ASSESSING BANK RISK
A framework approach to monitoring counterparties

DECISIONS DECISIONS
How our unconscious can stand in the way of cold hard facts

THE FUTURE OF DEBT
Collecting cash from EU states will require careful planning

The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ FEBRUARY 2017

PLUS

CHRISTOF NELISCHER
Willis Towers Watson's global group treasurer on mergers, integration and risk management

www.treasurers.org/thetreasurer

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

ACT
LEADING TREASURY PROFESSIONALS

Editor's letter

The Trans-Pacific Partnership, NATO, the UK's relationship with the EU, the US's relationship with China and with Asia – where we once had broad commitments and long-standing accords, we now have the prospect of a whole series of renegotiations.

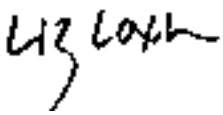
When we look for clues as to how these conversations are likely to play out, there are few certainties. No previous assertions or relationships are taboo, it would seem. President Donald Trump is uninhibited and highly changeable in terms of both the relationships he seeks and the consensus views he is prepared to upend. Vladimir Putin is 'very smart' and the dollar is 'too strong' – just two of his recent utterances. Did anyone see those remarks coming? And does he mean them or are they chips in the game? Trump's unpredictability notwithstanding, UK prime minister Theresa May will be the first foreign premier to meet with him formally post-inauguration. That's a surprising adherence to tradition in this all-new context. Perhaps not everything is up for grabs.

If you're a high-stakes player, change is the outcome you desire and the element of surprise is not necessarily a bad thing around the negotiating table. In business, before the deal is signed comes due diligence and after comes a thoughtful integration plan, both areas that treasurers are very familiar with. That's the case with Christof Nelischer, whose experience at Willis Group, now Willis Towers Watson, features post-deal integration. He is no stranger to navigating periods of economic turmoil either, having worked through the collapse of the European Exchange Rate mechanism in a previous role. Our profile of him begins on page 34.

In December, *The Treasurer*'s Deals of the Year Awards judges gathered for the 20th anniversary of the awards. Their remit is to consider the achievements of a whole raft of treasury teams as they worked on 2016's most challenging deals, often executed on a tight timescale and against a backdrop of market volatility, but frequently exhibiting great ambition and a desire to innovate. The ACT has introduced a new category for this year – that of Emerging Treasurer. To find out about our first-time winner and those in other categories – the deals and teams that our judges decided most worthy of our applause – turn to page 21.

And because talent and achievement at all levels should be celebrated, we also profile three high-flyers from last year's ACT exam pass list and chart the evolution of the ACT's qualifications, on page 18.

I hope you enjoy the issue.



editor@treasurers.org
Follow us on Twitter @thetreasurermag

THIS MONTH'S CONTRIBUTORS

Philippa Foster Back CBE, director of the Institute of Business Ethics, is an honorary fellow of the ACT, a former ACT president and serves on the ACT's Advisory Council. Earlier roles include group treasurer and group FD. She writes about business ethics on **page 17**

Claudia Villasis is a financial risk manager at BHP Billiton with more than 10 years of managing and leading projects and teams. She puts her industry and consulting experience to use in a feature on how to evaluate financial counterparty risk, on **page 42**

Gillian Karran-Cumberlege heads up Fidelio Partners Board Development and Executive Search, helping corporates build effective leadership teams. Her feature on how to build an effective debt investor relations team appears on **page 46**

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

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

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

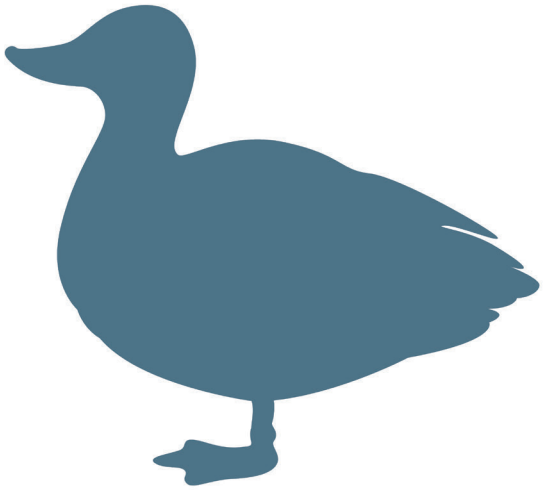
THE TREASURER ©2017
Published on behalf of the ACT by **Think**, Capital House, 25 Chapel Street, London NW1 5DH
◆ +44 (0)20 3771 7200
◆ www.thinkpublishing.co.uk

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

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

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

ACT LEARNING ACADEMY



WHY DON'T DUCKS EVER HAVE SPARE CHANGE?

BECAUSE THEY ONLY CARRY BILLS

#dadjokes

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

Our industry expert tutors and practical content warrant top billing.

Qualifications

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

eLearning

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

Training

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

academy.treasurers.org

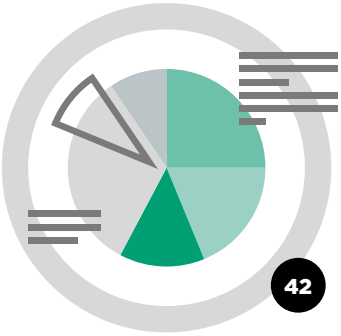
What do you think of this issue of *The Treasurer*? Please write to **editor@treasurers.org** or tweet **@thetreasurermag**

CONTENTS

15

34 "I encourage my team to study for ACT qualifications"

Christof Nelischer, global group treasurer at Willis Towers Watson



42

21

Agenda

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

WIKIPEDIA

{ ACT NEWS }

ACT NAMES CAROLINE STOCKMANN AS ITS NEW CHIEF EXECUTIVE

The Association of Corporate Treasurers has announced its appointment of Caroline Stockmann as chief executive.

Stockmann, who replaces Colin Tyler as chief executive, was until recently CFO at the British Council, the UK's largest charity. Prior to that, she was CFO at Save the Children International. She has 25 years of experience in senior finance, commercial and strategic roles at a number of charitable and commercial organisations, including London's Southbank Centre, Novartis Pharmaceuticals in Switzerland and Unilever/Bestfoods.

Stockmann is a chartered accountant. She trained with KPMG and is a Fellow of the Institute of Chartered Accountants of England and Wales.

Commenting on her new role, she said: "I am thrilled to be joining the ACT as chief executive. The role of the treasurer is more important today than ever before, which means that professional qualifications and other ongoing support are vital. The ACT, being the only chartered membership body for treasury professionals, has a very important and privileged role. I really look forward to working with, and serving, its members."

ACT president Fiona Crisp said: "In Caroline, we have a leader and ambassador with extensive financial experience in both commercial and not-for-profit organisations. Caroline is well placed to take the ACT forward as an independent and successful chartered professional body."

{ CONTEXT OF TREASURY }

Latest Bank of England funding report shows mixed results

The most recent data released by the Bank of England on bank funding conditions showed the cost of credit continuing to fall over the three months to November 2016, with demand for lending continuing to soften.

The cost of both outstanding and new bank credit remains above normal levels, according to information fed to the central bank by the major UK banks, and some lenders reported a marginal tightening in supply to specific sectors, such as real estate.

The effective rates on outstanding and new floating-rate loans to corporates fell over the period and remain at levels below previous years due to lower Libor settings. Floating-rate loans make up around 80% of outstanding business loan accounts and an even larger share of new business loans, according to the Bank of England's *Credit Conditions Review*.

Respondents to the survey report that significant reductions in capital investment and commercial real estate were the main factors behind the low corporate credit demand.

In the corporate bond market, spreads on sterling-denominated investment-grade bonds were broadly unchanged in Q4. They were also at their lowest levels for more than a year, having fallen in Q3 following the Monetary Policy Committee's announcement of corporate bond purchases.

Swap rates rose over the quarter across the UK, the US and the euro area. Some key sterling swap rates were around 15-35bps higher at the end of December than at the end of September, with the largest increases seen in longer-maturity swap rates.

"For 50 years on a bipartisan basis, United States policy has been to support European integration and for a very good reason. It is not only good for Europe, it has been good for the United States, for political, economic and security reasons."

Outgoing US envoy to the EU Anthony Gardner (pictured above) decries the possibility of the Trump administration favouring nationalist and populist politicians in Europe as 'lunacy'.

SOURCE: *TIME*, 13 JANUARY 2017

"Serious multilateral negotiating experience is in short supply in Whitehall, and that is not the case in the Commission or in the Council."

Sir Ivan Roger's resignation letter to his staff as outgoing UK envoy to the EU blows the whistle on the government's resources for Brexit negotiations.

SOURCE: BBC.CO.UK, 4 JANUARY 2017

{ KEY FINDINGS FROM AMICUS COMMERCIAL FINANCE RESEARCH INTO SME BANKING }

47% the proportion of SME owners who claim the advice from mainstream banks last year had a negative impact on their business

46% the proportion of owners who wouldn't describe their bank as flexible

16% **the proportion who said their business was in a worse position as a result**

52% the proportion who ignored advice from mainstream banks

40% **the proportion who don't rate the service they receive as good**

{ ETHICS AND CORPORATE GOVERNANCE }

LARGE CORPORATES FACE NEW PAYMENT DUTIES

The Chartered Institute of Credit Management (CICM) has welcomed draft regulations requiring large companies to publish their record and practice on payments.

Philip King, chief executive of the CICM, says the new duty to report, which comes into effect in April 2017, will bring about much greater transparency and represents recognition of the UK's Prompt Payment Code as the gold standard in the fair treatment of suppliers.

Large companies and limited liability partnerships (LLPs) will be required to report publicly on their payment practices and performance twice a year. Among the details they will need to include is the average time taken to pay supplier invoices.

The information is to be published on a central government website, providing a single point of information and a means for suppliers to compare company performance on payments.

The government is expected to publish guidance on how to comply with the duty to help companies prepare for the new requirements. "I am pleased to see that the government is itself taking measures to ensure all strategic suppliers are signed up to the code, and this is an opportunity for other large businesses to take similar positive action to show they genuinely value the supply chain," said King.

The duty to report will apply to large businesses and LLPs that meet two or more of the following criteria: more than £36m in annual turnover; more than £18m on the balance sheet; and 250-plus employees.

The requirements include private companies as well as LLPs and listed companies.

Four times more

– the amount that investors spent on acquisitions in the EU in 2016 compared with European investment in China, according to Rhodium Group and the Mercator Institute for China Studies

100,000

– the number of new jobs Amazon plans to create in the US over the next 18 months

300,000

– the number of coins a US businessman in dispute with the US Department of Motor Vehicles used to pay his $3,000 tax bill. Nick Stafford from Virginia delivered the coins in five wheelbarrows

2.7%

– the World Bank's prediction for global growth in 2017

$163bn

– the investment the United Arab Emirates plans to make in projects to generate half of the nation's power needs from renewable energy

Up to a quarter

– the proportion of German businesses expecting to see benefits from business being diverted from the UK, compared with under 10% concerned about negative effects from Brexit, according to the Cologne Institute of Economic Research

What do you say?
Tweet us
@thetreasurermag

"That would be an act of calamitous self-harm for the countries of Europe and it would not be the act of a friend."

UK prime minister Theresa May acknowledges that some voices within the EU want to see a punitive deal for Britain, and warns that Britain will walk away from a bad deal.

SOURCE: *THE FINANCIAL TIMES*, 17 JANUARY 2017

SHUTTERSTOCK

{ AROUND THE WORLD IN 30 DAYS }

BANK EARNINGS, POUND BOOST, SUSTAINABILITY

US banks rally post-election

Two of the US's largest banks have reported surges in earnings, in the wake of the US election in the Wall Street rally. JPMorgan Chase's trading business recorded an increase in net income for Q4 that was 96% higher than for the same period in 2015, at $3.4bn. Bank of America's global markets business saw its net income increase from $171m a year to $658m, according to a *Financial Times* report.

Hopes that the Trump administration will herald a period of higher interest rates, lower taxes and deregulation have echoed around Wall Street, with banks making optimistic forecasts about the potential results of pro-growth policies. More dovish analysts have suggested the increase in trading numbers is the latest indicator of continued market volatility.

Pound boost after PM's Brexit speech

Sterling saw its biggest one-day rally against the US dollar since 1998 on the back of prime minister Theresa May's Brexit speech last month. Putting paid to anxieties around the implications of a 'hard' Brexit, the pound rose 2.9% to just below $1.24 and also rallied against the euro. The currency was also supported by murmurings about inflation increases and the prospect of interest rate rises. Some analysts have suggested the rally will be temporary. Overall, the pound is still down about 17% against the US dollar since June's referendum result. The FTSE 100, meanwhile, recorded its biggest daily fall, 1.5% on the day of May's speech.

Call for more sustainability

Greater focus on sustainable business practices could bring corporates $12 trillion in extra funds, World Economic Forum delegates were told last month.

The *Better Business, Better World* report, published by the Business & Sustainable Development Commission (BSDC), was released to coincide with the Davos forum. It calls for major investment in infrastructure for developing economies, arguing in favour of a blended finance approach, consisting of funds from development banks, development finance institutions and sovereign wealth funds to leverage private capital to underpin public-private partnerships.

The BSDC was cofounded by Unilever chief executive Paul Polman.

{ CONTEXT OF TREASURY }

MAY SETS OUT PATH TOWARDS 'GLOBAL BRITAIN'

In her long-awaited speech on Brexit, UK prime minister Theresa May broke her silence on her approach to negotiating an exit from the European Union.

Her speech last month went some way to allay fears about a 'hard' Brexit, with May seeking a "bold and ambitious free-trade agreement" with the EU and partial membership of the customs union. She is seeking to provide certainty for the financial sector by providing a separate phasing period, during which existing passporting arrangements would be maintained.

Subsequently, at the World Economic Forum in Davos, May offered support for the City of London amid concerns that financial institutions would begin to move their operations elsewhere. JPMorgan Chase, HSBC Holdings and Lloyds Banking Group are among the banks suggested to be looking to move part of their operations into continental Europe, according to a Bloomberg report.

A deadline of 2019 has been set for the completion of Brexit negotiations, with unspecified periods for specific areas, including immigration.

Among the main points:

- Britain will not seek to continue as a member of the single market and wants to reach a new customs agreement.
- The UK will make appropriate, but not 'vast', contributions to the EU budget.
- MPs in both houses will have the opportunity to vote on Britain's deal with the EU.
- Britain will seek a phased implementation to avoid a "disruptive cliff edge" when Britain eventually leaves the EU.
- The UK will leave the EU with no deal, rather than a bad deal.
- The number of EU citizens coming to the UK will be limited.

{ KEY FINDINGS FROM *TAXAND 2016 GLOBAL SURVEY* }

THE STATS

81% of multinationals said they expect tax competition between countries to increase over the next five years

37% said a 5% drop in the corporate tax rate would tempt them to move their headquarters to a different country

77% of multinationals have seen an increase in crackdowns on avoidance via the audit

89% believe more tax transparency will bring increased compliance costs

Over a third believe that BEPS will increase tax compliance costs by 10% or more

MAKING THE NEWS


IMF managing director Christine Lagarde

WIKIMEDIA

Guilty verdict for Lagarde

International Monetary Fund (IMF) chief Christine Lagarde was found guilty of negligence in relation to public funds, in December in a French court.

The charges relate to the period when Lagarde served as France's finance minister and concern a payout of taxpayer funds to a businessman in 2008. The guilty charge has not resulted in a criminal record or a jail term, and the IMF declined to sanction Lagarde, saying it would continue to support its leader.

IMF directors issued a statement saying they had considered the verdict and had "full confidence in the managing director's ability to continue to effectively carry out her duties".

Banks need to merge

Tidjane Thiam, chief executive of Credit Suisse and former head of Prudential, told delegates at the Davos World Economic Forum that banks need to merge to improve customer service. "What you see in Europe is a system that is still in flux, where we could see benefits in further consolidation, which would certainly benefit clients," he said.

While there is a strong case for merger activity, Thiam stopped short of arguing in favour of mega-mergers and warned that banks should also take care not to fuel public scepticism by seeking to become too large.

Blackrock muscles in on boardroom pay

The world's biggest investment company, Blackrock, has launched a campaign against excessive executive pay rises.

Blackrock's head of investment stewardship, Amra Balic, wrote to chairmen of businesses listed in London to warn that it will vote against increases that it considers to be out of line with corporate performance or with pay for the rest of the workforce.

The investment company, which manages more than $5 trillion worldwide, also drew attention to cash payments offered in lieu of pension contributions. It has pledged to vote against the heads of remuneration committees where it perceives "a disconnect between pay and performance".

{ FINANCIAL RISK MANAGEMENT }

ONE IN THREE PENSION SCHEMES AT RISK FROM FRAUD

Payments to already-deceased members, suspicious pension transfer requests and the growing threat of cybercrime are all contributing to the vulnerability of UK pension funds.

According to the *Pensions Fraud Risk Report*, published by accountancy group RSM, nearly one in three pension schemes has been impacted by fraud, with a threefold rise in scams in the past two months.

The report says that, of those schemes that have experienced fraud, 51% fell victim to scams in the past 12 months, while 17% were affected between 12 to 24 months ago.

Pensioner existence fraud, which occurs when benefits are paid out to the relatives of deceased scheme members, is, said the report's authors, the most common kind of fraud. With more over-55s retiring and moving to live outside the UK, pension companies and their administrators are finding it more challenging to keep up with any changes in circumstances. Beneficiaries have a responsibility to report a pensioner's death, but this does not always occur.

In the wake of changes to UK pension law, as of April 2015, pension scheme members can now transfer funds to other providers or withdraw funds. Schemes and their administrators cannot legally block transfer requests even when they believe them to be suspect.

Figures released in the UK Chancellor's Autumn Statement showed that £19m was lost to pension scams in the year to end March 2016.

However, in spite of the growing threat from fraud, trustees show a worrying lack of concern, according to the report. Almost 60% of respondents said that fraud did not represent a significant threat, while a quarter did not recognise that trustees were responsible for systems to detect and prevent fraud attempts.

Cybercrime is an acknowledged and growing threat to pension scheme administration. However, half of the respondents said they were unsure as to whether their internal controls covered cybersecurity risks.

