COULD DO BETTER
Underfunding remains an issue for smaller corporates

THE FX CONUNDRUM
Proposing a framework for alternative strategies

FUTURE PROOFING
How treasurers optimise technology to support change and growth

The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ FEBRUARY 2016

PLUS

A GOOD MIX
Ralph Findlay and Rob Leach of Marston's on teamwork and solid financial foundations

We celebrate the best-in-class deals and teams from last year

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ACT

LEADING TREASURY PROFESSIONALS

Editor's letter

It has become something of a cliché to declare market and exchange rate volatility as the new normal. But with no ceasefire in sight, or seemingly likely in the near or distant term, resisting that idea is probably fairly futile.

So it is immensely to their credit that the winners of *The Treasurer*'s Deals of the Year Awards 2015 have achieved their goals and those of their organisations in a global trading environment that grows more involved with each year that passes. Last year may come to be known as the most complex year for corporate treasurers yet. Just until we come to write a review of 2016, perhaps.

Our coverage of this year's winners begins on page 21. In our awards, we celebrate the bonds and loans executed by UK and European corporates and detail the fundraising achievements of our winners. In our team categories, we applaud the contribution that corporate treasury teams make to their organisations through sound treasury management; strong technical knowledge and ability; innovation in technology and systems; and their ability to build strong relationships with the company's bankers and advisors.

Once again, our winners set the bar extremely high in their ability to handle that volatility, risk and complexity. Congratulations to all our winners and runners-up.

In this issue, we also meet the treasury team at Marston's Brewery in the UK. Once a regional brewing and pub business, today Marston's is a national business with an organic growth plan that many organisations would envy. That plan includes some 20 new pub openings for 2016 based on a £140m investment against a market cap of £950m. It's a programme that requires solid financial and cash management, of course. Head of treasury Rob Leach leads a dynamic team that has an advocate in CEO Ralph Findlay, himself a former treasurer. Turn to page 32 for more on the securitisation programme and structured finance that underpin their growth plans.

Growth funds – or the lack thereof – are the subject of our feature on SME finance. The absence of funds and, in smaller entities, a dearth of know-how when it comes to accessing markets and courting backers is holding high-potential growth companies back. We explore the solutions that exist within this important sector on page 36.

Elsewhere in the issue, we look at how US treasurers are facing up to their pain points on page 40 and offer an approach for framing alternative FX strategies on page 42.

I hope you enjoy the issue.

Liz Loxton

editor@treasurers.org
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THIS MONTH'S CONTRIBUTORS

Anthony J Carfang is a partner with US consultancy Treasury Strategies. He assists clients with treasury solutions and is actively involved in regulatory issues, testifying to the US Congress on the Volcker Rule, Dodd-Frank and 'too big to fail' issues. His article on the challenges faced by US treasurers can be found on **page 40**

Lesley Meall is an experienced business journalist specialising in business, accountancy and technology. Before becoming a journalist, she worked as a software engineer. Her article on how businesses can optimise their technology to support change programmes and regulatory load can be found on **page 48**

Dr Rob Yeung is an organisational psychologist at leadership consultancy Talentspace, a business speaker and an author. He appears as a business commentator on the BBC, CNBC and CNN News and writes on personal effectiveness and leadership. His article on how to stand out is on **page 50**

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

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

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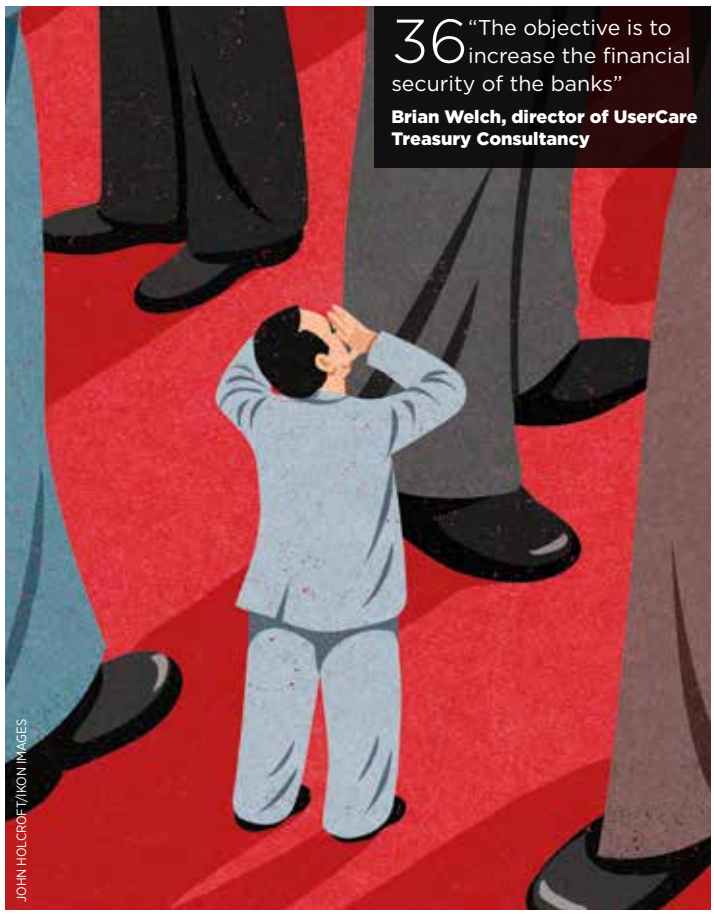

36 "The objective is to increase the financial security of the banks"
Brian Welch, director of UserCare Treasury Consultancy

JOHN HOLCROFT/IKON IMAGES


CHR.WARD
LONDON
8
SWISS MADE

Agenda

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WORDS

GETTY IMAGES

$3 000, 000, 000, 000

{ CONTEXT OF TREASURY }

Lease accounting reform to bring $3 trillion onto corporate balance sheets

Corporates in more than 100 countries will be forced to bring an estimated $3 trillion of leases onto the balance sheet in a major overhaul of accounting procedures that has implications for lending arrangements, dividend policies, tax planning and share prices.

The International Accounting Standards Board (IASB) recently published IFRS 16 *Leases*. The standard requires quoted companies to bring operating leases onto the balance sheet and, according to the IASB, will make companies' obligations more transparent and eliminate the guesswork and revisions that investors, analysts and rating agencies can make when assessing lease obligations.

Companies with significant lease arrangements, such as airlines, retailers, travel and leisure operators, and manufacturers are expected to be among those most deeply impacted. But all companies with significant numbers of material off-balance-sheet leases will need to prepare for the implementation of the standard from January 2019.

While corporates will have time to adjust to the new regime, with the new rules potentially materially increasing assets and liabilities on the balance sheet, they will need to consider revising bank covenants in the lead up to adopting IFRS 16.

IFRS 16 is the third in a series of reforms since the financial crisis, aimed at improving transparency in corporate reporting. It follows IFRS 15 *Revenue from Contracts with Customers*, and IFRS 9 *Financial Instruments*, both of which will come into effect from January 2018. Before European companies can use the new standard, IFRS 16 will need to be ratified by the EU.

The FASB, the US accounting standard setter, is due to publish an equivalent standard shortly.

{ QUESTIONS YOUR FD IS LIKELY TO ASK THIS MONTH }

RENMINBI DEVALUATION

What's behind the latest controversy in China?

Many commentators and investors believe the Chinese government and securities regulators have deliberately intervened to devalue the renminbi in reaction to China's weakening economic growth. This would have the effect of making it cheaper for foreign consumers to buy Chinese goods, while conversely making it more expensive for Chinese consumers to buy foreign-made imports. The Chinese account is that the yuan's recent fall is not the result of a direct intervention and if they have erred it is because they have failed to communicate adequately with the global investment community. Either way, the renminbi's fall in early 2016 prompted panic in foreign exchanges and stock markets.

What was the verdict?

Investors have reacted with caution, withdrawing an unprecedented amount of capital from China, amid fear the market there could go into freefall. The other side of this is that China's initial growth phase and its need to construct an industrial infrastructure is slowing. So global energy and commodity giants have lost ground, which in turn has sparked the global rout in equities, with many stock markets entering bear market territory.

Should we be concerned about China's fortunes?

Probably not; it's true that some of the economic indicators have missed forecasts, but not by much. China posted GDP growth of around 7% for last year and it's forecast to slow to 6.5% for 2016. But it still accounts for around one-third of global growth.

So what's the balance of opinion?

Apart from a concern that data out of Shanghai is not entirely reliable, most commentators seem to agree that while China's economic performance is not as stellar as it once was, it is still growing, bringing China in line with the rest of the world. In the past four years, growth rates for the global economy have remained well behind pre-1998 levels. Slower growth is now normal, and a feature of the landscape that we somehow still struggle to grasp.

"I'm expecting 2016 to deliver an even tougher environment than 2015. Prices and margins across commodities markets will continue to feel the squeeze."

Sam Walsh, CEO at Rio Tinto, has low expectations for the year ahead, following a "brutal" year in 2015.

SOURCE: *THE TIMES*, 15 JANUARY 2016

"We hope [the EC's Cumulative Impact Assessment] will help eliminate measures that threaten the real economy. In this I would include the unnecessary proposals to introduce bank structural reform and a financial transaction tax, which run counter to the growth agenda."

Simon Lewis, CEO of the Association for Financial Markets in Europe, warns against over-regulation.

SOURCE: *THE TELEGRAPH*, 20 JANUARY 2016

{ KEY FINDINGS OF THE WESTERN UNION BUSINESS SOLUTIONS INTERNATIONAL TRADE MONITOR }

27%
of SMEs exported to China in the second half of 2015. For the first time this was higher than the proportion exporting to the US (23.7%).

27.2%
Average proportion of revenues SMEs gain from exports.

of SMEs are increasing the countries they are exporting to and are looking east.

76%
of SMEs export to Europe, which remains the predominant market for UK companies.

41.3%
of UK SMEs have seen their exports grow in the past 12 months.

"The third leg of the debt super-cycle does seem to be upon us. Anyone who is still telling the 'this time is different' story for China has their head in the sand."

Professor Kenneth Rogoff, Harvard University, speaking at the World Economic Forum in Davos.

GETTY IMAGES

What do you say?
Tweet us
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{ CONTEXT OF TREASURY }

Brexit: tally of US banks backing 'remain in' campaign rises to four

Another three US banks have joined Goldman Sachs in donating funds to the campaigning group, Britain Stronger in Europe, a report in the *Financial Times* has said.

The new donors, JPMorgan, Morgan Stanley and Bank of America will commit substantial funds to the campaign, but are not expected to match the £500,000 that Goldman Sachs has given.

The campaign would not be drawn on the specifics of the donations, said the paper, but will face a legal obligation to publish a full list of donors in the spring.

The US banks are reputedly concerned about the administrative burden an exit from the EU would bring, including vast amounts of contract renegotiations covering derivatives, loan agreements and credit default swaps. US bankers have gone on record about their fears. Morgan Stanley's president, Colm Kelleher, has argued publicly that an exit would bring about a significant backlash against London as a global financial centre.

The Vote Leave campaign, meanwhile, has received significant funding from hedge fund chiefs. Leaders of all kinds of financial institutions are likely to provide significant funds for both campaign groups.

The four banks plus Citibank employ 30,000 workers in their London investment divisions.

{ CONTEXT OF TREASURY }

FTSE 250 defined benefit pensions schemes may be heading for extinction

The remaining defined benefit schemes offered by FTSE 250 companies could be extinct within a year as tough economic conditions, rising costs and increasingly aggressive regulations take their toll.

According to research for JLT Employee Benefits (JLT EB), total disclosed pension liabilities among the FTSE 250 surged to a record £81bn at 30 June 2015 – up from £75bn a year earlier.

Companies have tried to stem the growth of their pensions liabilities by closing DB schemes to new entrants, and sometimes all members, but this has had little impact.

Changes to economic conditions and increased life expectancy of pensioners have contributed to the growth in liabilities.

According to JLT, some 14 FTSE 250 companies have disclosed pension liabilities that are greater than their stock market value. FirstGroup, Go-Ahead Group, Phoenix Group, Balfour Beatty and Carillion are among those to have disclosed pension liabilities that are more than double the value of their equity.

The total deficit for FTSE 250 pension schemes at 30 June 2015 was estimated to be £12bn – £3bn worse than a year ago. Only 49 companies are still providing more than a handful of current employees with DB benefits. JLT estimates DB pension provision has fallen by 16% in the last year alone.

Charles Cowling, director of JLT EB, said: "The ongoing spend and service costs on DB pensions before any allowance for deficit spending is a burden that many boardrooms would like to remove altogether. We believe the majority of FTSE 250 companies will cease DB pension provision to all employees within 12 months."

0.4%
Greece's inflation figure for December; its first positive inflation reading since 2013.

141%
Venezuala's official inflation figure. Commentators argue that 200% may more accurate.

$0.5 trillion
The estimated aggregate value of technology unicorns at the end of 2015, according to M&A firm Magister Advisors.

37%
The proportion of UK pension schemes reporting instances of fraud in 2015, up from 17% in 2013, according to a survey by accountancy firm RSM.

$3.6bn
The level of venture capital funding received by UK technology companies – a 70% annual rise, according to CB Insights.

0.75%
The deposit interest rate in Switzerland. Taxpayers are being encouraged to pay their tax bills as late as possible so that authorities aren't penalised by holding cash.

{ KEY FINDINGS FROM THE ALLEN & OVERY ANNUAL CORPORATE FUNDING MONITOR }

THE STATS

38% Year-on-year fall in new leveraged loans due to deterioration in the oil and commodities sectors, syndication issues and the Federal Reserve's leveraged lending guidelines.

$1.58 trillion The total amount of investment-grade loans in 2015 – a steep rise and overtaking the value of investment-grade bonds for the first time since 2007.

$6 trillion Total funding for corporates during 2015 – only the second year in history this level has been breached.

$450bn Amount of new capital issued by public companies last year.

94% Record rise in investment-grade lending values during the year.

{ AROUND THE WORLD IN 30 DAYS }

DOUBTS PERSIST OVER US ECONOMY

The strength of the US economy remains in doubt, despite December's Federal Reserve decision to raise interest rates by a quarter point.

Disappointing retail sales figures showed a 0.1% fall in the final month of 2015. After stripping out car and petrol sales, and other factors such as construction materials, sales were down 0.3%.

The data showed total sales rising 2.1% in 2015 – the slowest pace of growth since 2009 – prompting some economists to question when the Fed would again be in a position to hike the cost of borrowing from its historic lows.

Government bond prices have risen since the data was published.

SHUTTERSTOCK

San Francisco, US

Iceland refunds UK treasury

Britain has received the final payment from Iceland following the collapse of Landsbanki, one of the country's banks which failed during the 2008 financial crisis.

The UK Treasury said it had received £740m from the Landsbanki estate, which ran the online savings business Icesave, taking the total paid back to £4.5bn.

The payment draws a line under the affair which saw Iceland's banking insurance scheme unable to cover deposits and sparking years of protracted international litigation.

Iceland's financial trauma led to capital controls being imposed to protect the nation's krona currency. Once creditors are paid off Iceland will be able to lift these controls, which have held back investment.

Swiss shocks

Switzerland was already facing a difficult 2016 after the Swiss National Bank suddenly removed the exchange rate cap of 1.20 Swiss francs to the euro last January. It was one of the biggest financial shocks for years.

Economists subsequently forecast the country's economy will grow by 1-1.5% this year following 2015's decline in consumption, increased pressure on wages and job losses.

But the country has started the year weakly with analysts downgrading their forecasts for growth.

The Credit Suisse ZEW index, which gauges respondents' expectations for the next six months by measuring the difference between forecast improvement and deterioration in the economy, slipped to -3 in January from 16.6 in December – its weakest level since last July.

{ CONTEXT OF TREASURY }

SUPER-JUMBO LOANS FUEL SECOND RECORD YEAR IN M&A

Total funding for corporates remained above $6 trillion last year for only the second time in history as the return of the 'super-jumbo' loan fuelled a record rise in investment-grade lending values.

According to the latest annual Corporate Funding Monitor from law firm Allen & Overy (A&O), the rise in lending values, including large-scale short-term bridge financing, was a healthy 94%, thanks to booming mergers and acquisitions activity.

The clearest trend of 2015 was the steep rise in investment-grade loans which hit $1.58 trillion and overtook the value of investment-grade bonds for the first time since 2007.

It was also a record year for follow-on equity issues, with almost $450bn of new capital issued by public companies around the world.

Richard Cranfield, partner at A&O, said: "The jumbo M&A trend in 2015, which required large-scale bridge financing, has resulted in a sharp rise in the number of loans scheduled to mature in 2016, which will contribute to a bumper year for bonds.

"Of the $360bn lent to corporates in the top 20 investment-grade deals, 38% was bridge finance – we envisage these loans will be refinanced in the investment-grade bond market with little difficulty."

One downwards trend was in leveraged loans, which fell sharply in 2015 after two years of strong growth.

Elsewhere, the maturing of the European high-yield bond market means it is now seen as a normal instrument for chief financial officers and treasurers of any sub-investment grade company in Europe. While issuance dropped last year, total high-yield issues in Europe are now a fifth of the wider bond market.

A steady flow of loans and bonds are maturing each year until 2020, which A&O said indicated a healthy flow of transactions over the next few years.

{ RISK MANAGEMENT }

US regulator to spotlight ETFs and variable annuities

The US Securities and Exchange Commission (SEC) has declared its regulatory agenda for 2016, setting its sights on key financial products for investigation.

The US regulator has said that investigations of financial products including variable annuities and exchange-traded funds (ETFs) will be prioritised, along with scrutiny into how institutions promote these kinds of products. Liquidity controls, cybersecurity, microcap fraud and fee selection will also be on its radar over the course of the year.

The SEC's Office of Compliance, Inspections and Examinations (OCIE) will carry out the required legwork as part of the regulator's intentions to increase protection for retail investors, and has announced it will explore how products like ETFs are structured and the trading practices around them. It will also make recommendations and explore disclosure in the variable annuities market.

It is the regulator's intention to evaluate liquidity-related risk

"To help fulfil the SEC's mission of maintaining fair, orderly and efficient markets, the OCIE will continue its focus on cybersecurity controls at broker dealers and investment advisers," said an SEC spokesperson.

It is the regulator's intention to evaluate liquidity-related risk-management practices among broker-dealers and investment advisers and to look at their compliance with last year's protocol aimed at improving technology infrastructures in the US securities market.

In addition, the regulator will use big data techniques to assist its investigations into anti-money laundering compliance, microcap fraud detection and reviews of excessive trading. It is hoped data analytics will help OCIE examinations of what it deems to be high-risk areas.

SEC chair Mary Jo White said: "These new areas of focus are important across the spectrum. Through information sharing and conducting comprehensive examinations, OCIE continues to promote compliance with the federal securities laws to better protect investors and our markets."

GETTY IMAGES

SEC chair, Mary Jo White

{ CONTEXT OF TREASURY }

EU DATA LAWS TO BRING IN FINES FOR BREACHES

If financial losses arising from data breaches and cyber crime were not enough of an incentive to take technology security seriously, the EU has announced data protection laws that could see corporates fined up to 4% of their global turnover.

After three years of negotiation, the EU's modernisation of its data protection laws will bring in mandatory data breach notifications, tougher restrictions on profiling and a requirement to appoint a data protection officer.

