MAKING A DIFFERENCE
Socially responsible investing is beginning to gain ground

MANUAL VS AUTOMATIC
Why removing the human touch in treasury is hard to achieve

WHAT LEADERS LOOK LIKE
Openness, clarity and drive make today's bosses stand out

The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ JULY/AUGUST 2017

How finding the right bank makes all the difference

PLUS

GAYLE MULVANEY
Hargreaves Services' group treasurer on sound underpinnings in the coal sector

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ACT

LEADING TREASURY PROFESSIONALS

Editor's letter

This month, we focus on matchmaking between treasurers and their banks – talking to treasurers about the practical considerations that go into ensuring relationships are solid and ancillary business spread equitably. There are plenty of operational factors at play, of course – a good match of facilities, and a sound understanding of each other's balance sheet needs and strategic direction, as well as geographical spread. However, as our interviewees tell us in our lead feature on page 22, the fundamentals of building productive relationships come down to clear communication, trust and fair play.

Proof that investing time in developing that level of understanding pays dividends is to be found in our profile of Gayle Mulvaney, group treasurer at Hargreaves Services. Mulvaney, whose team won a special commendation in *The Treasurer*'s 2016 Deals of the Year Awards, has spent eight years at the group, building a treasury function from the ground up.

One of her attributes is that she's fearless in the face of complexity. In her time at Hargreaves, she has refinanced syndicated facilities twice, worked on four acquisitions and one disposal, not to mention building a treasury function from scratch within a fast-moving entrepreneurial mid-cap – one that experienced rapid growth between 2010 and 2014, only to see revenue fall off dramatically in the face of falling coal prices, the UK carbon tax and a change in market sentiment away from fossil fuels.

A hallmark of her success has been maintaining clear lines of communication with banks. The banks, she says, are the business' most important stakeholders. She engages with them on every aspect of her firm's business model and strategy. The message is one of clarity on goals. You can read about Hargreaves' transformation from a coal production and logistics business to a diversified energy and construction operation on page 18.

We have an international flavour this month, with a feature on Greece and what it was like to operate as a treasury professional under government-imposed capital controls and in the face of the threat of Grexit (page 34). On page 30, we look at the risks and great opportunities presented by Sub-Saharan Africa. And, on page 32, we investigate China and look at what, if anything, we can take from ratings data.

Don't forget to tell us what you think of the issue. We'll be back in September, when we move to bimonthly editions of the magazine, with even more online content at www.treasurers.org/thetreasurer to ensure you stay ahead of the latest issues.

Liz Loxton

editor@treasurers.org
Follow us on Twitter @thetreasurermag

THIS MONTH'S CONTRIBUTORS

Semih Ozkan is an ACT member and a transaction banking professional in an international bank. His feature about the mercurial but potential-laden market that is Sub-Saharan Africa is on **page 30**

Warut Promboon is an Asian credit research specialist and managing partner at Bondcritic. Previously chief rating officer at Dagong Global Credit Rating in Hong Kong, his feature on ratings activity in China is on **page 32**

Christos Baltoumas is a treasurer in real estate investment company Bluehouse Capital. He writes about operating under state-imposed capital controls in Greece, and in the face of a potential Grexit, on **page 34**

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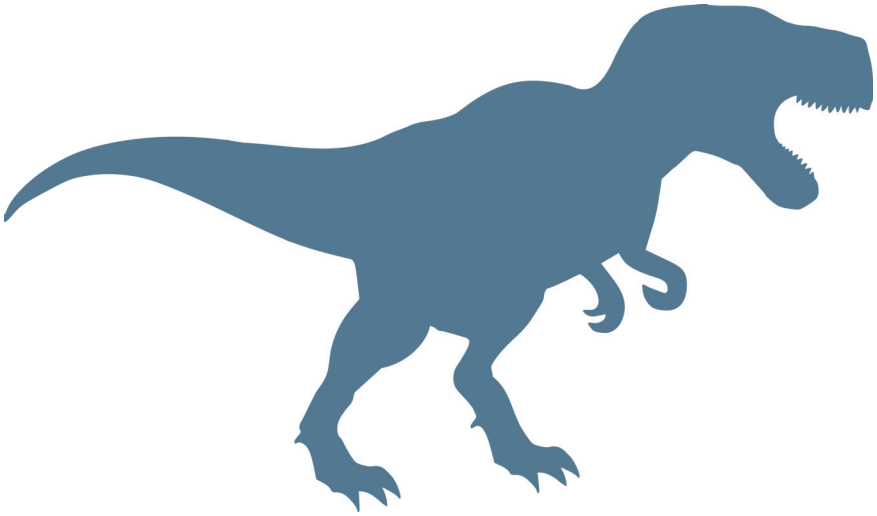

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What do you think of this issue of *The Treasurer*? Please write to **editor@treasurers.org** or tweet **@thetreasurermag**

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Gayle Mulvaney, group treasurer at Hargreaves Services

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Agenda

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

{ CONTEXT OF TREASURY }

NEW RANSOMWARE ATTACK HITS COMPANIES WORLDWIDE

As the second mass ransomware attack in two months, Petya, took its toll on businesses and infrastructure providers, investors were urged to confront companies that ignore cyberthreats.

A cyberattack emanating in the Ukraine, and which at the time of writing had affected firms in the UK, Russia, the US, the Netherlands and Norway, has also impacted transport and banking.

In the UK, advertising company WPP said technology in several of its companies was infected by the ransomware attack, and employees at shipping company Maersk were sent home from offices in Berkshire. Around 17 shipping container terminals belonging to Maersk subsidiary APM were impacted in the Netherlands.

In Russia, oil company Rosneft and steelmaker Evraz felt the affects of the virus, which bears similarities to the WannaCry malware that affected organisations worldwide in May.

The ransomware blocks access to computer files, with computer screens displaying a message stating that files can only be recovered by the attackers' decryption 'service', at a cost of $300 worth of Bitcoin.

A survey carried out by the Quoted Companies Alliance (QCA) and YouGov prior to the Petya attack found that, while nearly 90% of publicly traded small and mid-cap companies regard cybersecurity as a medium or high risk, warranting board-level consideration, a significant minority continue to regard it as a technical issue, with no requirement for board-level engagement.

Of those surveyed, most companies, 70%, have some degree of cybersecurity training. However, 29% do not, and 42% do not require their suppliers to meet their own cybersecurity standards.

Tim Ward, QCA chief executive, said: "This is a very important issue that companies should expect investors to probe. If a serious cyberattack were to hit a company, our survey suggests that over 30% of its market value is at risk – not something that any investor would welcome. Companies need to up their cybersecurity game and allay the fears of investors, their customers, their employees and their suppliers."

{ REGULATION }

MORE ANTI-MONEY LAUNDERING RULES AHEAD

Last month saw the final deadline for member states to bring the Fourth EU Anti-Money Laundering Directive (4AMLD) under local laws.

The directive requires financial institutions to make greater use of risk-assessment measures, with the aim of making it more difficult for terrorists to move money through the financial system. The directive also expands the definition of a politically exposed person and requires each state to have a central register of beneficial owners.

However, implementation of anti-money laundering rules is still a work in progress, since amendments to 4AMLD are ongoing, as are approvals.

Proposed amendments to 4AMLD are expected under a fifth EU directive, 5AMLD, or the 'Compromise Text', and cover:

- extending the scope of the directive to include virtual currencies;
- addressing the issue of anonymity in relation to prepaid payment cards for payments over €50;
- clarification of requirements to hold beneficial ownership registers, whereby member states have to hold adequate and accurate information on corporate and legal entities administered in their jurisdiction;
- measures to enhance cooperation and information-sharing among EU financial intelligence units; and
- a requirement to build consistent, EU-wide due-diligence approaches towards transactions emanating from high-risk countries.

WORDS

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"We'll almost certainly need an implementation period."

The UK chancellor of the exchequer, Philip Hammond (pictured above), used his Mansion House speech to outline a flexible and pragmatic approach to leaving the EU. He avoided using the term 'soft Brexit', but warned of the dangers of a cliff-edge departure.

SOURCE: *ECONOMIA*, 21 JUNE 2017

"Given the mixed signals on consumer spending and business investment, and given the still subdued domestic inflationary pressures, in particular anaemic wage growth, now is not yet the time to begin that adjustment."

Bank of England governor Mark Carney sets out the case for avoiding interest rate hikes.

SOURCE: *BUSINESS INSIDER*, 20 JUNE 2017

{ FINDINGS FROM THE McAFEE/OVUM SURVEY, *CLOSING THE CYBERSECURITY GAPS IN FINANCIAL SERVICES* }

73% of financial institutions report working with cybersecurity tools that reduce effectiveness and add cost

37% said working with and integrating different security tools was a significant pain point

37% said they dealt with 200,000 security alerts daily

47% said they believed only one in five alerts to be unique

67% need better, not more, security tools

{ CONTEXT OF TREASURY }

CYBERTHREAT TO FINANCE

Cybersecurity specialists within financial services are struggling to detect cyberbreaches quickly, and are hampered by a proliferation of ineffective security tools, according to a survey sponsored by security firm McAfee. A lack of big-data capability and more high-profile breaches are adding to the pressure, according to the report.

A total of 40% of respondents said uncovering cyberthreats was their first or second priority. However, in the report, *Closing the Cybersecurity Gaps in Financial Services*, conducted by Ovum for McAfee, 73% of financial institutions said they were working with over 25 cybersecurity tools, lengthening response times, reducing effectiveness and creating additional operational costs.

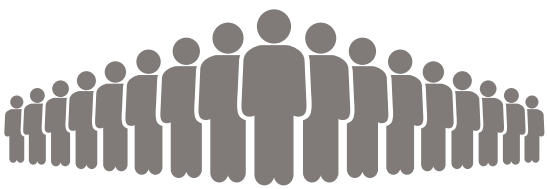
The report, which polled financial institutions globally, found that almost two-fifths of organisations dealt with over 200,000 security alerts a day, but that they do not believe all are unique (see 'Findings' above). "The barrier to entry for cybercriminals is extremely low – a multitude of cybercrime-as-a-service tools are easily available online, at little cost," said Nigel Bolt, vice president for UK and Ireland at McAfee.

The key to avoiding disaster scenarios is to have the capabilities in place to detect a threat in real time and correct damage before it has a chance to spread, Bolt said. "The industry as a whole needs to be thinking about how financial institutions can evolve to share intelligence. Banking security is not a competition point. To get it right, it must be a collaborative effort."

£5.1bn
UK inheritance tax receipts for the year to May, the highest share of national income since the early 1980s

£100m
How much an unnamed financial services company has cut its pension liabilities by in six months, as more employees swap final salary benefits for a lump sum

$44.35
The price of Brent oil fell to its lowest level this year to date in the face of a persistent glut



5 million
The amount the UK population rose by between 2005 and 2016, according to figures released by the Office for National Statistics

29 years
British factories are experiencing their strongest export demand since August 1988, according to the CBI, as the weak pound boosts competitiveness

50%
The increase in the price of British strawberries if seasonal workers from the EU are restricted, according to the British Summer Fruits group

What do you say?
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"You may say I'm a dreamer, but I'm not the only one."

DONALD TUSK, PRESIDENT OF THE EUROPEAN COUNCIL, CHANNELS JOHN LENNON AND SUGGESTS A WAY REMAINS OPEN FOR BRITAIN TO STAY IN THE EU

SOURCE: *THE TIMES*, 22 JUNE 2017

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{ AROUND THE WORLD IN 30 DAYS }

BoE BUFFER; ECB POLICY; INFRASTRUCTURE FUNDS

UK CENTRAL BANK RAISES BUFFER

The Bank of England has told lenders in the UK that they must set aside a combined £11.4bn to protect against the risks of a downturn.

The bank told UK lenders it would increase the 'countercyclical capital buffer' from zero to 0.5% of risk-weighted assets as a means of increasing resilience across the sector, against a backdrop of mounting levels of consumer debt. The bank predicted the buffer would need to reach 1.0% by the end of the year. Lenders have 18 months to raise the capital needed to create the buffer.

The Bank of England joins a small group of jurisdictions that have triggered a capital buffer. Hong Kong and Sweden's central banks have also taken the measure.

The Bank of England wants lenders to set aside £11.4bn to counter the risks posed by consumer debt

ECB HINTS IT WILL EASE POLICY

The yields on sovereign bonds in the eurozone increased and the euro rose to its highest level against the dollar, as European Central Bank president Mario Draghi announced that the bank would cautiously begin withdrawing stimulus measures. The bank would have to gradually adjust monetary policy in line with the economic recovery, Draghi said, as signs of economic recovery remain muted. The ECB has been under pressure to tighten monetary policy in the face of improving economic indicators.

IFC RAISES $500M FOR PROJECTS

World Bank Group member IFC has signed an agreement with Eastspring Investments, the Asian asset-management business of Prudential, to raise $500m towards a programme that mobilises funds from institutional investors for infrastructure projects in emerging markets.

The agreement marks the first involvement of an Asian investor in the MCPP Infrastructure programme, which seeks to raise $5bn from global institutional investors to modernise infrastructure in emerging markets by 2021, opening up new capital flows to improve energy, water, transportation and telecoms systems.

{ REGULATION }

TREASURER GROUP CALLS FOR AUTHENTICATION WATCHDOG

The European Association of Corporate Treasurers (EACT) has said that EU regulators should create either a new agency or a continent-wide network of specialist bodies tasked with managing anti-fraud authentication processes.

In its response to a European Commission consultation on the EU's regulatory management of fintech, the EACT wrote: "A pan-European, centralised service – or a network of interconnected national services providing secure identification – would considerably reduce the risk of malicious impersonation and fraud."

Currently, these measures are, in practice, carried out by large tech companies, such as the internet service providers that provide digital certificates. However, as the EACT points out: "These organisations do not guarantee security standards, transparency or privacy rights. There is a need for international cooperation at state level to address this key issue; otherwise multiple standards and practices will lead to fragmentation of solutions and the diversity will leave loopholes to fraudsters."

In its response to the consultation, the EACT stated: "Such a fundamental topic as identity should not be left to private organisations, but should be dealt with by states. The current status of digital identity is comparable to a situation where passports or identity cards are issued by private organisations."

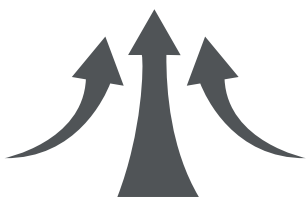
{ KEY FINDINGS FROM THE *EY GLOBAL CAPITAL CONFIDENCE BAROMETER* }

THE STATS

64% see the global economy improving

56% intend to acquire in the next year

64% are looking to cross-border deals to secure market access and grow their customer base



97% expect global corporate earnings to accelerate or stay stable

69% cite geopolitical or emerging policy concerns as the greatest risk to their business

MAKING THE NEWS

Argentina's century bond

Argentina has become only the second Latin American country to issue a century bond, successfully selling $2.75bn worth of 100-year government debt. It joins countries including Ireland, Mexico and Belgium as sovereign issuers of bonds with a 100-year maturity. The issue was met by strong demand, with $9.75bn in orders from investors, at a yield close to 8% – even though Argentina has defaulted on its sovereign debt eight times since 1816. It is the first country to issue a century bond without the benefit of an investment-grade rating, having missed out on a rumoured upgrade from frontier market to emerging market from MSCI.

Tech firm to bank

Swedish technology and payments firm Klarna was granted a banking licence last month, making it the largest European financial technology firm to become a bank. The fintech firm, which was valued at $2.25bn in a fundraising round in 2015, received its banking licence from the Swedish Financial Supervisory Authority and has said it is targeting Europe and the US for expansion. CEO Sebastian Siemiatkowski has said the licence confers the legitimacy and trust needed for that expansion and that the Swedish group wants to provide core banking services across Europe.

The Church of England is rolling out contactless payments this summer

No more passing the plate

The Church of England will embrace contactless payment technology this summer, as 40 churches are equipped with handheld terminals. John Preston, national stewardship and resources officer at the Church of England, said in a report in the *Financial Times* that the church wants to offer more choice. "We're aware that younger generations – and there are many people now who don't carry cash – want to give in different ways. Enabling them to give in a way that suits them is something we'd like to try." The UK Cards Association says £25bn was spent in 2016 via contactless devices, compared with £11bn in total from 2007 to 2015.

{ CONTEXT OF TREASURY }

OECD TAX INITIATIVE WILL BENEFIT MULTINATIONALS

A large majority of CFOs and tax directors polled by global tax adviser Taxand believe the OECD's Base Erosion and Profit Shifting (BEPS) initiative, formally signed off in Paris in June, will benefit multinationals.

