REGULATORY REFORM
In search of workable and compatible frameworks

12-PAGE SUPPLEMENT
Cash and liquidity issues from around the globe

BE A STRONG SPEAKER
The key to being memorable and crafting a strong message

The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ JUNE 2016

THE ACT ANNUAL CONFERENCE

How we'll finance the future

PLUS

THE REFINANCING GURU
Steve Humphreys, head of group treasury at New Look, on liquidity and funding for expansion

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The Treasurer June 2016 The Magazine of The Association of Corporate Treasurers www.treasurers.org/thetreasurer

ACT
LEADING TREASURY PROFESSIONALS

Editor's letter

Speakers and panelists at this year's ACT Annual Conference proved to be of a forward-looking persuasion. In some cases this meant sounding a warning note – as with economist John Kay's argument that the behemoth that is modern-day capital markets regulation creates genuine risk of another financial crisis.

But mostly, looking forward was a great deal less troubling, as with the panel discussions on diversity and sustainability, which reminded participants and their audience that the hard work we put in now on these issues will create stronger companies and institutions, as well as pay dividends for future generations and for the workplaces of the future.

In the case of futurist Rohit Talwar, looking forward was entertaining. What with 3D printing, advances in artificial intelligence and machine learning, and vastly increased life expectancy, treasurers and finance professionals have it within their gift to expect and encourage big steps forward in efficiency gains and cost-effectiveness.

Meanwhile, a delegation of senior finance leaders from some of China's biggest companies talked about their country's economic fortunes and prospects for deregulation. An overview of some of the thought-provoking and challenging presentations begins on page 18.

Elsewhere in this issue, journalist Ben Poole talks to Steve Humphreys, head of group treasury at fashion retailer New Look. Humphreys joined New Look back in 2011 at a time when the company was poised for expansion. Under his direction, New Look has gone through two significant rounds of fundraising: capital markets refinancing in 2013 that raised over £800m in bonds, and another in 2015 that brought in £1.2bn and enabled the company to lower the cost of debt by some 300 base points. Little wonder then that New Look took mid-sized business treasury team of the year in *The Treasurer*'s Deals of the Year Awards 2015. Turn to page 22 to find out more.

In our cash management supplement, journalist Rebecca Brace looks at the crucial issue of controls and uncovers the range of risk and threats – both old and new – facing corporates, on page 28. And we look at some international cash management issues, on page 34. Treasury consultant Anthony J Carfang looks at investment options for US corporates, on page 36, while G4S European CEO Graham Levinsohn talks about the supply chain for notes and coins across Europe, on page 32.

I hope you enjoy the issue.

editor@treasurers.org
Follow us on Twitter @thetreasurermag

THIS MONTH'S CONTRIBUTORS

Graham Levinsohn is regional CEO for Europe at G4S and has more than 20 years in the security industry behind him. He created a cash centres outsourcing business while at Securicor and joined the executive of G4S in 2010. He writes on the journeys that notes and coins make from transaction to bank, on page 32

Dr Jenny Brockis is a medical practitioner with a special interest in promoting brain fitness and organisational health. She is the founder of Brain Fit and teaches individuals and organisations how to eliminate poor thinking skills and boost mental performance. Her article on investing in mental capital is on page 51

Cam Barber is a speaker, speech-writer and speaking coach, who schools business people on the art of crafting vivid and memorable presentations. His background as a radio executive helped him understand how to get inside the mind of his audience, and he writes about bringing ideas to life, on page 54

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

EUROPEAN ASSOCIATION OF CORPORATE TREASURERS
IGTA

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

CASH & LIQUIDITY MANAGEMENT
12-PAGE SPECIAL
p27

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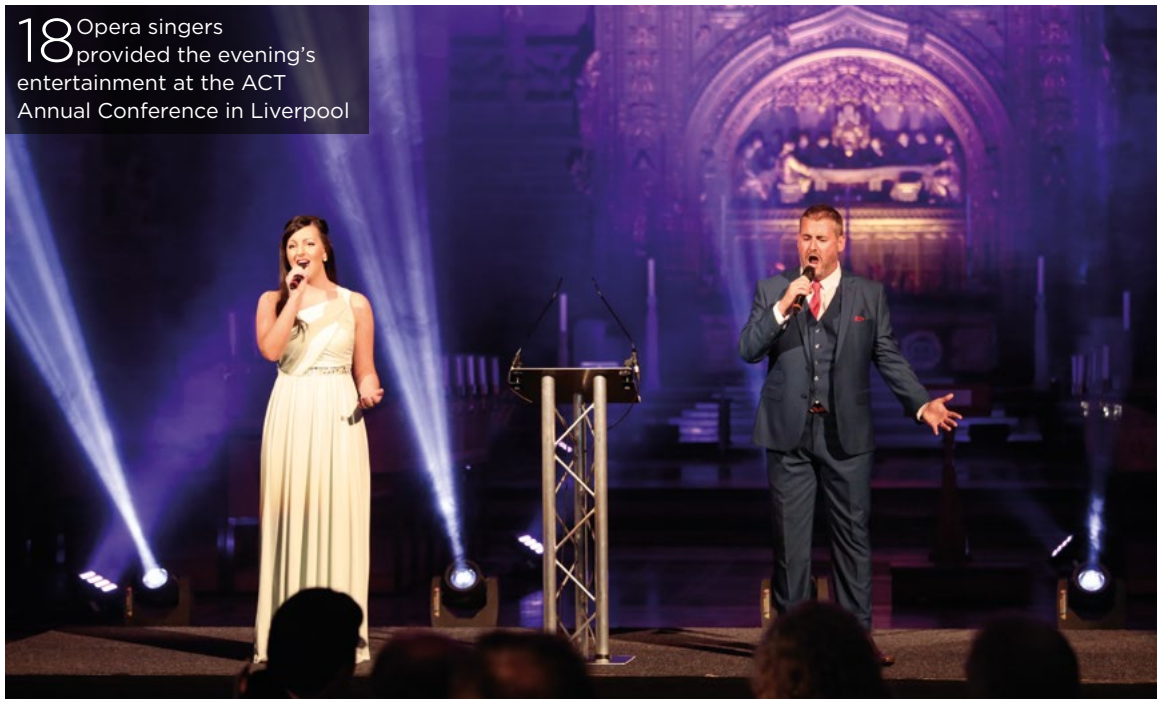

18 Opera singers provided the evening's entertainment at the ACT Annual Conference in Liverpool

22

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Agenda

{ CONTEXT OF TREASURY }

TREASURERS REPORT RISE IN FRAUD

The proportion of cases of actual or attempted fraud affecting corporate treasurers has increased by 19% since last year, according to a survey conducted by financial cloud software provider Kyriba with the ACT.