Corporates will now have two years to prepare for the changes, but in that period many will need to radically overhaul their collection and use of customer data.

Jens Puhle, managing director of cyber security firm 8MAN, said: "With the strict new rules on data protection agreed by the EU, meaning that large firms could now see the cost of data breaches reach the billions, there should no longer be a single organisation leaving any element of their data protection to chance. Harsh financial punishments appear to be the best way to drive home the message that data security should be at the top of the agenda for the board and extend throughout the organisation."

Under the new regime, corporates will need to provide complete visibility on how and when data is accessed.

MAKING THE NEWS

Greek bank CEO resigns

Greece's economic reconstruction continues to be hit by controversy, with the Piraeus Bank chief executive standing down last month in the face of apparent mounting government pressure.

Anthimos Thomopoulos' resignation came as a result of state pressure, according to a report by the *Financial Times*, and followed prolonged conflict between Greece's left-wing government and US hedge fund Paulson & Co, the bank's leading foreign shareholder.

Piraeus Bank has been widely seen as the poorest performer among the country's four biggest banks. But Thomopoulos had enjoyed the support of investors including Paulson & Co, which holds a stake of 9%.

Bank of England to get tougher on bonuses

In what is regarded as one of the world's toughest regulatory climates on bankers' conduct, the UK's central bank is set to introduce new rules enabling bonuses to be cut, stopped or clawed back.

The Bank of England wants to tackle situations where bankers receive bonuses, but move on to another employer before any poor conduct or reckless behaviour can be detected.

The proposed rule changes target buyouts, when a bank compensates a new employee for any unpaid bonus that may have been cancelled in the event of a job change.

"Individuals should be held accountable for their actions and not be able to actively evade the consequences of their actions," said Andrew Bailey, deputy governor of the Bank of England.

Tucker goes to US regulator

Former deputy governor of the Bank of England Paul Tucker is to chair independent US regulator, the Systemic Risk Council, succeeding the founding chair Sheila Bair.

As well as his role at the Bank of England, Tucker has served as a member of the G20 Financial Stability Board's steering group.

The Systemic Risk Council was formed to monitor and encourage regulatory reform of US and global capital markets, focusing on systemic risk.

Tucker, who left the Bank of England in 2013, was also a member of the bank's rate-setting Monetary Policy Committee and served on the board of the Bank of International Settlements.

UK interest rates on hold

Expectation of rising interest rates in the UK receded when Bank of England governor Mark Carney announced another hold, as falls in the oil price, uncertainty in new markets – particularly China, and slower-than-expected growth in the UK marked the turn of the year. Carney indicated that the bank would wait to see greater progress on growth, a firming in UK domestic cost pressures and more certainty that inflation is moving closer to its 2% target rate.

FINANCIAL REGULATION

For those based in the EU, we have the Call for Evidence. For those in the UK, we have HM Treasury's initiative on BEPS and the Payment Systems Regulator's advice as to how its own £15m cost will be spread across the payments industry. If you have views you'd like the ACT policy and technical team to take into account in responding to any of the subjects covered in this article or elsewhere in *The Treasurer*, please email us at technical@treasurers.org

Steve Baseby is ACT associate policy and technical director **@BasebyStephen**

{ IN DEPTH }

EU REGULATION: PAUSE FOR THOUGHT

The EU Commission issued a Call for Evidence to review the state of EU financial regulation (see tinyurl.com/obgupfg) following the six years of implementing legislation because "...there is a need to understand their combined impact and whether they give rise to any unintended consequences."

The ACT has responded by the due date, which had been extended to end January 2016 (see www.treasurers.org/EU-Call-for-Evidence) after consulting the Treasurers Forum to gather 'real economy' examples of adverse effects of legislation.

This has been a welcome exercise for corporate treasurers and an opportunity to put responses on specific subjects such as European Market Infrastructure Regulation (EMIR) into context. We discuss EMIR below, but do please feel free to provide any further comments on the state of legislation to assist us in our ongoing dialogue with regulatory authorities in the UK and the EU.

Prospectus Directive

The EU Commission has published its proposal for updated regulations, known colloquially as PD3, which reflects last month's briefing (see tinyurl.com/jh5nufo).

The disclosure concern remains for corporates and this arises from efforts to make the risk factors more readily readable to retail investors. The corporate concern is not so much the degree of disclosure, but that efforts to prescribe risk disclosure and ranking of risks will constrain discussion with the longer-term exposure to investors claiming they were not appropriately informed by debt issuers and sponsors. Yet another 'unintended consequence' of noble efforts.

We will continue to monitor the implementation of these proposals and keep members updated.

EMIR

The EMIR consultation was completed in August. Since then we have met with the UK Financial Conduct Authority, Directorate-General for Financial Stability, Financial Services and Capital Markets Union in the Commission and European Securities and Markets Authority to present the corporate treasurers' view and gain a better understanding of their concerns and intent.

We do not expect further change to, or public discussion on, EMIR until the Commission has been able to digest the Call for Evidence discussed above.

Check your EMIR data

What this discussion has shown is mistrust of the high percentage of corporate derivatives reported as non-hedging, which is 14% across Europe. The conclusions can only be that either data is mis-recorded or that taking speculative positions is more prevalent than had been expected when the hedging exemption was agreed for corporates.

Talking to both the regulatory side and treasurers suggests that delegated reporting and complex field specifications for direct reporters may be leading to mis-recorded trades. Couple this with the compound effect of layering derivatives over time and some non-financial corporates (NFCs) may find they unwittingly exceed the clearing threshold as collateralisation is progressively implemented over the next three years.

Central clearing

Central clearing, that is collateralisation of margin, commences in June 2016 for OTC interest rate swaps for NFC+s.

We strongly recommend that direct reporters check their use of the clearing threshold fields, and delegated reporters gain access to their trade data at trade repositories and ensure they are content that hedge transactions are reported as such.

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

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

Delay in the publication time of the European Central Bank FX reference rates from 14:30 CET to 16:00 CET as of 1 July 2016: www.ecb.europa.eu/press/pr/date/2015/html/pr151207.en

{ TECHNICAL ROUND-UP }

EBA, VICKERS AND PSR

EBA SHADOW-BANKING INITIATIVE

The Euro Banking Association (EBA) has published its guidelines on shadow banking (see tinyurl.com/goaqljh), which recognise the use of treasury companies.

UK members should not be affected by the essential thrust of the EBA, which has been to bring 'credit intermediation' and 'maturity transformation' activities under banking regulation. UK practice has been for regulators to oversee finance arms of corporates, but the EBA document provides guidance for those businesses seeking to promote sales aid financing.

IMPLEMENTATION OF VICKERS IN THE UK

As the banks start to agree their ring-fencing structures with the Financial Conduct Authority, members need to start working with their key relationship banks to understand how the banks are planning to restructure in order to identify which entity or entities of the bank they will transact with and the new level of counterparty risk they may be exposed to.

UK PSR ANNOUNCES FEE ALLOCATIONS

The Payment Systems Regulator (PSR) has published for consultation its 2016/17 allocation of its £15m budget (see www.fca.org.uk/news/cp15-44-psr-regulatory-fees-2016-17). Fees will be allocated over the main payment services, which the PSR regulates (Bacs, CHAPS, Cheque and Credit, Faster Payments Scheme, LINK, Northern Ireland Cheque Clearing, MasterCard and Visa Europe), as well as the interchange fee over card service providers.

Although a significant reduction from 2015/16, which included a £12.2m 'one-off' set-up cost, these fees can only trickle down to transaction fees. The ACT does not propose a formal response.

{ INTERNATIONAL }

LEASE ACCOUNTING STANDARD **IFRS 16** PUBLISHED

As reported previously in Technical Briefing (see *The Treasurer*, September 2015), the International Accounting Standards Board has completed its re-deliberations and published the long-awaited IFRS 16, *Leases* accounting standard. The new standard will apply for annual periods beginning on or after 1 January 2019. Early adoption is permitted if the entity also applies IFRS 15, *Revenue from Contracts with Customers*.

Broadly speaking, the new accounting standard requires a customer leasing assets (lessee) to recognise assets and liabilities for *all* identified leases. This includes leases that are currently off-balance sheet, as IAS 17, *Leases* required only finance leases to be recognised on the balance sheet.

One of the first steps when implementing will be to identify whether a contract is, or contains, a lease and the standard contains application guidance to assist users in interpreting the lease definition.

For many companies, this will result in a grossing-up of the balance sheet, potentially impacting financial covenant ratios that include 'debt', 'net financial position' or similar indicators. EBITDA and the interest cover ratio are also likely to be impacted.

{ WATCH THIS SPACE }

ARE YOUR SYNDICATED LOANS TRULY COMMITTED?

Article 55 of the Bank Resolution and Recovery Directive – which provides regulators with a common set of tools and powers for dealing with failing banks – becomes effective from 1 January 2016.

This extends the existing write-down and conversion powers of European Economic Area (EEA) regulators to include documents governed by the law of a non-EEA country, as long as an EEA financial institution has any potential liability under the document. This means that practically all loan facilities will now be caught if you have relationships with European banks.

It is widely understood that, in the event of a bank entering resolution, deposits with that bank may be converted into share capital or in other ways 'lost' to the corporate. However, as part of the resolution process, regulators will also look to address the liabilities side of the bank's balance sheet and, as a result, loans and similar liabilities may be subject to bail-in actions, which may include a reduction of the principal or outstanding amount, or even the cancellation of the facility.

This means that many (if not all) of your loan agreements may not be as committed as you think, and your documentation will almost certainly need revisiting to ensure that appropriate language is included. The Loan Market Association has issued guidance, but you may need to talk to your legal advisers, as the whole area is far from clear.

This also emphasises the importance of checking the credit strength of your banking partners.

PREM K THAKUR

AVP IN TREASURY AND FINANCE, STERIA (INDIA) LTD

How did you get into treasury?
Since the start of my career, I've been fascinated by the interplay of money, global financial systems, economics and banking. These interests drew me towards treasury.

What do you like about treasury?
Everything; every challenge! Treasury works on a real-time basis and there is a pressing need to balance regulatory issues, economic drivers and management strategy with other considerations, including governance, risk, investors' expectations and the impact of FX volatility. Taking instant decisions appropriately is a great feeling; that's what I enjoy the most.

What's the best thing about being a treasurer?
It's a great responsibility and an exciting job, with the opportunity to add value and raise funds as needed or even in a crisis. There is also the satisfaction of completing a great FX deal.

What's the most unusual responsibility you have as a treasurer?
We have strong governance and control in place, hence I deal in treasury only.

What's the most important lesson you've learned during your career?
I am a great learner and experiment regularly. This job has given me a platform to be innovative, disciplined, to build a great team and manage the fine balance that exists between policy and operational needs.

What would be your best piece of advice to anyone considering a career in treasury?
Be open to learning and accept new challenges. Also, make every effort to understand the significance of global financial events and their impact on your business model.

What's your ultimate career goal?
To become a top contributor within an organisation, to create wealth for it and its investors, and to champion risk management and good governance.

Who is your greatest inspiration and why?
Life is always changing, so the individuals I've looked to in the past are not same as now, and doubtless won't be the same in the future.

If you weren't a corporate treasurer, what would you be and why?
I've spent 16 years in corporate treasury, but if I hadn't done that, I would have been an investment banker or financial consultant.

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

ACT DIARY DATES

TRAINING, EVENTS & WEBINARS

ACT TRAINING

15 March & 12 April, London
Treasury in a day
A one-day introduction aimed at anyone new to treasury. You will learn about the role of a treasurer within the context of business, and be introduced to key treasury concepts and commonly used financial instruments.

22 March, London
Working capital optimisation
Understand why working capital management is vital for the generation of sustainable cash flow and survival of companies. The course deals with the principles of payables, inventory and receivables management.

23 March, London
Cash forecasting fundamentals
Learn how to review or redesign your cash forecast framework. Learn a 'best fit' methodology for assessing/designing an appropriate forecast environment for your organisation.

BRAND NEW

13 April, London
Foreign exchange
Learn about the different types of FX risk and some of the instruments used to manage them, how they are traded and the risks around this.

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

19 April, London
The nuts and bolts of cash management
Develop an understanding of the principles and practices of cash and liquidity management, and its importance to the business and treasury function.

20-21 April, London
Advanced cash management
The cash management marketplace is morphing. New techniques are being introduced: partner banking, SWIFT Corporate Access, ISO20022. And regulators, whether via SEPA or Basel III, are enabling competition to traditional banks. This course will prepare you for the changing environment.

26 April, London
Fintech storm
If you're involved in eCommerce, payments, financial supplier relationships or cash management processes, then this is for you. The course develops an understanding of the powerful political agenda behind Fintech, and provides a framework for filtering the many announcements and approaches you will be subjected to.

BRAND NEW

3 May, London
Treasury, security, control and audit
Develop an understanding of how to create a secure environment in which treasury transactions can be managed and carried out with minimum risk of fraud or error. Learn about assurance practices to effectively plan and execute a risk-based treasury audit.

9-13 May, London
The A-Z of corporate treasury
An intensive five-day overview of treasury management, perfect for new entrants to the profession, bankers and those working alongside the treasury. Learn about corporate treasury within the context of international markets, and build a deep insight into the core areas and how they function through a mix of theory and practical application.

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

ACT EVENTS

10-11 February 2016, London
ACT Cash Management Conference
Europe's largest conference devoted to cash management, featuring world-class case studies from leading corporates. Get your most pertinent questions answered, and make the most of increased networking time.
www.treasurers.org/cashmanagement

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

18-20 May 2016, Liverpool
ACT Annual Conference 2016
Join more than 1,000 corporate finance leaders and learn how digital advancements and global disruptions are shaping the future. This year's theme is 'Financing tomorrow – integrity, influence, innovation'.
www.treasurers.org/annualconference

ACT WEBINARS

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

For details of our 2016 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

{ WELFARE SPENDING }

JEREMY WARNER

Cutting back on the size of the state makes for energetic political debates – and there is only so much that can be achieved in any case

MATT KENYON/IKON IMAGES

What is an appropriate size for government? This question is once again centre-stage in the British political debate after a spending review that aims to reduce government as a share of GDP to 36.4% in five years' time, from an expected 40% this year.

A similar argument is taking place throughout much of Europe. Is small, or at least smaller, government the way forward in the post-crisis world for economies struggling with mountainous public debt? Or does Europe's social market economic model demand high levels of spending and tax in the economy?

Figures compiled for the International Monetary Fund's latest *Fiscal Monitor* show big variations in size of government among advanced economies, ranging from less than 20% of GDP for Hong Kong and Singapore, through 31.4% for Switzerland, to approaching 60% for Denmark, Finland and France.

Government's share of the economy rocketed just about everywhere during the financial crisis, but as growth returned, it has since shrunk back down again – to an average of around 40% for advanced economies, which is roughly where the UK sits at present.

If the government in the UK achieved its aim of 36.4% by 2020, it would be a little bit lower than the prevailing average, but not significantly so. Even this relatively unambitious target is nonetheless proving extremely difficult to achieve. Under pressure from backbench MPs, the UK chancellor, George Osborne, has been forced to scrap some of his planned spending cuts, including reductions in income support and the police.

Ability to sustain a larger state without running up huge public debts depends crucially on the willingness of the economy to tolerate relatively high levels of taxation. Some countries, particularly the Nordics and France, seem culturally more at home with high tax burdens than others. In Britain, the ceiling seems to be around 40% of GDP. Much above that, and historically, tax raising tends to run into the law of diminishing returns. Already, the top 1% of earners in the UK contribute more than a third of income tax. Since many of these high earners are less likely to consume public services and are also relatively mobile, it might well prove counterproductive to attempt to tax them more.

If it is hard to tax more, it is proving even harder to cut by more, particularly when it comes to pensions and healthcare, accounting in Britain for more than half of total spending. Any politician who attempts to make significant cuts in these areas risks alienating the increasingly powerful 'grey vote'. The present UK government has ducked that challenge, automatically limiting its ambitions for a significantly smaller state.

> If it is hard to tax more, it is proving even harder to cut by more

In countries that spend the least relative to size, healthcare and pensions are likely to be provided privately so that they are taken out of taxation altogether. Switzerland is known as a relatively low-tax jurisdiction, but this is largely because Switzerland's healthcare is privately paid for through compulsory social insurance. If these premiums were counted as income tax or national insurance, Switzerland's effective tax burden would look much more like the UK's, if not higher.

Protecting welfare spending loads more of the work in cutting the state back to size onto what used to be thought of as core government functions: policing, defence, local government and so on.

Advanced economy governments can certainly do more to modernise the way in which these public services are provided, but there is only so far you can go before the fabric of government begins to suffer. The bottom line is that, as long as welfare remains at the heart of the political consensus, efforts to cut the size of the state are likely to prove marginal at best.

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

Britain is not prepared for Brexit

Kallum Pickering argues that leaving the EU would be a potential own goal for the UK. Is he right?

Britain does not have the political or economic might to live up to the challenge of Brexit. Prosperity outside of the EU would require a leading party that can credibly deliver swift and effective changes to economic policy to create an economy that is both balanced and robust to risk. Unfortunately, on these accounts, Britain falls short. Brexit would fatefully reveal these fault lines.

Britain has become politically disorientated since the financial crisis. After 13 popular years, the ugly demise of centre-left New Labour in 2010 created a void that has been only partly filled by the current centre-right Conservative leadership. This has allowed for more activity on the fringes. The past five years have seen the rise and demise of the centrist Liberal Democrat party, the worrying rise of the far-right UKIP, a landslide victory in Scotland for the Scottish National Party and, most recently, Jeremy Corbyn and his band of hard socialists taking over the Labour party after a disappointing 2015 election result. In a way, the decision to vote on EU membership reflects this volatile underlying trend.

Of course, such divergence in support on how and who should govern is fine from a democratic perspective. Democracies should facilitate dialogue and change. However, these major fluctuations in the popular mood are not an ideal backdrop when decisiveness and quick response are needed. Do the fluctuations reflect genuine variation in electoral opinion or, worse, a lack of political competence to gather a consensus? Brexit would require a large succession of swift and potentially unpopular policy changes in order recalibrate the economy and keep it afloat.

SHUTTERSTOCK

Recent experience indicates it would probably be hard to secure such support.

What is more, there is little evidence to suggest that even the pro-economy Conservatives would be able to deliver the policy changes needed to secure growth after exit. Since elected six years ago, the Conservatives have not yet delivered on some of their key policy objectives. Firstly, they have failed to bring about a more balanced economy. Construction and manufacturing are still around 5% and 10% respectively, below pre-crisis peaks. But the services sector has grown by more than 10% and now accounts for 80% of GDP. To some extent, this is a product of economic circumstance rather than poor economic management. Industry has suffered under a weaker global backdrop.