The initiative is principally aimed at closing gaps in existing international rules that allow corporate profits to be artificially shifted to low- or no-tax environments where the companies concerned have little or no economic activity. However, as well as combating tax avoidance, the initiative seeks to improve tax dispute resolution.

Key upsides of the initiative are that it helps avoid double taxation for enterprises operating across multiple tax jurisdictions and improves the means of resolving disputes when authorities in different countries attempt to tax the same income stream. In a poll of delegates at a Taxand conference in Frankfurt, 78% said the multilateral instrument will bring long-term benefits in this respect.

More than 100 countries have participated in the BEPS initiative. The OECD estimates that tax revenue losses that arise from corporate entities artificially moving profit centres come to between $100bn and $240bn annually – the equivalent of between 4% and 10% of global corporate income tax revenues.

In a keynote speech, OECD secretary-general Angel Gurría said: "The signing of this multilateral convention marks a turning point in tax treaty history. We are moving towards rapid implementation of the far-reaching reforms agreed under the BEPS project in more than 1,100 tax treaties worldwide, and radically transforming the way tax treaties are modified. Beyond saving signatories from the burden of renegotiating these treaties bilaterally, the new convention will result in more certainty and predictability for businesses, and a better-functioning international tax system for the benefit of our citizens."

THIS MONTH

THE LIBOR PROBLEM

This month's briefing makes no reference to Brexit for two related reasons: firstly (and possibly very depressingly), although we are 12 months on from the referendum, there are still more questions than answers. But we hope that by the time you read this in July, things are moving at such a pace that anything we could have written in late June is out of date. Instead, we choose to focus on things you can do something about – possibly!


Michelle Price (left) and Sarah Boyce (right) are the ACT's associate policy and technical directors, and are always pleased to hear from you, whether with questions or with comments on areas of particular concern or interest to you. You can reach them at technical@treasurers.org

{ IN DEPTH }

HOW DO YOU SOLVE A PROBLEM LIKE LIBOR?

While undoubtedly a slow-burn issue, benchmarks reform is proving complex.

Any evolution of benchmark rates will be glacial, as it is likely to take years to develop liquidity in markets referencing any new rate. Nevertheless, central banks across the globe are exploring alternatives and treasurers would do well to be prepared.

Let's start with some background. The London Interbank Offered Rate (Libor) began life in the 1970s as the rate at which banks would lend to each other. Initially, it was also used as a reference rate for corporate bank loans. In the 1980s, Libor became an average rate of a group of banks and, with the development of the derivatives market, became very widely used so that, today, every treasurer will casually refer to Libor and expect to see it in financial contracts (both debt and derivatives). Many commercial contracts will also reference Libor, particularly in non-performance clauses.

However, events have not run smoothly and today Libor faces two challenges:

- Loss of confidence: widespread rate manipulation in recent years has resulted in a loss of confidence in Libor as a benchmark.
- Lack of liquidity: worldwide banking reform and regulations arising from the global financial crisis have resulted in fewer interbank short-term loans and reduced demand for bank debt. Libor (particularly the longer maturities) is increasingly an estimated rate rather than one based on actual transactions, due to insufficient data.

In response, the ICE Benchmark Administration (IBA), which oversees Libor, and the European Money Markets Institute (EMMI), which oversees Euribor, have developed and implemented reforms designed to restore confidence and credibility in interbank offered rates. There is a strong groundswell in favour of retaining Libor (in name, even if how it is calculated makes it virtually unrecognisable) as the possible consequences of Libor as a reference rate disappearing are alarming to many and include:

- What would a new benchmark mean for financial (and non-financial) contracts? The disappearance of Libor wouldn't purely be a treasury problem. In the case of short-term contracts, one might be relatively sanguine, but what about 30-year floating-rate debt?
- What are the cost implications of transitioning from one reference rate to another (just managing the process of transitioning swaps and underlying to minimise fixing mismatch will be time-consuming and complicated)?
- Who even wants to contemplate the hedge-accounting issues if mandatory redesignation is deemed to trigger a break in the hedge?

(As an aside, mandatory novation and the resulting impact on hedge accounting under IFRS 9 is something you might want to think about as your banks talk to you about contract novation as a result of bank restructuring or ring-fencing.)

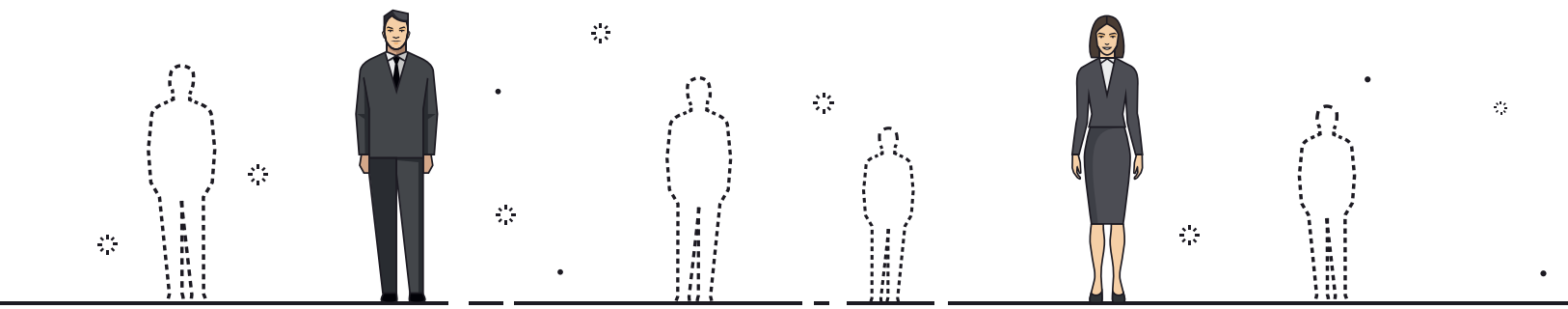
Despite the challenges, a number of central banks have identified the fragility of Libor as a key risk to market stability and have decided to develop alternative benchmark rates. In most cases, the suggestion is some form of near-risk-free overnight rate, which works in principle, but fails to address the part of the market in which corporates arguably have most interest – namely, three- and six-month fixings.

In the UK, the proposal is that the Sterling Overnight Index Average (SONIA) rate could be used as an alternative to Libor; in Japan TONAR (Tokyo Overnight Average Rate); and in Switzerland SARON (Swiss Average Rate Overnight). In May, the European Central Bank said it would consider adopting a similar approach.

At the end of June, the US announced that it planned to adopt a slightly different approach by selecting a rate based on overnight lending in the US repo market.

In her keynote speech at the Bank of England briefing for corporates on the new codes of best practice in June, Sarah John, head of sterling markets, encouraged corporates to get involved with the development of a reformed SONIA benchmark. If any reader would like to contribute to the debate about benchmarks, please contact the ACT team at the email address above.

Benchmarks are definitely one to watch.



NEW ON THE WEB

EACT response to fintech consultation

In June, the EACT submitted a response to the European Commission on fintech with particular emphasis on the perspective of the corporate treasurer. Read the submission at www.eact.eu/wordpress/wp-content/uploads/2017/06/EACT_Response_EC_FinTech_consultation__15-June-2017.pdf

In codes we trust: the FX Global Code and UK Money Markets Code

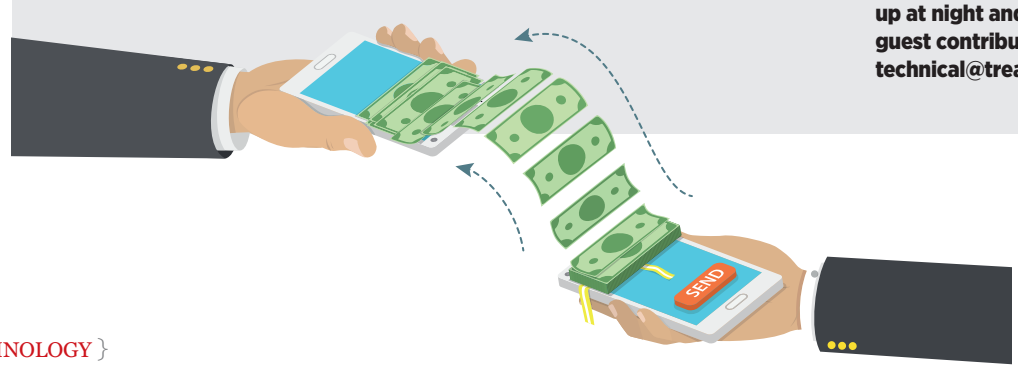
The codes' launch was celebrated at a very successful event hosted by the Bank of England for the ACT. The voluntary codes set out standards of best practice and we encourage all members to adopt them.

The ACT now has a web page dedicated to related resources at: www.treasurers.org/technical/codes

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

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

If you have a topic that's keeping you up at night and would like to be a guest contributor, get in touch at technical@treasurers.org



{ TECHNOLOGY }

FASTER PAYMENTS – ROLLING OUT

As societies become instant, the payments industry is not far behind. Europe is preparing for the launch of the SEPA Instant Credit Transfer scheme on 21 November 2017. The scheme will allow euro-denominated pan-European payments of up to €15,000 to be available in the account of the beneficiary within 10 seconds.

Meanwhile, Australia is currently developing a similar platform with real-time clearing and settlement called the New Payments Platform (NPP). The NPP is the Australian equivalent of the UK's Faster Payments Service, but without the restrictive remittance information. Instead, NPP will offer the ability to include more information with payments, such as text or links to externally hosted documents.

{ INTERNATIONAL }

Turkey – compulsory FX hedging

For those treasurers with business (and foreign-denominated debt) in Turkey, Bloomberg has recently reported an interesting potential development.

It has been suggested that the central government may require companies to hedge the FX risk of any debt issued in any currency other than Turkish lira (TRY) if they have issued more than $15m.

This appears to be driven by two key considerations:

- The Turkish economy is heavily reliant on external funding, with an estimated $300bn in foreign-currency debt owed by private companies.
- The lira was one of the weakest emerging-market currencies in 2016, falling to a record low in January 2017 (USD/TRY 3.8 compared with USD/TRY 1.15 five years earlier).

The combination of these two factors could leave the Turkish economy very vulnerable in periods of currency volatility.

Based on data collated by Turkish regulators, it is estimated that the mandate would impact approximately 2,000 private companies (representing approximately 80% of FX debt).

Separately, there is also a proposal for smaller companies to have their FX credit lines limited to the size of their FX revenues, which would impact close to 20,000 companies.

Bank resolution in practice

The recent acquisition of Banco Popular by Santander in Spain for €1 demonstrated how the bank resolution procedure designed by the European Central Bank can work to avoid government bail-in.

OLIVER DAVIES

SENIOR TREASURY ANALYST, FRONT OFFICE, AT GROSVENOR

How did you get into treasury?
When Grosvenor embarked on a fundamental treasury transformation project, I was fortunate to be seconded onto the project team. Now, three years later, I am settling into a front office dealing role, following the successful implementation of a new treasury management system across Grosvenor.

What do you like about treasury?
The diversity. Plus, exposure to a broad range of issues, and the balance of managing the day-to-day business while also helping to develop long-term finance strategies.

What's the best thing about being a treasurer?
Being part of a team that is recognised for raising standards across the organisation, and building relationships with stakeholders and the business.

What ACT qualifications do you hold?
I am planning to begin the AMCT qualification this year, to deepen my treasury knowledge.

What's the most unusual responsibility that you have as a treasurer?
On the recent implementation of a new treasury management system, I trained new users both in the UK and in overseas operating companies.

What's the most important lesson that you've learned during your career?
Build trust and integrity at all levels. Don't be afraid of change, push for the right kind of work experience and always be hungry to learn.

What would be your best piece of advice to someone else considering a career in treasury?
You need a broad range of skills to succeed. If you have a good eye for detail, enjoy working with people and are not afraid of asking questions, treasury could be the career for you.

What's your ultimate career goal?
My immediate career goal is to put into practice what I have learned from my recent experience on the transformation project and implementing a new treasury management system.

Who is your greatest inspiration and why?
Sir Ranulph Fiennes, who has built a brand by following his passion with integrity, tackling challenges head-on and sharing his experiences.

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

ACT DIARY DATES

TRAINING, EVENTS & WEBINARS

2017 TRAINING COURSE DATES

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

13 September, London
Foreign exchange
Learn about the different types of FX risk from a treasurer who has real experience in this area, and develop an ability to advise both commercial operations and senior management about FX risks and the responses available to meet those risks. You will also learn about instruments used to manage FX risks, how they are traded and some of the risks around this, together with the controls that should be used to deal with those risks.

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

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

20 September, London
Cash forecasting fundamentals
Join us on this interactive course where you will learn how to review or completely redesign your cash forecast framework and processes. Don't miss this great opportunity to broaden your understanding of the fundamentals of cash forecasting. With increasing market volatility and business change, and access to financing harder and more expensive, organisations should focus on improved cash forecasting, to reduce unexpected and potentially costly surprises. Learn a 'best fit' methodology for assessing/designing an appropriate forecast environment for your organisation.

To view more courses or to book online, visit academy.treasurers.org/training

For more information, contact Radmila Trkulja at rtrkulja@treasurers.org or tel +44 (0)20 7847 2573

ACT EVENTS 2017

20 September, London
ACT Ones to Watch networking evening 2017
The ACT and Thomson Reuters will host a special evening at the stunning Rooftop Terrace of 30 Euston Square to celebrate the treasury leaders of tomorrow and congratulate recently qualified ACT students.
www.treasurers.org/events/onestowatch

27 September, Hong Kong
Asia Treasury Leaders' Forum
Join us this September in Hong Kong for the region's leading treasury event. Bringing together treasury and finance professionals from across Asia, this is the ideal opportunity to exchange ideas with your peers and find out more about the latest regional developments and trends in treasury.
www.treasurers.org/asia2017

8 November, London
ACT Treasury Forum
This invitation-only event is the perfect platform for leading treasury professionals to convene, and share and debate the key issues of the day in an informal and interactive setting.
www.treasurers.org/treasuryforum

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

21-22 November, Dubai
Middle East Annual Summit
Join us at the largest and most popular treasury event in the GCC. Bringing together the region's leading corporates, you can expect to meet over 500 treasury and finance professionals, hear thought-provoking insights and best practice from over 50 speakers, and talk business with over 20 leading product and service providers, all under one roof.
www.treasurers.org/middleeastsummit

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{ OIL }

JEREMY WARNER

All eyes in the oil market are firmly on Saudi Aramco's potential flotation next year

As part of its Vision 2030 strategy for transforming the economy, Saudi Arabia next year plans to float Saudi Aramco on the stock market. A successful initial public offering (IPO) would cement Aramco's position as easily the world's most highly valued company, worth anywhere between $1-2 trillion. The 5% stake the Saudi's plan to sell initially would alone be worth anything up to $100bn, dwarfing the 'free floats' of all but the very largest European companies.

Aramco is, to put it mildly, a very odd sort of company. Indeed, as it stands, it is hard to think of it as a company at all. Rather, it is an arm of the Saudi state, and frequently as much a tool of geopolitical ambition as a proper commercial endeavour in any accepted sense. By adjusting its output in agreement with the rest of the Organization of the Petroleum Exporting Countries, Saudi Arabia aims to influence the international oil price, though in recent years with increasingly little effect.

But it is not just that Aramco is state controlled and the key swing producer in oil markets; it is also routinely used as a conduit for state spending in Saudi Arabia, whether it be schools, mosques or roads.

What's more, there is little, if any, transparency over the size of reserves and costs of production. For as long as anyone can remember, reserves have been reported as 268 billion barrels, but how much of this satisfies the definition of 'proven' – the measure used by publicly quoted Western oil companies – is anyone's guess.

All these issues will have to be clarified before Aramco can be floated on the stock exchange. Despite the determination of the deputy crown prince, Mohammed bin Salman, to modernise and transform the Saudi economy, there is no certainty that the regime is yet ready for that kind of public scrutiny.

Nonetheless, the Aramco IPO is considered a big prize by both the US and the UK – the only two markets with the depths of liquidity to be able to credibly handle such a float – and both are bending their political purpose to winning it.

> Nonetheless, the Aramco IPO is considered a big prize by both the US and the UK

For the London Stock Exchange (LSE), it has assumed particular importance as a show of confidence in a post-Brexit city. Given that Aramco intends to do lots of deals internationally once it has gained the currency of a public listing, it could provide a potent source of business for UK finance well into the future.

