS ON FOR TREASURERS TO PROTECT THEIR COMPANIES' BOTTOM LINE, WRITES FARAH KHALIQUE

The year 2015 has been a tumultuous year for a whole host of currencies – from the benign Swiss franc, which soared in value after the Swiss Central Bank scrapped its three-year cap to the euro – to more exotic currencies, such as the Malaysian ringgit and Thai baht. Emerging-market currencies tend to fall sharply during an economic crisis, which hits the company coffers twice – both in currency and revenues.

Forget BRICS, enter GRC ('grey hair currencies')

The Brazilian real, Russian rouble, Chinese yuan, South African rand and Turkish lira are causing market participants "a lot of grey hairs", says Satu Jaatinen, head of global corporate solutions at Commerzbank.

The Brazilian real has lost almost half its value versus the US dollar since the start of the year, amid deep problems in its economy, while the Russian rouble has weakened as oil prices slide. China's surprise move to devalue the renminbi spurred neighbouring Asian countries to follow suit and weaken their currencies, and rumours of further renminbi devaluation could spark even further falls.

Jaatinen says: "Now there is an adjustment period in the way treasurers look at things. For European companies, the yuan was previously considered a US-dollar exposure because it was pegged to the dollar. Now companies are considering whether it is worth hedging, because interest rates in China are still high."

Jaatinen says that, by contrast, Chinese corporate treasurers are looking at their hedging needs with a more sophisticated approach, especially where markets might be illiquid or have fewer hedging products available.

Keep it simple

Forward contracts are a straightforward way for companies to lock in today's exchange rates for a future currency purchase. Brewer SABMiller, home to a dizzying array of beers, including Peroni and Pilsner, prefers to keep it simple, says treasury manager Tom Gilliam.

SABMiller mostly uses forwards to hedge its transactional exposures, which can arise when importing raw materials from overseas, such as malt, used to brew beer. It has exposures to a number of exotic currencies – the Colombian peso, Peruvian nuevo sol and South African rand, to name a few.

"The way our policy is set up, we layer in FX forwards over the course of up to 18 months. Over that period, we enter into hedges every

month or every other month," says Gilliam.

But hedging emerging-market currencies has its nuances. Local currency markets are not as deep as major currencies like the US dollar, and treasurers have to consider the 'cost of carry', which is determined by interest rates. The cost of a forward can be prohibitive when hedging a currency from a country with comparatively high interest rates, like India.

Cost-conscious treasurers can take a more dynamic approach by trying to foresee and respond to events through a momentum-based hedging programme. This means remaining unhedged most of the time, but taking on hedges or increasing hedging if markets start moving rapidly.

Sanctuary In NDFs

PZ Cussons is the healthcare and consumer goods group behind some of the world's best known brands, such as Imperial Leather, the St Tropez tanning range and Sanctuary Spa skincare products. Perhaps less well known is its white goods brand, Thermocool, popular with Nigeria's growing middle class. The company has a strong presence in Africa, and plans to stay in it for the long haul. Group treasurer Scot Morton had to think on his feet when the company's year end coincided with the inauguration of Nigeria's new president, Muhammadu Buhari, at the end of May. It was uncertain whether Buhari would make a decree to devalue Nigeria's currency, the naira, giving PZ Cussons a dollar exposure.

Morton says: "To ensure we were covered, we took out a non-deliverable forward [NDF]. We started talking about it in April and discussed pricing with four UK banks; it cost us about $300,000. An NDF was the right thing to do."

In the end, the exchange rate didn't move and PZ Cussons had to pay up a small amount, but Morton was glad the company hedged its bets. "We hedged with an NDF for a month to cover any devaluations. We are conscious that in Nigeria there is constant talk of devaluing the currency, so we may need to revisit this."

PZ Cussons has an 'exceptional hedging policy' for emerging-market currencies, but Morton wants to make this more regular. The company's Nigerian business is listed on the Nigerian Stock Exchange; the dividend is payable in naira. Once the dividend is declared, the company is paid in US dollars.

"This is not typically hedged, which means, at group level, we continue to have naira exposure. It is not yet a thought in our senior guys' minds to be a bit crafty and do an NDF; my next goal is to hedge our naira dividend," says Morton.