THIS MONTH

SHARE YOUR VIEWS WITH US

Let's put Brexit aside and focus on other issues due to arise in 2017. The final parts of Basel III are being argued over, as IFRS 9 adds to bankers' woes. Trump and the Republicans are beginning to take control and shift from globalisation to protectionism. Dutch and French elections may accelerate the change.

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

Steve Baseby is ACT associate policy and technical director @BasebyStephen

{ IN DEPTH }

Basel III perhaps IV, IFRS 9 and Trump

In Britain we have an annual communal 'shock' when rail fares are raised above the inflation rate. This has been a policy that has survived two different political governments and is intended to raise fares so that they substantially fund Britain's railways: that is – cut taxpayer-funded subsidies. I emphasise the 'shock': demonstrations are held; annoyed rail travellers are televised.

The absurdity is that the complaints achieve peak distress on the day of the annual rise, while the rise has been pre-programmed years in advance. The paradox being that those same commuters have not used the intervening years to use the ballot box to change the mix of subsidy and fare, while more of them use the service with the further paradox that long-needed network and rolling stock upgrades become more difficult to implement.

Basel III was the central bank response to the 2008 global financial crisis and the Pittsburgh Summit. Designed to ensure that banks are sufficiently capitalised to mitigate the risk of failure, G20 banking regulators are now putting into place the final regulatory components. The deadline for implementation is, and has been for several years, 1 January 2019.

In parallel, IFRS 9, *Financial Instruments*, is also being implemented to replace IAS 39 (and is effective from 2018). Corporates may find this accounting standard creates further pressure on pricing and liquidity as banks must begin to make provision for bad debts, even for new debt over which they have no doubts. A *Financial Times* article (on.ft.com/2jUk851) provides the background, but, essentially, banks' bad debt provisions could rise by 30%, further constraining their ability to lend and increasing the cost of credit.

This double whammy of IFRS 9 and Basel III may trigger another round of bank equity raising.

There is talk of deferring and phasing in the implementation of IFRS 9, of tinkering with the Basel III ratios and methodology of calculation, but, as with the UK rail commuters, one has to ask why this was not considered earlier when the outcome was obvious. It is not bank stability, but bank sterility that will be the outcome.

And then there is the contradiction arising from the US approach. We have previously noted the different means of implementing derivative regulation being adopted by the regional regulators. The European Market Infrastructure Regulation and the Dodd-Frank Act impose different obligations on banks and non-banks, although emanating from the same Pittsburgh Summit and the same supranational standard setters.

Noises are now being made in the EU that their banks will be disadvantaged relative to their US peers. And the future of Dodd-Frank under a Republican president is also uncertain. Earlier suggestions were that Dodd-Frank should be torn up; now the expectation has become withdrawal or redrafting in parts.

Perhaps 2017 will become the year to accept that banking is risky and the time has arrived to let badly managed banks fail. Individual members of the G20 are coming to understand that focus on bank stability may not be in the best interest of the broader society and we have three important EU elections in the France, Germany and Netherlands to provide plenty of opportunity to debate the issues as the financial regulators try to bring financial-crisis-inspired regulation to a close.

Finally, and more prosaically, the impact of trade protectionism may be far from history: US-based manufacturers are rethinking moving production to Mexico to sell output back to the US as the 'wall' goes up...

Hold tight for more volatility, but then again, that is what we risk managers are for.

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

For more on financial regulation and prospects for 2017, see 'Happy, well perhaps interesting, 2017' and 'Financial regulation – a step closer for corporates', which can be found at https://blogs.treasurers.org

{ INTERNATIONAL }

CHINA'S MMFS

The first Chinese fund manager opened for business in mid-2001. Between 2011 and 2015, the number of Chinese money market funds (MMFs) increased to 239 and Chinese MMF assets under management rose 14-fold to ¥4.6 trillion (approximately £500bn). Globally, renminbi MMFs account for 13% of global MMF assets versus just 0.5% in 2010.

The industry is highly concentrated; the top 15 funds hold more than 60% of assets under management and have historically focused on performance as their key differentiator. While the Chinese MMF industry remains dominated by retail investors, a niche AAA-rated MMF industry has developed to serve the needs of local companies and multinationals operating in China.

During 2016, new guidelines from the China Securities Regulatory Commission came into force representing changes to the rules governing Chinese MMFs. However, the domestic AAA MMF guidelines offered by international rating agencies in China still remain significantly tighter. For example, under Fitch Ratings durations are shorter, concentrations are tighter and credit quality limits are significantly stricter. These tighter restrictions help to address the credit and liquidity risk challenges that face Chinese institutional investors.

{ TECHNICAL ROUND-UP }

EMIR

The Regulatory Technical Standard for obtaining the exemption to file margin for intragroup transactions has been published. For the UK Financial Conduct Authority notice on this exemption, see www.fca.org.uk/markets/european-market-infrastructure-regulation-emir/notifications-exemptions#intragroup-derivatives

{ WATCH THIS SPACE }

EU testing bank resolution

The immediate response to the global financial crisis was for governments, by various means, to prop up their domestic financial sectors. The UK bluntly injected equity into its two major risky banks. In contrast, Italy was a little tardy with its taxpayer-funded bailout and has found that, in the meantime, the EU Bank Recovery and Resolution Directive (BRRD) has come into force.

The difficulty of fitting the bailout of Monte dei Paschi di Siena into BRRD has particular piquancy for the Italians because many hold their savings not as bank deposits that achieve the deposit guarantee, but by purchasing bank bonds that are expected to suffer conversion to equity, thereby reinforcing the need to consider bank counterparty risk.

Perhaps the Italian authorities looked away from the problem for longer than their EU peers, but the euro has survived and the EU has agreed the process, and we should expect bank resolutions to become part of the normal process of financial regulation.

Global FX Code and UK Money Market Codes

The FX and UK Money Market Codes are now at the 'fatal flaw' stage of development and are scheduled to be published in May 2017. While both codes are voluntary, they do set out best practice for market participants (and that includes corporates). The ACT would encourage adoption as far as is practical. Both codes refer to proportionate adherence – adopting the codes in a proportionate manner – and the ACT will be publishing guidance to assist members in understanding how these codes may affect them over the next few months.

NILESH PATEL
ASSOCIATE DIRECTOR, JCRA

How did you get into treasury?
I was given an opportunity seven years ago to swap jobs with the treasurer when I was in a corporate finance role and I didn't hesitate.
What do you like about treasury?
My treasury roles have always been debt focused, which makes understanding how the business works in a strategic perspective paramount. This is interesting and challenging.
What's the best thing about being a treasurer?
It requires you to have all-round knowledge of the business.
What's the best thing about being a member of the ACT?
It provides excellent networking opportunities.
Which ACT qualifications do you hold?
AMCT.
How has your qualification benefited you in your career so far?
When I switched to treasury there was a large knowledge gap, and studying towards the qualification helped to narrow this.
What's the most important lesson that you've learned during your career?
When you've stopped learning and got too comfortable in a role, it's time to move up... or move on.
What would be your best piece of advice to someone else considering a career in treasury?
There are many aspects of treasury, be it cash, debt or accounting, so try and knowledge up around these before you dive in.
What's your ultimate career goal?
To lead a treasury team in a large multinational organisation.
Who is your greatest inspiration and why?
I would say given how hard my parents worked to give me the opportunities in life that I have, they are my greatest inspiration.
If you weren't a corporate treasurer, what would you be and why?
Something in the field of economics.

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

ACT DIARY DATES

TRAINING, EVENTS & WEBINARS

2017 TRAINING COURSE DATES

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

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

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

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

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

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

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

TREASURY eLEARNING SERIES – ANNUAL LICENCES NOW AVAILABLE
If you need to understand the role of treasury and the treasurer, look no further than the First Steps in Treasury eLearning series, featuring seven highly interactive, short online courses.

You can now purchase a licence for all seven courses – saving you over 20%.

Find out more at academy.treasurers.org/elearning

ACT EVENTS 2017

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

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

ACT WEBINARS

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

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

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


Manchester

{ FORECASTING }

JEREMY WARNER

With its predictive powers in question after Brexit, economics seems to be a discipline at sea

According to Andy Haldane, chief economist at the Bank of England, the economics profession is in a state of crisis. He is hardly the first to make this observation. Ever since the financial crisis, mainstream economics has been widely ridiculed as having lost the plot. The vast majority of economists didn't see the credit crunch coming and, even after it arrived, were equally hopeless at foreseeing its consequences. These forecasting errors have persisted ever since, albeit in a lesser form; what's more, there remains little agreement on how policy should be responding to the aftermath of the crisis. Never mind the future, macroeconomics seems almost as incapable even when it comes to diagnosing the present.

The sense of a discipline all at sea has been compounded by the exaggeration in official forecasting as to the effects of a vote for Brexit. Most economists thought the mere act of voting to leave the EU would cause a major economic shock, not just in Britain, but to the wider world economy as well. Yet, after an initial flurry of panic in financial markets, it was back to business as usual. The economy has slowed a little, but UK growth last year is still likely to have been the highest out of all the major advanced economies. Beyond a sharp devaluation in the pound, there has so far been very little discernible effect. Having misjudged the short-term impact of Brexit, the economics profession should not be surprised that warnings about longer-term damage to wealth and prosperity are widely disbelieved.

SHUTTERSTOCK

Prediction is difficult, especially when it is about the future

Prediction is difficult, goes the old Danish saying, especially when it is about the future. Problems with forecasting long predate the financial crisis; even when official forecasters get the main economic variables broadly correct, it is often for the wrong reasons. But it is not just the business of prediction, a comparatively small element of the discipline, that is in trouble. More broadly, economists have seemed incapable of providing answers to virtually all the big macroeconomic questions of our time. Was austerity or fiscal expansion the correct response to the financial crisis? Why has productivity growth been in such precipitous decline across advanced economies, and so on? Convincing answers seem as illusory as proof of the existence of 'dark matter' in astrophysics.

This state of confusion matters because public policy must necessarily be based on a proper understanding of what's going on in the economy. Governments must tailor their tax and spending plans according to what seems affordable. The same is true of monetary policy. Effective inflation targeting depends vitally on having a reasonably instructive view of the future. If economics cannot provide that understanding, then, increasingly, we are condemned to policy by instinct and populist whim. This is very unlikely to end well.

Fortunately, there is reason for hope. Haldane has referred to the forecasting errors around the financial crisis as a 'Michael Fish' moment for economics – a reference to weather forecaster Michael Fish who, back in 1987, rejected the idea that there might be a hurricane on the way. As it turned out, there was.

Since then, meteorology has improved in leaps and bounds. Haldane is hopeful that the same degree of progress can now be made in economic forecasting. In particular, he puts a lot of store in 'agent-based modelling' (ABM), a computational approach that attempts to integrate the often capricious nature of human and institutional behaviour into forecasting models. ABMs have long been used to great effect in applied economics, but oddly, given that behavioural economics is now such a fashionable part of the profession, not to macroeconomics.

Let's hope it works; if it doesn't, populist denigration of expert opinion will only intensify further. The alternative of government by gut instinct is not an appealing prospect.

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

ACT LEARNING ACADEMY

CHAMPION YOUR TREASURY TALENT

The ACT's internationally recognised qualifications, training and eLearning provide the practical skills and credibility your team needs to excel. With something to support every career level and new online flexible delivery, now is the time to maximise their potential.

academy.treasurers.org/in-company

May you live in interesting times

Will 2017 herald the return to boom and bust? Or will political shifts of the past year and those to come have a less than feared impact on the macroeconomic story?

Did 2016 mark the end of the post-Lehman economic lethargy in the Western world? Will the markets' excitement about US and global growth prospects be fulfilled in the new year? Or will 2017 herald more of the same mediocre growth and messy politics that have defined the post-crisis era? Will misguided economic policies aimed at stimulating faster growth sow the seeds for bust at a later date?

At the top of the list both for opportunity and risk is the US. In financial markets, there is a new noun in town – Trumponomics. Despite some character flaws, Trump may still show himself to be a pragmatist, who exclusively seeks popular appeal. The new president's set of ideas seems to combine an odd mix of fiscal reform, infrastructure spending and isolationism on international trade and foreign policy. So far, markets have priced in all the good news, the positive elements of Trump's plans, while discounting the scary stuff, such as a possible US trade war with China or the possibility that Trump actually goes ahead with his building plans at the Mexican border.

Done right, pro-growth policies should boost US growth over the coming years, while the rising demand from the huge US market – plus a stronger dollar – should suck in more imports to the US, to the benefit of the global economy. But if Trump's policies create excess demand in the US and elsewhere, that could nourish the exuberance and credit excesses that would eventually need to be corrected by a recession after the boom. So, 2020 – watch this space. And although Congress will try to rein him in on the scary stuff, the president has a lot of autonomy over foreign policy and trade policy. Trump's propensity to speaking his mind and acting impulsively thus carries major risks.

SHUTTERSTOCK

The resilient recovery in Europe is set to continue amid persisting risks from far-right populists in core Europe and far-left populists at the periphery. But, as before, policymakers in Europe are likely to muddle through. With further improvements in labour markets and helped by a highly supportive monetary policy stance by the European Central Bank, the continued stable recovery should be enough to gradually erode the appeal of populists. While risks in Italy and France need to be watched especially carefully, chances are that Italy will remain in the euro and France will elect Thatcheresque François Fillon, who promises to reform Europe's biggest growth laggard.

Germany will remain as stable as a rock in the core, enjoying another year of solid, albeit unexciting, growth at close to its trend rate. Even in the highly unlikely event that Merkel loses the German election in October, German politics does not pose a tangible threat to the European project. After four years of solid – employment-driven – growth, the UK economy is set to shift down a gear in 2017 as Brexit headwinds begin to build. While the start of Brexit negotiations may trigger some messy clashes between UK and EU officials, progress in 2017 on the enormous task that is Brexit will be very limited indeed.

Risks may flare up from further afield, too. While China has the largest FX reserves in the world – at over $3 trillion – they are draining fast as it tries to prop up its currency. The strong dollar will add further pressure to China's currency and this year its increasingly debt-dependent growth could come back into focus for markets. Meanwhile, escalating geopolitical risks from Russia and the Middle East could matter more than before depending on the US's role in global affairs under a new commander-in-chief.

If all goes well for Western economies, they could enjoy their best year since 2007. But one ought to be cautious. Political risks that could disturb the global order that has prevailed since World War II loom large, and misguided economic policies could usher in the first phase of a return to the cyclical dynamics of boom and bust. Ready for 2017? If nothing else, it is shaping up to be an interesting year.

Will 2017 herald more of the same mediocre growth and messy politics that have defined the post-crisis era?

Kallum Pickering is senior UK economist at Berenberg Bank

{ ETHICS }

PHILIPPA FOSTER BACK CBE

How to encourage a culture of integrity and openness in business

There used to be the joke that *business ethics* is an oxymoron. In today's environment, the general public understands clearly that business needs to be responsible in how it does its business; if it doesn't, and it has a choice, the public will vote with its feet. The business scandals over the past 20 years have reinforced this and public trust in business has fallen. In the Institute of Business Ethics' (IBE's) 2016 annual attitudes survey, only 48% of the British public thought business behaves ethically.

So, how business is conducted, corporate culture and individual behaviour are now on the board agenda, with it being pushed by the Financial Conduct Authority and Financial Reporting Council in particular.

Encouraging an ethical culture

How can a board encourage an open culture? The starting point is articulating the organisation's values. To be successful, a company needs a clear purpose of what it is doing and to set clear goals and business values. These need to be married with ethical values: how the company will do its business and achieve that purpose.

These values need to be explicit and brought to life for staff through guidance that translates those values into their day-to-day work.

So, an action plan for a company starting (or reviewing) its ethical journey and trying to encourage a strong ethical culture would include:

Identify the core values to which the business wishes to be committed and held accountable. Such values might include: responsibility, integrity, honesty, respect, trust, openness and fairness. Communicate them through everything the company does, from client brochures to Facebook pages. It is important to show that ethical values underpin the business's mission statement, strategy and operating plan.

Translate ethical values into guidance for all employees on how to act responsibly in different circumstances. If ethical values are the compass that guides how you do business, then a code of ethics is like a map. It sets out the expectations that the company has for how employees should behave in any given situation, to assist with decision-making. So, for example, if offered an expensive gift or hospitality, or if asked to pay to get a passport returned at a border post, what should they do?

Offering training in how to solve ethical dilemmas can not only give practical tools to staff, but also sensitise them to issues that may arise. In order for a code of ethics or an ethics policy to be effective in influencing behaviour and decision-making, it needs to be 'the way we do things around here'. The IBE has developed an e-learning tool that can help with this, which is also available through the ACT. (See www.treasurers.org/cpd/ethics)

And finally, do not underestimate **the importance of leadership**. It may be seen as a cliché, but the culture of an organisation is set by the 'tone at the top', whether that is the senior management or team leaders. Leadership means living the values that have been identified. Leaders who talk about ethical issues, supporting staff and behaving in an open and transparent way, sends the message to all employees, as well as the wider world, that ethics is taken seriously.

Creating a culture of integrity and openness – where ethical dilemmas are discussed and debated, and employees feel supported to do the right thing – is a powerful way to mitigate against the risk of ethical failure. A healthy, trustworthy culture is the basis of a sustainable business in the long term. No company should feel this is anything other than good management sense.

We all know that business, in the main, does behave responsibly. We have seen recently that courts can and will hand down meaningful penalties for companies that break bribery laws, for example. However, we still need to do our bit, by 'doing the right thing', to help improve the reality and perception of how business behaves, because societal support is necessary for our licence to operate – without that we will see more prescription, through law and regulations.