So, who's going to win this tug of war? But for the failure of the LSE's merger with Deutsche Börse, it might already have been in the bag for London, widely thought to be less exposed to litigation and regulatory risk than New York.

The breakdown in the merger has given rise to second thoughts: does London without Frankfurt really have the capacity to handle such a whopper? And might not Aramco achieve a better valuation in the US's much deeper capital markets?

In any case, the full weight of US President Donald Trump has been swung behind the New York Stock Exchange's bid for the IPO. The US president has sided unambiguously with Saudi in its standoff with Iran, as well as its various other internecine conflicts in the region.

According to sources, Trump has also promised immunity from litigation risk, and even to repeal the Justice Against Sponsors of Terrorism Act, if that's what it takes – ironic given that it was the Republicans who passed the law in contravention of the wishes of the previous president, Barack Obama. Needless to say, neither of these things are actually in Trump's gift, but since when has that stopped him from committing to the undeliverable?

It's a battle royal that is shaping up, and it's set to run and run.

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

Coming to an accommodation

Will monetary policy ever get back to normal?

The post-Lehman period ushered in a new era of ultra-accommodative monetary policy in the developed world. When the financial crisis enveloped the global economy in 2008, major central banks quickly and aggressively eased monetary policy in a coordinated effort to limit the damage and support demand. But, after almost a decade, monetary policy rates at major central banks remain at near-record lows.

Of the major central banks, only the US Federal Reserve has managed to lift its policy rate a little. In the eurozone, Japan and the UK, new circumstances after the 2008 crisis have forced central banks to take even more steps to ease monetary policy further. Will monetary policy rates ever get back to what we think of as normal? Probably not for a very long time.

To understand why, monetary policy must be set to one side for a moment. Looking at the trends in monetary policy during the post-Lehman period can distract from the big picture. Instead, the critical information comes from the interest rates that are set by markets, such as government bond yields. Trends in US government bond yields provide a useful anecdote that matches broader trends. In 1981, 10-year US Treasury bond yields peaked at close to 16%. Since then, they have steadily fallen by around 40bps per year to their current level of just over 2%, with no major change in the shape of the trend since the financial crisis.

This decline in US Treasury yields, as well as most other sovereign and corporate bonds, reflects long-term trends much more than the ever-easier monetary policies of central banks.

First, after the ultra-high inflation of the 1970s and 1980s was brought under control, investors no longer require such high nominal interest rates to generate real returns. Second, major developed economies have reached the known frontier of technological progress. The rate of discoveries that yield large and widespread economic benefits has declined. This is reflected in the long-term secular decline in productivity growth, which has reduced long-term returns. Finally, lower bond yields also reflect increased risk aversion – since the Lehman crisis – by those that supply and demand such bonds.

While central banks can influence short-term fluctuations in demand by altering their monetary policies, they cannot improve the performance of the economy in the long run. As the example of Japan shows, the best efforts of a central bank to pump up demand cannot raise trend growth and are not a replacement for critical structural and regulatory reforms.

Central banks merely aim to set their policies in line with the underlying trends in the economy. But they cannot do much to affect trends in the long run. Central bank policy rates are low today because economic conditions require them to be.

Households and firms have spent the years after the financial crisis repairing their balance sheets. Low interest rates have made this process easier. There are signs that this process is drawing to a close.

For Western economies, the age of caution seems to be coming to an end. We can see the first phase of a return to the cyclical dynamics of boom and bust. Markets are rallying, demand growth is accelerating and business investment is picking up. In time, these economic conditions will cause underlying inflation to rise and more central banks will need to begin to raise policy rates. However, we are probably two years away from seeing a synchronised tightening in monetary policy across major central banks.

In the US and UK where the economic expansions are advanced, the Fed will continue to gradually tighten over the coming years and the Bank of England will probably hike for the first time in early 2018. In the eurozone, the recovery is some three years behind the US and the UK. The European Central Bank will therefore wait until late 2019 before hiking for the first time. Meanwhile, the Bank of Japan may struggle to hike its rate at all until Japan solves it structural inhibitors to growth.

But don't forget the long-term trends. Weak productivity growth mixed with a residual level of post-Lehman caution will keep interest rates low long into the future. Even as central banks begin to raise rates, the process will be more gradual than in previous cycles, and policy rates will remain well below those that have existed in the past.

The critical information comes from the interest rates that are set by markets

Kallum Pickering is senior UK economist at Berenberg Bank

{ MENTAL HEALTH }

CAROLINE STOCKMANN

Working to lower stress levels will result in stronger institutions and governance

I have attended several meetings of the Financial Market Standards Board's (FMSB's) Fixed Income, Currency and Commodities (FICC) group in past months, as I am a sitting member of the FICC and also of its advisory council. The group's remit is to enhance behaviour in FICC markets by developing clear standards and guidelines on conduct that fill the gap between high-level principles and detailed regulation. While they don't have any regulatory powers, its members commit to adhering to the standards and guidelines they produce. I am very much looking forward to an upcoming article from FMSB, which will tell you more about recent work, and provide details of a forthcoming webinar featuring a panel of corporate treasurers and other colleagues instrumental in representing the treasurer's voice in the group.

Another area of the FMSB's work is analysis. In the next issue, we will hear about the 26 common behaviours that have been identified as being behind the various financial misdemeanours that have taken place in the financial world over the centuries. Apparently, this same group of behaviours recurs over time and across markets and asset classes, and across jurisdictions and geographies.

This made me think about the stressful environment in which the banking and corporate workforce finds itself – with levels of pressure on the individual unlikely to let up any time soon. Such a high-pressure environment can make it even more difficult than in other spheres of life to be able to admit that one has mental health problems. There is a tendency to criticise what we might think of as 'odd behaviour'. We might be tempted to urge afflicted colleagues to "just snap out of it". However, there have been cases where people have spoken out when an individual was experiencing difficulties and asked "would we treat this person this way if they had cancer?" It is a sobering thought, and one, I fear, that is still not prevalent enough in the world in which we live and work.

IKON IMAGES

In my last role, during Mental Health Awareness Week, I ran a series of global phone calls in which we exchanged our personal experience of mental health issues. It was amazing. People spoke about living with Alzheimer's (others' or the fear of their own impending), nervous breakdowns, depression and of having a child with cerebral palsy. The range of the discussions and the openness of people was impressive. So, clearly, there is a need for people to share and speak out – which makes sense, given these conditions and pressures are often invisible. When someone behaves differently from our expectations, how often do we find ourselves getting irritated, impatient or even angry, without trying to understand what they might be going through? Most people have had some personal encounter with mental illness, possibly indirectly, sometimes attributed to 'old age', but still it's seen as 'taboo'.

I think it would make a lot of sense to look at the corporate and financial sectors and try to understand the impact stress is having on both behaviours and mental health, and ask the questions: can employers do more to alleviate stress and its negative consequences? Surely there is a business case that says lower stress means lower fraud, higher productivity and so on?

Stress can also arise from personal situations outside the workplace – so what is our moral obligation to address the negative impact of such stress?

I have spoken with several people in our community on this topic over the past few months – treasurers, bankers, some rather prominent figures in society – and they all feel there is a lot for us to work on in this space. It is a theme I'd love to hear more of your thoughts on, so please drop me a line at cstockmann@treasurers.org

Most people have had some encounter with mental illness

Caroline Stockmann,
ACT chief executive

AT THE COAL FACE

Refinancing syndicated facilities and negotiating a move to EBITDA-friendly borrowing structures are just two milestones among many for Gayle Mulvaney, group treasurer at Hargreaves Services

Words: **Liz Loxton** / Photos: **Rob Whitrow**

Gayle Mulvaney joined Britain's largest coal production, trading and distribution business in 2009, having persuaded the AIM-listed company that it needed a fully fledged treasury function and not just a solitary treasury specialist.

For her, the move represented opportunity – a chance to create a centralised treasury operation from the ground up. For Hargreaves, employing Mulvaney was a no less fortuitous move. The fast-growing business was complex and had just procured its first syndicated facilities. And although it would continue on its impressive growth trajectory for the next five years, more turbulent times were ahead that would bring with them pressures for existing pricing and financing arrangements.

Mulvaney's treasury career began in 2003, when she joined Arriva as treasury clerk/analyst. At the time she had little idea what the profession entailed, she says. Working at Arriva gave her wide experience of both the workings of treasury and operating within a large organisation, with upscale systems and infrastructure. While at the transport company, she also studied for and gained her AMCT, completing her studies in 2008. At the time she was there, Arriva operated across Europe with a syndicate of 13 banks, cross-border cash pooling and a large transport fleet for asset-backed finance. "I enjoyed the diversity at Arriva, but was looking for the next step up into a treasurer role," she says.

The role at Hargreaves had been advertised as a treasury accountant reporting to Iain Cockburn, the group's FD. Mulvaney's degree was in financial services and she is not an accountant, so she was clear at the interview to set out what she could offer. "As the interview progressed, we got into a detailed discussion on hedging policy, hedge accounting, setting up ISDA agreements and trading lines with the relationship banks, consolidating asset finance, opportunities to improve the bank account structure and reduce pricing, and managing counterparty and credit risk across the group. Two and a half hours later, I already felt I was part of the team and was offered the job on the spot," she says.

Despite that comprehensive discussion and a suitably widened remit, Hargreaves proved to be a shock to the system, Mulvaney admits. The pace and growth were rapid and the ethos entrepreneurial. Hargreaves' management likes to move on projects and initiatives in weeks, not months, and the business enjoyed growth figures year-on-year of 20-30%. In spite of its relatively small size, the business has participated in complex international supply chains across the US, Colombia and Russia. When Mulvaney joined, it had the UK's largest bulk haulage fleet, a £500m coal-trading and distribution business, and an industrial services business 1,200 strong.

Refinancing the group's facilities

The company's goal was to build on its foundations as a supplier of solid fuels and also provide logistical and industrial support services. Over her first five years at the company, revenues grew from £459.8m in 2010 to £869.2m in 2014, with underlying profits before tax growing from £34.3m to £55.1m over the same period.

The coal business can be unpredictable, however, and projected revenues don't

VITAL STATISTICS

£341m
group revenue for 2016

£35-50m
projected target value from the group's property interests over the next five years

1,900
employees

18,500
amount of acres of development land and property

£11m
international revenue from industrial services

> "The group knew that coal burn in the UK would reduce and, as a result, had started to increase exposure to specialised coal markets"

always materialise, whether due to volatile commodity prices or geological mishap.

Mulvaney saw something of the latter in 2012, when a deep mine at Maltby, South Yorkshire, faltered. Before mining companies come close to the point of exhausting one seam or face, they begin preparations to excavate the next. At Maltby, Hargreaves discovered pockets of gas and water within the next coal face it was due to mine, so work could not proceed. Eight weeks of investigation soon stretched to 12, with fixed costs continuing all the while. In the end, Hargreaves had to close the site and begin restoration work, with significant provisioning.

Hargreaves' management team also understood that government policy was moving against coal use, putting diversification firmly on the agenda. "The group knew that coal burn in the UK would reduce and, as a result, had started to increase exposure to specialised coal markets, such as Pulverised Coal Injection [PCI], which is used in the steel markets," says Mulvaney.

In 2012, she refinanced the group's facilities, increasing them to £175m from £115m. She also worked to set up a trading arrangement so that the company could provide Redcar Steelworks with coke and PCI from the US. The arrangement made Hargreaves' shipping more cost-effective in terms of freight and purchase prices. Importing a bulk cargo, but allowing the steel operator to pay as it consumed, enabled a substantial deal to go through. Had the steelworks defaulted, Hargreaves would have been able to leverage the coal collateral and mitigate risk by supplying other customers. In the meantime, the company had used its financing facilities to good effect. Stock remained on the balance sheet, strengthening Hargreaves' position, and the careful management of the collateral business allowed the group to continue to support the site services. Mulvaney was able to leverage better credit terms, since the proposition was less risky than coke and PCI supplies alone.

GAYLE'S CV

2009-present
Group treasurer, Hargreaves Services

2005-2009
Assistant treasurer, Arriva

2003-2005
Clerk/analyst, Arriva

2000-2003
Relief manager, Scottish & Newcastle Retail

QUALIFICATIONS

BA Hons in Financial Services (**2000**), AMCT (**2008**)

Coal industry slump

By 2013, the broader coal sector was beginning to take a hit; however, Hargreaves acquired the assets of two surface-mining companies, ATH Group, via the purchase of its secured bank debt followed by a restructuring, and Scottish Resources Group, following its liquidation. "Both transactions were complex," Mulvaney says, "and treasury played an active part in helping explain and articulate these to the banking group to obtain the necessary consents – and in helping manage the integration of these operations and assets into the banking and treasury system after the transaction."

Coal production remained under pressure, however, and a doubling of the UK carbon tax in 2015, combined with falls in oil and gas products, contributed to a collapse in demand. Coal's bankability and the solidity of the sector took an enormous hit when the coal price fell to a level at which no established UK coal business could produce profitably.

The combination of heavier taxes with collapsing prices and demand saw many UK coal producers shut down. Hargreaves saw these pressures coming and its strategy had been to simplify the business, so Mulvaney was already looking at ways to renegotiate facilities and help reposition the business. "We'd already

started talking with our banks, saying we wanted a new borrowing-based structure on our facilities." Looking to European banking facilities and engaging existing banks on a borrowing base structure of commodity stocks and receivables, she migrated facilities from a £125m revolving credit facility (RCF) plus £50m in invoice discounting to a £70m borrowing base facility and £40m RCF.

The structure was not only a cost saving for the business in terms of both a reduced margin and commitment fee, but it also brought increased flexibility. "Given our circumstances, we negotiated that the debt-to-EBITDA covenant tied to the RCF would not include the debt under the borrowing base facility, allowing us to hold and finance the level of stocks without having to sell in a distressed situation," she says. Mulvaney also reduced the bank group from five to three, giving the remaining banks ancillary business commensurate with the reduced facilities.

"The banks are our most important stakeholders and we engage with them on every aspect of our business model and

strategy," she says. "If I had not briefed the banks on every step of our simplification and strategic change, I think it would have been difficult for them to sign off."

Hargreaves had seen its turnover drop from £869m in 2014 to £341m in 2016. But the renegotiation of facilities – one of the achievements that helped Mulvaney and her treasury analyst, Andrew Beamson, to a special commendation in 2016's Deals of the Year Awards – consolidated the group's position. Hargreaves was able to finance high coal stocks, holding them until the markets began to recover. "It's what a good treasury department does. It needs to be in synch with its business operation. They need to talk to one another," she says.

Future strategies

With the coal operation on sounder foundations, Mulvaney turned her attention to the business's future strategy. In 2016, Hargreaves acquired construction company CA Blackwell Group in Essex, a move that broadens its UK base and enables it to operate in construction, quarrying and civil engineering projects. The group has also moved into new territories and now has a presence in Europe, Hong Kong, Malaysia, India and South Africa. Treasury has been at the forefront of funding these moves, and each new territory has drawn Mulvaney into the housekeeping issues of setting up facilities overseas, working with local banks – and not forgetting to comply with KYC requirements – to ensure new initiatives get off the ground securely.

In her time at Hargreaves, Mulvaney has twice refinanced syndicated facilities, and been part of project teams on four acquisitions and one disposal – Imperial Tankers in 2014 sold for £26.9m. During the past year, she has overseen the move of the UK clearing facilities. She has set up treasury and hedging policies, and introduced fuel hedging to the group. "The new business activities in construction have brought a demand for bonds and guarantees, so I feel during my time with Hargreaves I am always learning new skills or putting theoretical learning from AMCT into practice," she says.

In 2016, she was also asked to take over payroll as well as treasury. "So our small treasury team expanded from two to three to allow me to delegate more and take on the responsibility of a payroll team of six covering 1,800 employees [international payroll is outsourced]. I know traditionally treasury teams are small, but I am very proud of what our two-person team has accomplished over the past six years and am excited about what three of us can accomplish in the future," she says.

With a large and growing social housing portfolio, borne out of its construction business and activities restoring brownfield former mining sites, Hargreaves' diversification policy looks well established. Hargreaves recently received planning permission for 1,600 houses at its 392-acre Blindwells site in East Lothian, formerly an open-cast mining site. The group is looking towards its property and energy divisions to add significant value, she says, and looks unlikely to dim its growth ambitions any time soon.