WHAT DO TREASURY PROFESSIONALS THINK?

"US corporate treasurers are *very* concerned about emerging-market currency volatility."
Tony Carfang, partner at Treasury Strategies

"The key message for treasurers is to illustrate the cost benefits and risks involved [of hedging], and try to spell it out as clearly as possible [to the board]. Do your own analysis to illustrate the average cost of different hedging strategies. Get a lot of real market data to back up what you're talking about, rather than just presenting an idea from the bank."
Tom Gilliam, treasury manager at SABMiller

"Currency appreciation can work in your favour. But you don't want to recommend not hedging because markets might go in your favour – you want to play a straight bat. I say to colleagues: 'I don't know the future sunshine and neither do you; let's just stick to our agreed policy and hedge.'"
Scot Morton, group treasurer at PZ Cussons

"There's evidence that being unhedged is the optimum strategy, since markets tend to overestimate the carry, but that's a challenging argument if someone's demanding why you didn't do something!"
Head of treasury at FTSE-listed British firm

The world of options

Treasurers can feel that hedging is too expensive and sporadically use a forward, only when the situation is really bad, says Jeremy Monnier, global head of FX solutions at Deutsche Bank. "Invariably, it is too late. Timing is always an issue. Treasurers need something that allows them to benefit from nominal currency appreciation, but also protect them from a massive tail scenario," he says.

Sophisticated corporate treasurers can consider using more complex derivative products – options – to hedge their currency exposures. Collars are a good place to start, advises Monnier. A collar only hedges outside a certain band, so if the currency hardly moves, then there is no hedge. But if there is a sudden deprecation, as is wont with emerging-market currencies, the hedge kicks in. On the flip side, if the currency appreciates, then the treasurer is obliged to pay the counterparty an opportunity cost – there is no free lunch in derivatives. For example, a treasurer might only be able to participate in a currency appreciation of up to 1%, but would be protected against a depreciation of more than 2%.

Automatic rolling collars are one possibility as a long-term hedging strategy. Some banks suggest that options offer the best protection on a long-term average, based on historical data.

Treasurers can take a more dynamic approach by trying to foresee and respond to events through a momentum-based hedging programme

Farah Khalique is a freelance business and financial journalist

LESS CHECKING, **MORE LIVING**

WITH THE BOUNDARIES BETWEEN WORK AND HOME LIFE INCREASINGLY BLURRED, THE QUICK EMAIL CHECK HAS MORPHED FROM A NECESSARY EVIL INTO AN ALL-PERVASIVE HABIT. DR ANNA COX SUGGESTS WAYS TO REDUCE YOUR EXPOSURE

The widespread use of mobile devices has changed work practices and transformed our everyday lives. In recent years, tablets have become incredibly popular – 2015 was predicted to be the year in which tablet computers outsold PCs. Their popularity is arguably because they successfully include both leisure apps and business tools, helping people to stay connected with work any time, *anywhere*. And I mean anywhere – people in our studies even admit that they check their email on the toilet! However, as well as facilitating new ways for

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combining work and personal life, these new technologies also blur the boundary between the two domains.

Research has shown that people who use technologies for work purposes while at home struggle to detach from work. Time away from work is important in order to recover from stress and recharge at the end of the day. Detaching psychologically from work leads to less fatigue, more positive working-week experiences and higher overall life satisfaction.

But staying away from work by avoiding the frequent email-checking habits that so many of us have can feel stressful in itself. While I'm away at a two-hour meeting, my inbox receives 30 messages. How many would arrive if I stayed away for longer?

The benefits of limiting email checking

Gloria Mark and colleagues[1] persuaded an organisation to switch off their email system for a week. They reported a host of benefits, including less stress and more ability to focus on a task with less task switching. But to most of us this seems like achieving the impossible. There's no chance we could persuade our organisations to give up email, and email is so integral to our work now that nor could we get away with making a personal decision not to use it. So what about making a more modest change to our email habits? Could that have the same benefits?