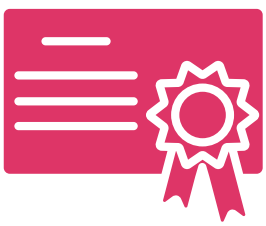
SHUTTERSTOCK

It is important to show that ethical values underpin the business's mission statement

Philippa Foster Back CBE is director of the Institute of Business Ethics and a former president of the ACT

CELEBRATING SUCCESS

OVER THE COURSE OF 2016, THE ACT'S QUALIFICATIONS AND ASSESSMENTS HAVE EVOLVED AND DEEPENED, AND TALENTED INDIVIDUALS HAVE SEEN THEIR HARD WORK REWARDED IN THE LATEST ROUND OF EXAM RESULTS. RORY EDMUNDS TALKS TO THREE OF THEM



578
qualifications completed in 2016

232
qualifications completed by students outside of the UK

98%
of students would recommend an ACT qualification

KAYLIE EDWARDS

Kaylie Edwards was encouraged by her employer to study towards the Certificate in Treasury Fundamentals (CertTF) to broaden her knowledge of treasury. She enjoyed the course so much that she's already moved on to the next qualification, the Certificate in Treasury (CertT). Edwards cites her hunger for knowledge since studying for the CertTF as the driving factor towards her taking the next step on the qualifications pathway.

In her role as treasury and transaction processing manager at EM&I Ltd, Edwards works on areas ranging from global credit management to trading currency, as well as liquidity and cash management. "My vast workload means I get to work with many influential people, such as CFOs, CCOs, CEOs and operations and projects teams." Speaking the language of all these stakeholders is vital and the CertTF covers, among other vital areas of treasury, exactly this.

Her newly acquired skills and ability to communicate with individuals across all areas of the business represent a major fillip for Edwards. She is seeing the benefits of the designatory letters, CertTF, next to her name. "It's like putting gold on your CV and a major selling point," she says.

Now, halfway through the CertT, Edwards is secure that it is relevant for all areas of her current role. "It shows you how much knowledge and expertise you need to have to become an exceptional treasurer."

Back in 1984, a small cohort of keen treasurers studied for the very first ACT qualification – the MCT Advanced Diploma. The course was as challenging then as it is now, but this didn't deter increasing numbers of treasurers from taking it on in the following years. As the MCT became established, a demand grew for treasury qualifications to suit those at different stages of their career, so the ACT introduced a qualifications pathway that offers development opportunities for all levels of treasurer.

Now, 30 years on, we continue to develop qualifications options, curricula and assessment procedures to meet the changing needs of the treasury and finance communities. Skilled and qualified professionals in this space are in demand more than ever, and the ACT remains committed to providing the industry-standard benchmark qualifications to support people's careers.

The year 2016 was a busy year of change for ACT qualifications. We introduced online assessments, improved learning resources through the new ACT Learning Academy and, building on the successful launch of the Certificate in Treasury Fundamentals (CertTF) and Certificate in Treasury (CertT) qualifications in 2015, completed the transition

SHUTTERSTOCK

See the pass lists at www.treasurers.org/success2017

to a new batch of courses at every level.

Whether you're starting out in a career in treasury or finance, or have decades of experience, the ACT qualifications pathway provides something for every level of learner. CertTF is the perfect first step into treasury and corporate finance, while CertT enables learners to become relied upon for their technical know-how. Associate member status has long been a signifier of treasury management expertise and this continues to be achievable through the new Diploma in Treasury Management. Experienced treasurers are now also able to jump straight to the diploma via the Accreditation of Prior Experiential Learning (APEL) route, which was implemented last year. The MCT remains the ultimate course for senior treasury professionals and sits at the top of the ACT qualifications pathway.

Last year, we also enhanced our offering of cash management qualifications. The new Award in Cash Management Fundamentals provides a first step to understanding the essentials in cash management and working capital, before learners can move on to the Certificate in International Cash Management, which teaches best practice in domestic and international cash management for those in corporates who manage cash, and anyone in a bank or consultancy role who wants to advise clients more effectively.

STEFANIE DAUBE

While working as a cash management adviser at Nordea Bank AB, Stefanie Daube studied for the Certificate in International Cash Management (CertICM). Her reason for doing so: "to deepen my knowledge of cash management and support me in my role at the bank. I assisted corporate treasury departments with cash management questions and was involved in request for proposal processes, so the CertICM was the perfect qualification for upskilling in this area."

At Nordea, Daube says she was looking for a course that gave a good overview of the key cash management elements. "The CertICM helped me to understand the corporate side of this area and enabled me to provide a better service for my clients."

Since completing the CertICM in 2016, she has moved into a treasury-specific role. "CertICM piqued my interest in the corporate side of cash management, so much so that I have now moved to a position with Concardis GmbH as junior treasury manager."

The CertICM's compulsory five-day tuition school is a great opportunity for learners to network. Daube's experience was no different. "It was really helpful in learning the practical elements of the course," she says. Of the course overall, her endorsement is clear: "I would recommend CertICM to everyone who wants to achieve a deep understanding of the corporate and bank side of cash management."

SHAEN CULLEN

Shaen Cullen initially started out in accountancy, but preferred the scope of treasury. Now, as senior treasury analyst with The Walt Disney Company, his role entails dealing with cash operations and investments, liquidity management, treasury tax planning and intercompany loans.

He completed the Certificate in Treasury (CertT) in 2016 after his mentor recommended ACT qualifications to him. The course, says Cullen, "has given me the tools to expand upon my current responsibilities and take on more strategic operations, such as capital markets. I also feel I better understand international cash management since completing CertT."

With plans to start the Diploma in Treasury Management this year, Cullen sees the importance of continuing his qualifications journey. "It shows a commitment to learning and continuous professional development, plus ACT qualifications are instantly recognisable to anyone in the industry. The diploma will hopefully allow me to move into a treasury managerial position," he says.

Cullen studied for the CertT through the ACT Learning Academy, the ACT's official study centre. It offers maximum flexibility and delivers resources online through the latest learning management system. His experience of it was certainly a positive one: "It's a great resource. The flexibility for participation, via forums, is ideal for professional workers who are otherwise restricted in their ability to attend classes," he says.

With the first full year of the new qualifications completed, we want to celebrate and share with you the success of all the individuals who have passed their respective ACT qualification. The hard work and accomplishments of all ACT students means that they will have the skills demanded by employers to support their own career development and, as a result, the success of the businesses in which they work.

Congratulations to all ACT students from 2016. Join us in celebrating their success by visiting the website to see the pass lists for all ACT qualifications at www.treasurers.org/success2017

Rory Edmunds is marketing assistant at the ACT

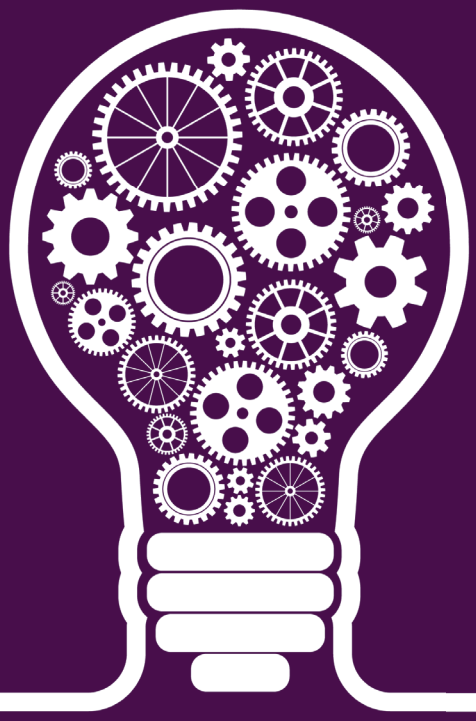
ACT LEADING TREASURY PROFESSIONALS

eAFFILIATE MEMBERSHIP

A wealth of resources at your fingertips

Your perfect introduction into the ACT and the treasury profession.

eAffiliate membership gives you access to exclusive online resources. As part of this international network you'll have support from some of the greatest minds and expertise in treasury and finance.



- Gain international credibility by joining the UK chartered body for treasury
- Stay current on latest industry issues
- Get access to The Treasurer magazine online
- Make the most of excellent networking opportunities
- Use our career resources and jobs board
- Benefit from the personal mentoring service

treasurers.org/eaffiliate

AND THE WINNERS ARE...

IN TURBULENT TIMES, EUROPE'S WINNING TREASURERS HAVE SHOWN INGENUITY AND A STEADFAST COMMITMENT TO QUALITY

Having been privileged to chair the Deals of the Year Awards judging panel for the first time, I am delighted to say that we had a very strong list of nominations to review this year. This has made the judging a fascinating experience, seeing in some detail many examples of the best work in the corporate treasury world.

Before discussing this year's awards, I would like to express my sincere appreciation to my predecessor as chair of the judging panel, Lesley Flowerdew. Over the past five years, Lesley has shown great skill and patience in managing a diverse group of judges through many lively debates. I hope we can continue to build on the excellent work she has done and take the awards from strength to strength.

I would also like to pass on my thanks to Paul Johns, who has stepped down as a judge after several years of service, and to welcome Fraser Campbell, group treasurer of GKN, onto the panel.

Two thousand and sixteen has been another interesting year for corporate treasurers. While we have seen a number of continuing trends, such as the strong dollar and low oil and commodity prices, the primary story has been, of course, the political shocks that have reverberated throughout the world, in particular the Brexit vote in June.

It is far too early to assess what the medium- and long-term ramifications of Britain's exit from the EU will be. All we can say with some confidence is that uncertainty and volatility is likely to be an ongoing theme as Britain negotiates its departure.

So, yet again, we have an environment where treasurers will have to prove their worth, while navigating huge uncertainty in the wider world. Whether in the field of risk management or ensuring that well-priced liquidity is available to pursue corporate objectives, we expect treasurers to remain in the boardroom spotlight.

Notwithstanding the political turmoil of 2016, credit markets have remained mostly resilient and funding costs have continued, at least for highly rated companies, to be remarkably low.

This has encouraged a number of corporates to take the plunge on strategic M&A, and one facet of this year's awards was the structuring and takeout of major deals. This always provides a challenge for corporate treasury teams, which are rarely staffed to take on these hugely complex and time-consuming projects easily. As a panel we are continually impressed with the ability of teams to execute all facets of major transactions while maintaining the quality of their day-to-day operations.

Philip Learoyd chaired the Deals of the Year Awards judging panel

However, the major theme this year was the innovative approach a number of corporates took to readying themselves for the investment challenges to come. Whether securing funding for major projects, repairing balance sheets battered by the commodity cycle or taking advantage of new pockets of liquidity, treasurers have shown a remarkable capacity to think creatively and find new solutions to support their companies' strategic objectives.

As a panel we believe this innovative outlook can only benefit the profession as a whole, moving treasury ever further away from being seen as a narrow technical discipline and more towards a value-driven contributor to enterprises of any size.

I am delighted that this year we have introduced our first individual award, that of Emerging Treasurer. The range of nominations for this award was incredibly diverse, in particular highlighting the different entry points to the profession, making it a particularly hard task to decide on a winner. We hope that we will have many more nominations in future years, highlighting the strength of the talent pipeline in the profession.

I would like to extend my thanks to all my fellow judges for the commitment and time freely spent on the judging process. Their insight and comment as we worked through the many nominations is much appreciated and, as I am sure our readers can imagine, there was some lively debate in a number of the categories. In addition, we continue to be hugely indebted to Lloyds Bank for its sponsorship of the awards, and appreciative of the work of many officers of the ACT in promoting the Deals of the Year Awards.

So, with much pleasure, we present the award winners of the 2016 Deals of the Year Awards and look forward to seeing many more examples of treasury excellence in 2017.

DEALS OF THE YEAR

Meet the judges

Our judges give us their views about the class of 2016 and the importance of the Deals of the Year Awards

Deals of the Year Awards judges

Faced with a wide range of high-quality nominations, it falls to our ACT Deals of the Year judges to sift the facts and assess the achievements of treasury professionals, both individuals and teams.

This year, we have turned the spotlight onto the judges themselves and sought their views about the significance of the ACT's Deals of the Year Awards for the wider treasury profession, and for their thoughts about this year's nominations.

Our executive judging panel

Fraser Campbell, group treasurer, GKN

Julie Fabris, group treasurer, Britax

Richard Sedlacek, managing director, Rothschild

Mark Venner, treasurer operations, BAE Systems

Paul Watters, head of corporate credit research, Standard & Poor's

Henryk Wuppermann, vice president of corporate finance, E.ON SE

Representatives from Spanish energy company Iberdrola

The panel is supported by

Clare Francis, managing director, global corporates, commercial banking, Lloyds Bank

Philip Learoyd, chair of the judging panel

Peter Matza, speakers' chair at the ACT

FRASER CAMPBELL

After an early career in banking, Fraser Campbell moved into a corporate treasury position at ferry group P&O, before moving on to take up group treasurer roles at P&O Princess and then O2, and subsequently his current role at GKN. He has also worked in a business development setting at Telefónica in Madrid, involving mobile money. This is the first year Campbell has been involved as a judge at the Deals of the Year Awards.

"The awards are well regarded among treasurers and the wider finance community, and rightly promote outstanding performance across the categories," he says. "I have been impressed by the breadth and quality of the awards in my first year as a judge."

IBERDROLA

Spanish energy company Iberdrola has supported the awards since winning in the loans above £750m category in 2012. Director of finance treasury Jesús Martínez Perez joined the panel in 2013, followed by María de la Fuente Lecanda, head of banking business planning, in 2014 and 2015. This year, financial analyst Iñigo Diez Lecertua coordinated Iberdrola's participation.

Lloyds' Clare Francis and Henryk Wupperman of E.ON SE

From left to right: Mark Venner, Philip Learoyd, Fraser Campbell, Peter Matza and Liz Loxton

JULIE FABRIS

Julie Fabris has worked in corporate treasury for more than 25 years, gaining experience in a variety of industries, such as property and retail. For the past seven, she has worked in privately owned companies, including Nomad group (part of the Birds Eye brand) and more recently the child safety seats and carriers group Britax. She has been involved in a few refinancing structures in that time, including an early medium-term notes programme, recapitalisations and high-yield bonds. She has acted as a judge for the ACT Deals of the Year Awards for four years, an experience that she has enjoyed immensely. The awards, she says, shine a spotlight on individuals and teams who stretch themselves beyond their day-to-day responsibilities.

"For those receiving the rewards, I hope that the recognition from both within and outside of their organisations is something to be proud of. Usually, the deals we see are executed within a tight timescale and are fit in around the operational day job, so they can be very challenging. I am always impressed by the way treasurers are seeking to use innovative ways to suit their funding needs and believe the foresight from treasurers brings a real change to the way the markets respond and adapt," she says.

This year brought particular challenges on the judging front in terms of the sheer breadth of activity presented with entries. "As ever, the nominations in all categories were varied both in size and nature, and this sometimes proves very difficult to judge a winner! I see all of the current nominations having an impact, whether in respect of the pricing achieved, the timing around market volatility or new structures. And we must not forget the Team of the Year nominations, which for some organisations seemed quite remarkable."

RICHARD SEDLACEK

Managing director in the debt advisory business at Rothschild in London, Richard Sedlacek has a long career in banking, having joined Rothschild in 2008 from Deutsche Bank, where he spent 19 years.

Sedlacek has been on the ACT Deals of the Year Awards judging panel for six years, having joined in 2010.

Over that time, he has seen the activities reflected in awards entries develop and enhance.

"This year, the quality of the nominations was exceptional, demonstrating once again the high esteem the ACT and the Deals of the Year Awards are held in by both corporations, as well as the wider financing community," he says.

MARK VENNER

Mark Venner joined BAE Systems group treasury 13 years ago as a treasury dealer and has progressed over the years to the position of treasurer operations, reporting to Raj Patara, group treasurer. He is responsible for the day-to-day risk management of group treasury, including front and back offices, and management of group bank accounts (excluding the US). Prior to joining BAE, he worked for JPMorgan Chase for nine years, principally managing a middle-office analysis team responsible for analysing the profit and loss and risk for the bank's large derivatives book.

Venner is also a qualified accountant and holds an MBA from Aston Business School. He joined the ACT Deals of the Year Awards judging team last year.

The aspect of judging that he most enjoys is seeing the diverse range of deals that treasurers get involved with.

"Treasury teams vary in size, so a particular deal might be far more challenging for one team compared to another. When judging, I always try to consider the impact of the deal on the wider treasury team, rather than focusing on the one or two individuals that might have been nominated. The awards are a great opportunity for treasurers to highlight the challenging and important role that they play in most corporate environments," he says.

PAUL WATTERS

Paul Watters is head of corporate credit research at Standard & Poor's. He has held a number of senior roles in S&P's leveraged finance group since joining the rating agency in January 2002. Prior to that, he spent 15 years working in debt capital markets at both Lehman Brothers and Nomura International. He is also a fellow of the ACT.

"The awards recognise the skill and innovation treasurers bring to their important financing roles in both large and small companies," he says.

HENRYK WUPPERMANN

Henryk Wuppermann is vice president corporate finance at E.ON SE. He joined the energy company in 2008 to head the corporate finance team, which is *inter alia* responsible for E.ON's capital market transactions, corporate ratings and debt investor relations. He has also led several finance workstreams in E.ON's major M&A disposals as well as in E.ON's recent spin-off of Uniper SE.

He has extensive experience in large-scale bond and bank financings, liability management, equity and equity-linked transactions, as well as rating projects. Prior to E.ON, Wuppermann worked at Bayer for seven years. He holds an MBA from Munich's LMU.

In his view, the awards reflect the exciting breadth and depth of transactions executed by corporate treasury teams all over Europe, as well as the outstanding expertise, market judgement and speed that award winners show in their respective transactions. "The awards not only recognise deals by their sheer size, but allow smaller transactions to succeed. Given that award-winning transactions are judged and selected not by banks, but by corporate treasurers, they represent the best examples from a corporate perspective," he says.

"This year was a tough competition with both unanimous votes, as well as heavily discussed selections, representing both the strength and the breadth of nominations," he adds.

Bonds above £500m and overall Deals of the Year Awards winner

SHIRE PHARMACEUTICALS

SURE-FOOTED EXECUTION

WITH IMPECCABLE TIMING AND STRONG INVESTOR INTEREST, SHIRE PHARMACEUTICALS' TREASURY TEAM RAMPED UP A CLUSTER OF FIRSTS IN A $12.1BN DEAL

Deal highlights

Issuer:
Shire Plc

Amount:
$12.1bn

Structure:
Four tranches

Rating (at time of deal):
Baa3 (stable)/
BBB- (stable)

Currency and tenor:
$/3yr, 5yr, 7yr, 10yr

Interest rate/coupon:
1.900%/2.400%/
2.875%/3.200%

Shire Pharmaceuticals impressed our panel of judges this year with a landmark deal. The British company completed the largest-ever bond transaction – $12.1bn – by a UK-listed corporate. It was also the second-largest-ever corporate debut bond.