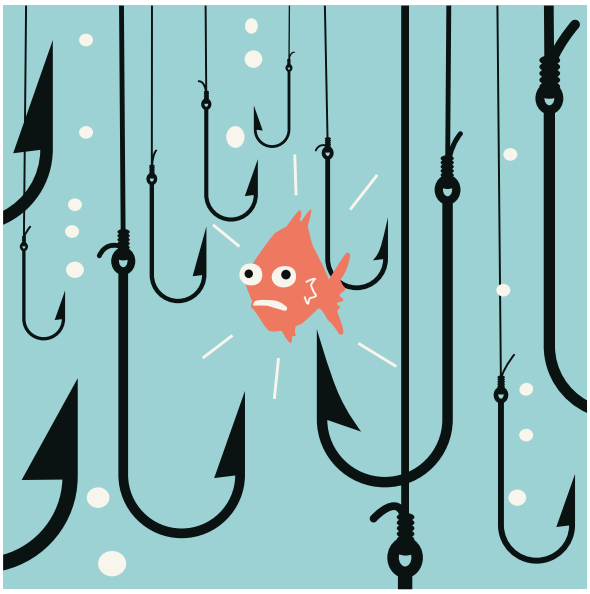
Secondly, the Conservatives have failed to meet their fiscal goals, too, and probably won't balance the budget until at least 2020 – assuming no Brexit. The pace of fiscal adjustment has been far slower than anticipated due to a softer-than-expected recovery.

These failures reflect more than a suboptimal economic policy. They reflect an innate optimism bias and an insufficient capacity to properly recognise economic realities. Indeed, this optimism bias runs strongest within the Conservative heavyweights. When Boris Johnson, a strong contender for the next prime minister, says that Britain should not fear an exit, he is fatefully wrong. He exemplifies the same false optimism. We know from the past few years that Britain can enjoy solid growth within the EU even when there are significant problems in other countries of the union. To say that Britain can succeed if it were to leave is another over-optimistic prediction. That track record speaks for itself.

The bottom line is this. Although the UK economy has made considerable progress post-Lehman, with decent growth and an impressive labour market recovery, it is still very vulnerable to risk and needs repair in almost every quarter. In addition to a lopsided sector split, the UK has a high current account deficit, a broken housing market and too much debt. Not to mention the lack of fiscal firepower. There is little doubt that if the UK left and the economy were to go sour, policy headroom would be limited. These realities would come to the fore if Britain were to exit the EU. Is it ready for this? Surely not, but does it really know it?

Brexit would require a large succession of swift and potentially unpopular policy changes

Kallum Pickering is senior UK economist at Berenberg Bank



SHUTTERSTOCK

{ TREASURY INSIDER }

An offer you can't refuse

Treasury Insider advocates playing the long game in the face of proposals for shared services

I returned from a break to find an urgent meeting in my diary with an ambitious colleague (who I'll refer to as 'X') off-site. This seemed intriguing and I attended with an air of expectancy:

X *"I'm making you an offer you can't refuse."*
Me *"Tell me more, and is it negotiable?"*
X *"We are going to reorganise finance with part of your treasury team joining an expanded shared-service centre."*
Me *"Really? Which consultant has come up with this and will it be based anywhere exotic overseas or locally?"*
X *"No, it's our own plan to streamline and integrate finance teams, and you as a customer will benefit from this service provided in our main UK office."*
Me *"That's interesting – I've moved from head of an integrated function to a customer instantaneously! What other advantages do you see from this proposal?"*
X *"Well, you will reduce headcount, have less HR management, more cover for specialist roles, and we can centralise disaster recovery and systems."*

I agreed to consider it.

Clearly outsourcing – externally or internally – is often popular, then reversed when another consultant proposes smaller central teams, greater local control and accountability. However, recognising the mood, I did a rational analysis of the potential benefits.

I agree a fully integrated treasury team might be scrutinised if front, middle and back offices all reported to one functional head, despite our extensive control processes and clean audit reports. This new proposal may enable better segregation of duties.

Would it free me and the remaining team up to be more strategic? I decided to raise that with my boss, the CFO, who was positive, and who suggested that I would be better positioned with operational and control issues by becoming the head of shared services' responsibility.

The proposal was introduced a few months later with some, but not all, of the operational team transferred.

Of course, soon afterwards, operational issues arose, due to manual entry errors and systems failures in sister teams, with potential payment delays for suppliers.

I heard through an early morning email and text from the CFO!

I responded: "Of course our team will support the head of shared services to resolve this." The message back was: "Thanks, but actually can your team lead this to solve today?" The team did and was thanked by other functions for resolving the issue seamlessly – as far as the outside world was concerned.

> This leaves the issue of whether 'internal' service level agreements are effective or divisive

So in reality, I had not lost the operational issues! There was probably a veiled compliment somewhere in this story.

The key messages I perceive in such proposals are that:

- The treasurer has to establish clear accountabilities and responsibilities.
- Is treasury a problem solver of the last resort, with controls and skills, anyway?
- Will organisational changes make much difference? Will people in fact continue to operate as before?
- How valuable is any separation if functions are to consolidate and be effective as a finance team?
- Who writes and owns treasury policies? If it remains the treasury team, then organisational separation may be irrelevant.

If other functions such as internal audit still look to the treasury team for all aspects of the policy before and after the so-called change, then it's likely it was more cosmetic than real.

For groups with potential changes, greater integration could affect business disposals with continuing requirements for transition agreements. Some contacts advise me that a number of organisations are decentralising in order to be more flexible.

Treasury teams with multiple locations ideally would periodically switch off one and test the process at another live. Admittedly, not all companies have the freedom to do so, but with everyone in one building your risks are high due to weather, power or transport factors.

This leaves the interesting issue of whether 'internal' service level agreements are effective or divisive.

Oh, by the way, if you were wondering what role the ambitious colleague had after the reorganisation, it was head of shared services. Until the operational issue arose, anyway...

The Treasury Insider has led corporate treasury functions inside a well-known institution

{ INFLUENCE }

PETER MATZA

Technological innovations, safeguarding the corporate reputation – the treasurer's remit is an expanding and all-encompassing one

Peter Matza is engagement director at the ACT

As you are reading this in our February edition, 2016 will be well under way, but it still gives me an opportunity to talk about some consistent themes from the past few years and some new ones for this year and beyond.

The explosion in financial services regulation that we have seen since the financial crisis is probably the most remarkable development in the industry since the breakdown of Bretton Woods (youngsters can go and look that up!). What makes it more impactful is that it's not yet completely global (though will be) and not consistently applied in the Organisation for Economic Co-operation and Development or Western economies. That means treasurers have to worry about regulation as if it were the FX market – some markets liquid, some controlled, some opaque and some closed. It's not getting any easier, of course, and indeed likely to get more confusing, more painful and certainly more intrusive.

What's to come? Well, bank resolution schemes, new regulation in previously unaffected markets (such as the Middle East and Asia) and much more on cyber management. There is some evidence that the regulators – at least in the EU – are pausing for breath, but, as the saying goes, the light at the end of the tunnel might just be a train heading your way.

The rise and rise of tech and systems shows no signs of slowing, either. Of course, it's not solely the in-house treasury system that is changing (where we are seeing software as a service, mobile and cybersecurity issues all clamouring for attention), but the ever-increasing range of business processes that is being affected in digital terms. Supply-chain finance, trade finance, collateral management and logistics are all now specifically important to treasurers because of their impact on cash and the balance sheet. Often overlooked, though, is that the demand for 'live' business information means treasury is having to commit to the information age. Knowledge, it seems, really is power.

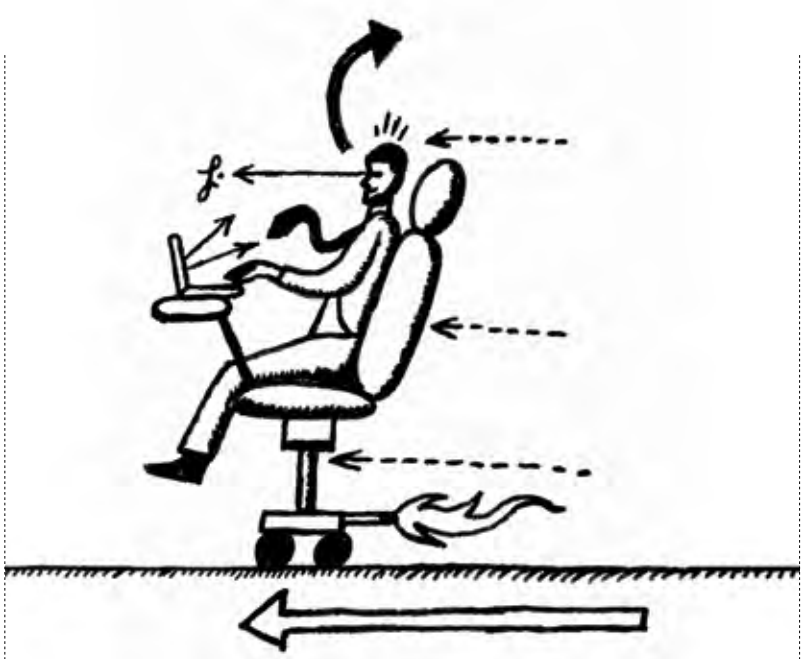


IMAGE SOURCE

The picture overall is of a faster-moving world and a faster-moving profession

In this magazine, over the past three or so years, we have tried to draw attention to a different aspect of professional life, namely career development and the skills that individuals need to become successful and rounded as business people. Of course, the operational aspects of that mean better (and quicker) reporting, data management and a clear grasp of the business environment. More subtly, though, treasurers must see beyond the day-to-day and look to deliver the strategic financial management that their organisations need.

That means having a clear understanding of risk appetite, being clever in the selection of business and financial partners (house banks? Going, going, gone...), but, most importantly, in the words of Clint Eastwood, 'a good man always knows his limitations', and then does something to address them. People management is now a greater load for treasurers – it's always the key to delivering a successful business, and treasurers have got to learn to read and understand people as much as the rules in an International Swaps and Derivatives Association agreement.

There's a final area where I think treasurers have to look at the world differently. While there has always been volatility in business and markets, there's no leeway any more. Reputational risk, therefore, the impact of business decisions on the organisation, now sits firmly on a treasurer's desk. It's not his or hers alone, but as the VW emissions debacle and other similar issues have proved, the financial impacts of business scandals are felt much quicker, more pervasively and with greater effect than ever before.

So the picture overall is of a faster-moving world and a faster-moving profession. Clearly, our role at the ACT is to help identify those winds of change and then to try to equip treasurers and others with the tools and skills to act and react to them. It's not going to be easy or straightforward, but we'll do our best.

I'd like to hear your views, so please contact me at pmatza@treasurers.org or look out for me at one of our events.

ACT LEARNING ACADEMY

2016 TRAINING COURSES ARE NOW OPEN FOR BOOKINGS

ACT training's programme of expert-led, face-to-face courses span the full range of treasury activity. Our short courses run over 1–5 days and build practical skills and treasury know-how over a short timeframe, allowing you to apply your new found skills as soon as you return to work.

Get in touch for more information, contact:
Samantha Baglioni
Training Development Manager, ACT
+44 (0)20 7847 2559
sbaglioni@treasurers.org

TREASURERS.ORG/TRAINING

NEW COURSES THIS WAY →

Boxing clever

AGAINST A BACKDROP OF PRONOUNCED MARKET VOLATILITY, EUROPE'S WINNING TREASURERS AND TREASURY TEAMS HAVE EXERCISED THEIR CREATIVITY AND DEMONSTRATED ASTUTE THINKING AND EXECUTION

The past 12 months have been particularly testing for treasurers. Market and currency volatility and question marks about the overall cohesion of the European Union have brought much complexity to our day-to-day operations and have become something of a given.

From my vantage point as chair of the ACT's Deals of the Year Awards judging panel, treasurers have responded to these exceptional challenges with ingenuity and great skill – a level of professionalism that we can all celebrate.

The call for entries for the Deals of the Year Awards for 2015 attracted submissions from a diverse sector base: retail, infrastructure, aviation, housing and education among them.

As judges, we were looking for achievements on timing, execution and demonstrations of strong market knowledge. And although we saw fewer entries across most categories than in previous years, we also saw treasurers and their teams innovating, working on more unusual deal structures and acting with dispatch when market changes demanded quick action.

BAT, which of course goes to the market regularly and won in two categories – the larger of the two UK treasury teams of the year awards as well as the bonds above £500m category – pulled off a suite of challenging transactions working within a complex battery of regulation. New Look, which won the smaller team of the year award as well as coming runner-up to BAT in the bonds above £500m category, provided a fascinating counterpoint to BAT with a refinancing and acquisition (all managed by the in-house treasury team). And while BAT and New Look's transactions and activities were very different, the juxtaposition of the tobacco giant and the much smaller retailer prompted much debate around the judging table.

Chairing the judging of these awards is always rewarding. They provide an opportunity for us as a community to applaud the acumen, experience and hard work that goes into building a dynamic treasury team or executing a stand-out transaction.

Treasurers remain a reserved lot, but it's my hope – and that of the ACT – that more individuals and teams will take on the task of promoting and celebrating the work that we do. And it's surely incumbent on the organisations that we work for to do more to encourage and train their treasury professionals in this respect. Treasurers are enjoying greater interaction with, and respect from, boardrooms. It's surely time to capitalise on that and begin to enjoy a wider profile and recognition.

I would like to extend my thanks to my fellow judges (see page 22) for their insights and for generously giving up their time to the Deals of the Year Awards judging process. Once again, we are indebted to Lloyds Bank, which continues to sponsor the awards. Our thanks, too, go to the ACT for continuing to promote this important programme of awards.

I hope you enjoy reading about our winners from 2015 and would encourage you to enter next year's awards when nominations open later in 2016.

Lesley Flowerdew is group tax and treasury director at design, engineering and project management consultancy Atkins. She chairs the Deals of the Year Awards panel

DEALS OF THE YEAR

Meet the judges

Our 2015 Deals of the Year and Treasury Team of the Year Awards were judged by:

Lesley Flowerdew, group tax and treasury director, Atkins (chair)

María de la Fuente Lecanda, head of banking business planification, Iberdrola

Julie Fabris, group treasurer, Britax

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

Paul Johns, head of tax and treasury, Selecta

Philip Learoyd, head of funding and treasury risk, SABMiller

Peter Matza, engagement director, ACT

Richard Sedlacek, managing director, Rothschild

Mark Venner, treasurer operations, BAE Systems

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

Henryk Wuppermann, head of corporate finance, E.ON

How the awards were judged

The Treasurer's Deals of the Year and Treasury Team of the Year Awards provide recognition of, and applause for, the professionalism and skills that treasurers contribute to their organisations.

All kinds of deals are eligible for entry, regardless of their size or complexity. In judging the awards, the judges look at a range of criteria including: sound treasury management, innovative structures, ability to work with stakeholders and efficient pricing.

On occasion, we have situations where a judge's company has been nominated for an award. In these cases, the judge concerned sits out the discussion.

A TREASURY ELITE

It is not hard to identify risk in our current business environment: we can take our pick from the Greek crisis or identify wider volatility experienced in the eurozone within individual markets and across foreign exchange markets. Then there is broader geopolitical risk, emerging market turmoil, increased sensitivity around corporate reputation, erratic stock markets... you get the picture.

In the face of these risks, and in spite of the increased frequency with which they appear in the world's media and on the corporate dashboard, treasury teams are instrumental in constructing the deals that will refinance, provide backing for IPOs or acquisitions, diversify their organisations' funding structures and support complex mergers or acquisitions. All this and the day job, too.

On the following pages, you will find the narratives behind this year's best-in-class – the winners of *The Treasurer*'s Deals of the Year Awards. There can be little doubt that the hard work that goes into designing and executing these diverse facilities and the wider support that treasurers provide for the business deserves our applause – and much wider recognition, too.

Liz Loxton, Editor
Awards reporting by Michelle Perry

Corporate finance category and overall Deals of the Year Awards winner

NATIONAL GRID

AMPING UP SUCCESS

NATIONAL GRID'S POWERFUL YEAR CAN BE ATTRIBUTED TO THE PROFESSIONALISM AND FLAIR OF ITS HIGHLY EFFICIENT TREASURY TEAM

Energy giant National Grid accessed the markets last September in a bid to diversify its funding sources, but in a rare move the corporate did so without risking any dilution to its shareholders, and raised debt financing at a lower cost than available in the traditional bond market.

The UK electricity and gas corporate took advantage of investors' appetite for investment grade paper, after a quiet few months in the market, to raise £400m of convertible debt at a fixed rate of 0.9% to 2020.

The transaction resulted in National Grid North America Inc raising fixed-rate debt at an effective interest rate materially lower than conventional debt. It was the first time anyone has accessed the sterling convertible bond market with no equity dilution and no share price risk.

At the same time, the FTSE 100 corporate bought call options on its shares to offset the economic exposure from a potential exercise of the conversion rights embedded in the convertible. This innovative approach provided attractively priced funding from an additional source of liquidity for the group. As a result, National Grid secured good liquidity in line with its risk policy.

The deal was oversubscribed multiple times and ultimately upsized from £350m to £400m due to demand, which further highlights the deal's success.

Credit Suisse was lead bank on the deal and had been working on the transaction with National Grid for some time to get it right. BNP and Morgan Stanley were joint bookrunners.

Malcolm Cooper, group treasurer at National Grid, said: "As a utility, we can sustain large amounts of debt; so, for us, pricing was critical. This was very attractive because it reduced the cost of debt."

Since National Grid finalised its deal, three other large corporates across Europe have followed suit, copying the utility's lead and benefiting from the path that National Grid took. The transaction was all the more impressive for the fact that just two to three people out of a treasury team of around 12 worked on the deal.

"We are very pleased with the outcome and grateful to the support we got from our lead banks. And, as people say, 'imitation is the sincerest form of flattery'," Cooper added.

The nominating bank called the deal "an innovative funding structure from a very professional treasury team".

One of the bankers heavily involved in the deal said: "We really enjoyed working with National Grid because of their professionalism, expertise, good market judgement and their open attitude to this innovative debt financing. Working with the National Grid team, we were able to take advantage of the unique market opportunity and to secure an attractive funding advantage compared to straight debt, while broadening the investor base."

Over the next few years, National Grid expects to raise, on average, around £2bn to £3bn of new long-term debt every year to finance expansion of its business and refinance maturing debt – the vast majority of which is raised in the capital markets.

The judges said: "It was a very good team, smoothly executed. It was that combination that stood out compared with other deals."

nationalgrid

Deal highlights

Issuer: National Grid

Amount: £400m

Structure: Single tranche/ convertible bond

Rating (at time of deal): Baa1 (Moody's)/BBB+ (S&P and Fitch)

Currency and tenor: £/5yr

Interest rate: 0.9%

What the judges said:

"The deal showed innovation and excellent execution"

HIGHLY COMMENDED

Thames Tideway

Thames Water Utilities Ltd successfully secured investors in a complex deal to create a new company to deliver the £4.2bn Thames Tideway Tunnel (TTT), one of the biggest infrastructure projects in London.

The deal stood out as an innovative structure because of the ongoing challenges faced by the private sector in building infrastructure projects, and surpasses the scale of any single project undertaken in the UK water sector to date.

The cost of capital for the project came in at just 2.497%. It was considered to be a complicated deal for the critical underground construction project and compares well to more typical costs for the UK water sector of between 3.6% and 3.85%.

Establishing a separate infrastructure company significantly de-risked the transaction from Thames Water's perspective. The structure not only shares the construction risk with private-sector investors, but it also reduces the impact on Thames Water's household customer bills from the original estimate of £70-£80 a year – set four years ago – to £20-£25 a year.

The TTT requires around £3bn of debt to be raised during construction, which represents a significant portion of the debt issuance in the whole UK water sector.