Liz Loxton is editor of *The Treasurer*

TOP TIPS FOR OTHER TREASURERS

1. **When you support and add value, people come to you proactively to engage. When they engage, not only does our job become easier, but we can help them make their jobs easier – cooperation and trust are a virtuous circle.**

2. **The AMCT gave me the foundation of my treasury knowledge. It is fundamental to my day-to-day job and provided the theoretical platform for my practical knowledge to grow from. There is not one subject that I covered with AMCT that I have not dealt with in my role, and it is rare for a professional qualification to cover so much specific scope of a role.**

3. **I would be lost without my iPhone. It allows me to carry on the job while I am off-site and in meetings without impacting the treasury department operations. I must have gone through several laptops and tablets in my time at Hargreaves, but my iPhone has lasted.**

4. **There isn't really a secret to career success, just hard work. I enjoy being the first one in and the last one out. Within our business, treasury is at the forefront of everything, which can mean long days dealing with operations, executives, banks and internal departments. I get my head down and get the work done. When a task is delivered, it speaks for itself as to the work put into it.**

5. **My FD is always challenging me on finding ways to support the strategy. There are a lot of conversations around: "We would like to do this; practically, how can we do this? How would funding work? Would the banks support it?" It comes down to understanding the strategy and the direction of the company, and being able to support and drive it forward.**

6. **The best way to wind down after a stressful day is to watch a movie or binge on box sets. I love watching films, so most nights when I get in, I watch one. It doesn't matter if it's new or one I have seen a hundred times, both can bring me joy. I did an MA in Film Studies and it opened my eyes to all the different genres of film through the years, and I take great pleasure in discovering a new favourite.**

STRIKING THE RIGHT BALANCE

DESPITE A TREASURER'S BEST EFFORTS, BANK RELATIONSHIPS CAN GO OFF THE BOIL. ELEANOR HILL EXAMINES WAYS TO MAKE THE PROCESS OF FINDING – AND RETAINING – A NEW BANK THAT BIT EASIER

"Keep your eyes wide open before marriage; afterwards, half shut." While Benjamin Franklin famously spoke these words, he was never legally married. The mother of his childhood sweetheart felt his financial prospects were too poor and turned him down.

There are parallels to be drawn when it comes to relationship banking. Not least the importance of financial prospects in making a good match from both sides of the relationship.

"We all know that a bank's balance sheet is committed at a cheap cost because it opens the door to a corporate's ancillary business," says Neil Garrod, director of treasury at Vodafone. "There's a debate to be had around whether it would be better for banks to price that balance sheet commitment more fully, and then reduce the fees on the ancillary business. Realistically, though, I don't see that model changing any time soon," he adds.

Joanna Bonnett, group treasurer at PageGroup, agrees that, for now at least, "banks continue to be under pressure to competitively price debt products". For treasurers, she says, the challenge is to divide ancillary business across all lenders in a facility in order to facilitate a good working relationship.

What if one of those banking relationships isn't exactly good any more, though? How easy is it to drop a relationship bank or switch to another – and is it advisable?

GROWING STALE

In Garrod's view, it is sometimes best to let things remain as they are. Since bank facilities are cheap, it's unlikely that a corporate would change relationship banks – certainly not before the facility has reached its renewal date.

"Unless your annual commitment fee was so high that it warranted a change, you're better off leaving that bank alone and letting the arrangement run its course, even if the bank has disappointed in the service delivered to date," he adds.

Rick Martin, group treasurer at GasLog, takes a similar view, saying that for a bank to be "placed in the penalty box by a corporate, there would need to be some very serious issues". The more likely scenario, says Martin, is that the relationship withers on the vine. Perhaps the bank has some balance-sheet issues, or is looking to refocus its strategy towards certain types of business, such that there is no longer a good match between need and capability.

If, or when, a bank relationship does start to peter out, best practice dictates an open and honest approach. Most companies have banking relationships that have become lacklustre, says Damian Glendinning, treasurer at Lenovo, whereby they are not giving the bank enough business to cover the cost of managing the relationship, so service suffers. Glendinning believes this is a waste for all concerned and that the fair thing to do is to limit the number of banks, so that the ones in the panel can make a decent return. After all, banks are businesses, too.

Of course, ties might not always be neatly severed, as there may be some residual trades or local cash management relationships to consider. The key here, according to Michelle Dovey, director at MJD Treasury Solutions, is to ensure that you either move these pieces of business or work hard to maintain an ongoing, albeit much smaller, relationship with the bank.

GUIDING PRINCIPLES

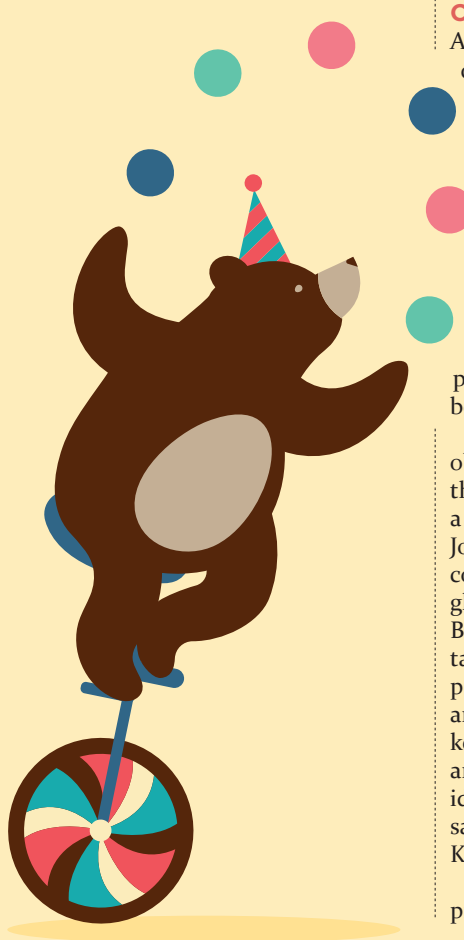
A relationship having run its course is by no means the only driver for establishing a new bank relationship. "There are good reasons why you might choose to add a new bank to your panel, such as entering a new geography that your existing banks don't cover, or undertaking 'exotic' transactions that require specialist support," says Garrod.

Whatever the reason for choosing a new relationship bank, it is always useful to keep some guiding principles in mind during the selection process. In Dovey's

view, it is vital to decide how a new bank will fit into your existing relationship group. This is especially important when looking to build sustainable, long-term connections. "Often, UK-headquartered businesses will have all four clearers in their banking group, even if they do not have much UK-based ancillary business. This will just become a problem later, as I have previously discovered, with the banks all wanting the same ancillary business," she says.

Dovey recommends honest dialogue with a new bank as to your expectations and theirs. "There is no point bringing in a new bank that expects three bond mandates over the next three years if you expect to give them only one. By the same token, you will need to ensure that the bank wants to be in the relationship for the long term, so that you aren't having to switch at each refinancing. No promises need to be given on either side, but transparency and trust need to start from day one."

You will need to ensure that the bank wants to be in the relationship for the long term, so that you aren't having to switch at each refinancing



Similarly, Martin believes that during the courtship phase, it is important to go in with realistic and transparent expectations on both sides. "For example, we are very open about the fact that we aren't yet publicly rated, and that we're probably not going to be publicly rated until year 'x', so we tell the banks up front not to expect rated debt capital markets income from us," he comments.

CARDS ON THE TABLE

Another topic that it may be useful to discuss with any potential new banking partner relatively early on is the KYC process. "Adding new banks is always easy – or, at least, it used to be in the days before KYC."

Martin agrees. "[While] KYC is a fact of life, it is a complete headache and it does create a barrier to entry for adding new relationship banks. There are a couple of instances where we have stopped the onboarding process because the KYC has simply been too difficult," he adds.

Making this process less painful – obviously, while still complying with the law – would be quite helpful from a relationship perspective, Martin says. John Salter, managing director, global corporate and financial institutions, global transaction banking at Lloyds Bank, says there are steps that can be taken to both anticipate and reduce potential hold-ups relating to KYC and documentation. He recommends keeping corporate records, mandates and resolutions up to date, as well as identification for signatories, as this can save a lot of time when working through KYC requirements.

Another option is to get a KYC package pre-agreed with the new bank before formalising the relationship. This should help ensure there will not be delays further down the line.

It's also important to understand how your treasury strategy, and the overall corporate strategy, matches the capabilities and strategy of any potential banking partner. If, for example, your FD and CIO are planning on centralising functions, it is vital to choose a partner that can proactively challenge and join you on that journey, whether it be ERP consolidation or IT security.

As well as ensuring the current and future needs of the company are covered in the request for proposal (RFP; see *The Treasurer*, July/August 2016, page 28, for an article on constructing an RFP), a treasurer must also ensure that the project plan for switching providers is robust, says Bonnett. This includes allowing ample time for technology testing and implementation, while challenging the business to deliver the best possible outcome.

BE TRANSPARENT

A final piece of advice for successfully switching banks is to speak candidly, across the business, about the drivers

TOP TIPS FOR SUCCESSFULLY MANAGING A BANKING GROUP

1. Know your wallet size/ancillary pot.
2. Be transparent with your banks on what opportunities they will have.
3. Build a two-way healthy relationship based on trust and fair play.
4. Remember that your relationship manager's top priority is their bank, and your top priority is your company – do not blur the lines.
5. Communicate bad news with reasons. Never shy away from that "sorry you didn't win the bond mandate" personal conversation.

SOURCE: MICHELLE DOVEY

SWITCHING BANKS – THE CASH MANAGEMENT LANDSCAPE

Minimising KYC obstructions could not be more important than when switching part of the ancillary business, namely cash management, to a different provider. Being unable to open accounts would be challenging to say the least.

The hurdles of switching cash management banks don't stop there, however, as many corporates found out when RBS announced in 2015 that it was going to exit its European cash management business – leaving thousands of treasurers to switch banks on an extremely tight timeline.

One major challenge when switching cash management banks, especially in haste, is that these relationships are often far reaching and complex, touching many parts of the organisation beyond treasury. "Understanding the downstream implications of changing these set-ups is key to minimising disruption and getting it right first time," says Salter.

Dovey also highlights the need to consider the impact beyond treasury. If the business is paid directly by its customer, then the switch needs to be managed so that that customer isn't lost due to unwanted change, she says. What's more, funds can also go astray, taking credit control departments time to try and locate them. "Further challenges are in internal systems, which will generally lie on the shoulders of the purchase ledger departments," she says.

On the topic of systems, building new connectivity channels, enterprise resource planning (ERP) changes and development of file formats can be time-consuming, costly and will likely require specialist resources, Salter says. IT development budgets are often fiercely contested, and being able to sell the value benefits of changing from an existing, working practice to a new one can be a challenge in any organisation, he goes on.

Indeed, getting internal buy-in from many departments can make these projects tough to manage from a group treasury perspective. Furthermore, "the risk of non-performance by the new bank can also leave you vulnerable for strong internal criticism, something that I don't think banks always appreciate", says Dovey.

So, how can treasurers go about picking the right cash management provider and minimise these risks? A well-structured request for proposal (RFP) that starts with the fundamentals and works up to the bells and whistles is key.

"As obvious as it might sound, if you are looking to change your cash management provider, you absolutely need to know which services and products you use today and the ones you will need to add in the future," says Bonnett.

Eleanor Hill is a freelance corporate treasury writer

and possible outcomes. "I think the pitfalls are best avoided by the work that you do aligning your group treasury department with the rest of the business," says Dovey.

It is important to know all the key departments within the company, communicate with banks regularly on why you are changing, get them involved with the decision-making process and have them meet the bank. Treasurers, she says, also need to be transparent with the rest of the business on what could go wrong (since no bank is perfect), and outline how any potential hiccups can be mitigated or dealt with as and when they arise.

In summary, when it comes to switching cash management banks, or adding a new relationship bank, forewarned is very much forearmed. And perhaps, most importantly, as Franklin also once said, "honesty is the best policy".

PROFIT & PURPOSE

DOES SOCIALLY RESPONSIBLE INVESTMENT REPRESENT A BRAVE NEW WORLD FOR CORPORATE TREASURERS OR AN OPPORTUNITY MORE RESEMBLING PANDORA'S BOX? JIM CLIFFORD OBE AND CLAUDIA BURGER REPORT

Despite its origins in the work and investment portfolios of the great Victorian industrialists, and the involvement of venture capitalists led by Sir Ronald Cohen (founder of Apax Partners and the British Venture Capital Association) for over a decade, social investment has not yet come onto the radar of many corporate treasurers and investment managers. Yet it may offer many benefits: in particular, balancing investment and positively profiling the investor. Is this a door to a new world for corporate treasurers, or a box of mixed blessings best left to a risk-taking Pandora? Perhaps it is an area

QUESTIONS FOR A TREASURER TO ASK:

1. Could an element of funds in management be allocated to social investment?
2. Could we require fund managers to include social stocks as part of the portfolio?
3. Could we create a link-up with a social-sector organisation or fund manager?

most relevant to fund and investment managers, but are there any lessons to be learnt for the corporate, especially where they manage a significant long-term investment portfolio?

Social enterprise generally refers to programmes, organisations and projects focused on delivering improvement in the lives of individuals, families and communities. These may be as diverse as employment, children and youth interventions, ranging from the general, such as National Citizens Service or the Duke of Edinburgh's Award scheme, to the intense, such as The Children's Society's work, with children at risk of sexual exploitation. They may also include programmes to combat domestic violence and workplace stress or improve physical activity and community health.

The European Commission expert advisory group on social business (Groupe d'experts de la Commission sur l'entrepreneuriat social or GECES) has developed standards for impact measurement that are now a part of secondary legislation.[1] These standards define 'social' as 'relating to individuals and communities, and the interaction between them; contrasted with economic and environmental'. Investment takes the familiar definition of funds injected by loan or equity for a financial return. So, combining the two brings us to social investment: investing in organisations or programmes, the prime or main focus of which is to bring about social change or improvement for individuals, families or communities. Since the investment requires a return and a repayment of capital at some stage, the services have to be delivered to an enterprise model; that is, they have to make money to fund the return on capital.

This sounds like a very new area for investment, but does it represent real opportunity, and where does it sit between charity and the private sector?

The Social Impact Investment Taskforce, formed by the G8,[2] recognised that as ethical investment stretches its boundaries to not just avoiding harm, but actively delivering social value, and as the charity sector develops from the grant-giving and direct delivery charities into more enterprise models, the two meet and form a continuum (as shown in the diagram on page 28). In the middle are privately owned companies with a primary social purpose ('profit with purpose', such as those delivering public services like Core Assets[3]) and social-sector organisations working with an enterprise model ('purpose with profit', such as the HCT group[4]). Many of this middle range seeks backers for fixed and working capital, and can pay returns on it.

A recent EU publication, *Social Enterprises and the Social Economy Going Forward*, noted that the social economy represents 8-10% of GDP across the EU. The 'purpose with profit' and social delivery organisations it identified include a large number of SMEs, but also some substantial organisations and networks with turnovers above £100m. This is, by most standards, a substantial area of economic activity and investment opportunity. While the rate of investment into the social-sector element of these is perhaps a little behind the 2012 Boston Capital Group projection that suggested demand of £1bn per annum in the UK alone by 2016[5], this sector is growing and developing beyond the housing bonds that have been with us for many years.

THE SOCIAL INVESTMENT MARKET

In terms of structure, the investments follow many of the commercial sector models: debt (secured, senior and unsecured, junior types), equity, and for charities and others who cannot issue shares, debt instruments that behave like equity. These may be directly invested in the borrower, or its delivery (trading) vehicle, or indirectly through collective investment pools or managed funds. The latter, like their commercial sector equivalents, present different focal purposes (for example, health or children), and different risk profiles based on the instruments in which they will invest, and the degree of portfolio diversification.

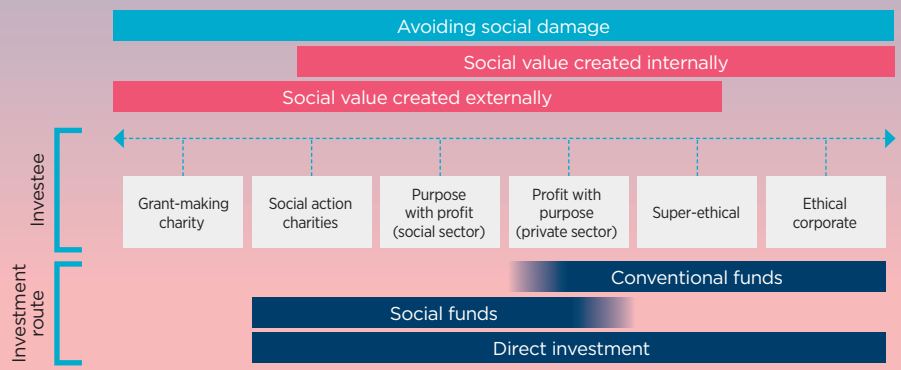
As shown by the dark-blue bands in the diagram, where conventional funds invest mostly in the conventional (even if they are starting to move towards the socially focused), the specialist social funds are starting with charities and 'purpose with profit', and stretching towards the private sector. Direct investments, of course, span the whole range.