One of Europe's largest pharmaceutical companies, Shire has been on an acquisition spree over the past two years: it acquired ViroPharma in 2014, NPS Pharmaceuticals and Dyax in 2015 and, in its most recent and largest acquisition to date, rival Baxalta last year.

The group, which focuses on treatments, medicines and cures in rare diseases, neuroscience and gastrointestinal specialisms, received its first public rating in January 2016 – Baa3 from Moody's and BBB- from S&P – making this debut bond all the more impressive for its size and pricing.

Shire's inaugural $12.1bn transaction also represented a big change in the group's financing strategy, with the proceeds of the issue being used to refinance a portion of the bridge put in place for the $35bn takeover of Baxalta, as well as for general corporate purposes. The approach was timely – just three months after closing – allowing it to avoid any pending market requirement and inherent uncertainty.

Shire had previously issued only convertible bonds and this issue is the third-largest-ever transaction from a European corporate borrower in US dollars. Completing the transaction in US dollars allowed the company to match the currency of acquisition consideration/bridge and to tap the most liquid currency market.

The strength of investor interest allowed the company to skew the offering to short-dated maturities, which reduced the funding cost and aligned with Shire's cash flow and deleveraging plans following the Baxalta acquisition.

Shire, hovering just above non-investment grade, managed to get the deal away at extremely tight levels, with a weighted average coupon of just 2.59%. The transaction achieved a very favourable pricing outcome, with the 5yr, 7yr and 10yr coupons all among the five-lowest-ever BBB- US dollar coupons for their respective tenors. Pricing through execution was tightened 20-30bps, while the company maintained strong tranching flexibility, with the three-year and five-year tenors ultimately the largest in size.

The company has now established a formidable presence in the US dollar capital markets and a strong relationship with the global investor base that will enhance its future access to the capital markets. The $12.1bn trade amassed a $28.5bn order book.

The team perfectly captured an optimal window, following its acquisition and the summer period, but ahead of macro and political uncertainty in the form of potential interest rate hikes and US election results.

Mark Kitchen, head of UK corporate debt capital markets at Merrill Lynch, who worked on the deal with Shire, says: "What was impressive was the size of the treasury team. It was just three people that drove most of the process. And this deal was just one of a number of things that the team was dealing with at the time."

What the judges said:
"A superb result for a jumbo inaugural transaction"

HIGHLY COMMENDED: EDF

THE JUDGES also applauded EDF's work, delivering a rather unusual bond in the circumstances of a predisposal deal. The transaction not only marks the largest Formosa issue since markets began, but also the first 40-year US dollar Formosa issue and the longest-ever US dollar Formosa issue.

The transaction allowed EDF to further lengthen its debt-maturity profile at attractive funding costs, demonstrating its strong name recognition around the world with innovative transactions.

The issuance marks EDF's return to the US dollar Formosa market (listed on Taiwan's OTC exchange), as the French energy group already accessed this market in October 2015 when it issued an inaugural Formosa for $1.5bn at 30yr at 4.75%.

EDF took advantage of the continuing deep liquidity pool in Taiwan since regulatory change, allowing all bonds listed on the Taipei Exchange to now qualify as domestic securities for insurance companies.

Bonds below £500m winner

VIRGIN ATLANTIC AIRWAYS

POISED FOR TAKE-OFF

AN INNOVATIVE USE OF AIRPORT LANDING SLOTS FORMED THE BASIS OF VIRGIN ATLANTIC AIRWAYS' BOND ISSUE

Richard Branson's Virgin Atlantic Airways secured an impressive £220m senior secured note transaction using the airline's take-off and landing slots at London Heathrow Airport. It is the first time in European air travel history that airport slots have been leveraged in this way.

Moody's provided a private rating for the senior notes, which lent further credibility and confidence to investors. The deal attracted interest from blue-chip investors as well as long-term pension funds.

The senior secured notes enabled Virgin Atlantic to improve its liquidity while diversifying the group's funding sources and ensuring it has the right asset base to fund its long-term investment programme, including buying a new fuel-efficient fleet of aircraft.

The biggest hurdle for the treasury team, led by group treasurer Nathan Dunton, in securing the deal was that landing slots are not 'owned' by airlines. They have the right to use them, however, and, therefore, there is an implied value.

To overcome potential investor concerns, the note issuance was completed through a wholly owned subsidiary called Virgin Atlantic International Limited with flights from London Gatwick to Caribbean destinations, including Antigua, Barbados, Grenada, Saint Lucia and Tobago.

Legal control of the secured slots remains with Virgin Atlantic, but the subsidiary is used to ring-fence the landing slot assets from Virgin Atlantic. The bonds were issued by an insolvency remote securitisation vehicle, which on-lent and has security over the subsidiary airline to protect the security of investors.

"It is not a traditional type finance deal with treasury teams pitching to banks. The maintenance involves the operations teams in the business as well as the treasury team, which is an amazing thing to see in the company. It's something that some treasury teams would never get exposure to. It's a very good example from my perspective to understand how operations work with treasury," says Dunton, who credited the deal to his predecessor and CFO.

The deal provided many firsts for Virgin Atlantic. Apart from it being the first transaction of its kind in Europe, it was also Virgin Atlantic's first capital markets transaction. The deal secured attractive margins for long debt tenors, especially in comparison with typical aviation financing transactions.

The successful transaction presents an opportunity for other airlines to unlock the value held by these intangible assets. Aviation analysts have viewed the transaction positively, suggesting it has the potential to transform the capital structure of the aviation industry.

Macquarie Corporate and Asset Finance acted as sole arranger. Virgin Atlantic was advised by law firm Herbert Smith Freehills. Watson Farley & Williams provided legal advice to investors.

Deal highlights

Issuer:
Virgin Atlantic

Amount:
£220m

Structure:
Senior secured note transaction

Rating (at time of deal):
Private rating by Moody's

Currency and tenor:
£/12/08/2030

Interest rate/coupon:
Undisclosed

What the judges said:
"An innovative use of corporate securitisation, which has been overlooked in recent years"

HIGHLY COMMENDED: THAMES TIDEWAY

THE JUDGES commended Thames Tideway for its successful transaction for a second year running. Thames Tideway and Bazalgette Finance plc secured debt funding of between 32 and 38 years, representing the longest deferral on a corporate inflation-linked bond issuance.

The deal used an innovative 'Delayed Purchase Bond' structure, which, although common in the US private placement market, is a less common tool in European Reg S bond transactions in private placement or club deal format.

Proceeds of the transaction will fund capital expenditure for construction of the Thames Tideway Tunnel, designed to discharge storm water and sewage into the River Thames.

The peak capex requirements are not until the 2018-20 window, and the deal was structured to allow Tideway to de-risk its funding plan by locking in committed debt funding at today's market rates and manage negative carry costs associated with pre-funding in a very low interest rate environment.

DEALS OF THE YEAR

Loans above £750m winner

RIO TINTO

"IN THE FACE OF ADVERSITY"

THE JUDGES COMMENDED RIO TINTO FOR ITS DIPLOMACY AND DEXTERITY IN PULLING OFF A MULTIFACETED DEAL

Deal highlights:

Issuer:
Rio Tinto

Amount:
$4.4bn

Structure:
Five-tranche loan

Rating (at time of deal):
Baa1 (Moody's)/A- (S&P)

Currency and tenor:
$/15yr, 14yr, 13yr, 12yr

Interest rate/coupon:
$0.8bn at 4.78%/$0.9bn, $0.4bn at 4.65%/$0.7bn at 3.65%/$1.6bn at 4.4%

Rio Tinto accessed the markets late in 2015 to secure one of the largest financings in mining history and the largest financing in Mongolia's history for the proposed underground expansion at the Oyu Tolgoi copper mine in Mongolia, one of the largest undeveloped copper deposits in the world.

Juggling the number of agencies and banks involved alone deserves high praise. The deal involved 21 different international funding agencies and banks providing up to $4.4bn of 12- to 15-year term amortising funding across five separate tranches, to fund the development of an underground copper and gold mine in Mongolia. The transaction required considerable relationship management, careful drafting to secure the economic benefits and sheer tenacity to sustain the momentum over the six years it took to complete.

The financing paved the way for Rio Tinto, the government of Mongolia and Rio Tinto-controlled Turquoise Hill Resources to approve the underground development of the Oyu Tolgoi mine located in the South Gobi region of Mongolia in May 2015.

For Rio Tinto, the project represents one of its three strategic-growth priorities and an important long-term partnership with the Mongolian government. It is the largest single investment in Mongolian history and, at full production, is expected to represent up to a third of Mongolia's GDP.

The Oyu Tolgoi project financing supports Rio Tinto's investment in Mongolia and creates an appropriate transfer of risk through the introduction of the World Bank, international policy lenders and 15 commercial banks. It also optimises the capital structure of the subsidiary that was previously 100% shareholder-funded. It secures liquidity to the project that the local joint venture partners were unable to provide themselves.

Work on the financing and development of the underground mine was delayed from July 2013 to May 2015 while key shareholder issues were resolved. Despite this, the project team remain focused and positive about completing the financing.

The net proceeds have been initially used by the mine to repay shareholder loans from its 66% parent Turquoise Hill Resources (51% held by Rio Tinto) and have ultimately been paid to Rio Tinto's central treasury.

The judges were impressed by the deal because of the political risks involved and the clever management of the different stakeholders.

The project financing facility is interest-only for the first five years and then reverts to a stepped repayment schedule for the remaining life of the facility.

The funding will come from export credit agencies representing the governments of Australia, Canada and the US, along with 15 commercial banks, including HSBC, BNP and ANZ.

Rio Tinto

What the judges said:
"Excellent execution of a hugely complex deal"

HIGHLY COMMENDED: BAYER

BAYER went to market last year to secure the third-largest loan in history and the largest ever in Germany. The $56.9bn acquisition facilities were put in place to finance the proposed acquisition of US agrochemical company Monsanto, the biggest acquisition in Bayer's history.

The facilities are expected to be taken out through around $19bn in equity, of which a €4bn mandatory convertible bond was already placed in November, with the remainder to be raised in a sizable rights issue. The equity takeouts are to be complemented by takeouts in the debt capital markets across senior and subordinated (hybrid) bonds.

The acquisition facilities consist of bridge and term loan facilities. Tranching details remain confidential.

The competitively priced multi-year credit facility gives Bayer financing certainty for the purchase price and flexibility in refinancing the deal to cater for the M&A timetable, which is expected to be completed at the end of this year.

Bayer largely mitigated the related FX risk by establishing US dollar-denominated loans, while also entering into derivatives contracts to hedge the currency risk of the euro-denominated takeouts.

The judges said the move by Bayer to acquire Monsanto was very brave and that the deal was "a standout situation".

Loans below £750m winner

THE PHOENIX GROUP

SET FAIR FOR GROWTH

A REVOLVING CREDIT FACILITY AND TERM LOAN AGREEMENT POSITIONED PHOENIX WELL FOR ITS ACQUISITION PLANS

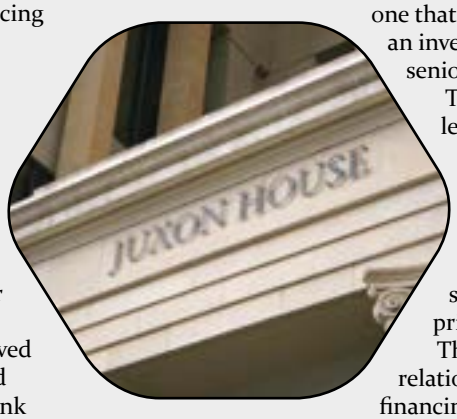
The unique terms of Phoenix's £650m revolving credit facility (RCF) – in particular the permission to carry out an acquisition without lender consent – allowed the company to carry out two new acquisitions in 2016, growing its business by 40%.

The goal of the five-person treasury team was to renegotiate Phoenix's financing arrangements in order to position the group to efficiently fund any acquisition. Indeed, the deal was negotiated in parallel with and because of Phoenix's acquisition of AXA UK's Wealth and Protection business, giving Phoenix an option to use the new RCF to help provide part of the long-term capital structure for the combined group.

Following the company's improved credit profile, Phoenix approached its banks to renegotiate its core bank financing to reflect its new investment-grade status, as well as increasing flexibility to ensure the group could efficiently fund any acquisition.

The new facility was structured in conjunction with the lead banks to provide enough flexibility to support its growth ambitions, demonstrating the confidence in, and support of, the new management and treasury team.

The refinancing of a £450m RCF and a £200m term loan into a four-year £650m RCF, which does not require lender consent for a class 1 acquisition, is an impressive feat for any treasury team, but especially one that had only recently acquired an investment-grade rating (BBB+ senior rating).



The £650m RCF secured 10 lenders, each offering £65m to provide a single £650m tranche maturing in June 2020.

The class 1 carve-out allows for any acquisition in line with the publicly stated M&A strategy up to a maximum price of £1.6bn.

The treasury team built strong relationships with banks to raise financing for their acquisitions efficiently. The ability of the team to think holistically for complex financing structures for multiple acquisitions, and plan ahead without dropping responsibility for their daily tasks was thought to be impressive.

Deal highlights:

Issuer:
Phoenix

Amount:
£650m

Structure:
Revolving credit facility

Rating (at time of deal):
BBB+ (Fitch)

Currency and tenor:
£/4yr

Interest rate/coupon:
n/a

PHOENIX GROUP

What the judges said:
"An example of treasury actively contributing to corporate objectives"

HIGHLY COMMENDED: SHANKS

Shanks Group completed a substantial euro acquisition by a UK group with GBP share capital, carried out either side of the Brexit vote and up against adverse GBP/EUR movements impacting the deal economics.

For that reason the judges highly commended the treasury team for its tenacity and success.

In 2016, Shanks, an international commercial and municipal waste management company, agreed the reverse takeover of its largest and much larger competitor in its core Benelux markets, Van Gansewinkel, for €482m.

The acquisition was funded by a mixture of debt and equity, in the form of a term loan, and a revolving credit facility (RCF) of €600m in addition to consideration shares, a placing and a rights issue.

The €600m fully underwritten multi-currency bank debt facility (€450m RCF and €150m term loan) and acquisition was overwhelmingly supported by shareholders and employees on both sides.

The debt financing has made a significant contribution to the transaction, providing €600m of new facilities and significant headroom for future capex and investment by the combined group.

The group treasurer was able to substantially increase the facility size from €180m RCF to €600m term loan and RCF despite Van Gansewinkel lenders having experienced debt losses in a prior debt restructuring. The company also achieved five-year core maturity with two one-year extension options, including on the term loan tranche, not usually seen in the UK plc market.

The facility secured debt pricing at lower levels than the concurrent and comparable Biffa transaction. And, ultimately, the deal renegotiated the combined group €400m ancillary and bilateral financing arrangements and maintained Shanks' existing €200m Green Retail Bonds.

DEALS OF THE YEAR

Corporate Finance Award Winner

ANGLO AMERICAN

TIMELY TURNAROUND

BOLDNESS AND CLEAR DECISION-MAKING WERE THE FACTORS BEHIND ANGLO AMERICAN'S BOND BUYBACK AND RESTRUCTURING ACTIVITY

Deal highlights:

Issuer:
Anglo American

Amount:
$1.4bn bond buyback/$1.5bn club revolving credit facility

Structure:
Seven tranches

Rating (at time of deal):
BB+ (Fitch), Ba2 (Moody's), BB (S&P)

Currency and tenor:
$ £ €/2016/17/18

Interest rate/coupon:
4.375% Dec 16/1.750% due Nov 17/6.875% due May 18/2.500% due Sep 18/2.625% due April 17/2.625% due Sep 17

ANGLO AMERICAN

What the judges said:
"Their backs were against the wall. It was great treasury management – the standout deal of the sector"

Anglo American returned to the markets this year in an impressive show of timing, knowledge and skill. The mining company executed a unique transaction that included a bond buyback cheaper than the original sale and secured a club revolving credit facility (RCF).

As part of its turnaround plan, the mining company was clear that it had to shake up its capital structure due to falling commodity prices. With this unique transaction the group wanted to buy back debt trading, reduce gross debt and net interest costs, and muster a sign of strength at a time when markets were pricing in a high probability of default.

Anglo's bonds had just been downgraded to junk status by the rating agency Moody's, the day before the Johannesburg and London-based company announced an annual loss of $5.5bn and an intention to sell between $3bn and $4bn of assets.

To the surprise of some observers, Anglo achieved its bond buyback goals with aplomb. Shortly following the transaction, a research note from Deutsche Bank said: "It would appear that they are indeed getting on with it..." as it recommended a very firm "hold".

The group took advantage of outstanding bond cash prices at time of market uncertainty to repurchase $1.4bn of securities with maturities ranging from 2016 to 2018 and maintain the group's liquidity by putting in place a three-bank $1.5bn club RCF.

Anglo also used $1.7bn of cash to retire $1.83bn of contractual repayment obligations, resulting in an immediate reduction in net debt of $130m, and $60m interest savings over two and a half years. No small feat for a group facing a difficult credit backdrop – Anglo credit default swap was around 1,000bps at the time of the launch.

The result of the complex transaction was that Anglo's bond maturities were reduced by $250m, $680m and $900m for 2016, 2017 and 2018 respectively. It also reduced the group's bond repayment obligations at original hedged rates to $1.4bn, $1.9bn and $2.5bn respectively for the same years.

One of the nominating banks said: "It was a very bold decision to consume liquidity at a time when most would be concerned to preserve it. Equally remarkable of the issuer to be able to get banks to commit significant additional capital to backstop the cash consumed, while both the share and bond prices were collapsing.

The treasury team showed the ability to move quickly to bring about the unexpected success of the European tranche. The initial facility was supposed to be for $1.05bn, but was increased by $450m to support the liquidity required to upsize the bond buyback transaction.