In this year's joint survey, 62% of respondents said they had been the targets of internal or external fraud attempts, up substantially from 43% recorded in last year's survey. One fraud incident resulted in a $2.5m loss.

While reports of fraud were up, the report, *Kyriba/ACT 2016 Treasury Survey*, found participants placing a relatively low priority on fraud. The top three improvement priorities for the year ahead were reported to be cash and liquidity management, cash forecasting and treasury automation.

The survey also provides further evidence of the wider and more strategic role that treasurers play within their corporates. The number of treasurers taking responsibility for group liquidity management, including investment and borrowing, has increased from 67% last year to 84% this year. More than half say they are playing a more strategic role within their organisation, with 30% providing counsel to the main board and executive team.

However, treasurers also report that regulatory and market demands are prompting them to spend more time on cash-flow forecasting and compliance than ever before. The survey reported extensive use of spreadsheets within corporates of up to $1bn in turnover and black spots in their cash visibility. Fewer than 60% of participants have visibility over 80% of their global cash, while more than a quarter, 28%, have visibility of less than 60% of forecast cash flow.

In this year's report, treasurers said their top three activities were: cash-flow forecasting followed by risk management and bank account management.

Download the report in full from www.treasurers.org/node/303632

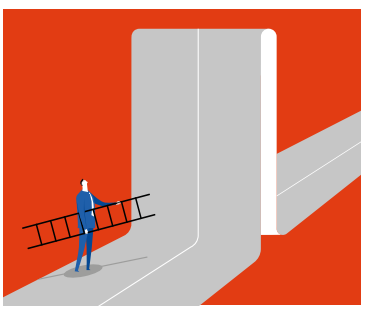
{ CONTEXT OF TREASURY }

SMEs hampered by bank de-risking, says FCA

Banks' caution in the face of anti-money laundering and anti-terrorism rules is harming the ability of UK SMEs to access funds.

The findings of a report from the Financial Conduct Authority (FCA) suggest that both start-ups and more mature SMEs are finding themselves unable to secure services from banks, as the banks themselves seek to comply with the anti-money-laundering regime and combat the finance of terrorism regulations.

The report, *Drivers & Impacts of Derisking*, compiled by consultants John Howell & Co, found that companies in the defence and fintech sectors have been particularly affected amid heightened concerns over illicit use of the UK financial system.



The report highlighted the fact that this problem is much more prevalent in relation to smaller companies than corporates, with unknown or untested business models – particularly among fintech operations – tending to attract a more cautious response from banks.

The FCA has conducted an extensive review of de-risking trends and has acknowledged the 'enormous frustration' that exists within the business community. However, it concluded that there is no silver bullet that will mitigate the problem.

The FCA has made several recommendations as part of the review.

The Bank of England and Financial Services Act 2016 introduced a requirement for the FCA to issue guidance on the meaning of politically exposed persons for the purposes of money-laundering regulations. The FCA will work with HM Treasury to deliver this requirement later this year.

WORDS

"The extent of the decline, comparable to what happened around the time of the so-called Lehman shock, is causing a major blow to emerging-market economies that depend on exports of commodities and basic materials for growth."

Shinzō Abe, Japan's prime minister (pictured above), paints a bleak picture of the world economy, as he sought to delay a hike in consumption tax in an effort to minimise shocks to his country's fragile recovery.

SOURCE: *WALL STREET JOURNAL*, 27 MAY 2016

"In that scenario we would expect a material slowing in growth, a notable rise in inflation, a challenging trade-off. "

Governor of the Bank of England Mark Carney nails his Brexit colours to the mast in a press conference following the quarterly inflation report, arguing that a post-Brexit slowdown could result in a recession.

SOURCE: *THE INDEPENDENT*, 13 MAY 2016

{ FINDINGS FROM THE *KYRIBA/ACT 2016 TREASURY SURVEY* }

60%
of respondents said they have visibility of 80% or less of global cash

28%
said they have visibility of 60% or less

$2.5m
is the loss in one fraud incidence reported to the researchers

20%
is the increase in actual or attempted frauds affecting corporate treasurers since last year

62%
is the amount of respondents who said they had been targeted by internal or external fraud attempts over the past year

{ CONTEXT OF TREASURY }

Moody's says banks likely to benefit from emerging fintech players

The role of banks in the financial system is unlikely to be disturbed by fintech operators, says ratings agency Moody's.

With 4,000 fintech businesses worldwide, according to Moody's estimates, it is far more likely that mainstream financial institutions will learn from newcomers and their innovations. In turn, those institutions are likely to evolve into broader, full-service technology firms.

According to Moody's, fintech operations have proved adept at attracting skilled millennials, who are looking for roles within organisations with a more flexible approach to financial services than those typically provided by banks. However, once banks acquire fintech operations or adopt similar capabilities, they are likely to be able to attract the same calibre of candidates. What's more, they are likely to have a competitive edge, given their long track record, substantial customer base and experience around complex regulatory regimes.

Moody's senior vice president, Robard Williams, said: "Millennials lag prior generations along a number of indicators important to financial services firms, including lower household formation and home-buying rates, higher student-loan burdens, lower earnings and higher debt-to-income ratios. Banks will certainly need to transform to appeal to this generation and counter fintechs' rise, but many incumbents have made significant steps towards implementing their own digital strategies and they have some time before the full transformation is complete."

In its analysis of the fintech scene, Moody's has judged that most firms are focused on retail-banking services – largely lending and financing – with others launching innovative products and services related to payments.

While those firms are credited for showing growth and – in some cases – filling gaps that banks have vacated because of post-crisis regulation, Moody's considers a "major competitive reversal" a long shot.

SHUTTERSTOCK

WHAT THEY SAID

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"That [committing to having registers of beneficial ownership] puts them ahead of many developed countries and even states inside the United States of America in terms of what they are prepared to do."