Another study compared questionnaire data from those who adopted a check-email-three-times-a-day strategy with those who weren't limited in the number of times they checked. Their data showed that limiting the number of times you check email can make you happier.[2]

In a similar study, we found that when you limit the number of times a day you check your email, you are faster at dealing with them, too.[3] So, not only can limiting the number of times you check your email make you happier, it also makes you more efficient, freeing up more time for you to concentrate on the other parts of your job. How can this be? Well, if you only check once a day, you often find that an issue raised in an email has already been resolved by someone else, leaving you free to simply delete or file the message.

How to reduce email checking

We all know that come the new year, while we might have good intentions, our willpower is often lacking, so if you want to see if this works for you, then you will need to find ways to support the development of your new habit. Here is a list of some of the most useful strategies we have found in our research:

- Separate your work and personal emails into different accounts so that when you want to find that email message from your daughter's school you can't accidently start answering a work email.
- Separate further by using different apps to access your work and personal email accounts. This is easy on a smartphone – perhaps use the default one on your phone for personal email and then download a separate app for your work email. Hide that app away somewhere on your phone, so it's not there staring at you every time you look at the home screen. And find out how to switch off notifications. That way you will only know how many unread messages there are when you decide to go and look.
- If finances or circumstances allow, you could create an even bigger divide between home and work by using multiple devices to manage work-life balance. For example, you could have two different phones with your work email on one and your personal email on the other, or just limit your work email to your work computer and not have it on your smartphone at all. This can be a really powerful strategy to help you get out of the habit of checking your email wherever you go.
- If you're about to go on holiday, why not follow in Daimler's footsteps[4] and set an out-of-office reply that tells everyone that their email is being deleted and that they should contact one of your colleagues instead or email you again after you return. This could give you a whole extra day of productive work instead of spending your first day back after the holidays sifting through 800 emails. If this sounds too scary, set up a rule to move it into a special folder called 'when I was on holiday' and then only look there if you have to. There's something very calming about coming back to work to see an empty inbox.

> What works for one person isn't going to work for everyone. We all have different work-life boundary preferences... Some people prefer to know that there aren't any unread messages

I'm not saying you should definitely do these things. What works for one person isn't going to work for everyone. We all have different work-life boundary preferences that are shaped by our personal values, the culture of our workplace and the roles and responsibilities we have in our personal lives. Some people prefer to feel constantly connected, to know that there aren't any unread messages waiting for them, and are comfortable frequently switching between one context and another. Others prefer a greater distance between work and personal time. What I describe above are steps you can take to make technology work for you instead of against you if you're one of the people who feels that they spend too much time on email and not enough time on other things.

And finally, if none of these different ways of disconnecting seem like something you'd like to try, there are 10 other tips for helping to reduce the ever-increasing number of emails sent and the pressures we all feel to respond to them – see www.emailcharter.org. As far as I know, other than the one about disconnecting, these aren't scientifically validated, but they all look like pragmatic reasonable suggestions for how we might make dealing with email a bit more streamlined.

Dr Anna Cox is a reader in human-computer interactions at University College London

1 *A Pace Not Dictated by Electrons: An Empirical Study of Work Without Email*, by Gloria Mark et al, 2012
2 *Checking email less frequently reduces stress*, by Kostadin Kushlev and Elizabeth Dunn, 2015
3 *How to manage your inbox: is a once a day strategy best?* by Adam Bradley, Duncan P Brumby, Anna L Cox and Jon Bird, 2013
4 www.bbc.co.uk/news/magazine-28786117

Time for everyone to flex

FLEXIBLE WORKING REQUIRES EMPLOYERS AND EMPLOYEES TO THINK ABOUT HOW OUR WORKING LIVES CAN BE TWEAKED TO SUIT PEOPLE AT DIFFERENT STAGES OF THEIR LIVES AND CAREERS. BEN BLACK EXPLAINS WHY 'FAMILY-FRIENDLY' IS MORE THAN JUST CODE FOR FEWER HOURS

IKON IMAGES

Flexible working and sleep patterns have been getting a lot of air time, particularly in the UK, where sleep expert and University of Oxford professor Dr Paul Kelley has claimed that working nine to five is a form of modern torture.

He argues, for instance, that older children should start school at 11am to help them improve grades. Some quarters of the press have been enjoying themselves with his ideas, linking an 11am start to a reduction in drug or alcohol abuse, which may be a bit of a stretch.