The new company – owned by a consortium of international investors – will be an independent, regulated utility company established for the design, build, finance and delivery of the super sewer.

The cost of capital will be fixed for 15 years, covering the full construction period.

The backers behind Bazalgette Tunnel – named after Sir Joseph Bazalgette, the engineer behind London's Victorian sewers – include insurer Allianz, Amber Infrastructure, Dalmore Capital and investment firm Dutch Infrastructure Fund.

DEALS OF THE YEAR

Bonds above £500m category winner

BRITISH AMERICAN TOBACCO

"SIMPLE IS GOOD"

BAT'S FOUR-STAGE BOND ISSUE TOOK ADVANTAGE OF INVESTOR DEMAND AND PROVIDED SCOPE FOR REFINANCING AND ACQUISITION SUPPORT

BRITISH AMERICAN TOBACCO

Deal highlights

Issuer: **BAT**

Amount: **€3bn**

Structure: **Four-tranche public, senior facilities**

Rating (at time of deal): **A3/A- (Fitch, Moody's and S&P)**

Currency and tenor: **€/4yr + 8.5yr + 12yr + 30yr**

Interest rate: **0.375% for 4yr/0.875% for 8.5yr/1.250% for 12yr/2% for 30yr**

What the judges said:

"This deal showed flawless execution and perfect timing. It is the model of a larger bond issuance"

BAT group treasurer Neil Wadey: We wanted to do a bigger transaction

British American Tobacco (BAT) returned to market in March last year in a refinancing initiative, but in a rare move the corporate undertook a four-tranche €3bn deal in a bid to maximise investor engagement.

In a single approach, the transaction was able to avoid cannibalisation of demand between tranches and achieved pricing that minimised the new issue concession.

Neil Wadey, BAT group treasurer, said: "Based on our cash-flow assumptions, we wanted to do a bigger transaction than we usually do. Based on demand, we realised a long tranche would be more attractive to investors – and it suited us."

Although the official use of the proceeds was to be for general corporate purposes – including the financing of working capital and refinancing of bonds and commercial paper – the two large transactions coincided with two acquisitions by the tobacco giant last year.

BAT was then able to pay $4.7bn to subscribe to Reynolds American's equity offering to maintain its pre-existing 42% stake. BAT also acquired the remaining 24.7% equity stake in its Brazilian operation Souza Cruz for around £2.3bn.

The company was able to manage its debt-maturity profile while adhering to strict internal treasury policies regarding concentration of maturity. The overall cost of funding was attractive in a historic context (with the 30-year tranche only paying 2%).

"Overall, it was an efficient process, as we expected, supported by our core issuing banks that provided us with good advice," Wadey added.

The deal underlined the organisational efficiency of BAT, which meant that the tobacco company was able to minimise exposure to market risk at the same time as managing two separate bridge facilities.

The nominating bank said that strong leadership in deal timing and market judgement is an underrated skill in treasury.

> "Too many dismiss it by saying, 'no one can call the market', but having a strong sense that what is achievable is transient, is a core skill and BAT consistently does this; it asks the right question"

"Too many dismiss it by saying, 'no one can call the market', but having a strong sense that what is achievable is transient, is a core skill and BAT consistently does this. It asks the right question – is there an opportunity that I can do today that I might not be able to do tomorrow?" the bank said.

The judges said: "Often deals are overcomplicated and that can often come back to haunt deals further down the line. Sometimes simple is good."

HIGHLY COMMENDED

New Look

New Look completed one of the largest deals in the European sub-investment grade market in 2015, refinancing the group capital structure at the same time as selling the group to a new private equity owner, Brait.

The retail group successfully finalised an £800m M&A while simultaneously completing a £1.2bn high-yield bond refinancing at a time of market volatility and an overall challenging environment. The New Look transaction was executed in the early weeks of June against a backdrop of volatile markets driven by concerns relating to Grexit, as well as other negative macroeconomic factors.

The transaction consisted of three tranches of £700m senior secured notes at 6.5%, €415m denominated floating rate notes at Euribor +4.5% and £200m 8% senior unsecured notes. A new six-year revolving credit facility of £100m was also put in place to provide incremental liquidity.

The most significant benefit to New Look was the achievement of a lower cost of capital, enabling higher future cash-flow generation.

Fast execution capability and real-time structuring expertise meant New Look could lock in an attractive all-in funding cost and a diversified funding structure. The nominating bank said: "Outstanding work by the treasury team in guiding the board, CEO and CFO with real time and independent market assessment, and delivering in context of a very short time frame."

Bonds below £500m category winner

LONDON & QUADRANT HOUSING TRUST

STRONG FOUNDATIONS

L&Q'S £250M BOND HAS SECURED STRATEGIC FINANCING FOR THE HOUSING GROUP IN A WELL-PLACED LONG-TERM ISSUE

London & Quadrant Housing Trust (L&Q), one of the UK's leading housing associations, demonstrated how to complete a difficult sale in one of the UK's most challenging sectors last October when it raised £250m via a bond issue.

L&Q, one of London's largest residential developers, returned to the market in 2015 after a three-year hiatus with a 34-year benchmark deal, which priced at a coupon of 3.75%, and was significantly oversubscribed by investors.

In spite of market volatility as well as UK Chancellor George Osborne's housing policy changes – announced in the Budget last spring – L&Q achieved an unparalleled spread, coupon and order book size with its deal, demonstrating investors' support for the sector.

Osborne announced plans to reduce the household benefit cap from £26,000 to £23,000 a year, while housing benefit will be reviewed, both of which will impact significantly on L&Q's customers.

Martin Watts, L&Q director of treasury, said: "We wanted to outline to our investor base that although we are in a challenging environment where government policy is influencing our business, we are prepared to face up to the challenges and have the desire and capabilities to achieve our objectives."

The deal developed the company's credit curve and was fundamentally critical to the implementation of L&Q's group strategy, securing strategic financing that supports the housing association's ambition to provide housing for families in London and the South East of England.

The opening level offered a high single-digits premium to L&Q's outstanding 2040 notes and by having flexibility on tenor, the company was able to take advantage of a slight inversion at the longer end of the gilt curve, saving an additional 6bps.

L&Q director of treasury Martin Watts: We are prepared to face up to the challenges

Watts added: "In terms of market participation, it was clear from the transaction where it was priced that there was fantastic support from the investor base; that they valued the L&Q name. And in supporting our name, they have confidence in our ability to deliver and in the strength of our management."

> In spite of market volatility as well as George Osborne's housing policy changes, L&Q achieved an unparalleled spread, coupon and order book size, demonstrating investors' support for the sector

Given the exceptionally strong demand, syndicates were able to tighten guidance to G+135-140bps with a statement that bonds would price within that range. The majority of orders remained and pricing was set at the tight end of the range at G+135bps.

"The 10bps movement was the largest tightening in the sterling market since July and was testament to the strength of the credit and the excellent job by the L&Q presenting team during the roadshow," the nominating bank said.

The borrower was last in the market in April 2012 with a 4.625% December 2033 bond.

Deal highlights

Issuer: London & Quadrant Housing Trust

Amount: £250m

Structure: Senior secured bonds

Rating (at time of deal): A1/AA (Moody's and S&P)

Currency and tenor: £/34yr

Interest rate: 3.75%

What the judges said:

"The well-rated housing association sector has taken considerable advantage and this was an excellently placed, long-term issue leading the way in 2015"

HIGHLY COMMENDED

Hammerson

Property developer Hammerson issued its first sterling bond in nine years, which was all the more impressive in a volatile market.

The successful launch and pricing of the 10-year, £350m bond maturing in 2025 was priced at 173 basis points over the reference gilt and has an annual coupon of 3.5%. The issue was more than two times oversubscribed. Hammerson subsequently swapped the sterling bond nominal amount and coupon payments into euros, resulting in a net coupon cost to Hammerson of 2.5%.

The proceeds will be used to fund its recent €1.85bn acquisition of a distressed loan portfolio from Ireland's National Asset Management Agency, as well as refinancing a forthcoming bond maturity.

At the time of issue, Timon Drakesmith, CFO of Hammerson, said: "This transaction is the first sterling bond issue by Hammerson for almost 10 years and represents a welcome return to a home-funding market. We are appreciative of the support shown by our key bond investors, and our relationship banks have assisted in swapping the coupon to a low 2.5% level in euros."

DEALS OF THE YEAR

Loans above £750m category winner

WORLDPAY

FROM PRIVATE TO PUBLIC

WORLDPAY'S OVERSUBSCRIBED IPO IN AUTUMN 2015 WAS UNDERPINNED BY A £1.7BN MULTI-BANK FACILITY

worldpay

Deal highlights

Issuer: **Worldpay**

Amount: **£1.7bn**

Structure: **Three senior unsecured facilities – £600m 3yr term loan, £900m 5yr term loan and a £200m revolving credit facility**

Rating (at time of deal): **Ba3 (Moody's and S&P)**

Currency and tenor: **£/3yr + 5yr**

Interest rate: **2.25% for 5yr RCF/1.75% for 3yr term loan**

What the judges said:

"This was the largest PE IPO in the UK last year, and allows the team to settle down and restructure the treasury function"

Worldpay treasurer Nigel Roberts: We were delighted with the outcome

Worldpay was catapulted into the FTSE 100 this year valuing the global payment processing group at around £4.8bn thanks to investor support for its flotation.

To achieve this end, the treasurer secured a £1.7bn bank facility to refinance existing indebtedness and establish the group's new capital structure following the UK's largest private equity (PE) initial public offering (IPO) to date. Prime minister David Cameron called the listing "fantastic news".

The £1.7bn facility was split across three facilities, including a £600m three-year loan, a £900m five-year loan and a £200m revolving credit facility with a syndicate of 18 international banks.

The deal was increased from its original terms reflecting the open and concise management communication, which led to strong demand.

Nigel Roberts, Worldpay treasurer, said: "It went extremely well. We were delighted with the outcome."

Roberts said he wanted pure senior debt from a group of relationship banks, despite some banks offering alternative structures. The treasurer started the process in June last year with a group of four banks, all of which signed up for the highest level ticket – £150m. This was then expanded to other banks involved in the IPO process, which resulted in Worldpay launching with £1.2bn of the required £1.7bn, which "was a powerful starting point".

Although Roberts used Lloyds to coordinate documentation, he said he was mindful of all the banks in the group and ensured he had direct relationships with all 18 banks.

The loan allowed the group to successfully transition from a leveraged debt structure to a corporate framework representing its new listed status. The facility allowed this to take place immediately at the point of IPO through a single facility agreement.

Following the IPO, Worldpay was able to partially refinance its £600m term loan (due in 2018) with a new €400m senior unsecured notes due 2022, issued by its wholly owned subsidiary Worldpay Finance plc.

Total demand for the transaction was in excess of £2bn from the banks invited, with the majority of banks choosing to participate at the top-tier commitment level.

> The payment services management company was able to create a wide international banking group to support its global banking needs

The payment services management company was able to create a wide international banking group to support its global banking needs and worked under tight deadlines with a high degree of uncertainty due to equity market volatility.

Worldpay was sold by Royal Bank of Scotland five years ago for around £2bn. The company rejected a £6.6bn offer from France's Ingenico to push ahead with the share offer to raise £890m.

The judges said: "This was a classic structure when a company comes out with an IPO in terms of stepping up its balance sheet."

HIGHLY COMMENDED

Wolseley

Wolseley successfully completed a two-tranche facility last year, as it sought to remove a major refinancing hurdle in its debt-maturity profile, and to lengthen and diversify its funding sources. The deal, an £800m revolving credit facility (RCF) and an $800m US private placement (USPP) across a range of tenors from five to 12 years, required careful coordination across different stakeholders, geographies, asset classes and parties, as the company chose to execute in both the USPP and loan markets simultaneously.

The transactions also raised significant capital against a challenging credit backdrop in a quick time frame. Its treasury team took around just seven weeks from the selection of its six banks to completion.

The parallel running of the RCF refinancing with the issuing of a USPP delivered a full financing solution quickly and efficiently for Wolselely during strong market conditions, while also delivering a significant upfront 'underwrite' deal and strong competitive tension from the lead RCF/USPP banks.

Loans below £750m category winner

EASYJET

TAKING FLIGHT

DEALS OF THE YEAR

A CAREFULLY DESIGNED REVOLVING CREDIT FACILITY AT EASYJET PROVED ATTRACTIVE TO THE MARKET AND PUT THE TREASURY FUNCTION IN POLE POSITION WITH THE JUDGES

FTSE 100 airline easyJet launched its debut issue last year with a $500m revolving credit facility (RCF) using a unique structure that contained few draw-stop events and avoided any financial covenants.

The deal was all the more impressive for one of the UK's top public companies given its relatively small treasury team, led by group treasurer Mike Hirst, who, at the time of the deal, had been with the airline for less than a year.

Hirst and his team oversaw the facility's design and leveraged key relationship banks in order to secure an efficient structure for the company and its lenders.

Despite it being a challenging sector, the transaction – which was oversubscribed – was uniquely crafted to support easyJet's liquidity position and better manage the impact of downturns in business or temporary curtailment of activities. easyJet has a target minimum liquidity requirement of £4m per aircraft in the fleet.

The facility's structure avoided introducing covenants into the company's operations by instead providing security over unencumbered aircraft, while retaining a corporate loan approach.

It was so carefully designed that the security only 'bites' when drawn and is based on complex valuations. From the outset, the aircraft valuations were agreed upon for the duration of the deal and in this way the facility contained barely any draw-stops, which is unusual in the market.

The transaction was two-pronged in its aim so that Hirst could create an international core banking group – which easyJet had not previously had – that would cover all the no-frills airline's funding needs for the tenor of the deal.

As a result, easyJet created a new international banking group of 12 global banks, ensuring the airline has a strong and varied group of worldwide relationship banks for the future.

Hirst said: "This gave us a liquidity facility no matter what. There was a lot more to this than just a facility. This was a strategic deal to define our group of banks."

Nominated for the awards by several of its banks, one bank described it as a clever way of taking advantage of the company's balance sheet together with market-leading pricing. The same bank said the facility delivered "a first-class deal" for the airline and its shareholders.

Ultimately, the deal provides the company with financial flexibility and, importantly, it also provides a more appropriate funding mix to support the company's capital expenditure and strategic development targets.

One nominating bank said: "Mike Hirst, who was the thought leader both in respect of the introduction of an RCF into easyJet's structure and the deal itself, had been in the company for less than a year at execution, demonstrating his very rapid gaining of traction within the company and development of a strong depth of understanding of its needs."

Hirst added that the three law firms involved in the deal contributed to its success thanks to their various legal specialisms.

"Three may sound like a lot [of law firms] to have, but they all played their roles really well and that helped the deal to be a success," Hirst said.

easyJet is one of Europe's leading airlines – operating over 600 routes across more than 30 countries with a fleet of 200-plus Airbus aircraft – and employs more than 8,000 people, which includes 2,000 pilots and 4,500 cabin crew. Last year, the airline carried more 60 million passengers.

easyJet

Deal highlights

Issuer: **easyJet**

Amount: **$500m**

Structure: **Single tranche**

Rating (at time of deal): **Unrated**

Currency and tenor: **$/5yr + 1yr + 1yr**

Interest rate: **Undisclosed (but market-leading pricing)**

What the judges said:

"This was an unusual debut RCF for a long-established FTSE 100 company"

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

BRITISH AMERICAN TOBACCO

BEST IN CLASS

BAT'S ABILITY TO EXECUTE COMPLEX TRANSACTIONS TO SUPPORT CORPORATE STRATEGY WHILE COMPLETING A SYSTEMS UPGRADE IMPRESSED THE JUDGES


BAT treasury team

If you're looking for an example of a team to hold up as the best in class in treasury, look no further than British American Tobacco's (BAT's) treasury team, this year's winner of the UK Treasury Team of the Year award.

BAT, one of the world's largest companies with a globally centralised treasury function, showed how to undertake several large-scale strategically critical deals skilfully, while playing a pivotal role in the successful conclusion of two major acquisitions last year, as well as overseeing a systems upgrade.

The team was nominated by several banks, all of which could not speak more highly of the treasury team. BAT's nominating banks consider BAT's treasury team members to be not only professional and talented, but also "great communicators".

One of the nominating banks said the team had an "impressive track record of successfully combining and executing several M&A, DCM [debt capital market] and loan-market transactions".

Treasury was closely involved in several complex M&A transactions, in particular, the £1.8bn public tender offer for 24.7% of Souza Cruz in Brazil, and a $4.7bn investment in Reynolds American in the US to support its acquisition of Lorillard.

Both transactions were notable for their scale and regulatory complexity, which in turn created a considerable challenge for treasury. The team had to execute concurrent funding and risk management exercises against an uncertain timeline and a volatile market backdrop.

BAT minimised the new issue concession it paid by pre-funding the Souza Cruz tender at the earliest possible opportunity with a four-tranche €3bn deal and then by executing its five-tranche $4.5bn trade shortly after regulatory approval was provided on the Reynolds/Lorillard tie-up. Their efficiency of execution meant they were less exposed to the credit spread widening seen later in the year.

The team was also able to secure strong support and competitive pricing from its banking group, demonstrating the value of its long-term relationships.

Glenn Forbes, a banker at Lloyds who worked with the BAT team on a number of recent transactions, said that in both cases of refinancing, the team had to manage a volatile backdrop with narrow windows of opportunity for best execution, which the team skilfully made happen. "Had they been unable to move at the earliest opportunity, pricing would have been very different from what they achieved," Forbes said.

In the background to the refinancing exercises and funding of the acquisitions, the treasury team also oversaw the final stage of a SAP roll-out.

BAT is one of the UK's most global companies, and as such the group consistently looks to develop optimal structures for the centralisation of treasury activities.

Last year, its treasury team finalised the last stages of a landmark SAP project – a fully integrated enterprise resource planning system with treasury management system, which is SWIFT-enabled and connected to external trading platforms. The arrangement supports end-to-end integrated treasury operations, including cash management, forecasting, risk management, dealing, payments and accounting.

The team also integrated a global treasury operations organisation embedded in a shared services centre to execute treasury activities globally from Japan and Australia to Russia and South Africa to Costa Rica. Treasurers around the world would concur that this in itself is no small feat – let alone negotiating the intricacies of it while accessing the market for refinancing and funding acquisitions.

Moreover, BAT has an excellent track record of developing treasury professionals with a combination of technical qualifications and commercial experience. Neil Wadey, group treasurer, is a former ACT student of the year. The group also has a well-established clear structure and support for team members to complete ACT qualifications.

"Long term, it has a fantastic reputation for developing people, setting the tone in treasury and in advancing in implementing best-in-class systems to maintain their position at the forefront," added Forbes.

What the judges said:

"BAT has got to have one of the best treasury teams. It is the leading edge; it is the team to look up to"

UK Medium/Small Sized Business Treasury Team of the Year
(market cap below £2bn)

NEW LOOK

FLEET OF FOOT

A QUICK RESPONSE TO OPPORTUNITY AND A WILLINGNESS TO ADAPT TO A VOLATILE MARKET HAVE PROPELLED NEW LOOK'S TREASURY TEAM TO THE TOP

SIMON DAWSON/BLOOMBERG/GETTY IMAGES

NEW LOOK

The coveted award for UK Medium/Small Sized Business Treasury Team of the Year goes to New Look, which attracted praise for hard work and technical knowledge, successfully guiding the company's board with real-time market assessment, and going on to deliver a successful deal in a tight time frame.