HIGHLY COMMENDED: INFORMA

The judges also wanted to commend Informa for its corporate finance transaction. Informa went to market with a new acquisition bridge and backstop facilities to support the purchase of Penton Inc.

The acquisition was a transformative transaction for Informa, with new debt facilities successfully put in place within a short M&A time frame. The facilities were structured to de-risk 2017 funding requirements and included a mix of tranches to cover a number of purposes, including funding of consideration, backstopping upcoming debt capital markets maturities and backstopping core working capital facility.

The treasury team managed the bank financing process simultaneously with successfully executing a £715m equity raise (subsequently translated to US dollars to fund fixed US dollar consideration), and managing the M&A process. The major cross-border transaction was successfully completed within the proposed timeline and on proposed terms despite market volatility in light of the EU referendum decision.

Emerging Treasurer of the Year

OLIVER CHOPPIN, ASSISTANT TREASURER, HAMMERSON

TALENT WILL OUT

HAMMERSON'S ASSISTANT TREASURER, OLIVER CHOPPIN, IS THE FIRST EVER WINNER OF OUR EMERGING TREASURER OF THE YEAR AWARD

Recognising up and coming treasury talent is an important part of what the ACT does to support and promote the profession. We shine a light on the treasurers of tomorrow through our annual *Ones to Watch* publication and engage them in helping to shape thinking through the Future Leaders in Treasury Forum.

To celebrate 20 years of the Deals of the Year Awards, and to continue their evolution, we introduced a new category for 2016 – Emerging Treasurer of the Year – conceived with the help of the chair of the Future Leaders in Treasury, Agnes Favillier, head of front office at Capita plc and chair of the Deals of the Year Awards panel of judges, Philip Learoyd.

This award recognises those who, in the early stages of their treasury career – less than five years working in a treasury role – have shown exceptional treasury skills and understanding of the problems facing business today, and who have made an outstanding contribution to the success of their treasury team.

Nominations for this inaugural award were wide-ranging, but the judges agreed that the individual that stood out was Oliver Choppin, assistant treasurer at Hammerson, someone his group treasurer and manager, Richard Sharp, describes as "the backbone" of their small treasury team of just three people.

Choppin is directly responsible for treasury operations, cash management, a portfolio of €600m of FX derivatives, hedge accounting and covenant compliance. Maintaining and building relations with Hammerson's banking group is a critical part of his role, and he has developed a strong network covering all sectors.

Choppin was described as "instrumental in the execution of critical transactions" in the course of an exceptionally busy year for Hammerson's treasury team. In October 2015, the team entered into its largest-ever finance transaction, raising a €1.5bn bank bridging facility. This facility had a maturity of less than two years, and so followed an intense 12-month period of refinancing.

While working in a small team has undoubtedly exposed Choppin to a wide range of treasury functions, Sharp puts his success down to sheer hard work and dedication, together with the knowledge and technical skills he has gained over his nearly five years working in treasury, exemplified by his appointment as assistant treasurer in December 2011 without any formal treasury background.

Choppin still managed to find time to study, becoming a part-qualified certified accountant progressing towards fully qualifying, after which he hopes to embark on the ACT's qualifications pathway for the Diploma in Treasury.

Sharp says: "Oliver is an excellent example of what can be achieved through hard work and dedication within the treasury profession."

What the judges said:
"An excellent example of a young treasurer with a hunger to get stuck in"

SPECIAL MENTION: ANDREW BYRNE, SENIOR FINANCIAL MARKETS MANAGER, SHELL

Andrew Byrne also attracted attention from the judges, recognising the contribution he has made to Shell's continuous success in capital market since joining the treasury team in January 2016.

His previous roles within Shell included working within the capital investment appraisal team, the acquisition and divestments team and, most recently, Shell's global credit risk team, enabling him to bring a lot of useful experience to the treasury team.

In his current role he has been leading Shell's most recent bond issues, including a $4.5bn five-tranche SEC-Registered USD transaction, crucial in Shell's return to business as usual funding following heightened financing requirements after the BG Group acquisition.

In addition to debt capital markets, Byrne also covers equity capital markets, the dialogue with rating agencies and works alongside internal partners, such as the strategy and planning team.

The nominating bank says: "Andy is a crucial part of Shell's treasury team, managing the day-to-day treasury affairs of one of the largest and most sophisticated corporates globally."

DEALS OF THE YEAR

UK Treasury Team of the Year (market cap above £2m)

NATIONAL GRID

"IMPRESSIVE UNDERTAKING"

STANDOUT TRANSACTIONS SEAMLESSLESSLY CARRIED OUT ALONGSIDE DAY-TO-DAY BUSINESS BROUGHT FULSOME PRAISE FOR NATIONAL GRID'S TREASURY TEAM

nationalgrid

What the judges said:
"A strong team, at the top of its game, delivering complex operational and financing requirements"

The treasury team at National Grid has had a busy year. The team faced an array of financing and corporate structuring projects across the group, which has one of the FTSE 100's largest corporate balance sheets with more than £28bn of total borrowings as of the 2015/16 year end.

The main focus of the year was preparing the group for the divestment of a majority stake in its UK gas distribution networks, which meant the treasury team needed to manage a huge process with an array of complex work streams.

National Grid's treasury team completed one of the largest M&A transactions in the UK corporate sector in 2016. Not only that, the team continued to fund ongoing business, and the board's decision to divest National Grid's UK gas distribution network resulted in several separate work streams led by the treasury team, which faced several challenges.

It decided to pre-gear the assets for sale to 65% debt to regulatory asset value in order to achieve best value from the sale, requiring a total of £5.6bn of debt to hit the target. It achieved this by issuing £3bn of fixed-rate bonds across four tranches – marking the largest sterling transaction of all time from a corporate issuer – and a €750m, eight-year note, with associated cross-currency swaps executed to take the proceeds back to GBP. The average cost of debt across the new £3.6bn equiv debt issuance was 2.2%. The team also had to raise significant new term debt facilities from the bank market and negotiate for other debt to be provided through a private liability management process.

The team set a number of important records and benchmarks during the process. The £3bn four-tranche transaction represents the record-largest corporate sterling bond issuance.

The National Grid treasury team was responsible for much of the unseen work, such as the credit ratings at the new business and ongoing National Grid business, organising the carve-out finances, negotiating with the pension trustees, and building and recruiting a separate treasury team. The separation required independent systems to be set up, new banking arrangements and a team of people to operate completely independently of National Grid.

"Brilliant transaction. It takes a treasury team that was very confident of its long-term survival to have been able to conceive, convince and implement such an impressive undertaking, particularly convincing management this was a prudent source of cash at a time when markets were very strongly reflecting concern of debt and liquidity," said a nominating bank.

In a year that saw the departure of long-standing group treasurer Malcolm Cooper, the team has continued to perform to the highest standard, ensuring it was crowned this year's UK Large Treasury Team of the Year.

HIGHLY COMMENDED: ANGLO AMERICAN

The treasury team at Anglo American has been highly commended by the judges this year for its success in its liability management operation by reducing debt, interest costs and benefiting the company by $190m in total.

Faced with a bleak industry outlook, the mining company experienced downgrades from all three rating agencies, a collapse in share price and bond prices, indicating a high probability of default. Undeterred by the outlook, the Anglo American treasury team took a bold approach to convince its senior management and relationship banks of its market judgement to use the company's remaining liquidity to buy back debt at a deep discount.

Drawing on its strong relationships cultivated over many years, the team lined up a number of relationship banks to commit substantial backstop liquidity to support such a novel transaction.

The standout transaction successfully addressed Anglo American's capital structure and demonstrated to the market the company's confidence with its liquidity levels.

A nominating bank said: "The success of this transaction undoubtedly underscores the skill and pragmatism of Anglo American's treasury team to cohesively work together across all fronts to execute this transaction at such crucial timing, all within its very conservative policies and corporate cultural framework."

UK Treasury Team of the Year (market cap below £2m)

GASLOG LTD

ON TOP OF ITS GAME

GASLOG TREASURY TEAM'S STRONG MARKET RELATIONSHIPS AND HIGH STANDARDS HAVE MEANT IT HAS BEEN ABLE TO ACHIEVE EFFICIENCY AND OPERATIONAL IMPROVEMENTS

Over the past year, the three-member treasury team at GasLog Ltd, an international owner, operator and manager of liquefied natural gas (LNG) carriers, has overhauled its entire debt complex, tapping multiple elements of the debt capital markets, and establishing new benchmarks for market terms.

The team has accomplished these transactions in one of the most difficult shipping markets of the past 20 years, and against the backdrop of the Greek economic crisis.

Simultaneously, the team has developed governance standards both internally and externally, improved execution efficiency and implemented the group's first comprehensive hedging strategy. Treasury also established strong relationships with 20 lenders, bondholders and a Japanese sale-leaseback business partner.

Among the corporate financing and funding it has achieved, the team has secured a $1.3bn, 12-year senior secured facility for eight new build vessels, a $1.05bn refinancing and $200m 20-year financing alternative at a fixed rate of less than 5% annually for an LNG vessel sale and leaseback.

> The team has accomplished these transactions in one of the most difficult shipping markets of the past 20 years, and against the backdrop of the Greek economic crisis

As regards treasury efficiencies, the team has established a single platform for e-banking, implementing SWIFT connectivity across all group accounts, under a single e-banking solution.

It has also set up an enterprise resource planning system enhancement and payment automation project along with implementing the FXall trading platform.

Treasurer Rick Martin said: "I am very proud of what the team, both treasury and other colleagues, has accomplished.

"As one analyst recently noted, 'As we see it, GasLog has played its cards beautifully, and is now perfectly positioned to benefit from an improving LNG shipping market in the years ahead. A strong financial footing also helps'.

"This has, of course, required the efforts of all colleagues, but I am pleased that treasury has capitalised on the opportunity to play an integral part in these successes."

Rick Martin: I am pleased that treasury has played an integral part in these successes

What the judges said:
"Small team punching above its weight... very impressive execution"

HIGHLY COMMENDED: HARGREAVES SERVICES

The four-member treasury team at AIM-listed Hargreaves Services, the UK's largest coal-production, trading and distribution operation, was highly commended by the judges.

The combination of collapsing coal price and coal demand created a perfect storm of events that saw many UK coal-production companies collapse into insolvency as profits vanished and stocks piled up.

Despite these challenges, Hargreaves' treasury team's prudent and proactive approach has helped the company rapidly reposition and transform the business.

The treasury team, led by group treasurer Gayle Mulvaney, has been instrumental in creating and maintaining the solid financing platform that has given the management team the chance to restructure and reposition the business.

Treasury led the process of looking at the forward operating and business plan to understand forward-looking credit capacity.

The treasury team's successful management of the balance-sheet position helped the group to deliver funding and bank support to complete the acquisition in January 2016 of CA Blackwell Group and invest in property and energy projects.

These projects and acquisition involved complex consent processes with the banks and careful integration into the group's facilities.

The team has also been on the front line of the company's overseas expansion by securing funding solutions, clearing and bonding to fit local regulatory frameworks and business cultures, while complementing the group's broader arrangements.

European Treasury Team of the Year winner

AIR LIQUIDE

PERFECT INTEGRATION

NEGOTIATING THE UNCERTAINTY BEFORE AND AFTER BREXIT AND AROUND THE US ELECTIONS AND EXECUTING WELL-RECEIVED ISSUES HAS MARKED AIR LIQUIDE'S TREASURY TEAM OUT AS A FORCE TO BE RECKONED WITH

Air Liquide's treasury team has scooped the award for European Treasury Team of the Year in this year's Deals of the Year Awards for its work on the financing to acquire Airgas, which has been a game-changing acquisition for Air Liquide. The acquisition was successfully completed on 23 May 2016, following US Federal Trade Commission clearance.

In addition to the deal itself, over the past 12 months, the gas solution company's treasury team has managed to plan, arrange and successfully execute a full range of financing and risk management transactions connected to the acquisition.

The deal and supporting financing work represent an array of 'firsts' for Air Liquide. The team put in place Air Liquide's first ever $12bn bridge facility for the company. The team also worked on a €3bn five-tranche senior bond offering in June – the first-ever euro offering of such magnitude. To date, Air Liquide has rarely issued more than €500m in one go. The treasury team also completed a $4.5bn five-tranche senior bond offering in September. This represented another first for the company as its first-ever public US dollar offering.

The €3bn bond issue was generously oversubscribed – it generated more than €12bn of orders. Its timing was noteworthy as well; it was executed two days before the European Central Bank (ECB) started buying back corporate bonds and just prior to the Brexit vote.

"In a market that has seen sporadic bouts of turbulences, from Brexit to navigating ECB policy decisions, pre-empting the US elections and large volumes of issuances, Air Liquide managed to seize the most opportune market windows, and each and every trade was extremely well received by the markets and seen as a 'marquee trade'," said one nominating bank.

In September, the treasury team executed a €3.3bn rights issue – the first rights issue for the French company in several decades. The rights issue was oversubscribed, illustrating strong support from Air Liquide's investor base as well as orders for unsubscribed shares. The €3.3bn rights issue was the second-largest equity capital markets transaction in Europe in 2016, and the largest rights issue in France since 2009. It also represented the final step of the refinancing of the $13.4bn acquisition of Airgas.

The nominating bank added: "The tasks undertaken were significant and, in many cases, it was the first time the Air Liquide treasury team had to deal with such large and complex transactions in a limited time frame. The treasury team was fully engaged early in the process to shape the acquisition financing and capital markets refinancing strategy. The financing was perfectly integrated into the M&A process.

What the judges said:
"Excellent multifaceted execution as the team broke new ground to deliver M&A financing"

SPECIAL MENTION: SPOTIFY

Swedish music streaming company Spotify also attracted plaudits from the judges for its approach to managing growth, building solid technological foundations and a strong operating focus.

One of Spotify's primary challenges is managing payments from some 40 million customers worldwide, based across 60 markets.

Head of corporate development and treasury at Spotify Johan Bergqvist places a strong premium on technological solutions that will cope with fast growth and that will work across global markets, and opting for a Software as a Service model to accommodate those requirements. Spotify's treasury team and bank worked to build a cloud-based FX solution and developed a hedging programme using best-in-class technology.

During the first half of 2016, Bergqvist and his team of four closed one of the largest convertibles ever for a tech unicorn, securing a $1bn financing, to support Spotify's growth programme.

ACT

LEADING TREASURY PROFESSIONALS

HOW CAN WE HELP YOU?

Educating through professional qualifications

Networking through events and conferences

Shaping careers through treasury training

Guiding through policy & technical updates

Supporting through membership services

Informing through publications and webinars

Connect with us at **act@treasurers.org**

TREASURERS.ORG

A SENSE OF SCALE

Negotiating an M&A deal is one thing, but successfully combining the treasury functions of two professional services firms in the insurance space is quite another. Christof Nelischer discusses his approach to this challenge at Willis Towers Watson

Words: **Ben Poole** / Photography: **Louise Haywood-Schiefer**

On a foggy morning, high up in the Willis Towers Watson offices in the heart of the City of London, global group treasurer Christof Nelischer reflects on how, since his appointment to the Willis Group in 2010, he has had ample opportunity to add shape and structure to the treasury organisation.

"During my time at Willis Towers Watson, I have overseen an overhaul of the treasury IT platform, including the introduction of an electronic dealing platform, implemented a completely new and fully integrated treasury management system, introduced SWIFT corporate membership and established an intercompany netting system."

Nelischer also has a risk management remit, as part of which he has issued new treasury policy to businesses, initiated and executed new interest management strategy and adapted FX risk management to address the challenges the business faces, as well as a response to the eurozone crisis.

Today, however, his main focus is on merging the two legacy treasury teams and functions, following the completion of the merger between Willis Group plc and Towers Watson at the beginning of 2016. Having gone through the ACT's education programme and achieved the AMCT qualification, Nelischer is confident he has all the right tools at his disposal to negotiate such a big undertaking.

"The AMCT has given me the technical know-how and background that I consider a necessity in my profession. I also encourage my team to study for ACT qualifications, and you will have seen that one of my colleagues was just awarded as the ACT's CertFin FMA prize winner. This was brilliant to see."

In at the deep end

Nelischer's treasury journey began after graduating with a dual degree in European Finance & Accounting, having previously trained as a commercial banker. While going back into banking or targeting one of the Big Four accounting firms would have been an obvious career move, an interview at Heraeus, a precious metals company in the Frankfurt region, set Nelischer on the treasury path.

"I interviewed for a position as the right-hand man of the newly appointed group treasurer of the company. It was there where I developed a passion for treasury. I enjoyed every minute of the job I was doing then and that enthusiasm has never ended."

A key early experience that Nelischer had was in his first year in the role during 1992's economic turmoil, including the collapse of the European Exchange Rate Mechanism: "My then boss and I were trading a vast portfolio of currencies flat out all day. I went home that day so exhausted that I physically could not speak. I slept for 12 hours. When I went back to work, the accountants were there looking at newspapers and asking what this was all about. It was then I realised that I didn't want to go back after the event and start totting up the numbers. Treasury is the real thing – it is where everything is happening."

Since those early days, subsequent roles have given Nelischer exposure across a range of different industries, and in different locations, enabling him to put all those ideas to work at Willis Towers Watson.

Managing the merger

The biggest project that Nelischer faces today is the ongoing integration of the previous Willis Group and Towers Watson legacy into a single organisation. The two companies have a good strategic fit, but operationally are different in a number of ways. "The treasuries used to operate very differently – they use very different IT platforms, operating models and accounting practices," says Nelischer. "I'm about 10 months into the project and I would expect it to take me quite some time."

The M&A environment is not a new one for Nelischer. Back in 2000, when he joined energy management company Novar, his first year there saw 12 deals, and that is only counting the ones that actually

VITAL STATISTICS

$8bn revenue	**$3.8bn** debt	**39,000** employees globally	**140** countries where Willis Towers Watson has a presence
$1.8bn adjusted EBITDA	**$17bn** market cap	**1828** year of foundation	

"The AMCT has given me the background that I consider a necessity in my profession"

happened. He contends that the process of doing an M&A should be much the same every time that you approach the subject.