While the headlines and stories might appear to be complete balderdash, there may be something useful that the world of work can gain from his musings.

Flexible working is a buzz term that gets mentioned around thousands of offices the world over, and is fast becoming a key attribute for many employees when looking for a role. But what does it really mean? And how can staff encourage management to sit up, take note and introduce some practices that will help improve their work-life balance? The reality is, whether you leave early and log in again in the evenings, or work fewer hours spread out over the week, people can, and do, work more flexibly.

I'm the father of 10-year-old twins, a boy and a girl, and I've learned a lot watching them grow up. My daughter is the early bird: she gets up early, full of beans, and gradually starts getting grumpy and tired as the day goes on. My son is the opposite. He's a night owl who can party with the best of them, but getting him out of bed for school requires the powers of a small army.

If I was their boss rather than their dad, I would use this knowledge to both of our advantages. Letting them work at opposite ends of the day would not only allow them to be more productive, it would also allow them to fall into a more natural rhythm.

Nowadays, employers want to be seen as family-friendly. They've finally figured out that in these days of more flexible working, you don't have to do too much to get more out of your working parents. Be a bit nicer to any mothers or fathers in the business who happen to have children and you'll end up with happier and harder-working employees.

Being able to work more flexibly and actually doing it are two different things, however, but the more switched-on employers – IBM and Deloitte, for example – genuinely understand that allowing people to work in more agile ways can be a win-win situation. Employers need a bit less office space and they end up with a much happier, more engaged and productive workforce. Getting flexible working right, however, is complicated.

Research carried out by Lancaster University, UK, and campaigning charity Working Families summarises the challenge nicely. When you start to look below the surface, you'll see that men in a big, successful private-sector organisation who found ways to work flexibly were the least likely to lose their jobs when the credit crisis hit. They were seen as the hardest working and most valued employees. Conversely, dads working flexibly for large civil-service departments were the most likely to lose their jobs when the credit crisis hit. No surprise really.

If flexible working simply means working less, then it doesn't work for anyone – especially the employer. Managing flexible working policies is down to the employer, but building trust and proving it's a good plan means everyone working together. Dr Kelley's findings are not just important to the employee, but to the employer as well.

As an employer, you can facilitate flexible working by making sure that anyone who might need a work phone has one and knows how to use FaceTime or Skype to encourage remote meetings. Flexible working isn't about work patterns; does the job really need someone full time? Break down a role to 30 hours a week on flexible working and it could suffice. There are, of course, very many practical ways that employers can help working parents. The most stressful time for families is when childcare breaks down. There are some fantastic emergency childcare schemes out there that provide bespoke services for employers and individuals. In practice, most forward-thinking directors and managers are happy for the business to pick up the cost if there is an important work deadline that gets hit as a result.

If career and life are not mutually exclusive, then individuals will be far more engaged with an employer that has allowed them to reach that happy state of affairs – engaged people work longer and better. Everyone's lives are different; whether you are managing work around your family or training for a marathon, the important part is productivity. Flexible working works because people are happier. They are happier because typically they have found a way to balance work and family, and pursue their interests both in and out of the office.

If career and life are not mutually exclusive, then individuals will be far more engaged with an employer that has allowed them to reach that state of affairs

Flexible working is about looking at what's best for the employee – and the employer – and finding the angle that benefits the business (more work, higher engagement, better results). Here are three examples of what family-friendly might mean for different employers:

- **Example 1 – *Corporate law firm.*** Senior lawyers are paid very well, they work incredibly hard and client needs will always come top of the priority list. Family-friendly here might mean making sure working parents have fantastic childcare support so that they really can attend that completion meeting at 2am. Not that friendly, you might think, but definitely useful.
- **Example 2 – *Large, performance-driven multinational.*** Imagine you're an ambitious and well-regarded young parent. Family-friendly here might simply be a case of recognising that for a few years you prefer getting your head down and not constantly fighting for promotion. The employer that can allow people to take a rest from the daily competition for promotion and jump back on the career ladder a few years later is brilliant for working parents.
- **Example 3 – *Call centre.*** Here, family-friendly might simply be a case of making sure shift patterns are flexed around the needs of the working community, rather than set in stone irrespective of family commitments.