New Look's treasury team secured one of the largest deals in the European sub-investment-grade market last year, when it locked in an attractive all-in funding cost and a diversified funding structure against a backdrop of market volatility.

The small New Look treasury team sealed both an £800m M&A acquisition by Brait and a £1.2bn refinancing between March and June last year to ensure a successful conclusion for existing and new shareholders. Also on the agenda was full refinancing of the balance sheet, transforming the company's capital structure to ensure the future growth of the business.

"The treasury and finance team that delivered the successful completion of both the acquisition by Brait and refinancing demonstrated exceptional ability to deal with very technical issues across all facets of the transactions, while building strong, long-term relationships with the company's advisers, which remain today," said one of the judges.

New Look's owners – private equity firms Apax Partners and Permira Advisers, together with Tom Singh and senior management – had been waiting for the right opportunity to exit the business. That opportunity arose last year, following the company's improved performance over the previous 18 months. It was decided that New Look would prepare for an initial public offering (IPO) in the summer of 2015, but would also quietly explore the opportunity for a trade sale.

A small team began the multiple work-streams required to deliver a successful IPO, including corporate appointments, board meetings, engaging advisers and preparing accounting reports. Simultaneously, a smaller team within that main team began exploring options for a trade sale.

At the same time, the treasury team also had to secure post-IPO financing, moving the company balance sheet from a highly levered business at around 5.5x leverage down to below 2.5x leverage in line with a listed public company. The team managed to progress bank financing to the point where the company was ready to proceed early, allowing time to continue ongoing discussions with the potential buyer, Steve Humphreys, head of group treasury at New Look, explained.

In May, New Look announced a share sale and purchase agreement with Brait. However, in the lead-up to the announcement, the team also had to continue to work on all IPO streams, IPO refinancing negotiations with more than 10 core banks, as well as completing the year-end statutory accounts, annual report and negotiating a successful sale of the business to Brait.

Despite the huge achievement, in the background the team also had to start early discussions on what capital structure would be appropriate for the new owners. An opportunity arose to refinance the existing debt on the balance sheet of around £800m bonds and £370m PIK [payment-in-kind] loans, with a full cash pay bond refinancing of £1.2bn. As a result, the team achieved both a lower cost of debt and extended the group's debt maturities from 2018 to 2022/23. In June, the project team completed a full refinancing of the £1.2bn of debt on New Look's balance sheet.

"This happened faultlessly and on time, a true testament to the preparation, planning and management of the treasury and finance team," the judges said.

It is also worth noting that the majority of the treasury team's work was completed against a backdrop of market volatility and heightened uncertainty around stability in the eurozone due to the Greek debt default crisis.

What the judges said:

"The team demonstrated exceptional ability to deal with technical issues across all facets of the transactions"

DELIVERING THE DEAL

MERCK'S POSITION AS ONE OF THE WORLD'S PHARMA GIANTS WAS REINFORCED BY ITS ACQUISITION OF SIGMA-ALDRICH AND ITS TREASURY TEAM'S PERFORMANCE

Rando Bruns
Group treasurer

The treasury team at German pharmaceutical company Merck is named as this year's European Team of the Year thanks to the treasury team's unstinting efforts to help ensure the success of the $17bn acquisition of US life science company Sigma-Aldrich.

The treasury team's pivotal role in the acquisition of Sigma-Aldrich – creating one of the leaders in the $130bn global industry – began in 2014 and continued until the deal was passed by regulators late last year.

In September 2014, Merck's treasury team, led by group treasurer Rando Bruns, arranged the largest corporate acquisition financing in Europe since the financial crisis in 2008. The team secured a $15.6bn dual-currency loan facility to finance the acquisition.

The transaction was favourable, as the banks provided financing on a 'certain funds basis' without any financial covenants and with limited restrictions. Merck's team also negotiated long availability periods and maturities, which would safeguard the availability of the financing.

In March 2015, the next take-out measure followed with a $4bn US bond. During a four-day roadshow, the Merck treasury team met 20 of the largest US asset managers and held conference calls with around 60 asset managers. This allowed Merck to issue a five-tranched bond with maturities between two and 10 years. The order book peaked at around $7bn with more than 130 investors involved.

This was Merck's inaugural US bond and it has allowed the corporate to enlarge its investor base with demand from domestic asset managers driving the transaction. Ultimately, US accounts took over 80% of the total offering.

The last and final deal took place in August with a €2.05bn bond. The transaction was carried out against the backdrop of the Greek euro crisis, meaning that its treasury team had to closely monitor the market in order to take advantage of the first available opportunity to announce the bond.

Bruns said: "All these projects and achievements were accomplished by a centralised and relatively small group treasury unit, next to their day-to-day activities. We believe them to have shown excellent treasury-management skills in financing and risk management. Due to our technical knowledge and abilities, as well as innovative systems, we are able to integrate Sigma-Aldrich as quickly as we are doing."

What the judges said:
"Merck has been a serial nominee and a respected previous winner. It is a high-quality team in a global business"

Merck's treasury team

The deals contributed significantly to the overall strategic direction of the group. Moreover, across all transactions, the treasury team worked together with all 17 existing relationship banks. Eleven of them played an active role in one of the three transactions.

"The negotiation of the combined facility for the term and bridge financing ($15.6bn) with three banks within a very short time frame was of vital importance for the offer. It was also the goal to further strengthen the relationship to all the group's relationship banks by fair distribution of fees to all banks, equal league table credits, and transparent communication about role and fees from the beginning on," added Tim Nielsen, head of group treasury, capital markets at Merck.

Aside from the strategy to engage all 17 relationship banks, Merck's team used the hybrid and the US market for the first time, and enlarged its investor base and geographic reach significantly.

Bruns added: "The relationship approach taken in the Sigma-Aldrich financing enabled us to further strengthen and leverage the excellent relationship Merck is having with its banks."

The structure of the deals was strategically considered, as it was critical for Merck that the rating agencies granted a 50% equity credit, which underpinned Merck's commitment to a strong investment grade rating.

The judges said: "Merck has been a serial nominee and a respected previous winner. It is a high-quality team in a global business."

BUSINESS IS BREWING

Brewery and pub business Marston's is fortunate in its dynamic treasury team led by Rob Leach. And it does the cause of treasury and cash management no harm that CEO Ralph Findlay is a former treasurer and a strong advocate of the team

Words: **Liz Loxton**
Photography: **Rob Whitrow**

Marston's, based in Wolverhampton in the Midlands, is a pub and brewery business moving at a rapid clip. With 25 pub openings signed and delivered over the course of 2015, the business has committed to at least 20 for 2016 – which adds up to a huge organic growth strategy and an investment close to £140m for the year.

Clearly, this kind of growth trajectory brings a hefty capex requirement and, fortunately, Marston's benefits from a strong treasury team, led by head of treasury Rob Leach, plus an advocate for the treasury discipline in CEO Ralph Findlay, himself a former treasurer at Bass Brewery and an ACT member.

Marston's, as it is today, emerged out of what was formerly the Wolverhampton and Dudley Breweries. The business adopted the name Marston's in 2007 because, having spent a decade acquiring pub and brewery businesses from across the UK, it needed a name that reflected its nationwide aspirations.

> "We've got visibility two or three years out on where our growth is coming from"

Marston's network of pub-restaurants are typically freehold and the majority are new-builds – big, stand-alone family-oriented environments. It's a very specific strategy and a demanding one.

"We've got a team of property people out there acquiring sites. It's a very specialised business to be in; but we've got control and we've got visibility two or three years out on where our growth is coming from," says Findlay.

"By the time we've completed the investment, we will have spent about £3m on each individual pub. As a strategy, what that means is that we are building our own growth," he says.

Solid foundations

Such a consistent call on capital can't be achieved without great financial management and funding discipline. The business needs the right amount at the right time – no small order for a cash-generative, but seasonal business.

"We don't want to lose those opportunities when we see them come along," says Leach. "So it's hugely important that our cash forecasting is accurate and working capital is managed effectively, so we can help the business with its strategy. We don't want to hit problematic pinch points where we have to say no."

The value of property on Marston's balance sheet is in the order of £2bn. Around £900m of that is funded through a securitisation programme, initiated in 2005. "We have also approximately £200m in structured finance – long-term leases where the freehold reverts back to Marston's at the

The greater the knowledge and expertise within treasury, the more cash-literate the business becomes

end of the term. And we are a business with significant cash-flow and working capital requirements," says Findlay.

The securitisation is fixed interest and amortises out in 2035. It has to be monitored and administered, particularly covenants. The structured finance element, however, is, unusually for the pub world, pension-fund-backed. "When we build one of these pubs, we go to UK pension funds, who are looking for yield; it's a yield-hungry market. We agree, typically, 35- to 40-year money, and it's structured as if it were a lease, but there's an option for us to take the freehold back at the end of that lease at effectively nil cost," says Findlay. "So it remains on balance sheet and we retain the freehold interest, but what we're aiming at is attractive long-term financing. In comparison to the securitisation structure, what we've got is something that has no reporting requirement, no covenant test, no administrative burden and complete substitution on assets."

Marston's treasury team is eight-strong – small perhaps for a business with a £950m market cap, but efficient and fit for purpose. "Our turnover has increased more than 40% over the past 10 years, but that team has got smaller as processes have become more streamlined," says Leach. "There is less physical cash now. A lot of the job used to be counting cash. Twenty years ago, we used to take more physical cash than the local Barclays Bank."

And although the treasury team and Marston's in general has many long-stayers, Leach says the environment is a dynamic one. Team members learn each other's roles to facilitate job-sharing and between them cover off interest and debt forecasting, working capital and loan management, money market deposits, invoice financing and banking relationships. The capex requirements mean there is a need for intricate cash forecasting. The team tries to identify every payment as far out as possible, Leach says, partly to educate other parts of the business on the importance of cash visibility.

Automated systems take out a lot of iterative tasks, but it's the unforeseen that team members are there to cover off. "They're very skilled at identifying what it is that might have gone wrong. It's a very dynamic environment. You can't really plan day to day."

Treasury virtues

It also falls to Leach's treasury team to manage significant swings in working capital over the year. In the pub trade, takings still mostly come in towards the end of the month, so pubs and pub businesses see a spike each month as customers spend their pay packets. But month to month, takings can be highly variable, and as Marston's manages its own pubs, it's the treasury function that takes ownership of that issue.

"Within our first half-year, October through to March, December is a good month, and March is reasonable, too, but there are four months there that are probably the worst four months of the year in terms of cash flow. We have to manage through that. We've got our close relationships with the banks to help us through those times," he says.

With 90% of profits coming from the pub business and the remainder from the brewing business, the significance of that seasonality has to be shared knowledge across the business. Leach made a presentation to the divisional boards just before Christmas on how the business can manage that working capital swing.

The Christmas boom hits the brewing side of the business, too. Marston's holds around 20% of the UK's bottled ale market and 20% of the UK's premium cash beer market, says Findlay. "So ahead of a huge trading event like Christmas, our stocks of working capital have to build up. Last year, we had to spend £4m building a new warehouse in Burton upon Trent just to handle the amount of stock we were required to send into the supermarkets at the back end of the year. So it was

RALPH'S CV

2001-present > CEO, Marston's
1994-2001 > Finance director, Wolverhampton and Dudley Breweries
1992-1994 > Group chief accountant, Geest
1990-1992 > Treasury manager, Bass
1988-1990 > Chartered accountant, PwC
Qualifications: MCT (1992)

ROB'S CV

2009-present > Head of treasury, Marston's
2006-2009 > Head of payroll, ledgers & treasury processing, Marston's
2001-2006 > Group management Accountant, Marston's
1998-2001 > Management accountant, pubs division, Marston's
1994-1998 > Management accountant, Lyreco UK
1992-1994 > Local government auditor, Audit Commission
Qualifications > AMCT (2015)

really helpful and informative to our businesses to hear Rob explain how all of that affects our cash flow."

It's knowledge that is more effective when shared. "Because we are pretty efficient in the treasury team and we are able to provide the capital when required, I think people forget that we do, as a business, have debt and we have to manage it. We have to manage day-to-day working capital requirements and we have to draw on our bank loans, which is what we use on a daily basis. If everyone can do their bit, that can only help," says Leach.

The greater the knowledge and expertise within treasury, the better informed and cash-literate the business as a whole becomes. Both Findlay and Leach see an important communication role for treasury within Marston's. "The range of areas that the treasury team is involved in has steadily become wider and the issues they deal with have steadily become more complex," says Findlay. "I have always thought the treasury qualification is a really useful one. We are a cash business; most of our customers are spending money in cash. To me, the treasury qualification has always been something that has helped us understand those things in a much more effective way. And I've also thought it's a really good way of differentiating yourself in a career sense."

Findlay counts himself as fortunate to work in a business focused on people enjoying themselves and having fun. It's also highly dynamic. "It's a sector that has changed a lot and continues to change very fast," he says. "The competitive environment is constantly developing. For us, to be able to make Marston's the place to be for our customers is something that we're fortunate to be able to do."

Liz Loxton is editor of *The Treasurer*

ROB'S TOP TIPS FOR SUCCESS

Don't be insular within your business. Take the opportunity to talk to as many people from other functions as possible and encourage your team to interact in a similar fashion.

Continually analyse your daily processes and look to identify those that may be inefficient and can be improved. We have a fantastic IT team that has automated most of our interfaces and download programs. The more you streamline your processes, the more time you have for value-adding activities, such as forecasting and working cap management.

Invest time in your banking relationships and you will reap the rewards. If your banks understand your corporate strategy and how your business ticks, it becomes a lot easier to work together and for them to provide timely solutions when you need help.

With regards to the AMCT qualification, I am very familiar with the Marston's world of treasury, but the AMCT qualification has given me a much broader viewpoint on treasury than I realised existed. It's filled many holes in my knowledge and provided me with new ideas that I want to develop further.

My favourite gadget is my iPad. I am a massive sport and news junkie, so I always like to be up to date with what is currently happening in the world (I also like to play *Clash of Clans* while my wife is watching television).

The secret to career success depends on how you define success. One thing that has always stood me in good stead is to treat everyone with the same amount of respect and courtesy, no matter what job they do in the business. After all, we are all working towards a common goal.

Surround yourself with great people. We have a wide mixture of experience and skill sets in our treasury team, but they continually amaze me with their 'can-do' attitude and their ability to problem-solve under pressure.

The most difficult question my FD is most likely to ask: when will Liverpool win the Premier League? (He is a big Reds fan.)

The best way to wind down after a stressful day is a meal out (at a Marston's pub, of course!) with my wife and children, or a game of five-a-side football with my friends.

> The AMCT qualification has filled many holes in my knowledge and provided me with new ideas that I want to develop further

SHORT ON FUNDS

The range of funding options for smaller corporates and SMEs has never been greater, but it is likely to remain a fragmented market. Paul Golden reports

Funding challenges faced by businesses ranging from the smaller corporates right down to start-ups have attracted headlines and even ire from political and business quarters. Much of the disapproval has been aimed at an apparent lacklustre offering from mainstream banks in relation to this part of the business world.

Studies suggest that SMEs may not be exploiting all the possibilities, however. Research from the Association for Financial Markets in Europe (AFME), for example, highlights the fact that European SMEs find it difficult to access equity finance and that many SMEs remain unaware of the options available to them. Bank loans remain the most common source of SME finance in Europe. Italian SMEs received €233bn in loans in 2013 compared with just €1bn in private equity (PE) capital, while in Spain, €273bn was advanced through bank loans compared with less than €1.5bn from venture capital and PE sources, according the AFME report.

Regulatory changes aren't likely to ease the situation, at least in the UK. Banks will continue to compete for business from the biggest and most profitable companies, but there is little evidence that they are improving their service to larger SMEs or small corporates. That is the view of UserCare Treasury Consultancy director Brian Welch, who says that the separation of banks into transaction and investment functions in the UK, for instance, is going to lead to higher costs and that it is unclear which part of the bank corporates will deal with. "The objective is to increase the financial security of the banks, but other EU countries and the US are not forcing their banks to make the same changes, so UK institutions may become less competitive," he adds.

So what does this mean for corporate treasurers? According to Practical Car and Van Rental group FD Len Jones, the key cash, working capital and liquidity management challenge is still to find the right type of funding. "In some instances, a straightforward overdraft is not the best option, as it can be inflexible and fail to take account of strategic changes in capacity," he says. "We rely heavily on asset-based finance, because we have long-term assets that are held typically for six to 18 months to generate rental income."

Jones refers to a stocking plan for rental companies developed in conjunction with finance company Lombard, which accommodates retention periods on fixed assets and day-to-day flexibility on the number of vehicles on the facility as an example of finance houses fine-tuning their lending criteria in response to general economic conditions. "Liquidity is obviously a big issue, but the key to obtaining the credit line in the first place is to have a clear

idea of why you want it and how you can manage the stakeholder's expectations, which is becoming more of a part of the treasury function," he continues. "In the recent past I have seen signs that banks are more willing to work with their customers and are trying much harder to maintain sustainable banking, and realising they have to sit with their customers through difficult times."

Stephen Pugh, FD at brewery, hotelier and wine merchant Adnams, explains that the company has net debt and seeks to ensure that all balances are pooled to minimise the cost. "Cash forecasting is important, but we are lucky in having strong asset backing, so that facility levels have never been beyond a level at which our bank feels comfortable.

"As for whether banks are improving their service to larger SMEs and small corporates, our experience is that they are keen to lend and that terms are much more competitive than a few years ago, and starting to approach pre-2008 levels," he adds.

Looking for alternatives

Yet many start-up and early-stage enterprises still find it hard to access bank finance, which explains growing interest in alternatives such as crowdfunding, angel investment and peer-to-peer (P2P) lending. Business angel investments range from £10,000 to £1m, although syndication can result in deals reaching £2m-plus.

The potential to raise funds via P2P or alternative finance provision is growing, but is still mainly of interest for the smaller end of the market. According to *The UK Alternative Finance Industry Report 2014*, published by innovation charity Nesta, the average amount raised by equity crowdfunding is just under £200,000. Just over half (54%) of the businesses that raised funds this way were seeking expansion capital.

Alternative finance volumes are growing steeply, but have a long way to go before they reach quantum. These sources provide only a tiny fraction of the total amount raised annually in Europe, observes Rick Watson, head of capital markets at AFME and one of the authors of the association's SME funding guide. "For the overall economy, these types of platforms are important, since many SMEs need small amounts," he says. "As the alternative finance industry grows, it is important that there is a strong focus on governance to reduce opportunities for fraud and mis-selling. This should be accomplished with the right type of dialogue between the funding platforms and the regulatory community."

Jones agrees that there is a place for alternative sources of business funding, provided there are sufficient safeguards around fundraising and the stewardship of these funds. "The advantage is that (in theory) people know what they are

"I have seen signs that banks are more willing to work with their customers and are trying much harder to maintain sustainable banking"

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getting into and perhaps take a greater interest in the projects. There will still be a place for banks and larger institutions in the business finance marketplace – alternative finance is more suited to start-ups and riskier ventures than banks would normally fund."