Investors are typically approached either directly (often in association with an existing business association or for off-market placements through intermediaries or brokers specialising in placing social instruments), or through brokers placing listed instruments. Listings may be on any of the main markets, or one of the newly emerging specialist provisions. Two of these that seem to offer considerable promise are the Social Stock Exchange (linked to ICAP-ISDX, and offering issues that are certified as having a social impact, as well as offering a largely bond-like investment profile)[6] and the Allia-coordinated issues onto the Retail Bond Market as retail charity bonds (such as the issues by Golden Lane Housing[7] for purchase of specialist housing stock).

As an alternative, investors may prefer to invest through managed funds operated by those offering specialist focus, such as Bridges Ventures, Social Finance UK, FSE CIC or Social and Sustainable Capital. These tend to be

Many of this middle range seeks backers for fixed and working capital, and can pay returns on it

THE CONTINUUM OF 'SOCIALLY EFFECTIVE' INVESTMENT



five- to seven-year funds, as against the listed bonds that often mature at 10 years or slightly more. Some liquidity may be offered in these as between fund investors, matching to a degree the opportunity to resell on the market for the listed bonds. A further alternative used by some who wish to commit funds to this, but do not want to co-invest up front, is to follow, and co-invest with, an existing investor or fund focused on this area. This typically is either on the basis of a pre-commitment to match pound for pound or similar, or as a club member, in which you are notified of opportunities, and decide piecemeal as you go whether to co-invest and in what proportion.

As an investor, there are probably two broad approaches: to carve off a fixed element of the whole fund holding and apply it semi-permanently to these markets, or to make a more flexible and liquid arrangement, allowing you to move in and out of relevant investments. The second is harder to achieve at present, other than by working with a fund manager or broker to help you to do so, or in connection with a more liquid holding, such as listed bonds. Another possibility would be providing shorter-term capital funding for large social ventures in a partnering arrangement. The market, however, is improving all the time, so all of these are worth considering.

WHY LOOK AT THIS AREA OF INVESTMENT?

There are four main reasons why this is an area of interest. The first is the investment opportunity itself. With a developing market of sound investment prospects with yields, many of which meet market norms, and a substantial part of the economy in this arena, why ignore the opportunity? To embrace this brings a chance to say something positive about the organisation and its values. It is both pro-social, caring and forward-thinking. The third area is in balancing risk. With so much of the economy in this arena, and with it responding to different economic risks, it arguably enables the investor to get a greater spread of risk across the portfolio.

This, of course, depends on the investments chosen in this area, and how they are themselves balanced and managed – but the principle is clear. Finally, it enables an investor, corporate or otherwise to generate and, if it wants, to take some credit for, creating positive social change with its money at the same time as maintaining reasonable investment yields. In times when consumers, customers, staff and other stakeholders are often looking at a corporate's values as a driver of their loyalty to it, this could be a significant positive move.

WHAT NEXT?

If this sounds interesting, what does it mean for an investor or a corporate treasurer? Perhaps much of this is more relevant to fund managers, or those with long-term cash portfolios (probably six months), but there are four areas worth giving consideration:

1. They can review their existing investment portfolio against the criteria discussed above.
2. They can consider an allocation of a slice of the funds in management, possibly a modest slice, into overtly social stocks, either listed or on a broader footing.
3. They can consider whether to invest directly into social ventures, or to prefer managed funds with a social purpose, and develop relationships with appropriate ones.
4. They can approach the brand development and marketing teams (not just as an add-on to a Corporate Social Responsibility programme) to see how moves in this area could be used to develop brand and positioning in a helpful way.

1 www.ec.europa.eu/internal_market/social_business/docs/expert-group/20131128-impact-measurement-subgroup_en.pdf
2 www.socialimpactinvestment.org
3 www.coreassets.com
4 www.hctgroup.org
5 *The First Billion: A forecast of social investment demand*
6 www.socialstockexchange.com
7 www.glh.org.uk/investors

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AFRICA RISING

IN SPITE OF CHALLENGES AND RISKS, SUB-SAHARAN AFRICA REPRESENTS CONSIDERABLE OPPORTUNITY FOR MULTINATIONAL COMPANIES. SEMIH OZKAN LOOKS AT THE CASH MANAGEMENT ISSUES

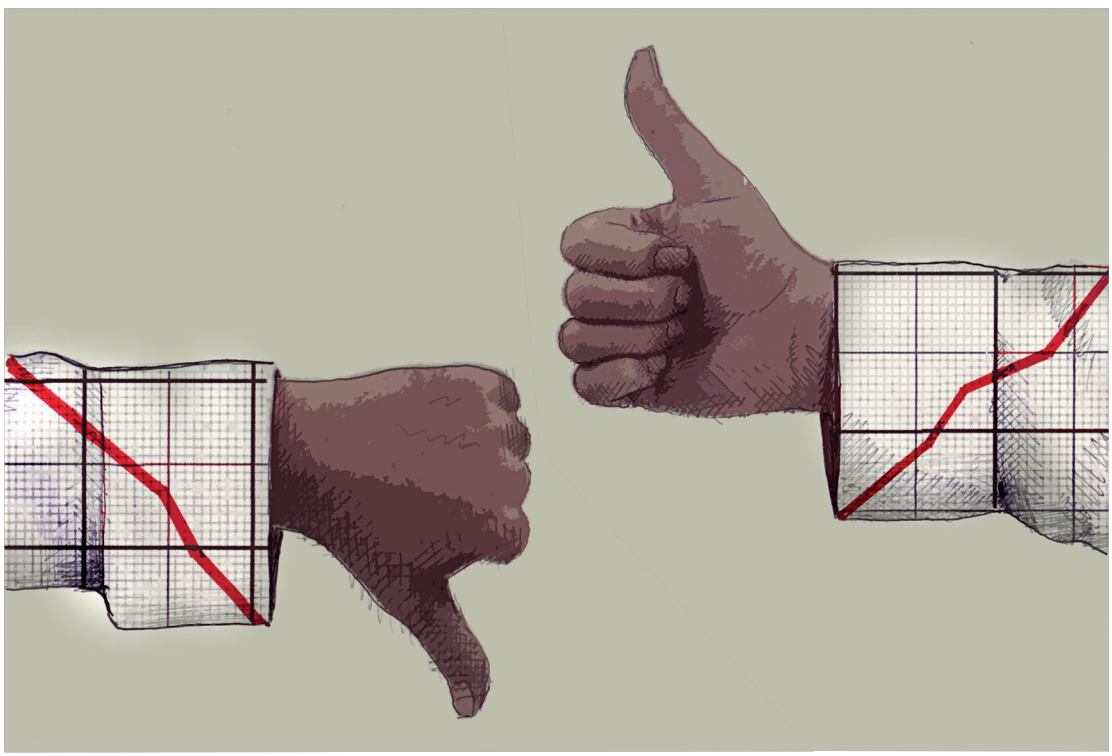
Since 2000, Sub-Saharan African economies have grown with considerable force. According to the International Monetary Fund (IMF), nominal GDP increased from $395bn in 2000 to approximately $1.5 trillion in 2016, with an average growth rate of 5.1%. After successively strong years, the pace of growth slowed considerably, registering just 1.5% in 2016, the slowest performance since 1994. The decrease has been attributed mainly to declining commodity prices and a rebalancing in global demand, particularly in terms of the Chinese economy. Internal structural reforms also slowed.

The fall-off in the rate of growth immediately prompted questions around the whole Africa Rising narrative. However, Africa still leads SWIFT's worldwide commercial payment growth list for 2016, and the IMF expects a recovery in its GDP rate to 2.7% for 2017. There is widespread agreement that the region's growth story is bona fide and that long-term fundamentals remain very strong.

Africa's success is rooted in its growing and rapidly urbanising young populations and its potential to leverage its natural resources in world markets, while also swiftly developing domestic markets. According to consultants McKinsey & Co, the combined opportunities could equate to around $5.6 trillion in household and business-to-business spending by 2025. What is more, thanks to tax incentives, better governance and the improving business environment, some commentators anticipate manufacturing capacity will increase radically.

This outlook means Africa will continue to attract interest and commitment from regional and international companies. However, corporates face wide-ranging challenges, in terms of managing complex and diverse business environments, as well as addressing the pressures of running day-to-day operations within inadequate and fragmented, albeit progressively improving, financial and regulatory frameworks.

Companies from Western Europe, Asia-Pacific, North America and the Middle East are among Africa's direct investors. However, if these corporates are to thrive there, treasurers need to take steps to manage the underlying challenges and risks to implement sufficient controls, transparency and efficiency across their business in the region. That task is not helped by the region's financial and regulatory landscape.



IKON IMAGES

CASH AND LIQUIDITY MANAGEMENT

Treasurers everywhere aspire to a single point of access for all transaction and information needs across their operations. In Africa, local realities are simply not on their side, mainly because of the region's still-evolving financial and regulatory landscape. Treasurers confront broad challenges in terms of implementing their treasury agenda on a daily basis, challenges that

differ from market to market. An established Africa-aligned cash and liquidity management structure, one that presents sufficient visibility and control over cash flow, is the foundation to doing business in the region.

In terms of local capabilities, transaction accounts are fortunately available in many key regional economies for resident and non-resident companies. These per-country capabilities are the basis for all banking services, including payments, collections and liquidity management. Yet the region is still predominately made up of cash-based economies. Cash payments and collections remain a reality given the population's limited access to formal financial systems. This, of course, poses considerable operational and control risks for treasurers, from collection to security and reconciliation. Happily, electronic banking capabilities are progressively taking hold and are available for treasurers in many key regional economies. That being said, treasurers still need to employ, depending on their underlying business, a variety of cash-based solutions, such as doorstep banking and cash-in-transit arrangements, to facilitate cash-based transactions and to manage associated risks and embedded costs.

Unless a cash-based transaction is necessary, payments can also be made electronically via a range of secure data-transfer channels, including telegraphic, domestic electronic fund transfers and real-time gross settlements. However, international payments, at least in many key regional economies, are still subject to exchange controls and central bank reporting requirements. Likely driven by this fact, the region has the highest domestic versus cross-border commercial payments ratio in the world, according to SWIFT.

Collections can also be made electronically, albeit in a limited way, through electronic receipts or direct debits in many countries. Payment and collection capabilities have been steadily growing in sophistication in recent years. More advanced channel solutions, such as Host-to-Host and even SWIFT for Corporates arrangements, have been implemented by a number of companies in the region to connect to banks through single, secure and standard channels. In this context, the region, particularly Kenya and Nigeria, is leading the world in terms of mobile money developments. While the majority of transactions are still retail in nature today, corporate-related solutions are already on the way.

Liquidity management is another far-from-straightforward issue, in view of various exchange controls and regulations. According to PwC's recent survey, *The Africa Business Agenda 2017*, transfer pricing and withholding tax are ranked very high on regional executives' agenda, followed by consumption taxes, corporate tax, and customs and excise. There are tailor-made solutions available locally for treasurers to optimise liquidity by netting balances, pooling or sweeping them physically or notionally. That being said, the region's notoriously fragmented regulations can rule out the prospect of sufficient visibility and cash-flow control gains. Consequently, discussion around regional treasury centres, along with shared service centres, are moving up the treasury strategy agenda.

Until recently, companies have largely operated decentralised treasury models. However, their increasing scope of activities has been prompting treasurers to move towards centralised models, focusing activities into locations such as South Africa, Mauritius and even Dubai, all of which serve as suitable locations for the region. To determine the location for a centre, treasurers need to take into account regulatory issues, the efficiency of legal frameworks, tax and double-tax treaties, financial markets and products, human resources and infrastructure. A high level of comparison among these locations based on the key evaluation factors cited above would give treasurers an idea about each location's particular pros and cons. However, the final decision depends on each company's unique needs, driven by their scope, experience and strategy in the region.

Africa will continue to attract interest and commitment from regional and international companies

RISKS

Without a doubt, doing business in the region is challenging and risky, since there are notoriously tangled commercial, financial and regulatory constraints. While the region as a whole has made noticeable progress regarding the financial and regulatory landscape, including regionalisation efforts, to facilitate swift inbound and outbound flows, many key regional economies still demand extensive documentary requirements. In this regard, over-regulation is a serious concern for treasurers, since it potentially causes trapped-cash situations, which can increase underlying FX exposures.

OPERATING IN AFRICA – RISKS AND OPPORTUNITIES

- FX risk is a major concern. Africa has 50-plus currencies and a myriad of related exchange controls.
- Many key economies are experiencing liquidity shortages, particularly the US dollar for spot conversion.
- Conversely, local FX markets may represent an opportunity for bringing offshore non-deliverable forwards into play.
- Funding remains a key challenge, with longer cash-conversion cycles bringing additional costs. Local currency borrowing is an option in some markets. Meanwhile, the drive to centralise operations is accelerating.
- Treasurers continue to tap local banks for overdrafts, import and export finance, and asset-based finance. Supply chain finance is also gaining ground.

Semih Ozkan
is an ACT member and a transaction banking professional in an international bank

CHINA'S DEBT ISSUE

CONCERNS ABOUT CHINESE DEBT HAVE CULMINATED IN A SOVEREIGN RATING DOWNGRADE. WARUT PROMBOON EXAMINES HOW AND WHY CHINA LAGS BEHIND ITS INDUSTRIALISED PEERS IN TERMS OF THE CREDIT UNDERWRITING DISCIPLINE

Moody's downgrade of China's local currency and foreign currency senior unsecured debt rating to A1 (from Aa3) in May confirms sentiment that China's economic improvement will not develop fast enough to outpace its debt problems. Economic improvements result from rising productivity, which may not necessarily be created by adding more debt. Debt problems, meanwhile, derive from a lack of credit underwriting disciplines, ie the credit culture.

Overly kind critics

Despite Moody's downgrade, much of China's macro data has recently improved. Many sell-side economists have seen the downgrade as a turning point and expect the renminbi to stop depreciating. They are correct, except that they have made that call based on official data. China's data is a far cry from the developed market standard, and China's credit risk has not receded, we believe. Complacency is dangerous; if analysts pay no attention to data integrity, research can amount to a 'garbage in, garbage out' process, especially when the Asian bond spread is at its tightest in recent years. It seems clear that analysts and economists have been too kind on China.

Credit culture (or the lack of)

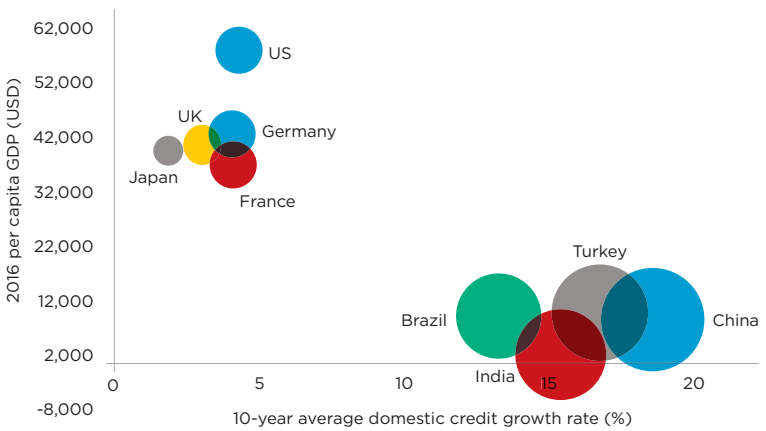
The underlying problem is that China has grown its debt without improving its credit culture. A sound credit culture is one that has developed a pool of qualified credit analysts (including qualified credit rating agencies), where differences of opinions are cherished, and data is transparent.

However, Chinese rating agencies are well known for assigning too many AAA ratings to onshore issuers. We should first examine those AAA ratings, as these are awarded nationally, not internationally. A national issuer rating is assigned by ranking a Chinese issuer against its domestic peers, not international ones, so we simply cannot compare national ratings against international ones. The market convention has it that any AAA national rating should be mapped from BBB- to AAA on an international scale.

But here are the problems. Many national ratings are incorrectly labelled as international, because many analysts lack knowledge of what an international rating actually constitutes. In addition, AAA national ratings account for the majority of all rated entities in China, which tells us these agencies have not done a good job. Perhaps they seek to represent onshore issuers rather than investors. Local rating reports often lack credit arguments and do not set out clearly why an issuer deserves an AAA rating. The fact that onshore investors only look for AAA ratings leads to a lack of credit quality differentiation. Furthermore, China's culture of no debate leads to a lack of criticism of local rating agencies and that prevents those agencies from reaching the international standard.