When it comes to family-friendly, culture is fundamental and there are a few ways to start shifting the needle. Organise a lunchtime seminar from a work-life balance expert, organise some sandwiches and convince some senior employees to attend and talk about the issues raised afterwards. Make sure there is a proper process in place to keep in touch with anyone who happens to be on maternity or paternity leave. And if you really want to be forward thinking, ask who in the business combines work with responsibility for an older relative.

Experts like Paul Kelley have brought a new line of thinking to a debate that has mainly focused on logistics. The flexible working debate is usually about finding balance in the complicated lives we lead. It's about being able to pick up the kids from school and make the occasional visit to grandparents and dependants. There is a lot more to the argument. Very little has been written yet about why working from home and at different times will have physiological benefits to individuals. This is an intriguing angle to a discussion we've been having for a few years now.

As an employer, I'm willing to consider it. Some people work better in the evenings, some want and need the visual and social stimulation of an office and others will do their best work sitting at home in their pyjamas with the television gently murmuring away in the background. If you're going to embrace agile working, then understanding these different preferences seems obvious and essential. Our much-maligned sleep expert might just be on to something.

Ben Black is director of My Family Care

CALCULATE, FORECAST, EXPLAIN

LENDERS ASSESS CREDIT RISK BY A NUMBER OF RELATED MEASURES. DOUG WILLIAMSON SHOWS HOW DETAILED UNDERSTANDING OF THESE MEASURES CAN STRENGTHEN YOUR ORGANISATION AS A SAFE AND EFFECTIVE BORROWER

Most organisations have debt. Some have a lot of it. The more debt a borrower has, the more its lenders worry about getting their money back or about extending further credit.

Debt also involves risk to the borrower, because lenders have priority claims if the borrower defaults. Many corporate failures have been a consequence of excessive borrowing in earlier periods.

Lenders, credit rating agencies and other stakeholders need to measure how much debt the organisation has, and whether this amount is too much.

Warning signs

Indicators used to assess whether or not debt levels are excessive include:

- Debt compared with net worth;
- Debt compared with cash flow or profit; and
- Debt servicing costs compared with profit or cash flow.

Current and prospective lenders take these measures very seriously. For this reason they are key drivers of the availability and cost of debt finance.

Measure for measure

Particularly important for treasurers are two closely related risk measures that compare debt with net worth:

(1) Debt to equity ratio, often known as 'gearing'; and
(2) Debt to total capital employed ratio, also known as 'leverage'.

'Equity' is the capital provided by shareholders, often abbreviated to 'E'; while 'capital employed' is the total of debt ('D') and equity together. Capital employed is often written as: 'D + E'.

Borrowing documentation frequently contains financial covenants. Under these covenants the borrower promises to maintain leverage, gearing or other credit risk measures within specified limits. Breaching covenants can have severe adverse consequences. So, the treasurer needs to be able to calculate, forecast and explain the covenanted measures with confidence.

Why have both?

Gearing and leverage, as defined above, are not two different things. They use the same information expressed as two different figures. Indeed, we could calculate either of them directly from the other.

Market participants have different valid perspectives on financial situations. Treasurers need the flexibility to understand many perspectives. The best treasurers communicate quickly and effectively from multiple perspectives, and express their recommendations using appropriate conventional bases, in the ways that stakeholders are used to seeing information presented. Consistency of approach and definition are essential, especially when making comparisons.

Subtle differences

Let's calculate gearing and leverage, and see how they differ. Both measures are expressed as percentages. We need two inputs for our calculations: debt (D) and equity (E).

Definitions of debt and equity are critically important. Debt can include or exclude certain items, such as cash, short-term borrowings, leases, pensions and other provisions. Equity may also be adjusted, for example, to exclude intangible assets, such as goodwill.

Gearing

Gearing is usually defined as: Gearing = D ÷ E.

Let's start by assuming a relatively small amount of debt, for example: D = 1 and E = 4.

Gearing = 1 ÷ 4 = 25%

Increasing the debt to 2 and reducing equity to 3 increases gearing: 2 ÷ 3 = 67%.