Prime Minister David Cameron, speaking after last month's anti-corruption summit, comes to the aid of the British Virgin Islands and other UK-linked tax havens, suggesting they had "moved a huge amount of distance" in terms of transparency, even after the British Virgin Islands' leadership refused to publish ownership details of offshore companies.

SOURCE: *THE DAILY TELEGRAPH*, 12 MAY 2016

{ NEWS FROM THE ACT }

New role for ACT's engagement director

LAURIE NOBLE

From next month, Peter Matza, the ACT's engagement director, will be focusing on a reduced role as speakers' chair supporting ACT events programmes and content development. He will continue to contribute to social media and editorial content.

NUMBERS

$90bn
– the amount withdrawn this year from global equity funds as investors seek safe-haven assets

360m
– the number of times Europeans used contactless payments during April this year, according to Visa Europe

105 tonnes
– the amount of ivory burned by the Kenyan government at the end of April, in an effort to stigmatise the trade – the equivalent of around 5% of the world's total

$847.6bn
– the value of assets under management in Norway's government pension fund. This Norwegian sovereign wealth fund outranks equivalents in Abu Dhabi, China and Saudi Arabia

$44bn
– the claim for damages in a civil suit filed in Brazil against Vale and BHP Billiton following the collapse of a dam run by the two companies. The collapse last November killed 19 people and polluted hundreds of miles of rivers

£280m
– the size of a loan from the European Investment Bank to University College London, the biggest loan in British university history

THE STATS

{ FINDINGS FROM CITI'S *THE COMMERCIAL CARD BLUEPRINT* }

76% of companies say the corporate treasury team is engaged in decisions on commercial cards

90% of multinational companies with more than one provider would prefer to have one single provider across all markets

50% of companies surveyed do not currently use metrics to track their spend against targets

63% of companies view enhanced data and reporting functions as their priority

{ AROUND THE WORLD IN 30 DAYS }

Q1 DIP, BITCOIN, PANAMA AND OECD

Banks' Q1 earnings dip

European banks suffered steep share price drops last month in the wake of lower-than-expected Q1 results, with Commerzbank, HSBC and UBS and all affected by the downward trend.

UBS was one of the worst hit, with a one-off fall of 7.5% at the end of April. Commerzbank saw its shares fall by more than 9%. According to analysts, investors are concerned about the sector's ability to bounce back in the face of loose central bank policy, competition from overseas and the corrosive effect of negative interest rates.

Bitcoin's alleged inventor has proof rebuffed

Australian computer scientist and businessman Craig Steven Wright has said that he is the inventor of the cryptocurrency Bitcoin after two technology publications named him as such.

However, after publicly identifying himself as the man behind Bitcoin and releasing technical proof – the use of signed blocks of coins known to be owned by Bitcoin's originator – many in the cryptocurrency world are expressing scepticism and asking for more evidence.

Panama City, Panama

SHUTTERSTOCK

Asian regulators call for Panama Papers disclosures

Hong Kong and Singapore regulators have asked banks that do business in their territories to reveal whether they have dealings with organisations and individuals who have come to light via the 'Panama Papers' leaks. According to news agency Reuters, the Hong Kong Monetary Authority and the Monetary Authority of Singapore wrote to banks in April, but have not set a deadline for response.

Leaked documents from Panama law firm Mossack Fonseca, containing information on 214,000 offshore companies, suggest that Hong Kong is the most active centre globally for the creation of shell firms.

Bankers operating in Hong Kong told Reuters that the Panama Papers leak has triggered a huge compliance exercise in the locality.

OECD issues low-growth warning

The Organisation for Economic Co-operation and Development (OECD) has warned that the global economy is set to continue at its slowest pace since the financial crisis for the second year in a row.

The OECD has urged governments to increase their spending, as the world economy is forecast to grow by only 3% this year. In its biannual *Economic Outlook*, the OECD said policymakers had to act to break world economies out of the low-growth trap.

{ TREASURY OPERATIONS }

SMALL ENTITIES HITTING FX AND CASH CHALLENGES

Greater numbers of internationally focused small corporates, or micro-multinationals, are facing cross-border liquidity management issues early in their business life cycle, according to an HSBC report.

The report, *The Rise of the Micro-Multinationals*, says a growing number of mid-sized companies are proving increasingly able to take advantage of growth outside their domestic markets.

In the UK, 40% of these companies have opened offices in new markets in the past five years, one of the highest rates of international expansion in the world, according to a study by FedEx Express. This trend is set to continue, HSBC's report argues, with 83% of small to mid-sized businesses citing overseas expansion as their top priority.

Micro-multinationals show a willingness to innovate and address export markets. However, they often lack the scale to be attractive to finance and technology suppliers.

"Really forward-minded businesses are benefiting from an interconnected world," says Amanda Murphy, UK head of corporate banking at HSBC. "However, they can suffer from the middle-child syndrome – not as influential as the big brands, so not able to break into government export financing, but not small enough to receive political attention and the support that tends to go with this."

These companies are also challenged by the potential complexity of their financial and treasury technology needs. Managing exposures to multiple currencies and addressing working capital issues are significant issues for the smaller corporate, but implementing treasury management systems (TMSs) across markets can be expensive for smaller operations. Almost 75% of companies with a turnover of less than £250m don't have a TMS, the report says. Additionally, they struggle to find employees with treasury experience to address the working capital management issues they face. "The largest single challenge with these companies expanding is how to optimise working capital across multiple jurisdictions," says Vivek Ramachandran, HSBC's global head of product and proposition for trade businesses.

{ CONTEXT OF TREASURY }

China set to liberalise commodities market

Crude oil, iron ore and natural-rubber futures have been earmarked as starting points for an opening up of China's commodities market to more extensive involvement from foreign firms, according to China Securities Regulatory Commission (CSRC) chairman Fang Xinghai.

Historically, foreign firms aiming to hedge on China's commodities markets have had to go through an expensive regulatory vetting process, requiring them to set up locally registered subsidiaries from which to conduct their trades.

In the wake of Fang's announcement, made at the Shanghai Futures Exchange annual conference, firms from outside China are likely to find it much easier to enter China's commodities arena.

The policy change follows a concerted CSRC effort to crack down on speculative trades in raw materials future on the part of Chinese companies. The recent huge spike in activity and accompanying volatility – mainly as a result of "noncompliant trading" – has, the CSRC said, been successfully reigned in by a combination of rule tightening and increased fees, and was prompted by concerns that the increased trading could jeopardise efforts to cut back excess industrial capacity.