Welch is more upbeat about the potential of private/direct loans. "I am the trustee of a medium-sized (£400m) pension fund and we have just agreed to invest £20m into a fund designed to lend to medium-sized companies and SMEs," he explains. "One of the funds will be valued at about £500m and the other may be up to £2bn. Pension funds that want a longer-term, higher return are keen to invest. I used private loans as a corporate treasurer in the 1980s when the market was mainly US-based and the investors were US insurance companies with long-term liquidity to invest."

It is also worth noting that the vast majority of SME clients never borrow from their bank, but instead rely on it for a wide range of other services, says Watson. "For example, a number of banks now offer general advisory services to their SME clients to assist them with the challenges of growth, including governance."

Banks that engage with their customers most effectively and give their customers the best guidance, tools and services will be successful, concludes John Davis, MD of business application developer BCSG, whose research suggests that, while almost half of small businesses have considered switching banks at some point, most have been with their current bank for more than five years.

Supply chain finance – big numbers, small benefits

According to research by business management consultancy McKinsey, there is approximately $2 trillion in financeable, highly secure payables worldwide. However, the firm also notes that only one-tenth of the potential market for supply-chain finance (SCF) is being exploited.

Welch worked for a company that was an early adopter of SCF. "The traditional view is that it is a way for SMEs to finance their activities, but my experience was different," he recalls. "The company I was working for wanted to take longer to pay its suppliers, so in practice our suppliers were financing a larger company's longer credit terms. The bank that provided the facility also supplied software to manage the programme, so everyone made money out of it except for the supplier, which had to wait longer for its money."

Welch observes that, although larger companies' stronger credit ratings should enable smaller suppliers to borrow on better terms than they would be able to achieve on their own, in practice that wasn't necessarily the case, since the larger suppliers refused to agree to the extended credit terms.

Adnams has found itself on the wrong side of SCF, says Pugh. "It is very frustrating to have large customers coming to us demanding very lengthy payment periods, but saying that we shouldn't worry as they can provide the finance," he says.

While accepting that a transparent, long-term relationship is the key to making SCF deals work, Jones is more supportive of the concept.

"We have practised this for years as a franchiser," he explains. "The basic premise is that firms should collaborate more and perhaps share open-book accounting, manage each other's margins and have proper discussions about supply and demand."

> "Firms should collaborate more and perhaps share open-book accounting… and have proper discussions about supply and demand"

Smaller corporates' headaches

SMEs, like any sub-investment-grade group, will always struggle to attract institutional attention, of course, so it seems likely that market responses to their funding woes – such as SCF and internet-based alternative finance providers – will remain fragmented for the time being. The headaches aren't necessarily relieved as entities grow, either. A study from rating agency Moody's, for instance, into newly rated companies, found that companies rated for the first time in the nine months to September 2015 were unduly optimistic in their projections. On average, they expected to achieve full-year revenue growth averaging around 7.1% (up from the 5.1% revenue growth that companies first rated in 2014 expected in their first year), but in reality may see a shortfall in that revenue growth of 3%, according to the report's findings.

Moody's also found that achieving cash-flow goals becomes more challenging for companies in their first year of achieving a rating. Some 62% of 2014's newly rated companies missed their cash-flow expectations for the following year, up from 58% in 2013. "The increasing percentage of newly rated speculative-grade companies that miss their own cash-flow forecasts in the year of rating assignment further increases the risk of weakening liquidity among speculative-grade companies and could ultimately pressure ratings for some," say the report's authors.

Newly rated companies, it seems, show similar vulnerabilities, along with added pressures around generating results persuasive to backers.

Paul Golden is a freelance journalist specialising in finance

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STATE OF THE UNION

US TREASURERS FACE A HOST OF UNFAMILIAR DECISIONS AND A CHANGING INVESTMENT CONTEXT, WITH GREATER MARKET UNCERTAINTY ON THE NEAR HORIZON. ANTHONY J CARFANG TRACKS THE RESPONSES OPEN TO THEM

There can be no doubt that, today, corporate treasurers around the globe have major challenges: slow economic growth, fallout from Basel III, FX volatility and financial crisis regulatory overhang. Treasurers doing business in the US face all these, as well as several issues unique to the US market, namely:

- Rising domestic interest rates;
- New money fund regulations;
- Collateral scarcity;
- Reduced market liquidity;
- Corporate tax-rate imbalances;
- The strong dollar; and
- An eventual unwinding of the Federal Reserve's swollen balance sheet.

In our consulting work, we see US treasurers responding to these challenges in several ways: expanding staff; doing more with more; optimising technology; focusing on cash forecasting; updating policies; and centralising control.

First of all, the challenges – how is the US context affecting corporate treasurers?

Rising domestic interest rates

After nearly a decade of virtually zero-interest rates, suddenly the cost of US-dollar borrowing is rising. The opportunity cost of suboptimal US-dollar investing is also rising. To make matters worse, higher 'too big to fail' capital requirements are leading to lower deposit and earnings credit rates at big US banks. This is all against a backdrop of lower and even negative deposit rates outside the US.

So a treasurer must make a host of unfamiliar decisions. Borrow long? Invest short? Reach for yield by reducing credit quality, or improve credit quality without forfeiting yield? Take some FX risk and convert investable cash to US dollars?

New money fund regulations

On 14 October 2016, institutional prime funds must move to a fluctuating net asset value. Several hundred billion to a trillion dollars may leave prime funds in favour of other investments. No one really knows how much will leave, nor whether the outflow will be temporary (think Y2K). Since funds can invest in maturities of up to 13 months, we are already within the window of impact.

This poses two dilemmas for the treasurer. As an investor, should the company stick with prime funds, maintaining yield, but giving up some liquidity on the implementation date? If not, where should the funds be invested or deposited? Banks certainly have little appetite for new deposits. How much yield is the treasurer willing to forego?

As a borrower, if prime funds shrink dramatically, companies will lose an important source of short-term credit. That's because money funds will have fewer dollars to buy their commercial paper. Some treasurers are already looking at diversifying funding sources, even at a premium.

Collateral scarcity

As we have argued throughout the regulatory debate, cumulative effects of myriad new mandates contain seeds of the next debacle. Recently, we've pointed out that additional statutory demand for high-quality liquid assets at banks and trading collateral at clearing houses could easily outstrip supply. This is acute in the US because, unfortunately, the new regulations are procyclical and demand will increase exponentially at the first sign of market stress.

This scarcity has a direct impact on US treasurers. Cost of hedges and other derivative risk management tools will rise and availability will decline. Treasurers are upgrading financial models to determine which hedges have become cost-ineffective, and are explaining to their boards why they may now leave some exposures unhedged. Their challenge is determining how

much risk the company should keep on its own books.

Reduced market liquidity

Dodd-Frank, in particular the Volcker Rule section, limits the role of banks as market makers. This, in turn, creates a drag on underwriting for all but the most creditworthy borrowers. Dealer inventories have fallen to a generational low. Bid-ask spreads have widened considerably, reportedly for some bonds at an unimaginable 10%. These aberrations have even spilled over into the treasury market.

US treasurers have long enjoyed the world's broadest and deepest capital markets. Regulation is now changing that. Treasurers are actively recalibrating processes in anticipation of not being able to access capital markets as readily as in the past.

Corporate tax-rate imbalances

The US has one of the highest corporate tax rates in the world, exacerbated by additional tax due when overseas cash is repatriated.

Strong dollar

The appreciating dollar leads to more challenges. Are sales forecasts still accurate and, if not, should cash and other balance-sheet forecasts be modified? How will it affect the cost of goods sold, and how will that affect supply-chain financing arrangements? How will it impact the company's domestic or foreign customers' credit quality?

These are murky waters to navigate, requiring deep understanding of each line of business, each geography and appropriate analytics for simulations and stress tests.

Unwinding of the Fed's swollen balance sheet

If there is one wild card for US treasurers, this is it. Most treasurers see this as a dark cloud that greatly increases market risk.

The Fed's balance sheet has grown from $1 trillion to $4.5 trillion over seven years, funded by excess bank reserves that have skyrocketed from $40bn to $2.5 trillion. What will happen to the markets as the Fed unwinds? What will happen to liquidity and access to credit when bank reserves decline? These transitions may cause wide price swings and liquidity gaps in a whole range of financial assets.

Unlike the other issues mentioned, this one has no precedent and no proven empirical assessment methodology. It's an exogenous risk that the treasurer must manage.

So how are US corporate treasurers responding?

A treasurer must make a host of unfamiliar decisions. Borrow long? Invest short? Take some FX risk and convert investable cash to US dollars?

As a result, huge amounts of cash are stranded in some jurisdictions, even as a company must borrow in others.

The US treasurer must first ensure that overseas cash is put to its highest and best use, within tax-code constraints. In addition, the treasurer must optimise a consolidated balance sheet in which investments and borrowings are both artificially inflated by this cash immobilisation. Finally, at some point, this balance sheet stretches historical financial leverage ratios, and could inadvertently violate credit covenants.

Doing more with more

After the financial crisis, companies faced tight budgets, but treasury was generally spared the axe. CEOs and boards came to recognise the strategic value of treasury. Increasingly, treasury has become the financial nerve centre of the firm and is being resourced appropriately.

Given all the complexities discussed above, we see treasury functions building their teams. With an expanded remit, they are adding staff who can navigate global markets, manage risk and handle complex analytics – all in addition to the daily blocking and tackling that has always been part of treasury.

Optimising technology

Treasury technology has improved immeasurably over the past decade. Rather than stand-alone systems, treasurers seek solutions that can integrate into other corporate systems and provide insights and analytics to enhance shareholder value.

Companies still using spreadsheets are quickly abandoning them, as auditors and cybersecurity groups raise red flags.

Even so, most companies using treasury management systems (TMSs) still have much work to do. They have generally done a good job with bank connectivity and cash visibility. Now they are moving on to higher-order analytics and modules, such as hedge accounting, risk management, in-house banking and cash forecasting.

Focusing on cash forecasting

For several years of zero-interest rates, the opportunity cost of bad forecasting has been close to zero. Idle cash has not mattered and, as a result, forecasting processes atrophied.

But rising rates change all that. US treasurers are now upgrading their cash-forecasting processes, which have historically consisted of limited spreadsheet calendaring functions. Companies are now building sophisticated and integrated methodologies and using tools in their TMSs. They are doing more granular analysis of historical cash flows to improve daily and weekly forecast precision, and more comprehensive statistical analyses of other business variables for intermediate and longer-term forecasts.

Updating policies and centralising control

US treasurers are taking a hard look at their global treasury organisations. With empowered technology and updated treasury policies, many are able to centralise control and authority, and standardise global processes, while maintaining decentralised operations. They are examining the proper structure of their regional treasury centres and many are setting up payment factories.

Along with this, treasurers are examining the size and skill set of their staff. Many roles are becoming more technical and quantitative. Other roles require interface with both external and internal stakeholders.

The treasurer's role has never been so complex, regardless of where the company operates. In addition to macro factors impacting all firms, US treasurers have some challenges unique to the US economic and regulatory environment.

Anthony J Carfang is a partner with US consultancy Treasury Strategies

THE FX CONUNDRUM

IF TREASURERS ARE TO ARGUE THE CASE FOR A NEW FX HEDGING STRATEGY, THEY WILL NEED TO PROVIDE REASSURANCE THAT ANY NEW PROPOSALS FIT WITH THEIR BOARD'S VIEW OF RISK. MARK O'GORMAN PROVIDES A FRAMEWORK FOR A MORE FLEXIBLE APPROACH

There have been many articles written in the treasury and risk management press in the past year on the relative benefits or costs of using FX option contracts versus FX forwards contracts for managing transactional risk.

With current euro weakness (the euro/US dollar exchange stood at around 1.06 at the time of writing) and relative US dollar and pound sterling strength against a range of other currencies, this is no surprise. Treasurers seeking to sell euros or buy pound sterling or US dollars forwards are now squarely stuck in the classic treasurers' conundrum – hedge with forwards to lock in a poor rate or leave their business exposed by reducing cover.

Faced with this conundrum, options – the ability to protect against adverse movements but benefit from positive ones – are attractive. However, options are often dismissed on other grounds: they cause profit and loss volatility (an issue soon to be banished from IFRS accounting rules), they are expensive or are considered an expression of a 'view' on future rate movements.

Many corporate treasurers currently using an all-forwards strategy also take the philosophical view that hedging is a strategic matter – manage risk within their given mandate and stick to it. Using options would therefore be a tactical change, an expression of a view that the rate is about to improve.

In this article, we suggest an approach for treasurers aimed at building a strategy incorporating options to manage FX transactional risk. This is done using a framework where optionality may be used objectively, in a predetermined way and within a corporate's specific risk appetite. Critical to the analysis is to help treasurers form a new hedging policy and robustly test it relative to their current one and a range of other strategies under different market conditions.

SHUTTERSTOCK

A strategic solution

For illustration, we look at a UK corporate that uses an all-forwards hedging strategy – layering forwards monthly out to 18 months. The corporate is view-agnostic, but believes that at least its 'majors' (euros and US dollars) tend to revert to their long-run averages. It therefore envisages that, relative to this long-run average, there will be times when the currency may be considered under- or overvalued. It will nevertheless not 'position' with a view on how soon the rate will mean revert. The corporate recognises that since implied volatility (the expected variation in the FX rate over time) is a key driver of option cost, there will be times when using options appears 'cheap' or 'expensive' relative to other times.

These assumptions – spot may be under- or overvalued and options cheap or expensive – create the basis for the strategy. The aim of the analysis is to identify conditions that have historically favoured option use to devise an objective, view-agnostic hedging policy that employs favourable product combinations.

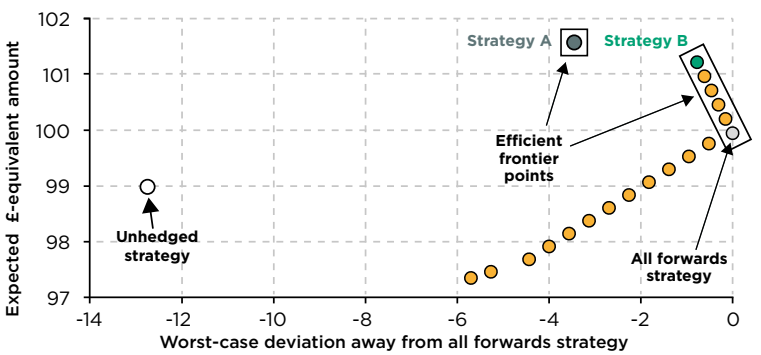
Favourable strategies may be defined as when:

- on average the strategy produces a greater positive return than other strategies, including the all-forwards strategy; and
- the 'worst' deviation (95th percentile confidence) from the all-forwards strategy is exceeded by the average positive return.

A back-testing approach for devising go-forwards strategies may well encounter scepticism. However, the goal here is only to indicate that options may be introduced in a controlled and simple manner to produce favourable outcomes. Forwards points and option premium *are* accounted for in the analysis.

Any strategy, if selected, must be easy to execute. For example, if spot and volatility are both high, a favourable strategy may suggest using 100% forwards for the given amount of cover that month, while if spot is low and volatility high, the strategy may switch to using 25% options, 25% collars, 50% forwards and so forth. The same combination of products is used whenever the same combination of spot and volatilities arise irrespective of where each has been or

EFFICIENT FRONTIER OF HEDGING STRATEGIES



SOURCE: RBS ANALYSIS

COMPARISON OF THE PERFORMANCE OF SPECIFIC STRATEGIES

		All forwards	Strategy A		Strategy B		Unhedged	
	Currency exposure	£ equivalent	Expected £ equivalent	Worst-case £ equivalent	Expected £ equivalent	Worst-case £ equivalent	Expected £ equivalent	Worst-case £ equivalent
Sales	$155	100	101.6	96.6	101.2	99.2	99	87.3
Costs	£90	(90)	(90)	(90)	(90)	(90)	(90)	(90)
Equivalent FX rate		**1.5500**	**1.5263**	**1.6052**	**1.5316**	**1.5620**	**1.5657**	**1.7761**
Operating profit		10	11.6	6.6	11.2	9.2	9.0	(2.7)
Operating profit margin		10%	11.4%	6.8%	11.1%	9.3%	9.1%	(3.1%)

where the company thinks they may be going.

However, because the corporate's board will not approve any strategy that at times may suggest using 'only options', it imposes constraints on both the minimum proportion of cover and the minimum proportion of forwards cover in all market conditions (of which there are only four – high/low spot, cheap/expensive volatility). The board will also only consider purchased at-the-money forwards options, purchased out-the-money options and zero-cost collars as possible alternatives to forwards.

Each strategy (greater than 100,000 random strategies evaluated) is then tested over the corporate's 18-month future horizon and across 15 consecutive years of past market data, if available. The results for each strategy are then compared to the company's all-forwards strategy.

The results

Using pound sterling/US dollars as the test case, the average FX rates (y-axis) and worst rates (x-axis) (see the graph on page 42) are presented as an index wherein the all-forwards strategy is presented at the coordinates (0,100). In other words, if the corporate sticks with its all-forwards strategy to hedge US-dollar revenues into pound sterling, it will lock in an average return on that strategy of 100 (an average of the 18-month strategies over the 15-year period), and perform no worse under the same market conditions than its current strategy.

However, 'Strategy B', for example, produces an average return at 101.2 (1.2% better average rate than the all-forwards strategy), while its 95th percentile worst outcome is 0.8% worse than the all-forwards outcome in the same market conditions.

With the corporate's assumption that mean reversion of pound sterling/US dollars will continue, the inference is that, in the future, strategies from Strategy B to the all-forwards strategy on the 'efficient frontier' may continue to achieve a favourable outcome. Of course, as the risk axis shows, there will be times when these strategies may underperform the all-forwards one.

Unsurprisingly, the strategies on the efficient frontier suggest using a degree of optionality (within the corporate's specified constraints) only when spot is unfavourable relative to the long-run spot average.

Operating in the margins

In this example, the risk-return pay-off of Strategy B may appear slight, but the upside or return in this context is an *average* and not the 'best-case' outcome, while a worse outcome is to a 95th percentile confidence level.

The table above illustrates the potential impact of a shift in FX hedging policy on the results of a company adopting some of these strategies, which sources exclusively in pound sterling (its local currency) and has revenues in US dollars. It shows the potentially favourable bias in the risk-return trade-off of Strategy B – remembering that the 'return' is only the average return achieved by incorporating a degree of option hedge cover and having it expire out of the money, so the corporate can exchange US dollars in the spot market at favourable rates.

Conclusion

This analysis can provide a framework for a corporate treasurer to present to their board a revised, tried-and-tested FX hedging policy. Importantly, any of the revised strategies must be ones that the treasury feels are within the risk appetite of its governance bodies and whose performances have been assessed on a relative basis incorporating hedging costs.

The revised strategy is substantially view-agnostic, based only on the corporate's assumption that the currency will mean revert. It can also support the treasury team's belief that using options when spot is unfavourable (by an objective measure) will be able to provide upside even after the costs of hedging. The company's governance structure establishes control around options use by placing constraints on the extent and type of options used.

However, as the number of strategies that fall below 100 on the y-axis show, there are many ways in which options can be suboptimal – many of those other strategies test the use of options when spot is already in the company's favour relative to average historic levels.