A further rise of debt to 3, and reduction of equity to 2, increases gearing even more: 3 ÷ 2 = 150%.

These results are summarised in the table below:

Gearing = D ÷ E			
D	1	2	3
E	4	3	2
Gearing	25%	67%	150%

Leverage

Leverage uses exactly the same inputs, but combines them in a slightly different way.

Leverage is usually defined as: Leverage = D ÷ (D + E).

For this calculation, we need capital employed (D + E). Let's use the same inputs as for gearing: D = 1 and E = 4.

D + E = 5
Leverage = D ÷ (D + E)
= 1 ÷ 5
= 20%

Continuing with the same examples as before, the leverage figures are summarised in the table below:

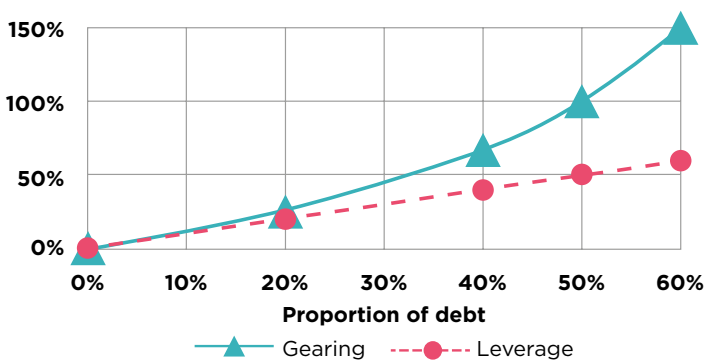
Leverage = D ÷ (D + E)			
D	1	2	3
E	4	3	2
Leverage	20%	40%	60%

Increasing divergence

Gearing and leverage calculations can give significantly different numbers for exactly the same base values of debt and equity. The greater the relative amount of debt, the greater the difference between gearing and leverage. Gearing is a larger number than leverage, and it grows ever faster as the proportion of debt increases.

This increasing divergence is clear when we plot our results on the same graph (see below).

CREDIT RISK MEASURES – DIVERGENCE



HELP FOR ACT STUDENTS

Download this and other useful study information from the student site you are assigned to: either the Resources area of the ACT Learning Academy at learning.treasurers.org or the Exam Tips area of the ACT Study Site at study.treasurers.org

Where are my formulae?

You may need to do these calculations, and others, in your assessment. Many calculations need definitions and formulae. Examples include **D ÷ E** and **D ÷ (D + E)**, which we've applied in this article.

Not all the ACT's assessments provide formula sheets. Even if you do get one, no formula sheet can ever include all the formulae you might possibly want, in the most convenient order.

Consistent practice is the only way to get familiar with important formulae, and accordingly quick and comfortable with essential calculations.

No peeking

Referring to the formula sheet during your exam highlights a lack of exam practice, under exam conditions.

It's too easy to tackle a paper with the answers handy, taking a peek as and when you fancy. You will not learn using this method. I usually began my practice exam sessions with the material open, but strictly no answers, then swiftly graduated to full exam conditions. Remember, no breaks or visits to the loo.

I should add, I didn't do all of this consistently all of the time. When I did it, I worked brilliantly. When I didn't, I suffered the consequences.

Peter Boon, AMCT, head of finance, Life Residential

It's your turn now

Durrant Inc has debts (non-current liabilities) of $4m and equity of $12m.

Calculate the company's gearing and its leverage.

Certificate in Treasury Fundamentals, Specimen Q8 modified

(Answers below)

With many thanks to Jonathan Jeffery, ACT tutor, for his valued advice and contributions to this article.

Doug Williamson is a treasury and finance coach

Answers to question

Gearing = 33% ($4m debt ÷ $12m equity)
Leverage = 25% ($4m ÷ $16m (= $4m + $12m))

OF ASSET FINANCE

FOR CORPORATES THAT WANT TO AVOID OWNERSHIP RISK AND PURCHASE COSTS, ASSET FINANCE REPRESENTS A VIABLE OPTION. WILL SPINNEY LOOKS AT THE DECISION-MAKING BEHIND TAKING ON A LEASE

Asset finance is often overlooked, viewed as a poor relation to the bank and bond finance that treasurers mostly use. However, it represents a huge market and a significant proportion of debt-based finance.