In Fang's view, the regulatory action has created conditions for greater participation from foreign firms, as China sets its sights on becoming a global, price-setting hub for commodities.

China is the world's biggest customer for metals and energy, but its recovery is partly dependant on a rebalancing away from infrastructure development to a more consumer-led economy. In addition, China has pledged to open up its raw materials trading to overseas investors.

"We're facing a chance of a lifetime to become a global pricing centre for commodities," Fang told the conference. "On the way to realise this goal, we'll see very intense competition."

MAKING THE NEWS

China bans firms from raising non-core tech funds

China's listed non-financial firms have been forbidden from raising capital for side ventures in four specific technology fields, on the grounds that those projects are not part of the 'real economy'.

According to the *Financial Times*, sources say new subsidiaries in the internet finance, video game, film and TV, and virtual-reality segments have been earmarked as ineligible for funds raised through stock sales.

The ban means that China's biggest corporates will find it more difficult to diversify into technologies that are helping to define the future shape of other economies.

Final phase of Hong Kong infrastructure hub

Finishing touches are being made to a special agency aimed at driving infrastructure development across Asia-Pacific.

Dedicated to promoting schemes devised under the 'belt and road' scheme – a transformative effort that aims to spur sweeping reforms in public amenities throughout the region – the Infrastructure Financing Facilitation Office will be housed at regulator the Hong Kong Monetary Authority, which will coordinate its work.

According to Hong Kong financial secretary John C Tsang, the office will bring together a wide range of stakeholders from the public and private sectors, so they can share knowledge and experience, arrange financing for belt and road projects, and collaborate effectively.

Victoria Harbour, Hong Kong

The office is set to consolidate Hong Kong's position as a major resource of capital. Speaking at a multilateral Belt and Road Summit Luncheon on 18 May, Tsang said that his department was "now in the final stage" of establishing the facility, and expected it "to be up and running in a couple of months' time".

Regulatory lab for UAE fintech

A controlled and cost-effective means of road-testing new fintech concepts has been proposed for the United Arab Emirates (UAE).

Announced last month, the Regulatory Laboratory – or 'RegLab' – will grant new fintechs a two-year window to develop, test and launch to ensure that it is viable for full-market activity.

RegLab has emerged from the Financial Services Regulatory Authority (FSRA), a division of local watchdog Abu Dhabi Global Market. The FSRA said: "We seek to establish sound regulation of a high standard that promotes stable and sustainable development of the financial services sector, while accommodating well-managed risk taking and innovation."

{ ETHICS AND CORPORATE GOVERNANCE }

BANK FOR INTERNATIONAL SETTLEMENTS CODE OF CONDUCT FOR FX TRADES WELCOMED

Market participants have welcomed the Bank for International Settlements' global code of conduct for the FX market, the first phase of which was published last month.

The code, which encourages the sharing of clear and accurate information and the setting up of robust governance around FX trading, has been welcomed by central bank governors, regional FX committees and market participants.

James Kemp, MD of the Global Financial Markets Association's global FX division, said: "This is an opportunity for global market participants to demonstrate that they can put the right controls and guidance in place that are consistent with the principles of the code. We believe the introduction of a single code will create a common reference point to encourage good practice and rebuild public confidence that the FX industry – which underpins global trade and investment – is functioning fairly and effectively."

Chairman of the BIS Foreign Exchange Working Group, Guy Debelle, assistant governor of the Reserve Bank of Australia, said: "In a globalised world, the FX market is one of the most vital parts of the financial plumbing. One of the guiding principles underpinning our work is that the code should promote a robust, fair, liquid, open and transparent market."

THIS MONTH

CALL FOR EVIDENCE

While Brexit now occupies the international stage (see www.treasurers.org/node/318447), there is much activity in the EU regulation zone with a public hearing on the Call for Evidence discussed below. If you have views you'd like the ACT policy and technical team to take into account in responding to any of the subjects below, please email us at technical@treasurers.org

Steve Baseby is ACT associate policy and technical director @BasebyStephen

{ IN DEPTH }

EU public hearing on the Call for Evidence

The hearing was called to discuss the responses made to the Call for Evidence on financial services regulation. The following are observations about what was said by speakers and delegates, who included MEPs, members of the financial services Directorate of the Commission, European Securities and Markets Authority, and representatives of the financial services industry and of the real economy.

There is general agreement that the current regulatory structure needs more work, perhaps a revision of some Level 1 law, that is EU Parliamentary law, but there is a lack of quantitative data to be able to prioritise action to maximise the benefit to the real economy. What regulators ask is how customers, exports, employees and investors would benefit from further amendments to the legislation.

In the background, the EU has failed to achieve the real financial union so necessary if it wants to create a Capital Markets Union. No pan-European markets or banks have emerged to take advantage of the free movement of capital. Member states and their agencies appear reluctant to progress

and the EU appears to be in a state of stalemate, but is not considering withdrawing to a less unified system. There are neither the efficiencies of a large unified market, or the financial institutions willing to take advantage of economies of scale.

What we have is a financial system that seeks growth by pushing the economy with low rates, while not asking why there is a lack of will to invest. We have a lot of regulation that is good on paper, but untested by crises. We have a push to standardise all financial institution models, which robs the economy of diversification – a disaster if the standard proves invalid under stress.

Perhaps we have a financial system, from government to banker, which asks too much: you cannot have perfect safety and rigid rules with commercial risk taking. Someone, in regulation and banking, has to be able to make judgements. Bankers need to believe they can take commercial risk on the real economy without undue personal liability.

On liquidity

The implementation of the leverage ratio (LR) and liquidity cover ratio (LCR) are traditionally blamed for a lack of appetite by banks in cash, forex and bond trading markets, but an alternate view is emerging that historically low rates make it difficult to add lending margin. The LR and LCR lead to selective market targeting by banks as they try to achieve the high rates of return that bank shareholders continue to demand from what are now considered to be safer business models.

As a result, shadow-banking markets continue to develop to disintermediate the regulated financial institutions, and market practices continue to change. For example, export/import businesses increasingly move to open account trading as it becomes more difficult and expensive to put traditional trade finance solutions in place.