As treasurers seek alternative ways to manage FX risk while achieving the best outcome for their company, we see a place for greater flexibility of hedging strategies. The first step in achieving this is to define a strategy within your company's unique risk appetite, and then to test this extensively relative to other strategies.

Mark O'Gorman is head of risk advisory, Financing & Risk Solutions, at RBS Corporate & Institutional Banking

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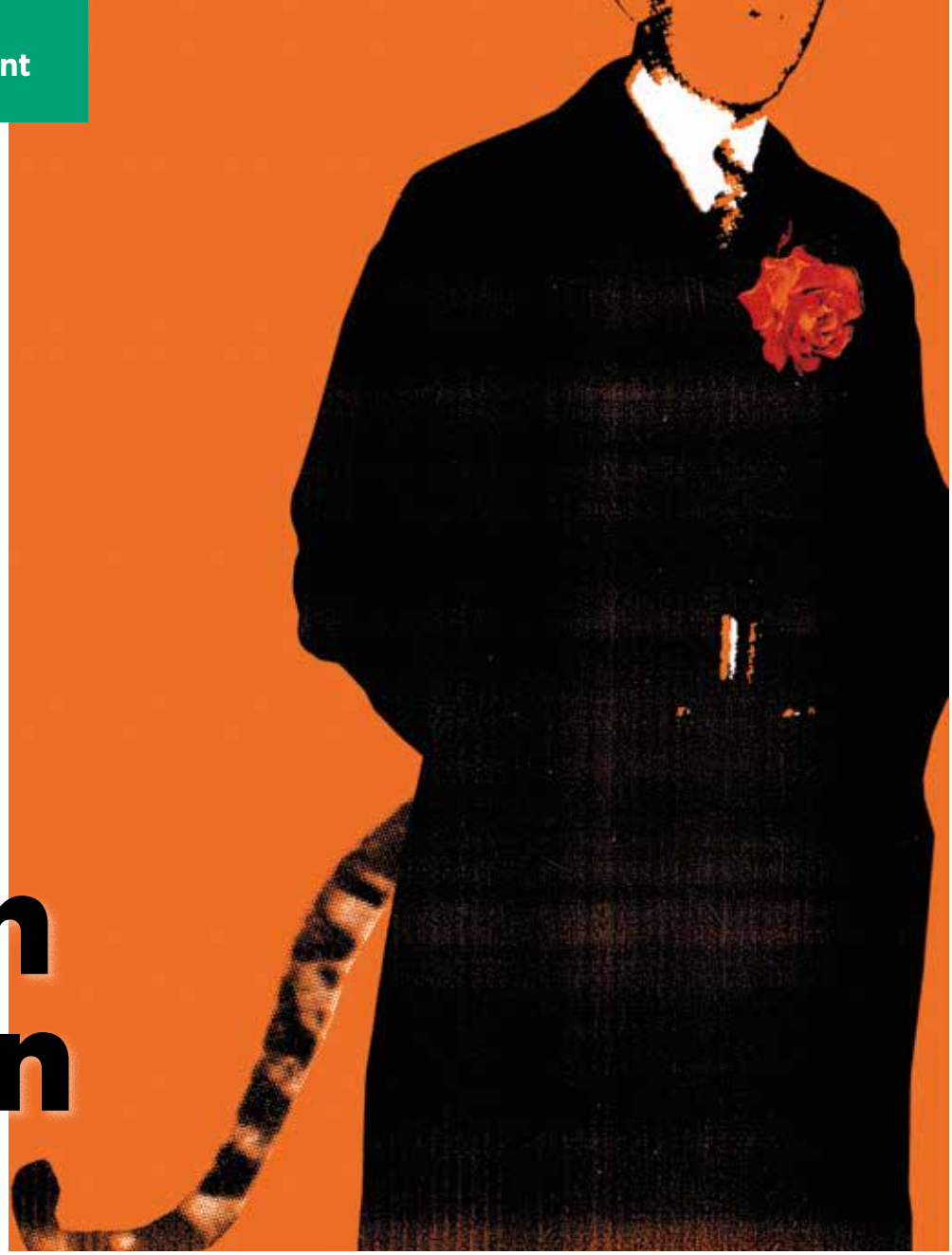

IMAGE SOURCE

Risk hidden in plain sight

MOST OF US THINK COUNTERPARTY RISK BEGINS AND ENDS WITH BANKS. BUT THIS VIEW OVERLOOKS THE RISK TO CORPORATES' CASH POSITION FROM CUSTOMERS AND SUPPLIERS, ARGUES MICHAEL STEFANSKY

Counterparty risk occurs where one party in a contract is not able to fulfil its obligation to the other. This is a large topic in the corporate and banking worlds, but when we talk about counterparty risk management, the parties that tend to come to mind first are banks, where we as treasurers hold cash and face currency and interest-rate fluctuations. But what about the customers that owe us money or the down payments we extend to suppliers? Do we always think to include these parties in our discussions on risk management? And how should we tackle this area?

There are several options that can protect a company from the default of a customer or a supplier. The first reaction could be not to sell anything to a particular customer or to make it a policy not to make advance payments to suppliers. However, this approach could lead to a default of the client or supplier, which, in turn, could harm our company. There are several other possibilities in the market – the most appropriate ones are outlined here.

Bank guarantees

A guarantee or letter of credit (LC) is a promise by the bank to assume responsibility for the debt obligation of the customer or supplier in the event of a default. This arrangement is tied to certain criteria and to bilateral agreements between the customer or supplier and the bank. There are a lot of different

guarantees available, and not all of them are useful in this context, however. (Below you will find a short explanation of advance payment guarantees and payment guarantees or standby letters of credit (SLOC)).

Both can be structured for short-term coverage or for as long as a contract runs. The bank usually covers risks that they can evaluate. The pricing of a guarantee is a matter of credit risk and negotiation with the bank as well, as it necessitates a credit line or pledged cash at the bank. The bank usually covers 100% of the amount stated in the guarantee. The default trigger is as per contract specification and as soon as the counterparty is in breach the company may request funds from the bank. The credit rating of the issuing bank is very important and has to be looked at when requesting a guarantee.

- **Advance payment guarantee** – the advance payment guarantee serves as a security for the reimbursement of an advance payment made by the company in the event that the supplier fails to supply the ordered goods or as per the agreed contract. In order to make a claim, the company is generally required to declare in writing that the supplier did not fulfil its contractual obligations properly.
- **Payment guarantee or SLOC** – the purpose of the payment guarantee is to ensure that the customer will pay their payment obligation on the agreed date. The documents required when drawing the guarantee are checked against the details given at the initial agreement when the guarantee was negotiated. To make a claim, the company is required to declare in writing via post or email that the company has fulfilled all of its contractual obligations, but has not received any payment as of the due date. There is no material difference between a payment guarantee and a SLOC. The latter is primarily used by US banks, which are not able to use bank guarantees and which therefore created the term 'standby letter of credit'.

Types of guarantees

Guarantees can be direct or indirect. A direct guarantee is where the bank issues a guarantee directly in favour of the company. An indirect guarantee is where a correspondent bank is involved and is used in cases where the company doubts the creditworthiness and financial stability of the house bank of the customer or supplier, due to legal requirements or domestic laws. A corporate may also use the house bank as an advising bank. However, its only role is to pass the SWIFT message on to the company. This is often done once the company trusts the client's bank.

Factoring

Factoring is a type of debtor finance in which the company sells its receivables to a bank or a third-party provider at a discount, which covers the cost and a risk premium. Invoice finance providers offer factoring on a recourse or non-recourse basis. Factoring on a non-recourse basis is a real protection against a default of a customer. Non-recourse factoring is much more costly than factoring with recourse.

The maturity of this type of product is usually six months. The downside of this product is that it is often unavailable for high-yield and distressed companies. It is a lengthy process to establish a factoring relationship, as due diligence into the invoices needs to be carried out. Factoring is a good instrument for working capital improvement, as the company generally receives funds earlier than it would otherwise and the receivables are taken off balance sheet, but only in case of non-recourse factoring.

Trade insurance

Credit insurance is usually offered to companies wishing to protect receivables from loss due to protracted default, insolvency or bankruptcy. The usual maturity of such insurance is a minimum one year, but as for factoring, this form of protection is often unavailable for high-yield or distressed companies.

> Each company should have a counterparty risk policy in place, especially for customers and suppliers

It may also involve a substantial underwriting process, which is another factor to consider. The benefit of all this, is that it can be inexpensive for available non-high-yield and non-distressed companies. Usually it is not a full protection due to the deductible on the insurance policy. Claims made against trade insurance policies can be cumbersome, however, and may include a waiting period of up to 180 days.

Credit default swap

A credit default swap (CDS) is a financial swap agreement where the seller of the CDS has to compensate the buyer in the event of a credit event. This is to say that the seller of the CDS insures the buyer against some reference loan. The buyer of the CDS makes a series of payments to the seller and receives a pay-off if the loan defaults. The CDS is a standardised product, tradeable on a lot of stocklisted names and therefore only useful if trading with big names. The most common maturity is the five-year CDS. A committee decides whether or not a default has occurred, and the recovery in case of a loss is par minus a specific recovery rate, as per the ISDA Agreement.

Receivable put

The receivable put allows the company to purchase the right to deliver receivables to the bank in the event of a default of a client. After a customer defaults and in case the receivable put has been triggered, the company delivers its outstanding receivables to the bank. After the bank has validated the claims, the company is paid the par value of the receivable or a predetermined purchase price. This can be set at 100% of the coverage amount or at a discount. The receivable put is a custom-made product to address the unique needs of a company.

Conclusion

To tackle the problem correctly, each company should have a counterparty risk policy in place, especially for customers and suppliers, with the definition of the approval process for a request for credit lines. Any amount above this line should trigger a request for protection.

There are many possibilities available, but each company has to evaluate its needs. To protect large amounts, a CDS or a receivable put is available. Factoring is feasible to protect receivables of a company and to increase working capital at the same time. A bank guarantee or trade insurance would make sense for single customers or suppliers.

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Tapping into new liquidity pools

EUROPE'S MARKET FOR TRI-PARTY REPOS IS OPEN FOR BUSINESS AND LOOKING FOR CUSTOMERS, BUT APPETITE AMONG CORPORATE TREASURERS IS WANTING, SAYS OLIVIER GRIMONPONT

The European repo market's need for new blood was underlined in the latest semi-annual survey of repo business conducted by the International Capital Market Association's European Repo Council (ERC). Issued in September, the ERC study reported a market size of €5,612bn, based on the amount of repo business outstanding on 10 June 2015, a fall of 2.9% from 12 months previously.

This might not look like a market in crisis, but repo is certainly a market in flux. The ERC itself noted both extraordinary positive factors – strong bond issuance in response to low interest rates, excess liquidity derived from the European Central Bank's long-term refinancing operation and quantitative easing initiatives, as well as increased demand for high-quality collateral arising from the requirements of Basel III and the European Market Infrastructure Regulation for sell-side and buy-side firms, respectively.

On the other hand, forces dampening repo activity include Basel III's leverage ratio and net stable funding ratio, which tend to reduce the profitability of repo market activity, while the Central Securities Depositories Regulation and the Bank Recovery and Resolution Directive also pose challenges to secured lending business.

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Alternative liquidity

Speakers at Euroclear's Collateral Conference made it clear that liquidity from non-traditional sources had a crucial part to play in Europe's evolving repo market. Specifically, large corporates and other entities structurally long in cash (such as insurance firms and pension funds) have the assets available to become regular and substantial counterparties to banks looking to use their securities as collateral to raise cash. They may have the assets,

but do they have the appetite and capacity to meet rising bank demand for long-term cash from non-financial counterparties?

Certainly, corporate treasurers have reservations about European Commission proposals that require money market funds to be priced on a variable net asset value basis; they are also sensitive to the counterparty risks and costs of placing more cash on the balance sheets of banks, some with lower credit ratings than themselves. But they're not yet ready to embrace repo.

The latest ERC survey shows a continued rise in the share of directly negotiated transactions, reflecting a move away from low-margin, commoditised interbank transactions towards higher-margin, customised client business. However, the share of tri-party repo business – often considered a benchmark for non-traditional repo activity as this tends to be intermediated by tri-party agents – fell to 10% from 10.2% in June 2014, while the outstanding value reported directly by tri-party agents was also lower.

This hardly suggests overwhelming appetite, which is unsurprising in a low-interest-rate environment. Nevertheless, structural barriers to non-traditional repo market participation can be removed or at least lowered. In particular, there is great scope for simplification and automation of workflows, which will in turn improve transparency and capacity, thereby breeding a level of familiarity and comfort, which is vital if corporates, insurers, asset managers, etc, are going to become a permanent and meaningful presence in the repo market.

Already, we see corporates that started off in the repo markets conducting only very vanilla transactions now beginning to go further along the curve in pursuit of yield; for example, accepting equities as collateral, or agreeing to longer time horizons, and generally being open to innovation. This openness is built in part on relationships, but also on transparent and easy-to-use workflows. Industry efforts towards standardisation and automation of information exchange are important in this respect, particularly when aimed towards easier monitoring of collateral valuation and transaction pricing.

Overcoming the challenges

But a fundamental prerequisite of successful long-term participation in the repo market is access, ie the freedom to select counterparties as and when interests coincide. For banks, this is facilitated by long-standing bilateral relationships underpinned by a Global Master Repurchase Agreement (GMRA), but for newer participants the in-house legal expertise to manage these contracts is not necessarily available, presenting a major administrative hurdle. We have made a contribution to wider repo market access by developing a standardised GMRA that can be used by non-traditional market participants to transact with all repo market participants. Such initiatives will take time to build momentum, not least because banks are used to negotiating terms with individual counterparties, but there is a level of confidence that initiatives such as the standardised GMRA will continue to gain market acceptance, as banks, too, look to knock down the hurdles to broader market participation.

Transparency and access are also key themes from an internal perspective. While corporates will need accurate and timely intelligence on their upcoming cash needs when committing to the repo market, so institutional investors must be fully aware of the changing mix of assets within their portfolios and managed accounts. Buy-side firms that are long in cash naturally – or have a suitably liquid asset pool – may wish to leverage this situation to obtain high-quality liquid assets via the repo markets to support their OTC derivatives positions at a central counterparty. To do this, however, requires considerable workflow and technological coordination, compared with existing standard practice.

As such, for firms that do not already have a repo desk or sophisticated collateral management capabilities, the barriers to effective repo market participation might be as much internal as external. A degree of comfort and familiarity with the trading protocols and mechanisms of the repo market is also required to optimise its potential. Asset managers are used to trading equities and futures largely electronically, while dealing in OTC instruments, such as bonds and swaps via voice-brokered channels. Less frequent market participants will inevitably be used to more manual processes.

Existing electronic trading platforms in the repo market have largely been developed to trade fairly commoditised transactions between banks. As such, only now are they beginning to respond to demand for a wide range of functionality as non-banks assert their presence.

Moreover, MiFID II is imposing pre- and post-trade transparency requirements on a much wider range of instruments, adding further momentum to efforts to automate and standardise repo market activity. This means dealing with counterparties on a bilateral, heavily negotiated basis with non-standard terms likely to become a thing of the past. Clearer indications of interest and greater certainty of trading – delivered by standardised, automated platforms – will increase the appetite and capacity of non-traditional repo market participants to the benefit of all.

We are very much at the start of the journey towards a new repo market. Uncertain regulatory and macroeconomic conditions may at times slow the rate of progress. But if we continue to keep talking and keep shining a light on less transparent and more complex processes, the repo market will attract sufficient diversity and liquidity to meet the needs of a wide range of participants.

> Large corporates and other entities structurally long in cash have the assets available to become regular and substantial counterparties to banks looking to use their securities as collateral to raise cash

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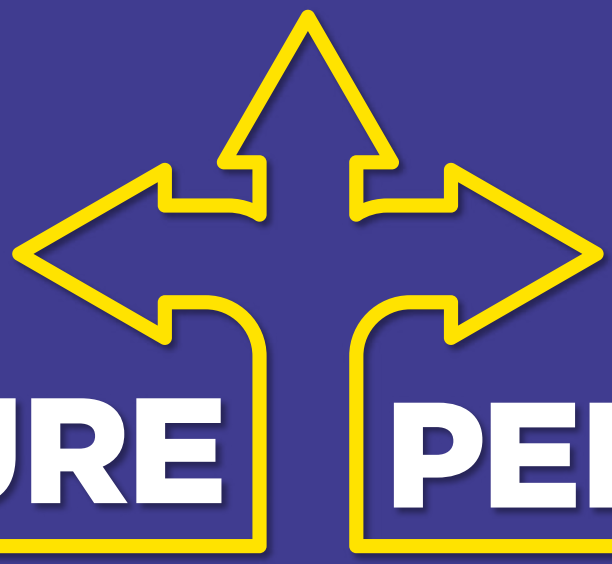

FUTURE PERFECT

CAN YOU OPTIMISE YOUR TECHNOLOGY'S CAPACITY TO SUPPORT GROWTH OR CHANGE WITHOUT LOSING THE BENEFITS OF LEGACY APPROACHES? LESLEY MEALL INVESTIGATES

Predicting the future with any degree of accuracy isn't easy; whether you are trying to forecast future interest-rate movements or future-proof your treasury technology. The only thing we can be 100% certain of is that we can never be 100% certain of anything.

Will interest rates go up this year? Will they go down? Will they stay the same? Faced with questions such as these, you can assess the rate sensitivity of your assets and liabilities, try to understand what the potential impact might be, for example, on cash flow or banking covenants, and then you can hedge. But hedging your bets when it comes to future-proofing your treasury technology may be a little trickier.

Which emerging IT and trends will most impact on your treasury function? Which technologies should you be adopting or exploiting? When is the optimal time to do this? Are you missing opportunities to benefit from developments such as big data and predictive analytics? Can your systems withstand the rising tide of cybercrime? All these questions prompt even more questions.

As we enter an era when technology will radically reshape businesses, all future-proofing attempts to minimise the extent to which a software product, service or technology infrastructure will need to be updated as technology advances may be doomed to some degree of failure. Yet good reasons remain for trying to future-proof (and optimise) your treasury technology infrastructure.

What's driving change?

"Treasury and finance will continue to change and new needs will be introduced that might otherwise stress legacy platforms," suggests Bob Stark, vice president, strategy, at Kyriba, a cloud treasury software specialist. Even if the possibilities offered or demanded by emerging technology don't drive you to change, future developments similar to Single Euro Payments Area payments and European Market Infrastructure Regulation reporting probably will – and your technology infrastructure may make changes such as these more, or less, easy to adapt to.

Compliance is an area where treasurers and finance chiefs must always react, regardless of how easily existing systems can or cannot accommodate this. So when one high street bank with extensive enterprise systems and a big IT budget was struggling to solve a payment protection insurance remediation problem, in mere days, it turned to the low-cost, low-tech solution: gigantic spreadsheets shared by hundreds of staff – despite the horrendous drawbacks of taking this approach.

Time was, this bank (and others with spreadsheet dependencies) might have limped along in this way indefinitely, but new types of software and systems can make this avoidable. New approaches include solutions that look like spreadsheets, but are connected to banks' database systems so that they are linked to legacy systems and data and obviate the need for complex and expensive reprogramming.

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Should you jettison spreadsheets?