"It is about rationalising and streamlining the processes. We talked about cost synergies when we spoke to the market and explained the rationale for the merger – now treasury is seen as one of those classic corporate functions where you would expect synergies to be generated. This means you have to be more efficient, bringing your teams together in the right place, you have to find the right, standard platform and roll it out. You have to get businesses to bank with your core relationship banks and harmonise different risk management attitudes, making all of that whole in the most economic fashion."

Strategic priorities

Understandably, the current key strategic priority at Willis Towers Watson is one of merging two organisations that work on very different systems and platforms, applying different ways of working in response to different business dynamics. The two legacy organisations will continue to work on different IT platforms for a little while and until everyone is on the same system architecture, it will be challenging to have everything working to the same operating model.

"We are at a crucial point in time where we need to be sure – and I'm particularly thinking of banking operations here – that we are setting the train on the right track," says Nelischer. "There is a big opportunity here that we can get everyone on to the right banks and make sure we are as streamlined as we can be. To my mind, cash management is something that should run on autopilot to a large degree. All of the practical everyday work that we do, finding balances here and there and moving money from right to left, this needs to be done, but in itself is not value adding. What you really want is the perpetual motion of a cash management engine that runs on its own and just needs 'oiling' from time to time."

CHRISTOF'S TOP TIPS FOR SUCCESS

1. **Today's treasurers need to appreciate the importance of communication within the company, as well as outside of it. So much of what I do is simply about managing expectations within the firm as well as among the banks and rating agencies; and bringing all that in line with what I think is realistic.**

2. **I am a firm believer in system-based process re-engineering and conclude that there is value to be created by making your various tools and gadgets work together effectively. I remain fascinated by the ingenuity of our electronic dealing portal.**

3. **My various roles prior to joining Willis Towers Watson have given me exposure across a range of different industries, and in different locations, and I have been able to put all those ideas to work at Willis. At every step of my career I looked at what – if anything – I had inherited, what was really needed and how we could get from where we were to where we needed to be.**

4. **The hardest thing that I can be asked is 'explain to me how FX works'. The honest answer to that is 'how long have you got?' The complexity is staggering; it changes all the time.**

To get a handle on how many bank relationships and accounts the combined Willis Towers Watson organisation has, treasury has implemented a global bank account register. "We know who the accounts are held with and where they are, although, of course, we can find that the businesses can be emotionally invested in their local bank," says Nelischer. "Breaking that up can be tough. To be fair, I understand that the businesses bear the brunt of the work when we move them to our global banking partners – they have to execute lots of documents and tell all their clients, for example. But when the cost of the effort is theirs and it benefits the corporate, it is important not to lose sight of the individual points of view."

Practical approaches

Where cash management is concerned, Nelischer acknowledges that there will always be some challenges as long as items are still accounted for on different ledgers in different systems in each of the organisation's operations around the world. There is also a special-purpose credit facility in the legacy Towers business that has come with some restrictions relating to funds moving in and out of that part of the organisation.

"This limits us to some degree in merging cash management, as we need to manage cash in that part of the organisation quite separately. There are also a number of considerations when it comes to international banking partners. The merger makes the imperative of streamlining banking all the more

apparent, as it really shines a light on the way we operate together. In practical terms, we are facing a fragmented bank design and an overly complex bank account structure; I see this as an opportunity to demonstrate value adds for the treasury function in simplifying our banking operations."

The merger has also seen funding and capital management move to a different order of magnitude and strategic importance. A larger debt portfolio requires more attention, and leads to accessing the market more frequently and with larger transaction sizes. "There is the benefit of scale of the combined organisation, which manifests itself in an improved credit standing when looking to borrow," says Nelischer. "Increased complexity manifests itself, for example, in the addition of a Eurobond to our debt portfolio, as the increased importance of the euro as a currency of revenue, earnings and cash justified us borrowing in euros, too."

In terms of risk management, the current headline topic is clearly FX. Despite the complexity, Nelischer's approach is to go back to basics: "Show me the numbers, what is the exposure, show me where it is, and make sure we track it all. Can we forecast it well enough? I think there is more to be done in that area."

Ben Poole is a freelance writer and editor, specialising in treasury and transaction banking

"In practical terms, we are facing a fragmented bank design and a complex bank account structure"

CHRISTOF'S CV

November 2010-present
Global group treasurer,
Willis Towers Watson plc
April 2010-November 2010
Interim treasurer,
Homeserve plc
2006-2008
Head of treasury (group treasurer),
Fiberweb plc
2000-2005
Group treasury manager,
Novar plc/Honeywell
1996-1999
European treasurer,
Kellogg Company
1992-1996
Deputy treasurer,
Heraeus Holding GmbH

QUALIFICATIONS

2003
AMCT, Association of
Corporate Treasurers
1998-2001
MBA for Financial Specialists,
The University of Manchester
1988-1991
BA (Hons), European Finance
& Accounting, Leeds
Metropolitan University;
Diplom-Betriebswirt,
Hochschule Bremen

COMMERCIAL BANKING

POWERS OF ATTRACTION

SINGAPORE'S FAVOURABLE TAX ENVIRONMENT, TALENTED WORKFORCE AND EASE OF DOING BUSINESS MAKE IT A SOLID CHOICE FOR TREASURY AND FINANCE CENTRES, AS CHIU WU HONG AND HARVEY KOENIG EXPLAIN

SHUTTERSTOCK

Growth in Asia-Pacific is forecast to remain strong in the decade ahead; the International Monetary Fund's latest regional economic outlook forecasts growth of 5.3% during 2016-17. With increased cash flow and revenue growth, international companies from mid-caps through to large multinational corporations will continue to look at markets in Asia as a highly advantageous location for establishing or expanding their finance and treasury centres (FTCs).

Even in the midst of rising competition from regional centres in Asia, Singapore remains a compelling FTC hub in Asia-Pacific.

A centralised treasury

What underpins the decision to set up an FTC is the ability to centralise operations and, therefore, save money. In essence, FTCs are a highly efficient way to reduce the tax burden, centralise risk management, improve liquidity and enhance yield on cash.

KPMG research[1] found that multinational companies are increasingly building their treasury model along regional lines. It appears that the economic fragmentation of markets, differing regional supply and demand profiles, and increased global competition has limited the effectiveness of a single global treasury centre.

Instead, regional treasury centres and global treasury centres with specialised decentralised business units are coming into favour. Some sectors in particular, such as the commodity trading industry, tend to prefer a global treasury centre with some decentralised treasury activities. This is in part because of sharp contrasts in commodity dynamics in different regions and therefore the need for regional risk management expertise.

There can be challenges in moving to a centralised model in the Asia-Pacific region, as compared with Europe, largely due to varying country regulations, languages and currencies, and cultural diversity in the Asian states. However, as the global economy becomes increasingly influenced by the 'Asian Century', we expect that more multinationals will look to establish global or regional treasury footprints in Asia.

The shift towards centralisation of functions provides countries with opportunities to attract regional treasury management activities, thereby seeing competition between governments to attract the setting up of FTCs within their borders. In anticipation, we can expect Hong Kong and Singapore to continue to position themselves strongly to capitalise on this emerging trend.

The competition

Hong Kong has been hot on the heels of Singapore in terms of ambition to be a regional FTC centre. The autonomous territory has a well-established financial centre, and has introduced measures to attract more FTCs to the region.

The Special Administrative Region has a similarly attractive tax regime, with a low headline tax rate of 16.5%, and no withholding tax on interest and dividends, in addition to a concessionary tax rate of 8.25% on qualifying treasury income under a recently introduced corporate treasury centre incentive. It also excels in financial services and capital markets, particularly a vibrant equity market with more than double the number of companies listed on its stock exchange as compared to Singapore.

Singapore's pull

Singapore has made a concerted effort to attract multinationals to set up their regional or global FTCs there.

In April 2016, to maintain its competitiveness relative to other locations, Singapore reduced tax rates on treasury centres. An enhanced FTC incentive reduced the corporate tax rate from 10% to 8% on fees, interest and gains from qualifying services and activities, albeit with an increase in qualifying criteria.

Singapore also provided a withholding tax exemption on interest payments on loans from non-resident banks, as well as loans and deposits from non-resident-approved network companies. The scope of tax exemption is being expanded to cover interest payments on deposits by the FTC's non-resident-approved offices and associated companies.

Further, there are no thin capitalisation rules in Singapore that limit the amount of debt funding

> **"The main consideration for choosing Singapore is neither tax nor tax incentives, but rather Maersk's commercial presence and Singapore's rule of law and high business ethics"**
>
> Emil Andersen, head of regional treasury centre Singapore, group finance and risk management, Maersk

required, but care should be taken to determine whether interest payments are fully tax deductible.

Singapore retains its competitive edge as an FTC centre, not only with its lower concessionary rate of 8% and extensive tax treaty network (83 as compared with Hong Kong's 35), but also through other non-tax factors. Beyond tax incentives, KPMG research[1] also shows companies placing a high value on non-tax factors, such as banking efficiency, ease of doing business and the availability of talent.

Singapore is a regional risk management and treasury hub, and an acclaimed asset and wealth management centre. The city state was ranked the largest FX trading centre in the Asian time zone and third largest globally after London and New York in the Bank for International Settlements' triennial OTC derivatives survey 2016, with more than half a trillion US dollars traded a day. With its impressive education system and better air quality, Singapore is often cited as providing a higher quality of living when compared with Hong Kong.

In addition, Singapore has a long-established relationship with the ASEAN and with India, and enjoys proximity to Australia and New Zealand. As one of the founding members of the ASEAN, Singapore has preferential investment and business policies with nine other territory members, harmonising regulatory standards and promoting a single integrated market in the community. Singapore also has preferential trading arrangements with 61 countries, compared with Hong Kong's six.

Although Hong Kong is perceived as the gateway to China due to its proximity, preferential policies in dealing with China and its status as an offshore renminbi centre, Singapore has gradually entered this market and established itself as a regional gateway for cross-border renminbi arrangements. The Chongqing Connectivity Initiative, the third government-led project between Singapore and China that was first announced by Chinese president Xi Jinping during his state visit to the Republic in November 2015, is instructive. As of 2016, there were more than $4.5bn worth of deals brokered between Singapore banks and Chongqing companies. The location of Singapore has led it to become a gateway for Chinese investment; there are now around 6,500 Chinese companies in Singapore, many of which have set up regional FTCs in the region.

These factors, together with Singapore's recognition as a highly cosmopolitan business environment bridging the East and the West, give it an edge over Hong Kong. In fact, Singapore was ranked second overall in The World Bank's *Doing Business 2017* report, after New Zealand.

Singapore is doubtless a key choice location for companies to undertake strategic and sophisticated treasury activities. Its economy is highly diversified, with success in FX and commodities trading, integrated resorts and biotechnology, as well as traditional industries, such as banking and property, and developing the fintech space.

While having a higher cost of doing business relative to its Asian neighbours, Singapore has managed to attract many international companies to establish treasury centres here, due to its high standard of banking infrastructure and financial capabilities. The education and training environment in Singapore is bolstered by Asian campuses of world-class institutions, which contribute to the talent pool. Further, this is bolstered by Singapore's tax competitiveness, which sets it out as a key competitor in the regional FTC market.

1 Source: *The Structure, Role and Location of Financial Treasury Centres: A Process of Evolution* by KPMG in Singapore

Chiu Wu Hong is head of tax; and **Harvey Koenig** is a tax partner at KPMG Singapore. The views expressed are their own

No acid test

MONITORING COUNTERPARTY RISK IS NOT AN EASY TASK IN A FLUCTUATING ENVIRONMENT FOR BANKS. CLAUDIA VILLASIS SUGGESTS SOME WAYS FORWARD

Almost every week a new article about how poorly a bank is doing surfaces. Bank X failed the stress test; bank Y is poorly capitalised; or bank Z is facing a huge fine that could jeopardise its balance sheet. Today, the questions are aimed at Italian banks, again, whereas in previous years the concerns were about Spanish, Greek and French banks, too. With so much information and so many metrics available on the financial stability of banks, it can be very difficult to decide which banks are safe to transact with.

SHUTTERSTOCK

So, how can we best evaluate the economic health of financial counterparties? There is no precise definition of the 'best bank' and the definition for each corporate can be different, depending on what type of transactions we want to enter into. The question must, therefore, be rephrased: what is important to us when evaluating banks, and how do we identify and monitor the right risk indicators?

What is important?

Any risk indicator can be used as a stand-alone measure, but usually multiple indicators should be combined to achieve a more accurate picture of the financial counterparty.

The five important areas when evaluating financial counterparties are: credit quality, liquidity, capital adequacy, profitability and location and business model.

1. **Credit quality:** What is the probability of default? This is the most important criteria, because it is a default that triggers losses.
2. **Liquidity:** If the bank's circumstances deteriorate, does the bank have enough cash in hand to pay us and all others queuing for their money? We want our counterparties to have sufficient liquidity and constant access to a range of funding markets.
3. **Capital adequacy:** Is the bank sufficiently capitalised? Capital is a buffer to absorb potential losses and we need to know that there is a sufficient buffer to ensure that our assets are protected if things go wrong.
4. **Profitability:** Is the bank actually making money? Is it making efforts to improve

Overall, we should keep in mind that a limited set of indicators will never comprehensively reflect reality

its profitability, and are there any outstanding fines or legal processes jeopardising its profits? At the end of the day, profits demonstrate the viability of the bank's business model and strengthen its capital base.

5. **Location and business:** Is the bank committed to serve the geography or the business as long as it is required? Some banks are stepping away from certain businesses, products and geographies. The last thing we want is to suddenly lose our counterparty. Brexit is also a concern in this regard, given the current uncertainties around passport rights of banks.

Real time versus ad-hoc data

What about the viability of real-time data on banks versus data reported by banks periodically? This is easier to explain through an example: Traditionally, corporates use a combination of credit ratings, including tier 1 capital ratio and some other capital measures as risk indicators to evaluate banks.

These indicators are generally a good start, since they cover credit quality and capital adequacy, but they are not updated in real time and therefore don't react quickly when a crisis looms. Therefore, we need a mix of real-time data (the latest view) and periodically reported data (the most recent historical view).

How do we look for the right risk indicators?

In the selection and sourcing of suitable risk indicators, data quality and availability are key. Below are some guidelines to take into account when looking for the right risk indicators:

1. **Data must be available for all or most of the entities of the banks being analysed.** Only then can the data be compared or ranked. It is important to make sure that we know which bank entity we are transacting with. A bank subsidiary is not the same as the listed parent company of a banking group in terms of risk. We need to look at the bank structure and confirm the details with the bank's relationship manager: is the listed parent company guaranteeing the bank entity or does the entity rely on its own capital to back up its transactions? Unfortunately, most new risk indicators that are being introduced through new regulations, such as net stable funding ratio, liquidity coverage ratio or total loss-absorption capacity, are not yet published by all banks and their entities. Moody's deposit ratings could be a useful indicator to reflect the safety of bank deposits. Unfortunately, their use is limited. Deposit ratings are currently available only for countries that have implemented the EU Bank Recovery and Resolution Directive, such as Germany and the UK.
2. **Data should be regularly updated and easily accessible.** While there might be enough time during the periodic counterparty reviews to extensively search for data, up-to-date data must be easy to collate when certain events are impacting financial stability. It is best to have an automatic download from a single database. Note that balance-sheet figures, such as net profit and long-term liabilities, for smaller bank entities are often challenging to find.

Using these guidelines, we can start an iterative process of finding the right risk indicators across the five areas listed above. Unfortunately, there is no shortcut for this process. The challenge is to choose what is relevant for the transaction we are pursuing. We shouldn't use deposit ratios as a risk indicator, if we are pursuing a derivatives transaction with an entity that exclusively trades derivatives. A list of easily downloadable risk indicators is usually available from market data providers, such as Bloomberg, Reuters and S&P, etc.

Available credit quality indicators

As mentioned, credit quality is our main concern. There are a number of tools available in the market that provide data to assess the credit quality of banks and are a significant enhancement over the raw rating agency ratings.

The Bloomberg credit risk model DRSK is based on the Merton distance-to-default measure, which is a widely recognised methodology to analyse credit risk. The model uses a mix of real-time and financial data reported by the banks: share price, market capitalisation, price volatility, short-term debt, long-term debt, total debt, loans loss reserve and non-performing loans. Default probabilities are mapped to a credit risk measure scale. This scale is not to be taken as a rating from a rating agency, but as an up-to-date indicator of the financial health of a bank entity.

DRSK also derives implied credit default swap (CDS) curves to assess credit risk. Implied CDS curves are usually available in DRSK for bank entities that have published financial data within the past six months. Since market CDS curves are not always available for all bank entities, the implied CDS curves are a good substitute. They also have the advantage of being free from market noise, for example, the lack of liquidity of a market CDS curve or the volatility of the underlying stock prices.

Moody's has a similar tool available. Moody's KMV calculates Expected Default Frequencies using the market value of the assets, level of firms' obligations and asset volatility as inputs. S&P's Capital IQ also calculates probability of defaults using banks' financial data and macroeconomic factors.

Overall, we should keep in mind that a limited set of indicators will never comprehensively reflect reality. Other controls, beyond the monitoring of quantitative risk indicators, are required. The set of indicators also needs to evolve when market circumstances change or new regulatory requirements arise. The end goal is to achieve peace of mind with respect to our financial counterparties.

Claudia Villasis
is a risk manager in group treasury at BHP Billiton

In hock, in Europe

EFFECTIVE DEBT COLLECTION ACROSS THE EUROZONE WILL INCREASINGLY NEED TO GO HAND IN HAND WITH A CAREFULLY DESIGNED RISK MANAGEMENT STRATEGY AS WE APPROACH BREXIT. SOPHIE BRACKENBURY EXPLAINS

Our commercial dispute resolution team was recently instructed to advise on the enforcement of a debt owed to a German business by a UK company.

We were successfully able to enforce the debt effectively in the UK courts due to obtaining a European Order for Payment (EOP) in the creditor's domestic court (in this case Germany), which could then be enforced in the English courts. This is possible owing to Regulation (EC) No 1896/2006, which provides a streamlined process for enforcing debts against parties in other EU member states where the amount is not disputed.