We have seen government-owned asset managers subscribe to bonds issued by government-owned entities at a time when no international investors wanted exposure to China. Since many Chinese issuers are either government-owned or government-influenced, it is difficult for local rating agencies to issue negative opinions on China, let alone state-owned enterprises and local governments. We understand Chinese regulators plan to allow international credit rating agencies to rate

FIGURE 1 – CHINA'S GDP VS ITS PEERS



SOURCE: CEIC, BONDCRITIC ESTIMATES

China's senior unsecured credit ratings	Local currency	Foreign currency	Outlook	Last reviewed
S&P	AA-	AA-	Negative	31 March 2016
Moody's	A1	A1	Stable	24 May 2017
Fitch	A+	A+	Stable	15 October 2013

SOURCE: BLOOMBERG

onshore issuers and we view this policy development as positive for China's debt market. Nevertheless, we doubt the government will want to get rid of its overly kind analysts altogether. Rating liberalisation will occur when the criticism is heeded or when the Chinese economy is back on track, a scenario that may not occur this year.

China's economy has grown faster than its efforts to create a functional financial market in the past 10 years. Differences of opinions make the market; therefore, without these, there is no market. The result is inefficient capital allocations, where credit risk cannot be properly priced and a capital cushion for non-performing loans can be a shot in the dark.

This lack of willingness and ability to produce good-quality information is reflected in Transparency International's Corruption Perception Index. In 2016, China was ranked 79th, the same level as Belarus, Brazil and India. China scored 40 points out of a total score of 100 (versus 37 points the year before). The biggest annual improvement between 2011-2016 is 3 points or 8.1%. If we assume an 8.1% improvement to 43 points in 2017, the peer group can be extended to include Turkey. That said, we see Brazil, India and Turkey as China's closest peers in terms of financial market development.

Figure 1 (opposite) shows China against its peers (Brazil, India and Turkey), as well as major G7 countries (of which China is a member) in terms of the 10-year average credit growth versus 2016 per capita GDP. The bigger the circle on the chart, the stronger the credit growth over the past 10 years.

China's average credit growth rate of almost 20% over the past 10 years is the highest among its peers. The chart shows that China has grown its debt beyond its productivity. True, China (along with Brazil, India and Turkey) remains a developing country, which needs to grow its credit at a quicker pace in order to support its faster GDP growth. However, Brazil (BB/Ba2/BB by Standard & Poor's, Moody's and Fitch), India (BBB-/Baa3/BBB-) and Turkey (rated BB/Ba1/BB+) all have credit ratings a few notches below China's. China's small per capita GDP tells us the country's credit growth in the past 10 years has not made its population more well off than those in Brazil and Turkey, despite China's gigantic FX reserves.

China's economy has grown faster than its efforts to create a functional financial market

The first domino to fall

Moody's downgraded China's sovereign rating to A1 from Aa3 on 24 May, the first downgrade on China by Moody's since 1989. The outlook, meanwhile, was revised from negative to stable. The downgrade reflects "Moody's expectation that China's financial strength will erode somewhat over the coming years, with economy-wide debt continuing to rise as potential growth slows. While ongoing progress on reforms is likely to transform the economy and financial system over time, it is not likely to prevent a further material rise in economy-wide debt, and the consequent increase in contingent liabilities for the government."

We agree with Moody's view. The Chinese government and local rating agencies have come out in defence of China's credit ratings, but, in our view, the more they come out, the more credible Moody's position has become. China's worsening debt problem is clear, and the market's strengthening conviction on the debt crisis seems likely to quicken capital outflows out of China. Moody's could be the first of a few more negative rating actions for China in the near term. Credit ratings of Chinese state-owned enterprises are implicitly supported by the Chinese government and, therefore, all deserve a one-notch downgrade, in our view. This wholesale downgrade event will cause a repricing event for Chinese credits as a result. In our judgement, rating downgrade risk poses asymmetric downside risk for Chinese-related assets in the near term.

Warut Promboon is an Asian credit research specialist and managing partner at Bondcritic

ON THE BRINK

IN JUNE 2015, THE GREEK GOVERNMENT IMPOSED CAPITAL CONTROLS ON THE GREEK FINANCIAL SYSTEM. CHRISTOS BALTOUMAS DESCRIBES HOW HE AND FELLOW TREASURERS WORKED TO OPTIMISE CASH AND SURVIVE THE THREAT OF GREXIT

In June 2015, a new reality broke in Greece. Ongoing negotiations between the Greek government and the so-called troika of the International Monetary Fund, the European Central Bank and the EU had reached a stalemate. As a result, the Greek government decided to hold a referendum to determine the public view on whether Greece should agree or reject the austerity package proposed. Mass withdrawals from cash machines and rumours about the prospect of imminent bank failures ensued, resulting in the closure of all bank branches and the imposition of capital controls within hours.

It is true to say that treasurers and corporates were preparing for this scenario for many months. In fact, for most of us it was not a matter of if, but when.

From 2008 onwards, treasurers in Greece have been forced to work under hostile conditions. The country has lost a quarter of its GDP, while public debt stands at more than €320bn. The debt-to-GDP ratio has gone from 110% in 2008 to more than 185% in 2016. Unemployment has soared and consumption hits new lows every year. Non-performing loans exceed €100bn, while deposits in Greek banks reached around €120bn in February 2017, the lowest level in more than 10 years. Funding to corporates and individuals dried up long ago, further hurting investment and consumption.

It was against this backdrop in early 2015 that treasurers and corporates in Greece were forced to rethink strategy and treasury policies. The fear of bank closures and capital controls, the talk of Grexit and uncertainty around the future of Greece's currency were issues that we had to address quickly and effectively. According to our analysis, we had to address three key areas.

1. Trapped or devalued cash

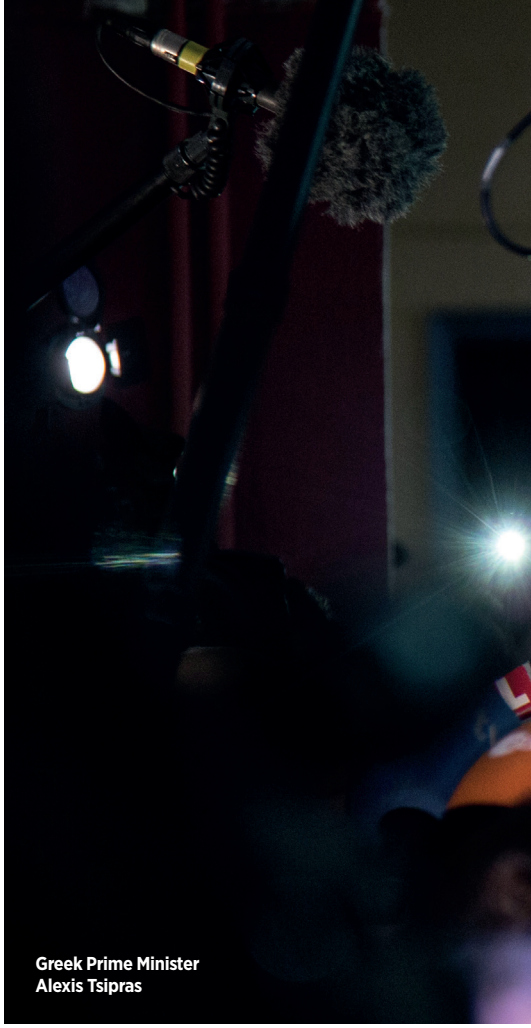
First, we had to closely monitor our liquidity and manage our cash effectively to avoid seeing our cash either trapped in Greece or devalued in the event of a Grexit. Our short-term goal was to keep our bank balances as close to zero as possible. We updated cash flows daily and evaluated projections again and again. Our aim was to be as accurate as possible. And there were other pressures. We wanted to ensure accuracy with regards to payments from customers. On the other hand, we had to be prepared to delay payments to suppliers. Timing was key, since it was also imperative we avoid damaging relationships with key suppliers.

In the medium term, we had to be prepared to move any excess cash outside Greece – a strategy that in itself brought many questions. Would we choose a Greek bank outside Greece? Greek banks have a strong presence in the Balkans and most have affiliates in London and other financial centres. Would it be safer to go for a foreign bank, perhaps in Germany or in the UK, or in a eurozone country or in another jurisdiction, such as Switzerland? Would a current account or a money market investment serve our needs more appropriately? We had to decide and act quickly, since establishing new relationships with foreign banks requires time and money – and we had neither to spare. What is more, we had to be discreet and protect existing relationships.

2. Debt considerations

A second area that we had to keep an eye on was debt facilities. Different scenarios had to be evaluated with regards to existing agreements. In the event of a Grexit, what would happen to current euro facilities? Would they remain in euros or would they be translated into the new currency? This was a grey area, and legal departments in many companies worked overtime without reaching a solid conclusion. The prospect of servicing loans denominated in euros from assets held in a weaker currency posed a real threat to the very existence of many corporates.

Financial covenants were an additional challenge. All covenants had to be meticulously overseen, since the deterioration of the economic situation had had a big impact on the financial results of all companies. On top of that, we had to consider the availability of credit to refinance existing loans and, more importantly,



Greek Prime Minister Alexis Tsipras

GETTY

for evaluating future projects and investments. Projects were delayed or abandoned altogether, since banks in Greece had little or no appetite for new loans. As for foreign banks, there was no question of evaluating any new investment proposals; just mentioning Greece was enough to elicit a rejection.

3. Continuity

Finally, we had to consider contingencies for our operations. We had to establish how we would continue to work in the event of an interruption to Greece's banking systems. Electronic payments together with bank accounts outside Greece would be very important in that scenario. With that in mind, we had to establish relationships with new banks outside Greece – but we also had to test them. Despite the Single Euro Payments Area, we found that a wire transfer of €1,000 from, let's say, Greece to Luxembourg does not cost the same in money or time as a €1,000 transfer from Luxembourg to Greece. Even banks in the same country sometimes had different pricing lists with regards to the same wire transfer. So the pricing policy of each bank had to be considered.

Furthermore, we had to evaluate the possibility of serious unrest in the country in the event of a Grexit. Within our business, those plans included relocation and a set of specific instructions for our offices outside Greece in case there was a loss of communication for a long period. We had to be prepared to resume operations promptly and productively after serious unrest.

Now, almost two years later, and with a lot of questions around national debt levels and Grexit still unanswered, we are prepared and more confident about the future. We have tested relationships with foreign banks and we have minimised our exposure to the Greek banking system. At the same time, we deeply value our long-standing cooperation with our banking partners in Greece and we stand ready to extend it in the future.

We have learned to be prepared for even the most extreme scenarios, and we continue to update and test our risk management policy. We know now that, no matter how well prepared you might be, there will always be a factor that was not properly evaluated. In all contingency planning, you must leave yourself room to manoeuvre. Reality never ceases to amaze us; we have faced risks and challenges that we never imagined. During the first days after capital controls were imposed, most Greeks were afraid that banks would collapse and they would lose their deposits. Many consumers responded by buying expensive TV sets or mobile phones. Many corporates with large amounts of cash trapped in the Greek banking system started to pay all obligations towards the state or to suppliers in fear of a possible haircut. Even those treasurers who had done their homework and shipped cash out of the Greek banking system ended up with large amounts of cash in bank accounts because all their debtors started to pay past debts.

In this context, I must stress the importance of being able to talk to fellow treasurers and professionals in other countries. Their experience and contacts provided valuable help. Being a member of an established association like the ACT gives that opportunity to meet and talk to successful and experienced professionals from around the world – colleagues able to offer valuable insight. In certain situations, that opportunity to turn to an international network can provide a lifeline.

> We had to evaluate the possibility of serious unrest in the country in the event of a Grexit

Christos Baltoumas is a treasurer in real estate investment company Bluehouse Capital

For his article on the period prior to the imposition of capital controls, see *The Treasurer*, June 2015, page 34

ON ALERT

AFTER TWO MASS RANSOMWARE ATTACKS IN AS MANY MONTHS, EFFECTIVE DEFENCES ARE BECOMING EVER MORE CRITICAL, DEE KOTHARI REPORTS

IKON IMAGES

Technological evolution has become necessary to ensure companies remain relevant, efficient and capable of absorbing volume business. However, with cybercriminals becoming more sophisticated and determined by the day, the need to put in place relevant controls and preventative measures is pressing.

We need look no further than the two recent ransomware attacks to see the devastating potential of cybercrime. The WannaCry attack in May spread to more than 100 countries. In the UK, 61 NHS bodies fell victim to an attack that immobilised entire networks, and FedEx in the US and Renault in France were hit too, among others. In June, the Petya virus hit infrastructure and transportation companies. Seemingly originating in the Ukraine and targeting gas, oil and shipping companies, it hit corporates in Russia, the Netherlands, Norway and the US.

The weakest link in an entity's operations can bring an entire organisation to a halt, affecting anything from supply chain to manufacturing to banking.

So where do cyberattacks come from? Insider attacks usually originate with people who have access to security and transactional systems, and who have the potential to redirect funds, gain confidential data and commit fraud. They may be trusted and valued individuals. IT security technology in many companies can use behavioural analysis to establish anomalies such as unusual log-in times, and to evaluate audit trails, including asset-tracking and looking at the originating IP address and location of unusual transactions or communications. These techniques can be deployed to identify attempts at sabotage, data theft or deliberate destruction of data.

Outside attackers broadly fall into three groups. 'Hacktivists' tend to be motivated by a political agenda, rather than money, and aim to cause embarrassment or tarnish their target's corporate reputation. A second group is cyberterrorists, who compromise systems with the aim of laundering money. Perhaps the most sinister outsider group is government-sponsored hackers, who use their attacks to humiliate target countries and leaders. Methods of attack are diverse, but what they have in common is a willingness to use illicit means to gain access to records and data to target unsuspecting victims and cause mayhem and chaos.

A return to basics

While recent events have underlined the critical importance of cybersecurity, the basic principles around securing corporate technology have not really changed.

Understanding the threat is the first step towards neutralising it, which means developing a robust cybersecurity system and a set of processes to help spot and counter the ever-changing threats.

Common sense is also a powerful tool. Now is the time to remind colleagues to avoid using social media in the workplace and to reaffirm all agreed procedures around access to bank accounts. Accepting email invitations and clicking on shortened URLs is unwise. So is giving out sensitive information to known and unknown individuals. Using antivirus software and regularly updating browsers and systems are simple and good preventative measures – ones that should extend to any personal devices that employees use to access company platforms or execute transactions.

Calling on all treasurers

Treasurers should ensure they have sufficient internal controls to safeguard assets and deploy appropriate monitoring around critical assets and systems. Working towards greater cash visibility, centralised payment processes, a streamlined bank account structure and bank connectivity, and higher levels of automation are additional measures that will enhance security but may require additional investment. At a minimum, it falls to treasurers with managerial responsibility to ensure effective employee education around cyberthreats.

Preventative measures to help treasurers avoid issues around phishing and fraudulent calls include:

- Never click on links in emails that appear to be from your bank. Go to the bank site directly from your list of saved favourites, or enter the web address directly in the browser.
- Be suspicious of emails that are poorly worded or badly spelt. A genuine bank email will usually address you by your name and contain other references specific to you.
- Legitimate bank emails will never ask for your passwords or card and reader codes, or lead you to a screen that asks for information.
- If called by someone purporting to be from your bank, always call them back using a number you know to be correct. Make sure the phone line is clear before you call by waiting five minutes or using a different line, if you have one.
- Do not rely on your phone's incoming-caller display to identify anyone. Fraudsters can make your phone's display show a genuine bank number.
- Never divulge full online banking passwords or card and reader codes to anyone on the phone.

Additionally, with online banking, it is important to encourage employees to look out for unusual screens or pop-ups asking them to input passwords or security codes at an unusual stage. It is important that you alert your staff to the risk of devices becoming infected, and tell them not to carry out online banking from free or open wi-fi connections. If users see any errors that suggest the site is not secure, they should stop and report the problem without logging on or completing a transaction.

CxO fraud

With CFO and CEO email frauds a continuing concern, those in managerial roles need to ensure they promote sound procedures, as well as a culture where questioning one-off payment requests is the norm. Employees need to feel comfortable when checking with colleagues if they are uncertain about a payment. It is good practice to:

- ensure all employees involved in the processing of one-off payments and regular invoices are aware of the potential scams; and
- have a documented process that ensures all new payments or changes to existing payment details are independently verified to ensure the request is genuine. If there is any concern that the request is genuine, the sender should be contacted via a new email (not a reply) or called directly (using a different number) to verify.