Prospectus Directive 3

The ACT has engaged with the FCA and with formal responses to consultations to ensure that the push for simpler equity and debt markets for smaller issuers and retail investors does not impact on the existing wholesale markets. The EU Parliament has understood the concerns that wholesale issuers have expressed that a simpler model, with constraints on the presentation of risk statements, could impact issuer liability. We continue to monitor developments of legislation that could come into effect by the end of 2016.

As the Deacon at Liverpool Cathedral asked at the ACT Annual Conference last month, would a modern-day institution appoint a 22-year-old to build a new cathedral? Our forebears did and the result is Liverpool's Anglican cathedral, and it is still standing and remains in use as designed. Perception of risk has altered...

Finally, we have Sven Giegold MEP to thank for noting to BNP Paribas that a bank would not lend to a real-economy business with a gearing ratio as bad as that of a bank.

View the technical updates and policy submissions at www.treasurers.org/technical and www.treasurers.org/events/webinar

Benchmarks regulation: on 28 April the EU Parliament passed legislation on benchmarks such as Euribor and Libor to make them more reliable, and to remove the conflicts of interest identified in previous means of setting interest rates. (See http://tinyurl.com/h3kj6n5)

Brexit: further resources for the 'big picture' have been added to www.treasurers.org/node/318447; and a reminder of *The Treasurer's* Brexit checklist is found at www.treasurers.org/brexit-briefing

The policy and technical team has written various blogs this month at blogs.treasurers.org

{ INTERNATIONAL }

FURTHER CHINESE MARKET REFORMS

China's efforts to increase liquidity and deter speculative trading with regulatory and market reforms have been widely reported. I have blogged on the need to retain some perspective (blogs.treasurers.org/?p=314159) with China's problems now increasingly domestic, but within a country with impressive FX reserves available to manage its economy and currency.

Measures to curb renminbi speculation may include a Tobin tax, but that there is a need identified shows the increasing liberalisation of trade in the currency.

Offshore renminbi trading

An interesting development on the international scene – as commentators try to foresee a post-Brexit world and wonder as to what would happen to euro-based business – is that London has moved into second place (from third) behind Hong Kong as the second-largest clearing centre for the Chinese currency as reported in the *Financial Times* on 28 April (see www.ft.com/cms/s/0/9fd82346-0cf2-11e6-b41f-0beb7e589515.html#axzz48Q5ICpMa) based on SWIFT data (see www.swift.com/file/25776/download?token=OoHlkSSb).

Notwithstanding the recent diplomatic flutters, the SWIFT data shows both that London has a role in the development of renminbi activity and that the currency is increasingly being used to settle trade with China.

{ WATCH THIS SPACE }

ISDA protocols and agreements

ISDA has issued further standard letters to add to its European Market Infrastructure Regulation (EMIR) Protocols. These documents are designed to ensure market participants clearly communicate their relationships under EMIR. While earlier protocols were common to all entities that are participants to derivatives (for example, the Portfolio Reconciliation, Dispute Resolution and Disclosure Protocol), some of the newer protocols are being issued at the same time as clearing rules come into force, and may not apply to all counterparties. Members are advised to refer to the ISDA site (www2.isda.org/emir) to understand which protocols and other documents they should use in the absence of bespoke amendments to ISDA bilateral agreements.

EMIR

For UK NFC+, the Financial Conduct Authority (FCA) released guidance on achieving the exemption to provide margin for intragroup transactions not otherwise cleared through a central counterparty clearing house. Members should refer to the FCA website to find out how to apply for the exemption. Also, at the hearing on 17 May, Kay Swinburne MEP acknowledged the derivative asset cross-contamination problem for NFC+, thereby opening hope for its resolution.

{ TECHNICAL ROUND-UP }

MiFID II: own account exemption reinstated for corporates

The proposed removal of the own account exemption for corporate users of trading platforms such as FXall, MyTreasury and 360T has been reinstated following representations by the ACT, the EACT and system platform providers.

IFRS: IAS 32 and notional pooling

The IASB has issued a decision on the use of offset across entities in a notional cash pool: s3.amazonaws.com/ifrswebcontent/2016/IFRIC/March/IFRIC-Update-March-2016.pdf. This will affect groups that periodically physically settle notional cash pools. The IASB's decision means that groups may not be able to account for the offset in period end accounts unless physical settlement occurs at or about the period end date. See Michelle Price's blog on the topic at blogs.treasurers.org/?p=314210

Negative rates and facility floors

Some bank facilities have zero-rate floors on the benchmark rate. Members who use interest-rate swaps to fix floating rates need to consider that the swap will not have a floor if transacted under an ISDA agreement and terms. This may create a mismatch of the floating legs if interest rates fall below zero. For those that hedge account, the impact on hedge effectiveness should also be considered.

SARAH CLOVIS-ALEXANDER

TREASURY OPERATIONS MANAGER AT THE BRITISH BROADCASTING CORPORATION

How did you get into treasury?
I gained my financial experience working in the accounting function in the recruitment and retail industry, and had never even heard of treasury. Then, in my last role, a number of staff left the business at the same time and my CFO suggested I help the treasury team. I learnt the cash management process and haven't looked back.

What do you like about treasury?
That no two days are the same; I could be helping to get payments into a sanctioned country, evaluating long-term hedging programmes, advising on a company card scheme and reviewing the group-borrowing facilities with our relationship banks – all in one day!

What's the best thing about being a treasurer?
Cash is king and we look after it – this allows me to get involved in many different projects across the business. I also love the fast pace – we often have to drop everything to facilitate the release of a payment whose failure could result in filming on a production being halted.

What's the best thing about being a member of the ACT?
The networking opportunities and the informative webinar and conference sessions. I also enjoy reading *The Treasurer* for its interesting articles and up-to-date information on the sector as a whole.

Which ACT qualifications do you hold?
I am currently awaiting the results of my final exam and, if I pass, I will finally have my AMCT diploma, after years of hard work.

How has your qualification benefited you in your career so far?
The AMCT certificates have been invaluable to me; building on the skills I had, they have given me the tools and understanding I need to build on my extensive practical experience and will allow me to advance within the industry.

What's the most important lesson that you've learned during your career?
Don't panic... work through any issues methodically and calmly to get the best result, and never be afraid to ask for help.

What would be your best piece of advice to someone else considering a career in treasury?
Always remember we are the only finance function that can 'make' money for the business – but we can also lose it, too, so be meticulous.