In such circumstances, a creditor can file a standardised form with the courts in the relevant member state, pay the relevant fee, wait for the courts to approve the application and issue the EOP, and then pursue enforcement of the debt. This means that the UK currently has favourable terms for enforcing debts compared with countries outside of the EU.

The current situation

There is no limit to the amount that can be claimed under an EOP, the only requirement is that it must be a "pecuniary claim for a specific amount that has fallen due at the time when the application for a European order for payment is submitted" (Article 4 of the Regulation). There are also no particular features that a debt must have for it to be worth pursuing under the regulation. In short, a debt is worth pursuing every time it would be worth pursuing under national law.

The management time spent on issuing an EOP is limited as there is no need to provide documentary evidence. Only a description of evidence is required to

SHUTTERSTOCK

While the likely implications remain uncertain until we know what form Brexit will take, it will probably involve increased time and costs in pursuing debt recovery

provide sufficient information to support the claim, allowing the defendant to make a well-informed choice.

The overarching purpose of the regulation is to simplify, speed up and reduce the costs of litigation in cross-border cases. For this reason, clients that have debt claims with cross-border implications would be advised to explore the EOP procedure in order to recover the debt.

Implications of Brexit

This process does, of course, now give rise to the question of whether, when and if (based on the ruling of the High Court on 3 November 2016) Article 50 of the Lisbon Treaty has been triggered and the UK has left the EU at some point in a little over two years, it will still be possible; and, if possible, whether it will be easy for (a) a business based in an EU member state to recover debts in the UK, and (b) UK-based companies to recover debts in the EU.

This will depend on the Brexit negotiations that will take place once the UK government has triggered Article 50. We suspect there will be some interim provisions to ensure a smooth transition, but it is impossible to give a definite answer on this point. The wider implications for UK businesses trading with European companies could be significant, including:

- A great deal more caution in terms of business dealings between UK and EU companies;
- The necessity to carry out more detailed and costly due diligence and credit-risk assessment of new European customers; and
- A fear – particularly among smaller organisations where significant unpaid levels of debt can affect cash flow to a catastrophic level – of doing business of any kind with European customers.

Leading by example

Added to which, of course, is that this is just one example of what could be an incredibly nebulous set of circumstances and scenarios that UK businesses will be faced with once we trigger Article 50, and the myriad EU originating provisions that govern commercial life begin to unravel.

Perhaps the most helpful parallel would be to look at the position in Denmark, which, unlike other member states, opted not to implement the Regulation and so falls outside of the EOP regime. If a party in Denmark wished to pursue recovery of a debt in another EU member state, it would need to pursue court proceedings in the relevant jurisdiction and rely on local enforcement laws in order to recover the debt.

Likewise, parties in other EU member states will have to rely on Danish local enforcement laws, as would be the case if pursuing a debt in a non-EU member state. This includes European Economic Area/European Free Trade Association member states, as the Regulation does not extend to these countries. As such, parties in both the UK and the EU will likely have to follow the Danish example when pursuing debt recovery post-Brexit.

Managing for the future

It's not all doom and gloom, as this is not necessarily a more difficult course of action; it's just a different course of action to the one currently available. It does, however, require detailed consideration of the differences between each jurisdiction, which the current 'pre-Brexit' situation minimises by having a standardised application process. As such, while debt-recovery proceedings in EU member states will still be possible following Brexit, it will be necessary for businesses to take different and often more complicated and costly processes into account when considering the risks of trading with European organisations.

So, where does this leave UK businesses? While the likely implications remain uncertain until we know what form Brexit will take, it will probably involve increased time and costs in pursuing debt recovery. Our advice is to plan your strategy carefully, not only in terms of debt recovery and enforcement, but also throughout your business, including your commercial agreements, relationship with employees, etc. This process should consider the overarching imperative to minimise risk to your business. Specifically, the following may be helpful as a starting point:

- As the UK has not yet triggered Article 50 and thereby the process to leave the EU (which itself will be a two-year process), there is still time to prepare. The current position seems to be that the UK government will trigger Article 50 at some point early this year. However, you should start now, consult your professional advisers and ensure you have a strategy in place.
- As a first step, businesses, particularly those that rely on trade with the EU or where loss of trade with the EU would have a significant impact, should carry out analyses, including the extent to which their business relies on Pan-EU trade and, therefore, the risk that Brexit presents. For example, what percentage of your income relies on trade with other European countries? What do you need to do to ensure that this continues? How much of that income could you afford to lose before it has a significant effect on your business?

We have been part of the EU and its predecessors for more than 40 years. In that time we have built up a complex and binding set of trade rules and procedures. Extracting ourselves from these will be complicated and there will be some pain. The uncertainty and increased risk that comes along with it mean that it is important for all businesses that rely to any degree on EU trade to minimise that pain by planning early and putting a risk strategy in place. Corporates with debtors in other EU member states that may need to pursue enforcement should contact a lawyer and look to collect those debts as soon as possible so as to take advantage of the EOP regime before it changes.

Sophie Brackenbury
is a solicitor and member of the dispute resolution team at Shulmans LLP

STAND AND DELIVER

FOR FREQUENT ISSUERS IN DEBT CAPITAL MARKETS, THE BENEFITS OF ESTABLISHING A DEBT INVESTOR RELATIONS FUNCTION ARE COMPELLING. GILLIAN KARRAN-CUMBERLEGE EXPLAINS

It won't have escaped anyone that market turbulence has increased substantially, with the treasury function playing a critical risk management role. The importance of clear, consistent communication with debt markets has become paramount as companies seek to ensure liquidity and funding; and, importantly, also to reassure investors and underpin confidence.

Evolution

Investor relations (IR) as a profession developed initially in the US capital markets and provided the interface between US corporates and their institutional equity holders. Over the past 30 years, IR has become an established function globally, although with differing levels of maturity. IR also reflects the specific structures of local financial markets. For example, the IR profession in the UK reflects the distinctive UK tradition of a corporate broker also providing market intelligence and advice to the CEO. In contrast, in Germany IR teams tend to carry out more activities in-house.

Debt IR was much slower to evolve than equity IR for a number of reasons. While companies have cared deeply who is holding their equity, the relationship with debt investors was more distant. Traditionally, the reporting requirements associated with servicing debt investors have been less onerous than with equity investors, and debt investors were also historically less demanding than their equity counterparts.

The financial crisis of 2007/8 brought about profound change here. The systemic pressures focused attention on access to liquidity, and the subsequent low interest rate environment made debt funding attractive, in particular for strong corporate names. Since 2008, the majority of large quoted and some unquoted companies have established a debt IR capability. The requirement for the banking system to substantially increase levels of capital adequacy has driven very high issuance levels in the banking sector. As a consequence, the specialist skills and expertise associated with debt IR are increasingly recognised.

The financial crisis also led to increased disintermediation of the banks and encouragement for issuers to engage more directly with investors. The distrust of complex financial instruments and push to move this trading on to exchanges also increases the requirements for effective debt IR.

Regulation of the financial services industry continues to have an impact on IR even if IR is not the main focus of this regulation. For example, MiFID II Directives will apply in all EU member states in January 2018, furthering the sweeping regulatory reform represented by the original MiFID. MiFID II's extension of the principles of open and transparent trading to all asset classes may impact the role of the debt IR function. While in the UK there is a lack of visibility at present surrounding the extent to which future EU regulations will apply in the UK after Brexit, we assume UK and European market practice will continue to converge.

Moreover, the extreme levels of uncertainty generated by Brexit and a tumultuous 2016 US presidential election has made markets jittery. Strong

SHUTTERSTOCK

communication skills become all the more important.

The goals

As a working definition, IR is the corporate function that provides investors with the information they require to make investment decisions. It is also involved in the identification of new investors and subsequent outreach. IR (both equity and debt) clearly has financial goals related to a fair valuation. There are also broader reputational benefits of an effective IR programme, which are set out below.

The clients

Clearly, the debt IR function is established to service the requirements of fixed-income investors. The rise in populism and anti-business sentiment since the financial crisis means that there is now greater awareness of the range of stakeholders that are critical for any business and also how these stakeholder groups interact and are relevant for valuation.

Communication with investors must be within the appropriate disclosure requirements. Communication to various stakeholder groups must also be consistent. It is certain that discrepancies between what is communicated to debt and equity investors will be rapidly identified by the market. A debt IR officer must also be sensitive to the impact that communication to investors may have on employees or customers, for example.

Experienced CFOs and treasurers recognise that, for a large quoted corporate in particular, there are multiple points of contact with the capital markets. It is important to ensure consistency of message across all investor groups. The simplest way of achieving this is for one team to be tasked with producing the core investment message. This material will then be used as the key building block for all communication with key investor groups, especially:

- institutional equity investors;
- institutional debt investors;
- fixed-income or equity analysts (buy or sell-side);
- retail equity or bond investors;
- employee shareholders;
- bank lenders;
- commercial paper investors;
- financial journalists; and
- rating agencies.

The IR function is ideally positioned to take on the task of crafting the corporate investment case. This also serves an important compliance requirement helping to ensure proper disclosure, in particular around sensitive topics, such as corporate outlook.

When to establish a debt IR function

There is no hard and fast rule as to what size of funding programme warrants a dedicated debt IR function.

For companies that are infrequent issuers, it is typical and most economical for the treasurer and treasury team to manage the issuance process and also to act as the point of contact for investors.

For more frequent issuers, however, two key questions need to be addressed:

1. Has the issuance programme grown to a scale that it requires dedicated resource to handle the interaction with debt investors?
2. Can a dedicated debt IR team contribute to a more effective issuance programme, thereby improving access to the markets, as well as reducing the cost of funding?

If the answer to either question is yes, then the treasurer should consider a debt IR function.

Transferable skills

Frequently, debt IR will be established within an existing equity IR function. A debt IR programme must have the technical expertise to address the specific questions of fixed-income investors relating to the instruments that they have invested in. There are also some strong elements of similarity between debt and equity IR. Investors have an interest in the health of the company. Therefore, both debt and equity IR must present an investment case for the company and not just the underlying securities. Thoughtful investors will be interested in the overall capital and funding structure of the company, as well as its strategy and outlook.

If skills, experience and processes are already in place to service equity investors, the treasurer should look to equity IR as a starting point and avoid reinventing the wheel.

Deliverables for debt IR

When structuring a debt IR function, it is helpful to have a clear understanding of the deliverables:

GOALS OF IR

Specific financial goals	Broader communication goals
A fair market valuation	Raising of corporate awareness
A reasonable level of liquidity in the company's equity and debt	Enhancement of corporate image
Easier and cheaper access to capital and funding in future	Generate premium
Stable share price and investor structure	Strength of brand
Takeover protection/flexibility to acquire	Strategic endorsement

SOURCE: FIDELIO PARTNERS

- Servicing the information requirements of existing fixed-income investors.
- For instruments that are rated, this will include engagement with the rating agencies. IR can collaborate with treasury on corporate and financial messaging, as well as information on the underlying security.
- Marketing of new debt issues. This includes preparing materials and also participating in roadshows.
- Building up long-term and non-deal relationships with key investors.
- Building up an understanding of the potential investor universe. This can support decision-making on corporate finance and capital market activity. It can also provide the basis for investor targeting.
- Mastering new social media to broaden exposure to investors across multiple platforms, of course, within regulatory parameters.
- As appropriate, providing internal feedback and education to colleagues and potentially the board about the debt markets and debt investors.

Skill sets

Based on the above criteria, the treasurer establishing a debt IR function should look for the following skills:

- A technical understanding of the debt instruments that have been or are being issued, as well as a working understanding of the debt capital markets. This includes an understanding of the regulatory framework.
- The ability to answer a range of questions relating to corporate performance and creditworthiness. A key element is a firm grasp of financial reporting.
- Communication skills. An important aspect of the debt IR role is the ability to communicate complex messages. Any company spokesperson must also be alert to stakeholder sensibilities.
- Strong interpersonal skills.
- Team player and an ability to work in a matrix structure. Effective debt IR will require collaboration across a number of functions.

The IR function is ideally positioned to take on the task of crafting the corporate investment case

Structure of the team and reporting lines

The structure of the debt IR function is clearly company specific. Regardless of the reporting line, debt IR requires very substantial input from the treasurer and the treasury function. So there needs to be a dotted reporting line or at least a very open and effective relationship between debt IR and treasury. This works most smoothly when IR and treasury are both part of the finance function. When IR sits within the communications or corporate affairs function, at times the flow of information with colleagues in the finance function can be more problematic, and more thought needs to be given to promote cooperation.

A typical division of labour between debt IR and treasury is as follows:

- Treasury contributes the technical expertise relating to bond-issuance programmes.
- IR contributes the corporate expertise, including relating to financials, as well as the experience of marketing the corporate investment case.
- Ownership of the relationship with the investors and with the rating agencies needs to be clarified. A pragmatic approach is recommended. In particular, treasury needs to retain ownership of the relationship with ratings agencies as this is wider than debt IR, and often goes to the heart of capital allocation. That is easily achieved if IR sits within the treasury function and is therefore an extension of corporate finance and funding. However, in cases where IR sits outside treasury, the situation will be more problematic. Few treasurers would want to see the relationship between their organisation and its rating agencies being run from outside treasury.

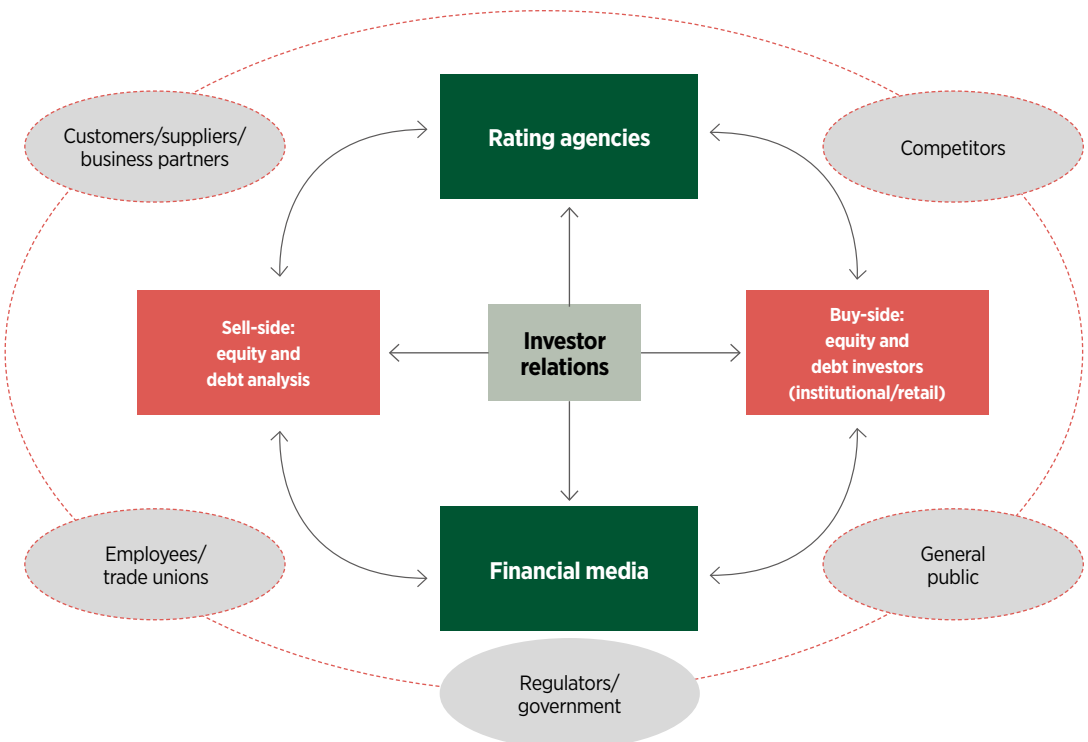
In larger corporates we are also seeing evidence of increasingly structured cooperation between treasury, debt IR and corporate finance.

This recognises that all three functions have distinct contributions to make.

Diversity

Just as diversity matters in the boardroom, it matters

IR IS A COMPLEX DISCIPLINE



SOURCE: FIDELIO PARTNERS

QUALITATIVE AND QUANTITATIVE KPIs FOR MEASURING THE PERFORMANCE OF IR

Qualitative	Quantitative
Efficient use of senior management's time	Number of investor one-on-one meetings
Informal feedback from investment community	Relative valuation of stock
Quality of information in analyst reports/recommendations	Number of analysts covering the stock
Quality of investor one-on-one meetings	Development of relative cost of borrowing
Rankings against peers	Number of awards received

SOURCE: FIDELIO PARTNERS

for IR. Shareholders care increasingly about the composition of the board and of employees. If diversity matters to investors, it should also matter to IR directors. Treasurers should be conscious of encouraging diversity when structuring the debt IR function. It is very visible and, importantly, also contributes to the pipeline of tomorrow's treasurers and CFOs.

How to measure success

A treasurer establishing a debt IR function should rightly be concerned about how to measure success. However, a roster of key performance indicators (KPIs) has been developed for equity IR, which we consider to be broadly applicable to debt IR and which we set out above.

The KPI relating to stock performance can be replaced by metrics relating to maintaining the attractiveness of the corporate's debt in the market. The other metrics shown in the table offer a simple method of monitoring performance and provide relevant tools for promoting effective and professional debt IR.

Conclusion

Debt IR has now become an established profession. Success will be determined by the ability of the debt IR officer to service existing investors, source new investors and potentially new pools of funding and, at the same time, contribute to an increase in stakeholder value. There is clearly much to play for.

Gillian Karran-Cumberlege is founding partner at Fidelio Partners board development and executive search consultancy

WANTED: RATIONAL DECISIONS

WE MIGHT LIKE TO BELIEVE THAT WE WEIGH THE EVIDENCE WHEN WE MAKE DECISIONS. THE REALITY IS THAT OUR THINKING IS OFTEN CLOUDED BY BIASES. ANNA WITHERS AND MARK WITHERS EXPLAIN

We all know that good decision-making is not as straightforward as we would like it to be. Have you ever wondered why we often return to the same issues time after time? For instance, why sales teams sell work that cannot possibly be delivered profitably; or restructurings absorb so much organisational energy, but do little more than rearrange the deckchairs; or the all too frequent cost overruns in projects; or the budgeting cycle that always requires cost cutting in the third quarter?