> A clear internal treasury policy that outlines responsibilities within treasury and the wider group is vital

Prevention is better than cure

A clear internal treasury policy that outlines the roles and responsibilities within treasury and the wider group is vital. Treasury processes should be formalised and communicated to all personnel. Implement processes to follow, but explain the 'why', as well as the 'what', to ensure full understanding. Have a robust joiners, movers and leavers process to manage access and ensure access is removed when no longer needed. This could include further segregation of duties, to require two or more people to complete a transaction.

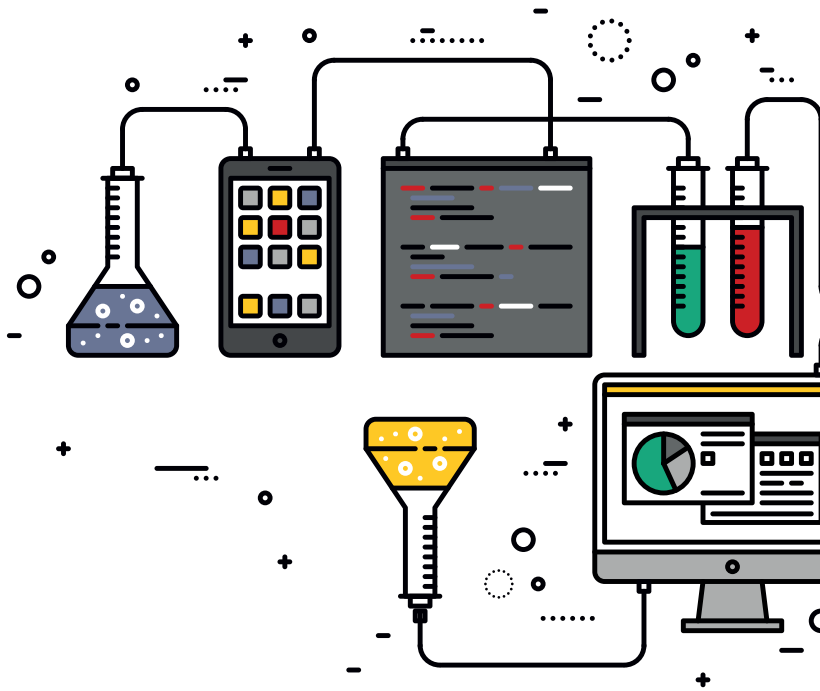
It is important for line managers to create a culture that makes it easy to report suspicions of fraud, but that also protects innocent employees from unfounded accusations.

Ensuring treasury processes are reviewed regularly is also good risk governance. Work with IT. Implement checks that ensure your controls are being complied with.

Educate your staff about password security and ensure they create strong passwords on both company-owned and third-party systems used for business purposes (ie banking and payment sites). Individuals should not use the same password on different external sites or use internal passwords on external sites. They should be familiar with the company's 'user acceptable use policy' and have regular reminders about password protocols.

Effective cybersecurity risk management by treasury can help strengthen relationships with customers and suppliers, build trust with investors and protect the organisation's brand. Not only will the organisation be better equipped to defend itself against known threats today, but it will be better positioned to anticipate the risks of tomorrow too.

Dee Kothari FCCA AMCT is a treasury consultant



USER MANUAL

MANUAL PROCESSES REMAIN RIFE, PARTICULARLY IN SMALLER CORPORATE TREASURIES. LESLEY MEALL TALKS TO TREASURERS ABOUT WHAT IS HOLDING BACK AUTOMATION, WHICH PROCESSES ARE MOST PRONE AND WHAT CAN BE ACHIEVED WHEN THEY ARE AUTOMATED

Cross my palm with silver. Look into my crystal ball. In the future, all of the treasury processes that can be automated will be automated; all physical and financial supply chains will be electronically interconnected or integrated; straight-through processing (STP) will be standard; and smart cognitive technologies will optimise cash collections and forecasting, market data analysis, liquidity risk and performance, and so much more. Eventually, most manual and paper-based processes will become a dim and distant memory. Presumably. Probably. Possibly. Potentially.

Meanwhile, manual and paper-based processes remain a reality – and across treasuries of all shapes and sizes. So, although treasurers are increasingly using specialist software and technology-enabled services to tackle challenges around cash visibility and optimisation, forecasting and liquidity planning, financial risk management and regulatory compliance, they are also surrounded by manual and semi-manual processes in areas such as accounts payable (AP) and receivable (AR), bank account management (BAM), credit and collections, and FX.

In FX, voice trading remains common. "I often end up simultaneously holding two phones, with a banker the other end of each one, so that I can be sure I am getting a competitive rate," says a treasury assistant, who wishes to remain nameless.

Access to a trading platform does not necessarily remove such interactions, as one treasury analyst explains: "I still talk to the bank on the phone about some FX trades, then I book them using our multi-bank platform, because this is quicker than waiting for the bank, particularly if I want to forward-lock the rate today for an exchange in the future."

IT'S ALL CONNECTED

Reasons for manual and semi-manual processes can range from established counterparty and supply chain practices and relationships to the functionality and connectivity of an existing technology infrastructure. For Sunil Boorman, assistant treasurer with the learning company Pearson, how quickly and easily its technology infrastructure can be connected or integrated with other third-party software and services has been one of the determining factors in how quickly and cost-effectively manual processes may be eliminated.

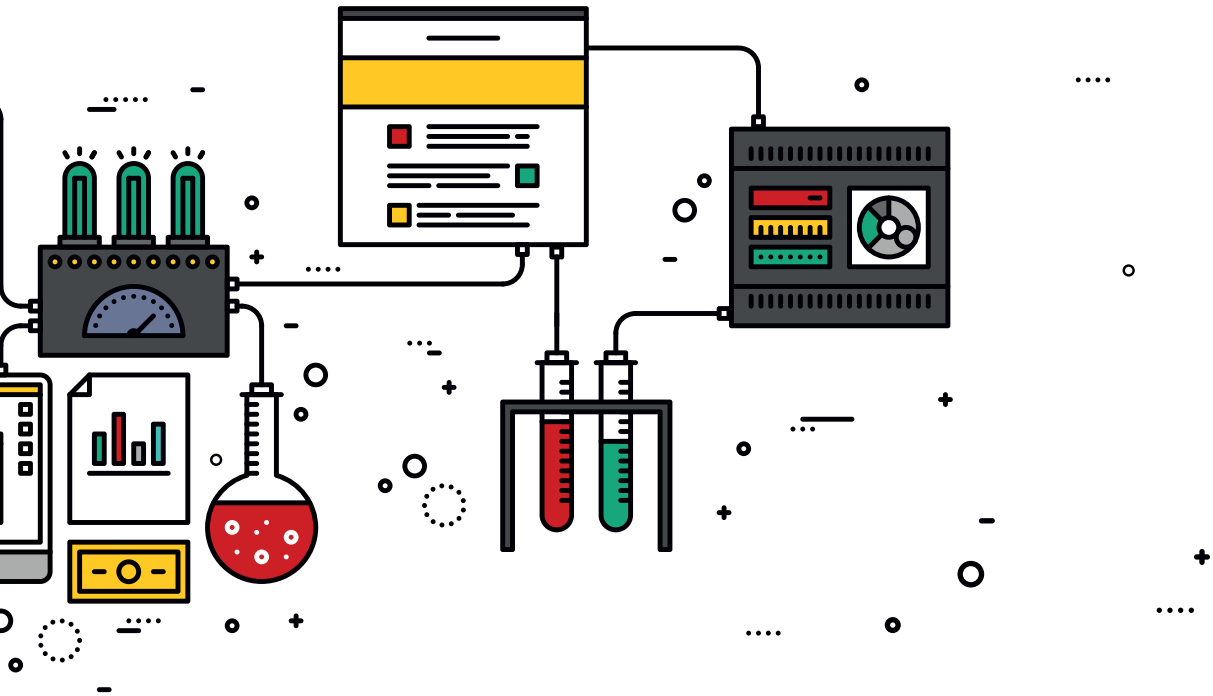
"To avoid rekeying and manual data uploads and downloads, we are aiming for STP across all of our treasury technology infrastructure," says Boorman. This would be easier to achieve with more support from banks and treasury management systems (TMS). "I'd like banks to have common interfaces and template requirements, especially across their own branches globally," he says. Standardised interfaces from the TMS providers to other systems would take a lot of the pain from corporate implementations. "Often, interfaces between different systems must be built from scratch," he says.

Lack of common standards, interfaces and templates is a perennial thorn in the side of many treasurers and a significant barrier to STP, but not all barriers are so techy. Another impediment to automating manual processes that have an impact on treasury can be their location outside the department. The efficiency of AP and AR processes, transactions and strategies, can impact significantly on the effectiveness with which treasury can manage cash and liquidity, its ability to meet its department-level goals, and how well it can align these with enterprise-level priorities.

BEYOND TREASURY

Using technology to help automate, standardise or centralise treasury-related activities does not always need to happen within the treasury department – or the organisation. The most efficient and effective way to automate some manual processes may be to outsource them. "Instead of AR employees spending two days each month sorting through cheques, they could spend that

"I'd like banks to have common interfaces and template requirements"



time requesting customers to stop sending cheques and start sending money direct to the bank account," says Boorman, "then this can free up staff to take this further, for example, by setting up automatic reconciliation of those bank transfers and remaining cheques."

Just as treasury can benefit from the automation of manual processes outside the department, so other departments can benefit from greater automation inside treasury. At the insurance company EmblemHealth, moving from semi-manual processes and spreadsheets to a TMS has enabled the treasury team to improve its cash forecasting and advanced cash management, increase payment security and free up more time for strategy, as well as delivering some benefits to the accounting department.

"The accuracy and efficiency of our cash position allows for increased opportunities to optimise working capital metrics, such as making investments earlier in the day or reducing the cash-conversion cycle, says Charlton Correa, treasury operations manager at EmblemHealth. Rather than log on to multiple individual bank websites to pull up prior and current-day activity and initiate wire payments, the automated BAM functionality in its TMS is used. "We have streamlined payments and have more control over who is entering the wires," he adds.

Strong integration between the TMS and other internal systems at EmblemHealth have helped to spread the benefits beyond core treasury functions into areas such as month-end close processes. There was a time (before it had a TMS) when treasury had to add an entry to a spreadsheet every time it moved any money. Now, when cash-related general ledger entries are recorded in the TMS, an automatic electronic feed squirts the data into EmblemHealth's enterprise resource planning system – helping to save the accounting team the three days each month it previously spent making manual postings.

FX is also an area where spreadsheets abound, which can be an impediment if treasury wants to focus on risk management and reduction, and align this with wider company strategy. In its 2016 annual report, when Jaguar Land Rover outlined its strategy for growth, it noted the importance of its ability to "manage transaction risk through the use of foreign currency derivatives to hedge forecast exposures" – which is why it migrated its FX hedging portfolio and commodity hedging platform off legacy systems and spreadsheets onto a dedicated hedging management solution.

TACKLING COMPLEXITY

As treasury becomes more strategic and some of its most complex aspects become more specialised, it can be increasingly difficult for in-house treasury teams to develop and maintain the level of expertise required to make their professional judgements without greater automation of some of the associated processes. Take sanctions. "This is a big thing these days, especially when you are dealing with certain jurisdictions where there could be concerns," says Boorman. Keeping track of the individuals and entities affected by financial sanctions is challenging.

Various jurisdictions from the UK to the US operate sanctions regimes. With so many potential pitfalls, externally managed and hosted services that screen your incoming and outgoing messages against the latest sanctions lists and flag exceptions have some appeal. "I have not come across any violations of sanctions, but we've explored this area," says Boorman, as it can be comforting to have additional checks. "From an AP point of view, for example, an external provider could add additional checks in the review of payments that might violate any sanctions or be exempted by an OFAC licence." (From the US Office of Foreign Assets Control, allowing transactions that would otherwise be prohibited.)

With so many factors affecting the need to automate treasury-related processes and the ease and speed with which this can be done, it's impossible to be certain which manual processes are most likely to disappear or have the greatest longevity. Even so, it is difficult to imagine strategic decisions around funding and risk appetite becoming entirely automated. As Daniel Wong, head of mergers & acquisitions at British American Tobacco (and its previous head of global treasury operations), observes: "There is a lot of complexity in treasury that makes it hard to completely remove a human's touch."

Lesley Meall is a freelance journalist specialising in technology and finance

THE LEADERSHIP **DISTINCTION**

WHAT DO STRONG LEADERS LOOK LIKE? VANESSA HARWOOD-WHITCHER ARGUES THE CASE FOR SELF-KNOWLEDGE AND POSITIVITY

It is often said that as people move up the career ladder, they need to make the jump from being a manager to a leader. That premise suggests some sort of mystical transformation that happens when people are promoted to more senior roles.

During the ACT Annual Conference in May, in a session on leadership versus management, panellists and conference delegates shared some of their views on this assumption and what they thought the difference between leaders and managers is.

The conclusions were that management covers qualities and attributes such as: getting things done, marshalling resources, being task-focused, informing others and delegating tasks. Leadership, on the other hand, was thought to be more around: influencing others towards a common goal, being visionary, acting strategically, inspiring people and setting expectations.

Often, these roles are seen as mutually exclusive, but in reality, there is far more of a blurring of the lines as different circumstances pull on all aspects of these roles during a working week. We don't wake up one morning and think, "Today I'm going to be a leader!" Our panel debate certainly reinforced this, drawing on the fact that treasurers wear many hats, as well as personality and individual strengths having an influence on style.

Of course, reality is much more nuanced than a binary difference between leadership and management. In the early stages of a management career, a team leader, for instance, will need a blend of management and leadership traits, but with an emphasis on management activities. As an individual rises to middle-management level, this blend becomes more equally balanced. Reaching senior management, the bias will then tilt towards leadership traits, with less focus on management.

What is leadership?

The challenge in the conference workshop was in truly defining what makes a good leader. Even identifying role models can be tricky and we often look to the outside world for inspiration with famous characters springing to mind, such as Gandhi.

Research carried out by the UK government with the Chartered Management Institute, *Inspirational Leadership – Insight to Action*, asked more than 2,600 individuals across a range of UK companies about facets that would inspire them to follow a leader. They identified four dimensions of inspirational leadership:

- Creating the future;
- Enthusing, growing and appreciating others;
- Clarifying values; and
- Ideas to action.

These dimensions were then broken down into a further 18 attributes. For instance, a leader adept at 'creating the future' will be able to describe the future and have the ability to inspire others to help create it. They will be

Attribute	How it shows itself in a leader
CREATING THE FUTURE DIMENSION:	
Visionary	The ability to describe the future, combined with the ability to inspire others to create it
Legacy builder	Constantly forward-thinking and creating a sustainable legacy, which should outlive the time of that leader
Single-mindedness	Keeping goal-focused and not be distracted by irrelevant issues
Opportunity awareness	Spotting relevant patterns and trends – good and bad – which may affect the business. Being able to implement action to exploit the situation
ENTHUSING, GROWING AND APPRECIATING OTHERS DIMENSION:	
Team builder	Working with others from diverse backgrounds and disciplines to bring about results. Collaboration is key
Enthuser	Positive mental attitude, which rubs off on others – keen to celebrate success and develop others
Social adaptability	Can relate to and communicate with a diverse range of people and recognises/values the differences in people
Self-belief	Being honest about who you are, your strengths and weaknesses, while acting with humility
CLARIFYING VALUES DIMENSION:	
Values champion	Being clear about your core values and demonstrably acting by them
Consistent	Creates alignment between values, vision, structures, processes, procedures and day-to-day interactions with others
People champion	Focusing on others rather than yourself. Builds structures and processes that support people
Customer champion	Listening to customers and taking their viewpoints into decision-making
IDEAS TO ACTION DIMENSION:	
Self-reliant	Happy in yourself, self-confident and recognising you are happier than most to take risks
Enthusiastic learner	Naturally curious and open to adopting new ideas/projects
Proactive	Action-orientated and eager to break down barriers
Knowing what works	Can blend intuition with a sense of what works pragmatically. Decision-making is fact-based and will investigate alternatives
Reflective	Tends to take a helicopter view on issues, often taking complex ideas and making sense of them

capable of building legacies that outlive their own tenure as leaders.

Leaders who have that 'enthusing, growing and appreciating others' dimension will have a positive mental attitude that rubs off on others. They will be keen to celebrate success and develop other people.

They will clarify values not just by repeating them, but by clearly acting on them, and they will achieve success by showing themselves to adopt new ideas and projects, showing an ability to take risks and break down barriers (see panel, left).