What's your ultimate career goal?
To be a respected treasurer with a wide range of experience.

If you weren't a corporate treasurer, what would you be and why?
I would like to be a full-time traveller as I love to explore the world and all its people and cultures.

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

ACT DIARY DATES

TRAINING, EVENTS & WEBINARS

TRAINING COURSE DATES

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

14 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.

15 September, London
Cash forecasting fundamentals
On this interactive course 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.

20-21 September, London
Treasury systems
The treasurer is faced with an increased demand for information that is complete, timely, accurate and transparent both for the management of liquidity and risk, and for management and regulatory reporting. Technology provides the key to meeting this demand, and in this course we look at what drives the development of treasury technology and its role within the company.

Find out how to identify treasury technology needs and select and implement the required treasury management system.

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

ACT EVENTS

21 September, Hong Kong
Asia Treasury Leaders' Forum
Join more than 200 treasury and finance professionals from across Asia for the ACT Asia Conference to discover the latest developments in treasury tools, tactics and strategy. As the only conference of its kind in the region to bring together working treasurers, experts from the financial services industry, policymakers and the Hong Kong Monetary Authority, it is the perfect meeting place to share knowledge and best practice, and build your professional network.
www.treasurers.org/asia2016

24-25 October, Dubai
ACT Middle East Annual Summit
Now in its seventh year, the ACT Middle East Annual Summit is the largest and most popular treasury event in the Gulf Cooperation Council. Uniting the region's leading corporates, you can expect to meet more than 450 treasury and finance professionals, hear from over 40 speakers, and talk business with more than 20 leading product and service providers.
www.treasurers.org/middleeastannualsummit

9 November, London
ACT Annual Dinner 2016
With more than 1,400 guests, the ACT Annual Dinner is a firm favourite with key members of the finance community and friends of the ACT. Join us for an evening of excellent food, fine wine and good company.
www.treasurers.org/annualdinner

ACT WEBINARS

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

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

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

{ PENSIONS }

JEREMY WARNER

Observers waiting for UK regulators to show their hand on how they will address pension deficits are likely to wait a long time

As legacy issues go, they don't come any more challenging than paying for the pensions promise made to past and present employees. A combination of greater longevity, absurdly oppressive accounting rules and declining rates of return have hugely increased these costs, making them virtually terminal for some companies.

The problem is particularly acute in the UK, where the main source of private pensions has historically been through funded 'defined benefit' schemes, where the employee is guaranteed a certain level of pension, sometimes related to final salary.

Other countries, whose private pension provision is based more on the pay-as-you-go principle, face an equally daunting, though different type, of challenge, but it is the UK model and the problems it has thrown up that I wish to focus on here.

There are approximately 6,000 defined benefit schemes in existence in Britain today, but the vast bulk of them – nine out of 10 – have long since closed their doors to new members.

This has largely succeeded in staunching the accumulation of new pension liabilities, but it can't do anything to address the ballooning liabilities of the past. At the last count, these had given rise to a combined accounting deficit of roughly a quarter of a trillion pounds, and much more on a so-called 'buyout' basis, which calculates the present-day costs of buying the same level of benefit from insurers.

Pensions regulators naturally insist that sponsors close these deficits as soon as possible by topping up their schemes accordingly, but it is a constant balancing act. If they ask for too much, it might put the sponsoring company out of business.

In such circumstances, the scheme falls back on the Pensions Protection Fund (PPF), which will continue to service the liabilities, albeit on a reduced basis. Two recent high-profile cases – BHS and Tata Steel UK – have served to highlight the problem.

Yet since the PPF is paid for via a levy on other defined benefit pension schemes, it scarcely looks an any more sustainable construct. If the solvent are forced to pay for the insolvent, it will eventually drag everyone down. And the UK taxpayer would presumably have to pick up the tab.

UK government policy must shoulder a large part of the blame. Over-regulation and the gradual removal of tax breaks has widened the gap between assets and liabilities, thereby all but destroying the incentives for providing employees with defined retirement benefits.

Ever tougher rules for accounting for pensions liabilities have further piled on the disincentives. Even though the liabilities stretch long into the future, accounting rules put companies are under pressure to ensure matching assets at all times.

The damage started in the 1980s, when most funds were still in rude health, with substantial surpluses. Concerned that this was costing the exchequer tax revenues, the government forced schemes into taking prolonged contribution holidays. At the same time, employees won substantial increases in benefits, growing the size of future liabilities at a time when funding was being reduced.

The other part of the problem is simply that of unconventional monetary policy. Very low rates have substantially increased the notional costs of funding future liabilities, such that it is reckoned that a rise of only one percentage point in market interest rates would be enough to eradicate many deficits.

There are, then, two possible solutions: either the pensions regulator could choose to look through the current level of deficits and treat them as a temporary aberration that will eventually go away with rising interest rates, or the Bank of England could recognise the collateral damage that low rates are causing and tighten policy accordingly. Unfortunately, it would be most unwise to count on either possibility.

UK benefit schemes have closed their doors to new members

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

Interest-rate predictions – a recipe for trouble?

Forward guidance has provided a useful tool for central banks, but there is a good chance it will be misunderstood, says Kallum Pickering

Central banks in the developed world argue that the achievement of low and stable inflation for nearly 30 years is down to hard-won credibility. Credibility helps central banks to do their job; a lack of it has been the perpetrator of some of the worst episodes of hyperinflation in history.

What does credibility mean in practice? Central banks are considered credible when financial markets, businesses and households trust the central bank to achieve its mandate and know why and how it is likely to react to certain economic conditions. Over time, credibility grows if a central bank reacts consistently to changing economic conditions in a way that is in accordance with its target. In the developed world, where central banks have adopted a fairly simple policy framework, the most common target is some annual rate of inflation, usually 2%.

All else being equal, interest rates can be expected to increase if inflation rises above the target and decrease if inflation falls below the target. This is known as the reaction function. We have become so accustomed to this reaction function and hard-won credibility that low and stable inflation is almost taken as given. Even as central banks have undertaken a once unthinkable amount of monetary stimulus since 2008, inflation has remained largely well controlled.