Asset finance is the supply of a productive asset, for example, a transport asset, where payment is spread over the time in which the asset is used. It is also called leasing and hire purchase. Some assets are routinely supplied by asset finance providers, the classic example being cars, where servicing and other costs are included. In fact, the automotive sector has developed a name for this: contract hire – arguably more like an outsourcing contract than financing.

The vast majority of leases are for transport assets – aircraft, ships and trains, and all kinds of automotive assets. Manufacturing and office machinery are also good candidates. Some areas are highly specialised. In aircraft leasing, for example, leases can be 'wet' and include crew and servicing, or 'dry' – just the aircraft.

The economics of asset finance

The lessor must ensure that the outflows – purchase and servicing costs – are less than the lease rentals plus the disposal proceeds, all adjusted for the time value of money and the profit required to cover risk and administration.

If the lessee retains the asset at the end of the lease, then the lessor must ensure full recovery of the purchase price, any servicing, the time value of money and profit.

Clearly, the lessee must pay the full cost of the asset use and this doesn't differ too much from what would happen if the lessee had paid cash for it in the first place. In fact, if the asset is retained by the lessee once the lease has elapsed, there is no major economic difference between purchase and lease. However, assuming the asset is returned, the key difference is that the lessor retains risk of ownership. Assumptions about 'residual value' become key in lease pricing and competitive behaviour by lessors. If return of the asset is anticipated, then the lease is an 'operating lease', as opposed to a finance lease or hire purchase.

Deciding to lease

The treasurer has a few points to consider when choosing how to finance an asset:

- If the lessor can pass on a tax advantage that is different between the lessor and lessee, this might favour leasing.
- Leasing makes equipment or vehicles affordable for organisations with low purchasing power.
- Generally, including a middleman (the lessor) increases costs, but their ability to take ownership risk, combined with bulk purchasing power, can make leasing a cheaper route than ownership.

The most important influence on the decision is whether the user wants ownership risk or not.

A decision tree would look like the pink graphic, above.

A major attraction for leasing is that the asset can be paid for out of cash flow and to some lessees it can feel as though an asset can be acquired 'without seeming to pay for it'. However, there is clearly an obligation to pay, albeit over a long period, so leasing is not a way around capital expenditure limits and controls.

Accounting and credit quality

Another key point in favour of operating leases is that the asset (and its financing) is, by current accounting standards, kept off balance sheet, giving the appearance of lower gearing. However, this has long been recognised as illusory. Firstly, accounting standards are set to change to bring all leases back on balance sheet.[1] Secondly, rating agencies use standard formulae to bring all leased assets back into the profit and loss account, and balance sheet.

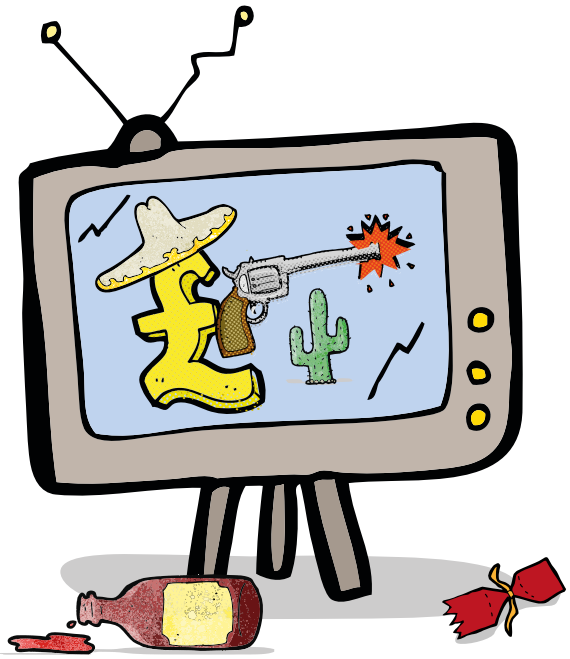
Conclusion

Asset finance cannot be used for acquisitions, R&D or general expenditure, but can be a cost-effective way to source machinery of most kinds. The lessor can bring expertise and economies of scale to the table. Choosing whether to take on ownership is the key in the decision-making process. Lease products have been driven by accounting standards and we can expect innovation when the new standard comes in.