Not all organisations want to solve their spreadsheet problems in this way. At CA Technologies, a provider of IT management software and solutions, a cloud-based, on demand, software as a service (SaaS) treasury management system (TMS) offered a route out of spreadsheet dependency. "SaaS is the way CA is moving strategically. We like the idea that the technology company manages the software for us. The software is always current, upgrades are pushed to us and everyone across the company is on the same version," says Kenneth Markowitz, vice president and assistant treasurer at CA.

There seems to be little appetite at CA for a system that enables those in the business to solve their own spreadsheet problems. Before it made the transition to cloud treasury software, the teams in treasury and IT at CA had been finding it increasingly difficult and time-consuming to deal with the shortcomings of their legacy treasury systems. "When issues came up it was a very big distraction to the daily work that the treasury team needed to do," explains Markowitz. Also, the reporting that came out of the legacy system was incomplete, it wasn't always accurate and it didn't meet the team's needs.

In response to these problems, the treasury team created its own Excel workarounds. But these spreadsheets needed frequent manual updates and checking, and were error-prone. "We said to ourselves, 'instead of doing all this work to upgrade some old legacy technology, let's look at the market, see what's available and maybe move into the modern age,'" says Markowitz. Having a single cloud-based TMS (from Reval) gives all users access to the same (and the latest) version of software and reporting formats, which makes it much easier to manage treasury-related data.

"We now have everyone around the world on one platform, which is something we've never had before," says Markowitz, "and we have a single source of the truth." Markowitz now gets one standard report he knows is accurate and complete. "Instead of wasting a lot of time doing reconciliations [of one report to another] and ensuring that data is correct, me and my team can spend that time doing analysis, which helps us to drive the company forward," he says.

The potential for standardisation to enhance the treasury function isn't limited to TMS; getting all parts of an organisation onto the same enterprise resource planning system (ERP) and a single instance of that ERP can also deliver benefits. "We are in the final stages of implementing one SAP system group-wide," says Daniel Wong, head of group treasury at British American Tobacco. "The next step will then be implementing a stable group-reporting structure, which we will be able to leverage on to obtain live, real-time reporting."

Are you on the edge?

Some treasurers and finance chiefs have reservations about public cloud services. But whether you consider them bleeding edge, leading edge or a step too far, some treasurers are fans. Some treasurers see SaaS as nothing more than an enabler – a resource delivery mechanism for the treasury software and systems that happen to best meet their needs. So where public cloud SaaS sits in terms of how comfortable treasurers are with it is up for debate.

At Averda, a provider of integrated waste-management solutions, a SaaS TMS is helping to support the company in its ambitious strategic growth plans, by improving visibility into treasury and adding rigour to financial controls and bank account management (BAM). "We wanted to empower our treasury team with the most advanced tools it could find," says Maria Bavelaar, Averda group treasurer. "Our company has offices in remote locations, manages diverse currencies and with our rapid growth into new markets, we need to ensure full insight into global cash and be more aware of our potential liquidity and FX risk," she adds.

When BBC Worldwide started a project to unify its public service and commercial treasury teams and its BAM databases, a SaaS offering (from Kyriba) seemed to meet this need – and more. "We now hold quality, up-to-date data across all of our accounts, signatories and mandates," says Michael Vasey, treasury analyst at BBC Worldwide. The project will also enable treasury to accommodate future changes and opportunities: automating as many BAM processes as possible means that treasury will be good to go when full electronic BAM (eBAM) becomes possible.

At the moment, all-singing, all-dancing solutions that offer multi-bank SWIFT connectivity, plus the capacity to fully automate eBAM and seamlessly exchange all related data with each and every bank, are just a golden shimmer on the horizon. The reality is multiple proprietary bank eBAM systems. But when true multi-bank eBAM systems do arrive, as they will, Vasey and the team will be ready to exploit them. He says: "We have managed to future-proof ourselves."

> Getting all parts of an organisation onto the same ERP and a single instance of that ERP can deliver benefits

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Don't go unnoticed

SUCCESSFUL PEOPLE ARE DEEMED TO BE CONFIDENT AND RELAXED. IN FACT, MAKING PEACE WITH PRESENTATION ANXIETY IS KEY TO THE BUSINESS OF STANDING OUT, SAYS DR ROB YEUNG

Think about some of the people you know who stand out. What is it that helps them get noticed? Is it that they speak slowly and forcefully – or perhaps quickly and with acerbic wit? Do they listen and make others feel like the centre of the universe? Or do they just radiate some kind of charm and good humour that draws others to them?

Beneath the surface, we can't see the many, many pieces that make up standout individuals, but make no mistake, there are many parts that can indeed be analysed, understood and learnt.

Boosting self-belief and debunking the confidence con

You may be surprised to learn how very many people succeed *in spite* of their fears. There are many actors, performers and entertainers who suffer great fretfulness: actors Sir Derek Jacobi and Dame Judi Dench, for example. But they get on with it anyway. They illustrate what I call the confidence con: the external appearance of confidence in others deceives us into believing that they feel confident inside. The reality is that people often appear confident by how they behave publicly, but can be afflicted by anxiety and doubt privately.

It's a terrible state of affairs because it isolates the innumerable people who feel less than 100% confident. When we feel worry, doubt or even dread and outright panic, we are conned into believing that we're alone, that we're losers and that few others can feel the same way.

But that's not the case, as demonstrated by scientific surveys. For example, social scientists led by Alexander Jordan at the Tuck School of Business conducted a series of studies delving into this very issue. They asked participants to guess the extent to which their friends experienced negative emotions, such as sadness and anxiety. The scientists then asked their friends to disclose their actual emotional experiences.

The researchers spotted a clear disconnect. Most participants underestimated their friends' negative emotions by 17.2%.

The flip side of the confidence con – the good news – is that your true feelings are likely less apparent than you think. When you feel nervous, you may notice your heart pounding in your chest. Of course, you have a whirl of negative thoughts and self-doubts bouncing around in your head, too. But no one can see the content

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of your thoughts, no matter how negative they may be. Putting it another way, you are less transparent than you may think you are. For the most part, your inner turmoil is probably far less visible than you may think.

Many of my clients say that understanding the confidence con is liberating. The knowledge that other people don't feel as confident as they look means that, if you ever feel worried or anxious, you're likely in good company.

Don't try to calm down

Plenty of work situations might provoke anxiety – public speaking or presenting are key among them. In critical moments, we often tend to advise people to relax and calm down. When Harvard Business School professor Alison Wood Brooks surveyed 300 people, she found that the vast majority, 84.9%, said they would encourage anxious friends or co-workers to relax and calm down[1].

But according to her work, encouraging people to calm down may be rather terrible advice. In an experiment with profound implications for would-be public speakers, Brooks tested the effects of different instructions on the anxiety levels of 140 participants. She began by explaining to all of them that they would be given two minutes to prepare a short persuasive speech on the topic 'Why you are a good work partner'. The participants were told their speeches would be both delivered to a researcher, and recorded and watched later by a committee.

Immediately prior to delivering their speeches, the participants were split into two groups and told to repeat either "I am calm" or "I am excited". Immediately after their presentations, Brooks asked them how they felt and found both groups reported feeling equally uneasy.

Neither instruction helped to diminish their anxiety. However, the difference was clearly detectable by others. The individuals that had told themselves "I am excited" were ranked more highly by three independent judges and judged to be more competent, more confident and more persuasive than those who had told themselves "I am calm". It seems that trying to steer our emotional state from anxious to calm is like making a 180-degree turn in a car at high speed. It's nigh on impossible. But making the shift from anxious to excited is more like a sharp 90-degree turn and eminently more achievable.

Persuading through body language and on verbal communication

Being memorable and persuasive involves many factors. We all know that physically attractive people tend to do better in life, but a mountain of studies also suggest that people who are more non-verbally expressive may do better in life, too.

Non-verbal cues essentially cover everything apart from the words themselves – from our facial expressions, gestures and movements to the tone of our voices and the pauses we use in our speech. All can make a quantifiable difference to a person's charisma, memorability and impact.

In terms of vocal traits, speaking in a lower pitch can help you to be perceived as more leader-like, competent and trustworthy. Somewhat unexpected findings also suggest that speaking more quickly tends to be associated with better performance, too. Studies have shown that quick speakers are judged to be persuasive, more intelligent, as having greater knowledge and being more objective.

Weaving more gestures into your behaviour can improve your persuasiveness. However, not all gestures are created equal: gestures that involve touching yourself may signify self-doubt or deception.

Confidence con: the external appearance of confidence in others deceives us into believing that they feel confident inside

Speakers should match their overall non-verbal style to the nature of the message they wish to deliver. Being dynamic and energetic is not always appropriate. Consider when you may need to tone things down, too. There is no absolute right or wrong non-verbal style – only what works best for any given situation.

If you want to improve your non-verbal communication, asking people for feedback on the appropriateness of your style is a useful exercise. Most people could do with becoming more non-verbally expressive, but you may just be in that minority that needs to cool things down a bit. Don't assume you know what you need to work on. Encourage those around you to tell you what you may not realise about yourself.

Winning with words

Inexperienced speakers often focus on what they want to communicate rather than what an audience may be ready to hear. But the truth is that the very best presenters, salespeople and conversationalists consider the audience's concerns, interests and emotions first.

- **Think about the demographics of your audience.** Clearly, not all men are persuaded in the same way, just as all women are not the same. Likewise, not everybody from a particular country is the same. But generally speaking, it's worth thinking about how gender, culture, religious background, age, educational level, class and other factors may affect your audience.
- **Consider what your audience is thinking.** What concerns or issues are your audience most interested in? Are there problems they're wrestling with or opportunities they would love to pursue?
- **Consider how your audience is feeling.** Are they ecstatic to be there or have they been forced to attend and therefore sceptical or even enraged? Are they disappointed, frustrated, restless or something else?
- **Ask yourself what your audience may know about you.** How much do they know about you, your background and expertise? To what extent do you need to introduce yourself and explain your credibility or interest in this topic?

The more you can see the world from the perspectives of others, the more you can tailor your messages for maximum persuasion. Understanding the starting point of your audience may well help you identify the best approach.

1 Brooks, AW (2013). Get excited: Reappraising pre-performance anxiety as excitement. *Journal of Experimental Psychology: General*, 143, 1144–58

Dr Rob Yeung is an organisational psychologist at leadership consulting firm Talentspace. This is an edited extract from his new book *How to Stand Out: Proven Tactics for Getting Noticed* (Capstone 2015)

MANY HAPPY RETURNS

THE ABILITY TO COMPARE SHORT-TERM INVESTMENT PRODUCTS IS FUNDAMENTAL TO TREASURY. DOUG WILLIAMSON EXPLAINS HOW TO CALCULATE AND APPLY YIELDS

A fundamentally important task for treasurers is to oversee the organisation's cash flow and shorter-term investments. To do this successfully, the treasurer must:

- Understand the cash flows from investments; and
- Be able to compare different investment products consistently.

First things first

Essential considerations for short-term investment are safety, liquidity and yield, in that order (see *The Treasurer*, June 2015, page 58). Once safety (or 'security') and liquidity are satisfied, we can move on to compare yields.

This article focuses on calculating and applying yields. These are essential foundations for making valid comparisons.

Happy returns

Say we invest 3,000,000 units of our local currency for a 90-day period, expecting to get back 3,030,000 at the end. The gain, surplus or interest is the difference between the amount at the end and the amount at the start.

In this case it will be 3,030,000 – 3,000,000 = 30,000.

Yield appeal

To make returns comparable, gains are generally expressed as a percentage interest rate, also known as 'yield'.

The gain of 30,000 on the starting amount of 3,000,000 represents a yield (r) of:

(r) = Gain / Starting amount

= 30,000 / 3,000,000 = 0.01 (= 1%)

This is the yield per 90-day period. It is the 'periodic yield' for 90 days.

Yield pick-up

If the periodic yield were greater, for example, 1.02% for the same 90-day period, the interest or gain for the 90-day period would be correspondingly greater. It would become:

3,000,000 x 0.0102 = 30,600.

For the same length of period, a greater periodic yield indicates a better deal, all other things being equal.

Where's the catch?

But all other things are hardly ever equal in an efficient market. This is usefully expressed in the phrase 'There's no such thing as a free lunch'.

'No free lunch' means, if it looks like we're getting an extra 0.02% for free, we won't be. We will be paying for it in some way. There will always be some catch or disadvantage.

Keeping that health warning in mind, let's continue calculating with yields.

Quote unquote

In wholesale markets, yields are normally expressed as nominal, or quoted, yields (R) per conventional year, rather than periodic yields (r).

Short-term yields are normally quoted on a 'simple' basis, per conventional year of 360 or 365 days. To convert between quotes and periodic yields, we simply multiply or divide the rates by an appropriate fraction.

Three million dollars

Let's apply this simple multiplication technique to calculate interest for a short-term period, based on a quoted rate for short-term US dollars, which uses a 360-day year.

You deposit $3m for 90 days at a quoted interest rate of 4%, based on a 360-day conventional year. Calculate the amount of interest you will enjoy.

Based on a Certificate in Treasury Fundamentals (CertTF) specimen paper question

Do the two-step

We'll work through this problem in two steps:

(1) Adjust the quoted interest rate to get the periodic yield.
(2) Calculate the interest from the periodic yield.

(1) Periodic yield (r) from quoted rate (R)

r = R x days / year
Where:
R = quoted yield per conventional year = 0.04 (= 4%)
days = number of days in the investment period = 90
year = number of days in a conventional year = 360 for US dollars here

r = 0.04 x 90 / 360
= 0.01 per 90 days

(2) Interest from periodic yield

Interest = start amount x periodic yield
= $3,000,000 x 0.01
= $30,000

More days in a year

Our calculation of $30,000 of interest for short-term US dollars used a 360-day year. Some other currencies and markets, for example, short-term sterling (£), use a 365-day conventional year.

Let's apply a 365-day year for £ now, in a Certificate in Treasury (CertT) question.

Three million pounds

Your organisation has an opportunity to invest £3m in a Certificate of Deposit (CD). Calculate the redemption value for such a CD which matures in 90 days, quoted in the market at a yield of 4%.

Based on a CertT specimen paper question

This question mentions the 'redemption value' for a CD. That means the total cash we will receive back at the final maturity, in 90 days' time.

One, two, three

For this question we need three steps. The first two are the same as before:

(1) Calculate the periodic yield.
(2) Calculate the interest from periodic yield, as before.
(3) Finally, add the interest to the start amount, to calculate the redemption value.

(1) Periodic yield

r = R x days / year
R = quoted yield = 0.04
days = days in investment period = 90
year = days in conventional year = 365 for £ this time

r = 0.04 x 90 / 365
= 0.009863 per 90 days (rounded to the nearest 0.0001%)

HELP FOR ACT STUDENTS

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(2) Interest

Interest = start amount x periodic yield
= £3,000,000 x 0.009863
= £29,589

(3) Redemption value = end amount

End amount = start amount + interest
= 3,000,000 + 29,589
= **£3,029,589**

Different conventions, less interest

When we invested £3m at 4% for 90 days, we got back £29,589 of interest. Do you remember when we invested $3m at 4% for the same period, we got a bigger number for our interest, of $30,000?

This difference results from short-term £ using a 365-day conventional year to calculate interest, compared with 360 days for US dollars. These quoting conventions are sometimes known as ACT/365 fixed and ACT/360, respectively. 'ACT' refers to the 'actual' number of days in the investment period.

Beyond compare

We've seen that returns from fixed-rate short-term investments depend on several factors, including:

- Headline percentage rates;
- Quoting conventions;
- Currency;
- Amount invested; and
- Maturity.

Only when all of these variables, and others, are properly quantified and factored in, can we make properly informed comparisons and recommendations.

Rewarding returns

In this article we've applied different percentage rates and two different interest-quoting conventions. The next article builds on this foundation by investigating the important differences between yields and discount rates, and determining yields from more complex cash flows.

With many congratulations in advance on your next exam success.

Doug Williamson is a treasury and finance coach who wants you to enjoy handsome returns from your wise investment in learning

What goes around, comes around

More cash? Less debt? Mr Treasurer and the CFO debate the economy

SHUTTERSTOCK

Mr Treasurer and the CFO were doing what they liked doing best. They were arguing. Sitting in their favourite watering hole, The Shiny Sixpence, they debated the state of the economy.

"There's not enough cash about," said the CFO. "The chancellor needs to put more cash into people's pockets if we're to get ourselves off the floor, once and for all."

"Cash isn't the problem," replied Mr Treasurer. "There's simply too much debt weighing us down."

"Heads and tails of the same coin," retorted the CFO.

"I see your point," said Mr Treasurer. "But let me tell you a story..."

And Mr Treasurer launched into a tale of a garage man who dealt in classic sports cars. One day, a potential buyer came and asked if he could take the 1965 Austin Healey for a test drive. The garage man asked the potential buyer for a cash deposit of £100, to cover the insurance during the test drive. Five £20 notes were duly placed on the desk, and off drove the garage man and the potential buyer in the British racing green sports car.

The garage man's wife spotted the £100, sneaked it into her handbag and walked across the road to the butcher. "Here's the £100 I owe you, Butch," she said, as she handed over the cash.

"Oh, smashing!" said the butcher. "But do consider joining my Christmas club this year. Save a bit every week for the big end-of-year turkey splurge!" As he spoke, the butcher hung up his apron, then nipped down the road to the local pub, The Thrupenny Bit. "I say, old bean," he said to the pub landlord. "Here's the hundred smackers I owe you. Wipe my slate clean, will you?"

"No sooner said," said the pub landlord, who promptly disappeared out the back way and headed for the painter and decorator's home. "Oi! Rembrandt!" called the pub landlord when he got there. "Thanks for repainting my sign last week. Here's the five crisp 20s I owe you."

"Lovely jubbly!" said the painter and decorator, as he jumped into his white van and drove to the garage. The garage man wasn't in, but his wife was. "Your gent of a hubby serviced my old Ford Transit when I was skint," said the painter and decorator. "I've just come into a bit of cash, so here's what I owe him."

"Gosh! Yes, I'll tell him," said the garage man's wife, who was surprised, but relieved to see the familiar pile of dosh. She put the £100 back on the desk, just as her husband and the potential buyer returned in an unscathed Austin Healey.

"Not for me," said the potential buyer. "Steering's a bit iffy." And he picked up his insurance deposit from where he left it and walked out.

"But your story proves my point!" said the CFO. "We need more cash in the economy!"

"They'd already spent the money," said Mr Treasurer. "They used the cash to get out of debt!"

"What if the painter and decorator hadn't owed £100 to the garage? How would the garage man's wife have repaid the buyer's deposit?" said the CFO. "Got you, there."

"Hmm," mused Mr Treasurer. "Perhaps we shall find out for real one day – when we try to reverse quantitative easing. Another brandy?"

"My round," said the CFO. "I'm running a tab..."

> "Cash isn't the problem," replied Mr Treasurer. "There's simply too much debt weighing us down"

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 2016 issue of *The Treasurer* include: We celebrate the winners and runners-up of the Deals of the Year Awards, on page 21. Robert Leach and Ralph Findlay discuss securitisation and the joy of fresh challenges, on page 32. We take a look at the funding woes of SMEs, on page 36. Find out about US treasurers and their unique challenges, on page 40. Discover the remedies for counterparty risk, on page 44.

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