Why is credibility at risk? Amid the post-Lehman recession and recovery, central banks have been the only game in town. Burdened with the unprecedented task of single-handedly nursing the global economy back to health, central banks broadened their arsenal. One tool, forward guidance – using forecasts to influence market expectations of interest rates – proved somewhat useful during the expansionary phase. But for the two central banks that are now using it during their tightening cycle, the US Federal Reserve and the UK's Bank of England, it might be a recipe for trouble.

Forward guidance, like many other ideas in economics, finds its roots in academia. As such, it has a solid theoretical basis. The argument goes that, by offering lots of information about future policy intentions, central banks can help to make the transition smoother, especially in an already volatile world. In practice, however, forward guidance can be risky business. What if the guidance is not properly understood? And what if the world does not turn out as expected?

There is a good chance that recent communications from the Fed and Bank of England have been misunderstood. Both central banks have frequently used the words "slow" and "gradual" to describe the likely paths towards more normal interest rates. The trouble is, this guidance has largely been taken as a promise that interest-rate hikes will be slow and gradual. But that is not quite right. A nuance has been overlooked. In reality, the Fed and the Bank of England have announced that they think future economic conditions will only warrant a slow and gradual hiking cycle. However, the future often does not develop in line with economic forecasts. As a result, these policy predictions may not become a reality.

Central bankers have little more information about the economy than anyone else. That is part of the reason why monetary policy works the best when a simple, interpretable reaction function is applied that central banks can lean on and market participants can understand. If central banks' predictions of slow and gradual rate hikes do not materialise, because economic conditions turn out to be much better or worse than expected, that could create an adjustment problem if rates do not follow the predicted path.

To avoid a hit to credibility, central bankers ought to gradually inch away from complicated policies that rest too much on the abilities of forecasters. The chance of this happening is low. Even with hikes, central banks will remain the guardians of the recovery. At the very least then, they ought to be more explicit about the possibility of big surprises, even if they don't happen.

Central bankers have little more information about the economy than anyone else

Kallum Pickering is senior UK economist at Berenberg Bank

{ TREASURY INSIDER }

To cash back or not cash back?

Inviting relationship banks to compete on ancillary business seems like a good idea – until you actually go ahead

I was called into a meeting with our head of insurance, head of tax and the CFO the other day. I thought: this must be serious.

They have had a great idea, and want to respond to ever-increasing insurance premium tax rates – 10% is now on the horizon. The CFO is concerned that the group is paying out too much in insurance premiums and mounting tax is adding to this cost. They asked whether we can consider forming a captive insurance company and manage the cost and cash more effectively by self-insuring.

It sounded a good project and I was enthusiastic about joining this project team. Secretly I was hoping that the new captive would be formed in a glamorous location and I may be asked to be a director, but I wasn't going to play that card... yet.

The specific question for me was whether it was cost-effective for there to be a full-market risk transfer via the captive. If not, there would need to be some collateral provided. In that scenario, there was a further choice. Whether to cash back or not to cash back?

This came at an interesting time, as the collateral would usually be in the form of letters of credit (LCs) and might be a chance for banks to compete for some ancillary business. They keep saying we offer too little to them, after all. Given the number of times I have had trade finance teams offer products we don't need, this seemed like a good opportunity to see if we get a positive response when we make an enquiry.

SHUTTERSTOCK

Backing these lines with cash was virtually risk-free for banks

I asked which banks among our syndicate offered these lines and received a bit of a mixed response. Even more so when I said that we'd like to know if they could be extended without cash backing, which would give rise to a higher level of fees. Some went as far as to say they'd need to get specific credit approval from the next credit committee meeting in a few months' time, which surprised me given recent discussions. In fact, this appeared from my networking to be a fairly standard offering. I gave my views to the relationship managers privately!

This turns out to be one of those strange occasions when you think that banks would be keen to take up ancillary opportunities, but there was less enthusiasm than I expected.

I realised that backing these lines with cash was, of course, virtually risk-free for banks, so I was surprised at the level of uncertainty and also at the proposed cost. It was almost better value to seek uncollateralised funding and keep flexibility. That option seemed to go down better with the CFO anyway.

There followed even more interesting discussion with the insurers, whose views on bank creditworthiness differed somewhat from what we might have expected, and from the offerings from our syndicate of banks. They clearly had their own limits on individual banks. Insurers' credit officers are now another counterparty we need to meet with more regularly.

What we ended up with was an even more complex matrix of cost, relationships and practicalities. Negotiating LC facility and indemnity agreements was not straightforward either.

Ultimately, it was good ancillary business for some banks and we chose not to cash back as, had we done so, we would have tied up almost as much cash as we would have had we stayed with paying premiums, but without actually benefiting from full-risk transfer.

This arrangement does place more onus on the company to meet high-risk management standards, which is in keeping with our public profile, so this all aligns to our business strategy and should save cost all-in if claims are low.

I did get asked to be a director of the captive. But I'm not envisaging the need to stock up on sunblock soon.

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

{ ENGAGEMENT }

TOM DEAS

Working to promote compatible regulatory regimes is key for treasury associations globally

Those of us in real-economy companies in the US and in the European Economic Area have, in many ways, been on the bleeding edge of financial reform. However, growing disparities between regulatory regimes are causing increasing competitive disadvantages to arise as we all operate in a global financial market.

In the US, we have argued that financial regulatory reform measures should promote economic stability and transparency without imposing undue burdens on derivatives end users. For multinational companies, the need for international harmonisation of derivatives rules is especially important. Regulators have accommodated this view in certain respects. However, the European Market Infrastructure Regulation regime is generally more favourable with regard to capital allocations and their resulting costs than the Dodd-Frank Act and its implementing regulations have been for US companies.

I had the opportunity to bring corporate treasurers' concerns before the Subcommittee on Commodity Exchanges, Energy and Credit of the US House of Representatives' Committee on Agriculture on 28 April (see www.agriculture.house.gov/uploadedfiles/deas_testimony.pdf).

Although end users successfully got amendments to the Dodd-Frank Act with bipartisan support that exempt non-financial end users from having to post cash to margin derivatives, regulations have been proposed that will largely offset the direct benefit.

End users are seeing the impacts of the elaborate web of new rules, including those placed on their financial counterparties. That is, rules that require counterparties to meet tests regarding capital, liquidity and margin have significant realised and potential impacts on end users. Despite being exempted from capital and margin requirements, end users still face the distinct possibility that hedging activities will become too costly because of new and higher capital, margin and liquidity requirements imposed on their bank counterparties.