Why does it so often feel like groundhog day?

There is an explanation. It's found in a vast body of research in the fields of cognitive psychology, behavioural economics and neuroscience. Daniel Kahneman, a pioneer in this field, has been recognised with the Nobel Prize for Economics. Crucially, he proved that however smart we are, we aren't rational decision-makers.

Just as we can be misled by optical illusions, our decisions can be derailed by distortions in our perception of situations. Researchers have now identified more than 100 of these distortions, called unconscious biases, and we are all prone to them, however smart we are.

So, given the robustness of the research in question, why is this not headline news?

The problem is that it is very difficult to make sense of this compelling research. Biases are expressed in impenetrable academic language and we can't hold more than 100 biases front of mind. As a consequence, decision-makers have not yet operationalised this research to drive more robust decision-making.

Our own work in this field has been to work with this strong evidence base to identify eight memorable characters that embody all critical unconscious biases. These characters are our decision derailers and represent a hidden risk in our decision-making.

Understanding the characters and noticing when they are at work in decisions means we can finally get a handle on this problem and make the unconscious conscious.

So, who are these eight characters that can derail our decisions?

The writer

The writer appears when we encounter the unfamiliar, whether it's people, ideas or situations. The writer fills the gaps in our knowledge by writing scripts. Unfortunately, these scripts often don't reflect reality.

How quickly do you start forming an opinion about someone when you first meet them? If you are like most people, then it will be pretty quickly. Research shows that it typically only takes one tenth of a second (the blink of an eye) before the writer in us starts writing a story about that person. Noticing when the writer is at work will help you to stop 'judging a book by its cover' and look further for more information.

The knight

The truth is we get attached to all sorts of things. It might be relationships we have with people or with ideas, places and things. We find it hard to let go of these things we get attached to even when the alternatives are better. This is the knight at work in our thinking. The knight defends against loss and stops us from letting go.

If you have ever been involved in trying to change something you will almost certainly have met the knight. We often call it resistance, but fundamentally, it's all about the loss. We need to make it safe for the knight to disarm, to let go of the things they are emotionally attached to.

The gambler

The gambler is overconfident and over-optimistic, a pie-in-the-sky thinker who doesn't understand the odds. The gambler holds a distorted perception of reality, which leads us to overestimate upward benefits and underestimate downward risks.

We see the work of the gambler in many corporate decisions: strategy, business plans, budgets or investments. The excessive exuberance and the sense of infallibility in investment decisions leading up to the financial crisis are good examples of the gambler at work.

There's nothing wrong with being optimistic or confident per se. When we are blinded to the downsides and when we fail to understand the real odds – that's when we need to pay attention and notice that the gambler is at work, before we raise the stakes.

IKON

Our decisions can be derailed by distortions in our perception of situations

The butler

The butler in us appears when we're facing power imbalances. The butler doesn't say what's really on our mind, but serves up what others want to hear.

The butler can rear their heads when individuals take on wider responsibilities. In new situations we need to pay attention to the voice of the butler. Are we telling it as we see it? Or are we being persuaded by the butler in us to modify our opinions to suit senior management expectations?

The judge

The judge is like a magpie – only noticing the most eye-catching aspects of a situation. What stands out gets noticed and we tend to put a higher value on what stands out. This means we often value style over substance.

If you are a treasurer, it is likely that figures will catch your eye. This could open the door for the judge, as we may attribute more significance to a number even if the number doesn't tell us very much.

To mitigate the work of the judge we need to look beyond what catches our eye and test for substance.

The captain

The captain in us has already made the decision and is just looking for evidence to confirm it, steering us stubbornly in a set direction. The captain relies on a piece of information, an idea or a belief that has anchored itself into our subconscious.

If you have ever been involved in a negotiation you will have certainly seen the captain at work. Opening positions will anchor the parameters for negotiation, which rarely change.

We may also notice the captain when the frequencies and severities of possible scenarios are assessed. This holds particularly true when estimates are being refreshed, creating the anchors in the risk assessors' minds. Even when faced with disconfirming evidence or new data, the captain may persuade us to ignore any information that challenges the predetermined decision. This explains why refreshed estimates often only differ slightly from the original anchors.

The archivist

The archivist looks back into their memory bank of experience to find similar situations, searching for parallels without accounting for different contexts.

In FX trading activity, the archivist is alive and well. There can be a lot of inertia around sticking with current practices or following the crowd. As the stakes can be so high, there is a perceived 'safety' in maintaining any current approach simply because "we've always done it this way". The problem, of course, is that context changes.

The prisoner

The prisoner can only see decisions through the lens of their own knowledge. The prisoner puts blinkers on us and leads us into silo working.

An example of the prisoner at work could occur if problems are looked at individually instead of across the business. So, for instance, if unit managers looked at hedging their own risks only instead of considering the net economic exposure of the business. An effective risk management programme takes a broader perspective and works across silos.

Powerful influence

If you want to make better decisions you need to understand better the powerful way in which our unconscious mind shapes and distorts our thinking. Now that you know about the eight characters that can derail decisions, there are three further steps you can take.

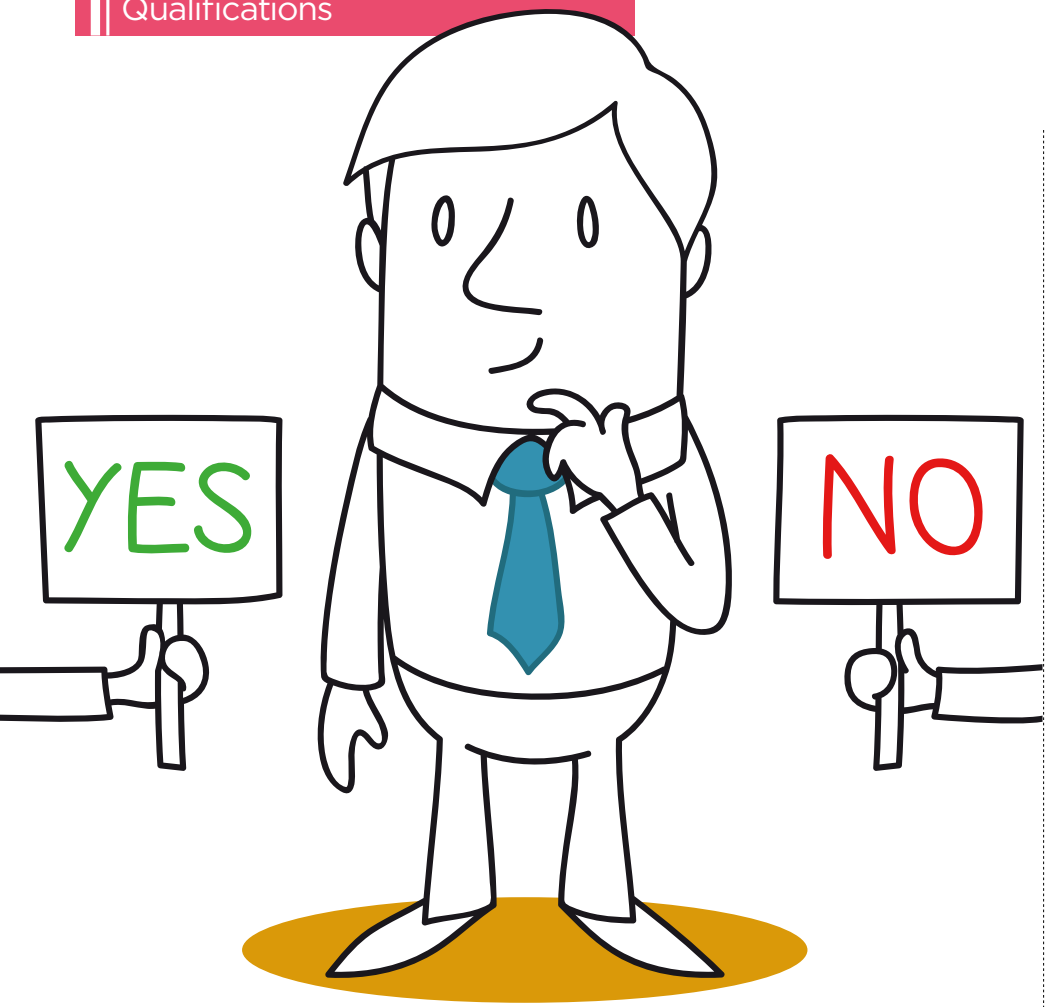
First, continue to notice which of the characters are surfacing in your thinking and decisions. Knowing and recognising the characters in yourself and others is key.

Second, integrate this knowledge into your decision-making processes by asking the right questions before a decision is taken.

Third, talk about these eight decision derailers with your colleagues or team. Help them to notice them, too, so that you can all start to spot them and stop them.

So, the next time you are asked to give your opinion on a hedging strategy or an investment proposal, think about these eight decision derailers and see which are in play before you give your penny's worth... You are likely to get to a far more robust decision.

Anna Withers and **Mark Withers** are directors of Mightywaters Consulting and specialise in organisational development. This article reflects the thinking in their recent book *Risky Business: Unlocking Unconscious Biases in Decisions*



PAYING OUR DUES

GET ON THE CORRECT SIDE OF TWO-WAY PRICES

'WRONG SIDE' ERRORS IN APPLYING MARKET RATES ARE VERY COMMON. DOUG WILLIAMSON SHOWS HOW TO GET THE CORRECT SIDE EVERY TIME

Wrong side errors are a misunderstanding of two-way market prices. These two-way prices are a simultaneous buying or selling price. They're also known as 'bid-offer' or 'bid-ask' prices.

Two-way FX rates
USD/EUR 0.79 – 0.81

We are the customer

As corporate treasurers, we're usually the customers of banks or other market makers. Here, we take the perspective of the customer. We assume the party quoting FX rates, or other prices, is a bank.

As the customer, we're not being given a choice of rates. The rate will depend on whether we want to exchange euros into dollars, or dollars into euros.

Spread

The difference between the buying and the selling rate is the 'spread'. In very simple terms, this could be viewed as the bank's gross profit. In this case it is €0.02 (= 0.81 – 0.79) per $1.

We'll return to this quote later, and apply it to buy €8m from the bank.

Less favourable

For now, we'll just note that:

(1) The buying and selling rates are different; and
(2) The rates applied will always be *more favourable* for the bank, and *less favourable* for the customer.

Banks need profits

From a customer's point of view, it may seem unfair that the bank always gets the better deal. But the bank needs this advantage. If the bank didn't make gains on buying and selling currency, it would have no reason to make a market and provide the service.

If the two-way prices were favourable to the customer, the situation would be unsustainable. The bank would lose money on every transaction, and very soon go out of business.

Understand, then negotiate

In practice, we should, of course, always negotiate, or at least compare the rates quoted by different banks. But first we need to understand the quotes.

Let's return to our quote:

USD/EUR 0.79 – 0.81

SHUTTERSTOCK

Base and variable

The base currency in this quote is the first, US dollars. The other currency is the variable currency, euros.

Spelled out more fully, this means the quoting bank is willing to deal at $1 = €0.79 or $1 = €0.81, whichever is more favourable for the bank.

Two questions

To apply the two-way quote correctly, we need to figure out separately:
(1) Whether to multiply or divide; and
(2) Which side of the two-way rates to use.

One by one

Most mistakes stem from trying to sort out both of these steps at once. We'll take them one at a time.

Multiply or divide?

The answer to question 1, whether to multiply or divide, is:

To calculate	Apply FX rate by
From the base	Multiplying the base
To the base	Dividing the variable

Customer gives more, receives less

Now we can focus on question 2, which side of the two-way rates to use.

The rule for both customers and banks is summarised as:

	Gives	Receives
Customer	More	Less
Bank	Less	More

We are the customer, not the bank. So we will either give more dollars, or receive fewer dollars.

Buying €8m

We need to buy €8m for US dollars.

The bank's quote is: USD/EUR 0.79 – 0.81. Which rate would be used, and what amount of currency would be exchanged?

Four steps

We need to think through four steps:
(1) Which is the base currency?
(2) Are we calculating *from* the base, or *to* the base?
(3) To calculate from the base, multiply; to the base, divide.

HELP FOR ACT STUDENTS

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

(4) Use the rate that gives the worse result for the customer.

Take each step in order, and you will always get it correct.

First three steps: divide

Following steps (1) to (3), we need to divide, as follows:
(1) The first currency, dollars, is the base.
(2) We need to work out the number of dollars, so we are calculating to the base.
(3) We're calculating to the base, so divide.

The final step

(4) We're to receive €8m from the bank and give a number of dollars, calculated by dividing €8m by the appropriate rate. We need to use the worse rate, take the one that means we will give more dollars to the bank.

Give more, dividing

Which rate results in giving more dollars when we divide? A lot of people get this wrong. Especially when they're dividing by rates that are less than one.

To get result	Divide by rate that is
More	Smaller: €0.79
Less	Larger: €0.81

To give more, we need to divide by the smaller rate. This is €0.79.
8m / 0.79
= **$10.13m**

So we give $10.13m to the bank.

Always sense check

Now sense check. If we'd divided by €0.81, we'd have calculated 8m / 0.81 = $9.88m.

That wouldn't make sense for us to pay, because it's the smaller amount. $10.13m does make sense for us to pay, because it's the greater amount.

Selling €8m

Let's reverse the deal and now sell the €8m back to the bank. Now we have to calculate the number of dollars we're to receive from the bank.

We're still the customer, so once again the deal will be worse for us. So now we need the 'Customer receives less' side of our rule: 'Customer gives more, receives less'.

Receive less, dividing

This time we need to produce a smaller figure, to receive.

To produce a smaller result, we divide by the bigger rate, namely €0.81:
8m / 0.81
= **$9.88m**

That worked

We only received $9.88m from the bank.

We got the lesser of the two possible amounts of dollars. That makes sense, too.

Selling £600,000

Your organisation needs to sell £600,000 for euros. Your bank has quoted a rate of EUR/GBP 0.7369 – 0.7380.

Calculate the number of euros to be exchanged.

(Answer below.)

Based on CertICM exam 2016

Give more time

Give more is the best rule for allocating your study hours, too. That will always give you the best result.

Answer: 600,000 ÷ 0.7380 = €813,008 receivable by customer.

With thanks to Carl Sharman, Russell Whitehead and Paul Cowdell.

Doug Williamson is a treasury and finance coach

CASH CALL

Mr Treasurer sees his career hanging in the balance – the cash balance

SHUTTERSTOCK

Mr Treasurer was on a conference call with City and Wall Street analysts, having been coerced into it by the CFO. "Lots of treasury chaps doing investor relations these days," the CFO had said. "Get stuck in!"

On the call, an analyst, whose name Mr Treasurer didn't catch, asked, "How much cash do you have?"

"About £8.50 in loose change and an Oyster card for the train," said Mr Treasurer. There was total silence on the line. It lasted for maybe three seconds. It felt more like nine or 10. "Yes. Well, uh, just my little joke," murmured Mr Treasurer. "Cash. Yes. We have £22m as of the year end."

"*Exactly* £22m?" asked the analyst.

"Um, £21.98m if you want to be precise," said Mr Treasurer.

"Yes, I most certainly do want to be precise," said the analyst rather scornfully.

This wasn't going as well as Mr Treasurer had hoped. He spotted that the company's shares had fallen 2p, but tried to dismiss any notion of cause and effect.

"Guthrie, RamboBank," said Guthrie from RamboBank. "How much cash do you have?"

Did this Rambo chap from Guthrie Bank not pay attention? "It's £22m, as I said a moment ago," said Mr Treasurer.

"Precisely?" urged Guthrie.

"Precisely £21.98m. As I said," repeated Mr Treasurer.

"No, but I mean *precisely*," said Guthrie.

Mr Treasurer said the second thing that came into his head. He dared not say the first thing that had come into his head. "One minute," as he looked through his papers. "Here it is: £21,976,423."

"And?" said Guthrie.

"And 37 pence."

"And 37 pence," Guthrie said slowly as he wrote down the numbers. "Thank you."

"Chummers, GRABBAG," said Cholmondeley from Grady & Reilly-Arifel Bank Group. "So – your cash balances."

"Go on," said Mr Treasurer. "Let's see where your question takes us." He tossed to one side his notes about funding and hedging strategy.

"As of 31 deck. Sixteen."

"Yes, 31st December 2016. Yes, Mr Cholmondeley?"

Mr Treasurer expected the worst. He got it. "How much cash did you have?" said Chummers.

"Did you not–?" But he caught his tongue. "Twenty-one million, nine hundred and seventy-six thousand, four hundred and twenty-three pounds!" enunciated Mr Treasurer.

"And 27 pence," said Chummers.

"No, 37! No, what? I – I was joking about the 37 pence!" spluttered Mr Treasurer.

"You mean you don't have the 37 pence?" asked Cholmondeley, astonished.

"No, I mean yes, of course we do! Do you know the meaning of spurious accuracy, Mr Chummers? Er, Mr Cholmondeley?"

"Currencies. What currencies is your cash balance in?"

Something approximating to a sensible question, thought Mr Treasurer. At last.

"It's 64% sterling, 22% euros, most of the rest in dollars and a smattering of Danish kroner."

Damn damn damn damn damn! thought Mr Treasurer. He'd forgotten that that smattering of kroner got cleaned up by his FX dealer hours before close of business at the year end.

"How many kroner?"

"Nine," said Mr Treasurer.

"Thank you," said Cholmondeley. "Hardly worth mentioning, I'd have thought. A bit precise, isn't it? Missing the bigger picture?"

Mr Treasurer closed his eyes and the only picture he could see in his mind was his career in investor relations going down the drain. So it wasn't all bad...

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

IN THIS ISSUE:

The highlights of the February 2017 issue of *The Treasurer* include: How the evolving ACT qualifications continue to meet the needs of the treasury community, on page 18. We congratulate the winners and runners-up in the Deals of the Year, on page 21. Christof Nelischer, global group treasurer at Willis Towers Watson, discusses a significant merger in his firm, on page 34. How do we evaluate financial counterparties? Find out on page 42