Putting it into practice

Acting on these qualities and putting them into practice does require a degree of self-knowledge, however. "If you don't understand yourself, you don't understand anybody else." US writer and activist Nikki Giovanni speaks a home truth here.

One of our panellists shared the work they had done within their company to develop leadership skills and referred to the role of self-awareness in leadership. If a leader truly is to enthuse, grow and appreciate others and act as a people champion, it is essential that they understand their strengths and development areas.

The panellist shared that they had used a useful model to help self-reflection called the Johari Window. Developed by Joseph Luft and Harry Ingham (Jo and Hari for short), it helps leaders to understand what they know about themselves and what others know about them.

THE JOHARI WINDOW – VISIBLE AND HIDDEN ATTRIBUTES

	What you see in me	What you do *not* see in me
What I see in me	Box 1: The public self	Box 3: The private (or hidden) self
What I do *not* see in me	Box 2: The blind self	Box 4: The undiscovered self

This can cover thoughts and feelings, life experiences, knowledge and behaviours.

The matrix above shows four different boxes. Box 1 explains that there are things that are known to you and others that are 'out in the open'. This is the most visible 'you' on display to others. Box 2 then describes that everyone will have 'blind areas', ie things that you are not aware of about yourself, but that others can see in you.

Box 3 shows that there are things that you will know about yourself, but which you deliberately withhold from others. Finally, box 4 explains that there are things about you that neither you nor others know or recognise.

By using this model, it is possible to start to explore yourself and how you interact with others. The aim is to make Box 1, your open and free area, as large as possible. This creates an environment that is the most productive, where communication is open and transparent, which in turn builds trust and cooperation, and removes ambiguity and misunderstanding. It addresses many of the leadership attributes identified by employees as being critical in the research cited above.

Turning attention to Box 2, the blind area, the aim is to seek to reduce this quadrant. Typically, those who describe themselves as 'thick-skinned' tend to have a large blind area. The key here, for individuals using this approach, is to ask others for feedback: individuals typically can't discover blind spots on their own. As a leader, encouraging an environment of sharing in your team and playing an active part in this can break down worries about self-disclosure. It also helps build leadership traits identified earlier, such as the ability to build teams and demonstrate adaptability in social terms.

People who seem a bit distant or secretive, or who spend a lot of time in their own world, can sometimes have a significant hidden area (Box 3). If leaders don't share, if they keep a large part of themselves hidden, they can be perceived as having hidden intentions or disguising their thoughts and feelings, and even come across as inauthentic to colleagues. Leaders play an important role in creating a culture or environment where people are not afraid to share. Fear of being judged can hamper self-disclosure, so the way a leader reacts to sharing, or how vulnerable they are prepared to make themselves, can have a real impact.

Box 4 represents the most complex area within this model. Sometimes aspects of an individual's behaviour or personality can remain deeply hidden from everyone, including oneself. Leaders who come across as solitary can often be a mystery to both themselves and their team. However, these mysteries can include repressed feelings, deep-seated fears and behaviours conditioned from early life, as well as talents that have yet to be discovered. Working on this area and opening this box needs to be treated with great caution. Individuals and organisations using this approach need to be ready for what may emerge.

Action planning

Being a great leader can be hugely fulfilling as well as highly beneficial to the organisation you work in, and knowing what makes a great leader is the first step in that development.

Being a great leader can be hugely fulfilling as well as highly beneficial to the organisation

WWW.CHANGINGMINDS.ORG/DISCIPLINES/COMMUNICATION/MODELS/JOHARI_WINDOW

Here are some pointers for how you can hone your leadership skills:

1. Recognise what attributes make a good leader – use the ones in this article or research whether your own organisation has already defined these.
2. Benchmark yourself against these attributes – ask for feedback from your boss, peers, team members, clients, suppliers or other stakeholders.
3. Use the feedback to start thinking about your own Johari Window – what are you currently sharing and what impact is this having on your colleagues/team? Do you need to do more to learn what your blind spots are by seeking more feedback?

FURTHER RESOURCES:
Explore the ACT Competency Framework to see the leadership and soft skills standards for treasurers: www.treasurers.org/competencyframework

ACT careers hub – free for all members – www.treasurers.org/membership/careerhub:
- Take a look at the managers and leaders learning path (found under business skills).
- Get to know your own style with one of the personality profiling tools (found under the career assessments section).

Get yourself a mentor – free of charge for members through the ACT's Mentor Me scheme: www.treasurers.org/cpd/mentorme

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

DEVELOPING **RESILIENCE**

RESILIENT INDIVIDUALS ARE INVALUABLE TEAM MEMBERS. SO WHAT IS RESILIENCE AND HOW DO YOU COME BY THIS QUALITY? LOUISE TATHAM REPORTS

A capacity for handling uncertainty is a key skill. Everyone wants to be resilient, but how do you develop this quality?

How well you deal with being under pressure is what psychologists call 'resilience'. But it's not something you are necessarily born with; most people find they develop it through experience.

Resilience is about your ability to bounce back from adversity, spot opportunities, look to the future and evolve. A resilient person tends to find it easier to cope with change, deal with problems and work with people.

In business, resilience can help make your career a success, allowing you to take control of the direction you're heading in and add value, as well as bringing energy and positivity to all areas of your life.

The ACT Career Hub has several online resources to help you build your resilience, with topics such as:

- '6 tips to build resilience';
- 'Resilience as a key career skill'; and
- 'Emotional intelligence and the link to resilience'

In the article 'Resilience as a key career skill', we look at three key building blocks that can help you develop a resilient professional persona:

1. Positivity

Having a positive view of yourself and the world around you is the basis for developing resilience. Pay attention to the messages you send yourself throughout the day. If you find yourself making negative assumptions about yourself or anything around you, consciously switch to a positive thought.

2. Commitment

Get to know yourself and recognise what is important to you. Have a clear idea of your future aspirations and where you want to go in your career. You need to be willing to commit to your goals and invest in making them happen. Knowing what is important to you, and being committed to your goals, strengthens you in your core.

3. Control

Control means being aware of the situations or areas in your life you can influence, as well as recognising those that you can't. Being able to distinguish between the two will allow you to focus your energy on the things that are most important or achievable.

Visit the 'Developing resilience' section of the ACT Career Hub for further articles, videos and learning bites on building your resilience: www.treasurers.org/careerhub

The ACT Career Hub is a member-only resource. If you are not a member, you can access it by signing up as an eAffiliate member at: www.treasurers.org/eaffiliate

IKON IMAGES

Louise Tatham is head of professional development at the ACT

***THE TREASURER'S HANDBOOK* – GUIDE TO RISK MANAGEMENT**

Deepen and broaden your practical enterprise risk management skills by reading this guide by David Blackwood, former group treasurer at ICI plc and CFO at Synthomer plc. wiki.treasurers.org/wiki/Guide_to_risk_management

NO BLIND SPOTS

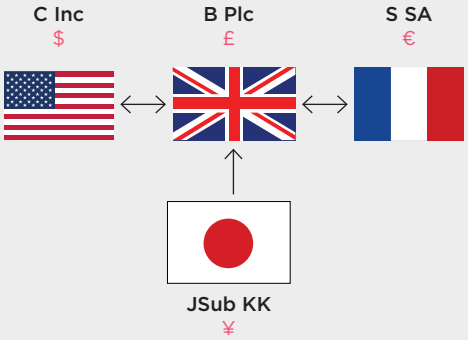
PRACTICAL RISK MANAGEMENT NEEDS A STRUCTURED APPROACH. THIS INCLUDES CLASSIFYING AND ANALYSING RISKS. AS DOUG WILLIAMSON EXPLAINS, FX RISK IS ONE OF THE MOST COMPLEX RISKS THAT TREASURERS MUST UNDERSTAND AND MANAGE

Changes in FX rates can have substantial, sometimes unexpected, effects on every type of organisation – even the simplest domestic one. As a treasurer, you need a deep, applied and integrated understanding of FX risks. This article applies and integrates three powerful FX risk frameworks in a practical case study.

Case study – FX risks

B Plc operates in an intensely competitive market, reporting its results in sterling. B Plc sells in both US dollars and sterling. It imports substantial quantities of raw materials from Supplier SA (S SA), priced in euros. These customers and supplier are all a long-term part of B Plc's supply chain.

B Plc has submitted a large tender to Customer Inc (C Inc), in US dollars. B Plc also owns JSub KK in Japan, which operates and reports in Japanese yen.



What are B Plc's FX risks?

We'll start by applying the first FX risk framework below.

FX risk types
Transaction
Pre-transaction
Economic
Translation

Transaction risk
The risk of changes in domestic currency value paid or received, under committed foreign currency-denominated transactions, to be settled in the future.

B Plc buys materials priced in euros from S SA in France, placing orders three months ahead. If the euro strengthens, it costs B Plc more to settle its euro-denominated liabilities when they are due for payment. This is an FX transaction risk.

Pre-transaction risk

Exposures resulting from commitments to a price list or tenders in a foreign currency, or price lists or tenders with a foreign currency cost component.

B Plc has submitted a large tender to C Inc, priced in US dollars. If the dollar weakens, the sterling-equivalent value of the contract price will fall. The contract will be less profitable for B Plc, perhaps even loss-making. C Inc can oblige B Plc to undertake and complete the contract, however onerous it becomes for B Plc.

B Plc has a pre-transaction exposure to the dollar. Another pre-transaction risk for B Plc is the euro cost component of fulfilling the contract.

Economic risk

The risk of changes in the value of an undertaking, due to cost base or competitive position changes, driven by long-run FX rate changes.

B Plc has an economic exposure to the euro. If the euro strengthens, future raw material costs from France could increase. B Plc also has an economic exposure to the US dollar. If the dollar weakens, B Plc's sterling-equivalent sales revenues will fall.

Perhaps surprisingly, S SA also has an economic exposure to the euro, even if its own costs and revenues are matched in euros. S SA might wrongly assume that it had no FX risks.

The risk for S SA is that if the euro strengthens, S SA's competitiveness will deteriorate. For example, its sterling-based client, B Plc, may choose to go elsewhere. Uncovering this type of potential risk blind spot is one of the most important benefits of using a risk framework.

Translation risk

The risk of changes in reported accounting values, resulting from the translation of items denominated in foreign currencies.

B Plc's subsidiary, JSub KK, gives rise to FX translation risk, among other risks. The translation risk arises because JSub KK reports in JPY. If the JPY weakens against sterling, the sterling-equivalent value of JSub KK's net assets falls. This, in turn, reduces B Plc group's shareholders' funds (reported accounting net worth) in sterling. Moreover, the sterling-equivalent value of JSub KK's profits will also fall, reducing B group's reported consolidated profits in sterling.

This, in turn, can affect important credit ratios, including cash-flow ratios, balance-sheet gearing ratios and interest cover. Following adverse changes, borrowing may become more expensive, with possible deterioration in credit ratings. In extremis, there could even be a breach of covenant and default under existing borrowings, potentially leading to insolvency.

PLAN FOR BREXIT

Read these practical, focused and regularly updated ACT technical resources to plan for Brexit and its FX risks. www.treasurers.org/brexit

Can we hedge FX translation risk?

Yes, we can. However, our risk-hedging responses can themselves introduce other risks and costs. In some contexts, it may be more appropriate to monitor and communicate the risk, as discussed below.

Interlocking frameworks

A second powerful overarching risk framework considers (1) risks of trading, and (2) risks of ownership. This perspective allows us to see more deeply into the four types of FX risk we've already identified, and identify how they are inter-related.

Risks of trading

Many financial risks follow on directly from operations and business risk. The financial risks of trading arise from buying and selling the things that make up cost of sales and turnover, leading to reward from business risk. These are the risks of trading.

FX risks arising in trading come about when there are mismatches between the currencies of our revenues and costs, or between the currencies of our cost base and that of our competitors. FX risks of trading include transaction risk, pre-transaction risk and economic risk.

Risks of ownership

FX translation risk is primarily a risk of ownership. In the case of earnings, it can be argued that this is a simple risk of doing business overseas so that lucrative markets can be tapped, and the immediate cash effect is minimal.

Accordingly, one response is to take no hedging action, monitor the evolving position and report current profits against prior profits: the movement in exchange rates factored out and reported separately, in 'constant currency terms'.

If we do this, we must communicate clearly and consistently with all our stakeholders, to make sure they understand the resulting volatility.

Commitment

A third interlocking risk framework considers committed and uncommitted risks. Committed risks are ones to which the business is irrevocably committed. Uncommitted risks are potential transactions that can be anticipated as part of continuing operations. These risks can also be viewed as strategic or economic.

B Plc imports substantial quantities of raw materials from S SA in euros, placing orders three months in advance. B Plc's economic exposure to the euro is always present and needs continuous management.

The orders three months ahead can be hedged, for example, with forward FX contracts. The remainder of the planning period is an uncommitted or strategic exposure. As time passes and orders are placed, the uncommitted risk converts into a committed risk.

How far ahead should I plan for FX?

The optimum hedging time horizon varies between markets and organisations. B Plc operates in an intensely competitive environment, so its flexibility is likely to be very limited in the short term.

Accordingly, B Plc needs to take a long-term view on risk management and manage strategic exposures as well as operational ones. This is particularly important if B Plc has a long product manufacture, delivery, sales and payment cycle.

As treasurer, you should also investigate and contribute to the whole process(es), including FX rate assumptions, used both to set the prices given to B Plc's customers, for example, the tender price to C Inc, and the prices agreed for raw material purchases from its suppliers. The time period over which risks are open should ideally be cut as far as possible.

With thanks to Will Spinney and Paul Cowdell for their valued guidance and suggestions.

Doug Williamson is a treasury and finance coach

THE GREAT TREASURY NUMBERS QUIZ!

Think you know your numbers? Then put your knowledge to the test with this great summer numbers pub quiz!

1. What is the first integer to contain the letter 'a'?
2. What is the first two-digit integer to have all of its letters in alphabetical order?
3. How many people do you need to have in a single group for there to be a 50% probability that two people will have the same birthday?
4. How many zeros are there in a googolplex?
5. You have 30 seconds to work out the sum of all the numbers from 1 to 100.
6. How many points is the word 'twelve' worth in Scrabble (ignoring double letter scores, etc)?
7. Quick: what's the square of 111,111,111?
8. "How I wish I could calculate pi!" How does that exclamation help you?
9. #numbersquiz – What's the proper name for the '#' sign?
10. What is the sum of the numbers on a roulette wheel?
11. Row by row, what is the arrangement of stars on the US flag?
12. How many people can constitute a riot under English law?
13. Twenty thousand leagues under the sea. What's that in standard metric units?
14. What do Mauritania and Madagascar have in common? (a) Same score in Scrabble; (b) Non-decimal currencies; (c) Identical population (to nearest 100,000 – 2015 data); or (d) An ancient counting system based on the number 17.
15. How many countries are in the G20?
16. What do pianos and celestial constellations have in common?
17. The sun is 400 times further away from the Earth than the moon is. But how much larger is it than the moon?
18. What was the value in Zimbabwean dollars of the largest-denomination banknote issued by that country?
19. We no longer use the word 'milliard' in counting. But how big was it?
20. In a random collection of numbers such as river lengths, FX transactions or viewing figures on YouTube videos, how many of those numbers will begin with the digit '1'?

(1) 1,000; (2) Forty; (3) Just 23, astonishingly!; (4) 10^{googol}, a googol being 10^{100} – and note it's spelt googol, not google; (5) 5,050. Add 1 and 100 to get 101. Add 2 and 99 to get 101... Add 50 and 51 to get 101. So, there are 50 pairs of numbers that add up to 101. 50x101 = 5,050; (6) 12; (7) 12,345,678,987,654,321; (8) By counting the number of letters in each word you get 3 1 4 1 5 9 2; (9) Octothorpe. The name was devised in Bell Labs; (10) There are 36 numbers on a roulette wheel, adding up to 666; (11) 6, 5, 6, 5, 6, 5, 6, 5, 6, making 50 stars in total; (12) 12, under the Public Order Act 1986; (13) 80,000km. The title refers to distance travelled, not depth; (14) (b) In both countries there are five currency sub-units per main unit of currency, not 10; (15) 19 countries, plus the EU in its own right; (16) There are 88 keys on a piano and 88 official constellations in the sky; (17) 400 times – which is why the moon almost exactly covers the sun in a total solar eclipse; (18) $100 trillion – worth around US$300 at the time; (19) A milliard was 1,000 million; (20) About 30% of such numbers will begin with a '1', according to Benford's law, written about on this page last month. But you knew that.

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