For more information, see www.ifrs.org/Current-Projects/IASB-Projects/Leases/Documents/Project-Update-Leases-August-2014.pdf

1 A new IFRS to replace IAS 17 is expected to be published Q4 2015 or Q1 2016

Will Spinney is associate director of education at the ACT



CHRISTMAS BOX OFFICE

Christmas time is movie time on the telly, and we've had a sneak peek of the holiday schedules. Film-loving treasurers are in for a real treat this festive season!

Sunday 20 December, 3pm
Those Magnificent Men and Their Finance Machines
Hysterical, historical comedy tracking the pioneering days of global finance, when international investment bankers from America, Germany, Italy, Japan and even France descended on London to compete for the ultimate prize. Comic antics ensue as the financial contraptions fall apart, while City traditionalists led by arch scoundrel Sir Hugo Broker-Rich (Terry-Thomas) and his henchman Matza (Eric Sykes) try to sabotage the lot. Famed for its lyrical theme tune:

Those magnificent men in their
finance machines,
They go up diddley-up up,
They go down diddley-
down down.
Up! Down! Finance goes round,
Looking for loopholes and
shorting the pound...

Monday 21 December, 6.30pm
Greece
Romantic comedy musical about two smitten teenagers, wholesome Sandy Merkel (Olivia Neutron-Bombshell) and rebellious Danny Costalopolos (Joey Tribbiani), who fall into a love-hate relationship. Can Sandy tame the wayward Danny? Can she keep picking up his tab in the soda fountain without being kicked out of her own gang? Can Danny keep his car, his street cred and his girl? Contains the hit songs 'You're the One that I Owe' and 'Hopelessly Indebted to You'.

Christmas Eve, 10.30am
It's a Wonderful Libor
When George Bailout suddenly realises that the bank he runs has lost $80bn, it is taken into 'temporary' state ownership. Government ministers, regulators, the press, all of society and even a few angels conclude that life would have been better if he hadn't been born.

Christmas Day, 3.15pm
The Umpire Strikes Back
Sci-finance sequel in which freedom-fighting derivatives dealers and traders regroup to counter-attack against the crushing oppression of the regulator. Hero Luke Skywonga and his trusty compatriots Princess Liar, C-3DO and R-squared-D-squared analyse unusual financial correlations in the search for a killer product that will seek out Darth Evader's vulnerability and destroy the Financial Death Star Authority. Wise old man Only-Wan Karnetto and mysterious sage Yodel try to ignore the big hairy creature in the room, Chewbigtofail. Former futures pit trader Han Signal uses old market tricks to outwit the regulatory stormtroopers, while showing the young upstarts how it's done.

Boxing Day, 10am
The Treasurer of the Sierra Madre
An adventure-seeking treasurer (Humphrey Bogoff) goes west in search of easy, low-risk returns, enlisting the help of a wise old prospector. But failure, bandits and greed soon result in complicated position papers being written for the board that absolve the treasurer of any responsibility and blame the financial advisers instead.

Boxing Day, 3.30pm
The Sound of Muse Tax
An intrepid family of troubadours are led by the improbable combination of a singing nun and a navy captain in a country that has no coastline. They try to escape the clutches of the Nazis and smuggle their performance royalties across the border into tax-haven Switzerland. Singalong classics include 'Do-Pay-Mi' and 'How Do You Solve a Problem Like Mario Draghi?'.

Sunday 27 December, 9pm
Saving Private Finance
The Ministry of Defence learns that the British taxpayer has suffered one loss too many. A crack squad is sent in, risking all to launch a new private finance initiative that will mean someone else has to pay for all the weapons and equipment the military needs. Contains upsetting scenes of financial engineering and protracted contract negotiations.

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

Wishing you a very Merry Christmas
and Happy New Year
from Michael Page Treasury.
Thank you to everyone we have partnered
and worked with in 2015 and looking forward
to working with you all again in 2016.

From all of the team,
Kyra Cordrey . Jessica Timelin
Fiona Wallace . Daniel Perriton . Chad West
Rebecca Richards . Angus Boyle

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