US banking regulators are requiring banks to hold considerable additional capital against the uncleared and unmargined derivatives trades they conduct with end users. This will result in wider spreads they will have to pass on to their end-user counterparties. Here are specific areas of concern:

Net stable funding ratio

Under the net stable funding ratio, long-term funding costs will discourage dealer involvement in derivatives, thereby reducing available counterparties and liquidity for end users.

Supplemental leverage ratio

The supplemental leverage ratio (SLR) does not permit the clearing member to receive 'credit' for the segregated initial margin posted by its end-user customers. The failure of the SLR to recognise the risk-reducing effect of segregated client collateral will likely lead to fewer banks willing to provide clearing services for customers and will likely increase costs to end users generally.

Capital valuation adjustment

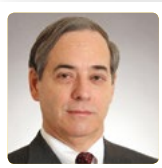
Differences in the credit valuation adjustment (CVA) risk capital charge between the US and other jurisdictions, such as Europe, also create competitive disadvantages. Europe provides an exemption that avoids the CVA charge being passed on to end users, but in the US, no exemption exists and the charge is factored into pricing and passed on to end users, leading to the potential for large pricing differences when trading with US, compared with EU, banks.

Non-bank swap dealer models

As many end users engage in derivatives with non-bank and bank swap dealers alike, we are concerned about the impact on liquidity of certain restrictions on models for non-bank swap dealers. This approach requires non-bank swap dealers to hold potentially hundreds of times more regulatory capital that ultimately will force them to exit the business, leaving end users with fewer choices for access to risk-mitigation tools.

To summarise, US end users are concerned about the apparent disparity between an exemption from clearing and margin requirements on the one hand, and the pass-through costs resulting from new capital and liquidity rules imposed on their counterparties on the other hand. We also fear that cross-border regulatory uncertainty and conflict could put US companies at an economic disadvantage.

These rules create real impacts and costs on end users' ability to manage risks and access capital. The imposition of burdens on end-user businesses restricts job growth, decreases investment and ultimately undermines US competitiveness.



Thomas C Deas Jr is chairman of the National Association of Corporate Treasurers in the US

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HIT REFRESH

Over three days, ACT members, finance professionals and commentators converged on Liverpool to hear the best in the business debate the core issues facing corporates today at the ACT Annual Conference 2016. Liz Loxton reports

Top to bottom: John Kay, Victoria Bell from Chatham Financial and Tim Harford all spoke at the conference. Right: Steve Ellis of Wells Fargo

Three economists, one futurologist, 92 panellists and speakers, and even two opera singers providing the evening entertainment: the *dramatis personae* assembled for this year's conference made for a stimulating and wide-ranging programme.

Opening the conference, heavyweight economist, broadcaster and author John Kay described the widening gulf between our modern-day financial and banking sector, and the corporates and individuals that need access to it.

Modern economies, Kay argued, need a financial sector that operates four key functions. Firstly, it must provide a basic utility by operating a payments system. Secondly, it should enable individuals to manage their wealth over their lifetime. Thirdly, it should assist with risk management and, finally, with the allocation of capital.

Modern corporates, he argued, such as Apple or Alphabet, have huge market capitalisations and are no longer reliant on markets, since they largely generate enough cash to fund themselves. The value in these large, knowledge-based businesses is very closely tied to the individuals who work for them. "That requires a very different relationship with existing shareholders and, in turn, changes the way we think about public markets," he said.

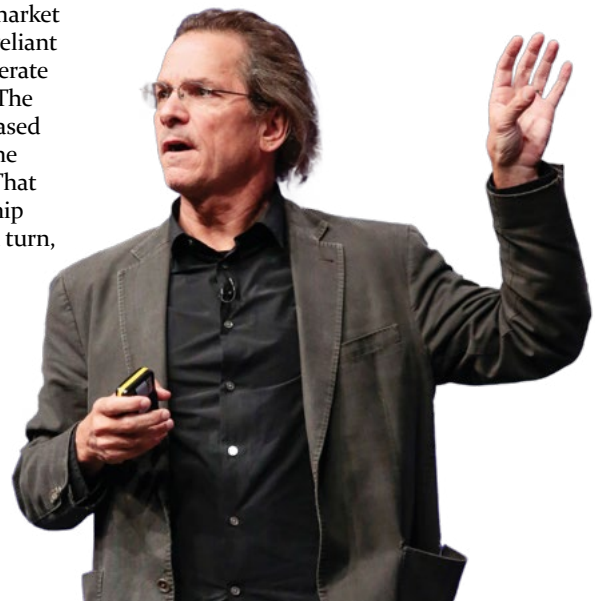
Today's finance and capital markets, with their complexity and vastly increased emphasis on intermediation, have become out of touch with the general public and the real economy in the wake of the global financial crisis.

"We've pointlessly imposed large fines on the major banks in recent years, but the individuals responsible for their bad behaviour have largely avoided criminal prosecution," he said. "There is still a great deal of unfocused public anger among people who know that something went very wrong back in 2008."

Another financial crisis remains a genuine risk, Kay said, who would like to see a financial infrastructure made up of smaller, more focused institutions, with a more reasonable system of incentives and rewards. "If we have more specific institutions, they will have shorter, simpler chains of intermediation," he said.

Diversity

Study after study has shown that diversity within project teams, boards



PHOTOGRAPHY: LAURIE NOBLE

and companies results in more successful businesses. And yet diversity is something we struggle to achieve even in the face of the evidence. Practical experiences related by a panel discussion on diversity on day one suggested that reasons why individuals and businesses grapple with diversity is simply because negotiating our way through linguistic, cultural and personal nuances takes time. "We are hardwired to ignore difference," said Rachel Short, psychologist and director of Why Women Work.

The rewards that come as a result of working through those challenges are clear, however. We work in a global context, Angela Potter, MD of global transaction banking at Deutsche Bank, pointed out. Deutsche Bank operates in more than 70 countries and 149 nationalities. "You have to reflect the client base on the ground. At the same time you need innovation. But diversity takes work and takes leadership," she said.

"The big frustration is why we're not getting there sooner," said Russell O'Brien, group treasurer at Shell. Setting up treasury operations in Singapore took time, he relayed, but working through operational difficulties in multicultural teams led to greater clarity in terms of how individuals would work going forward. "Diversity can't just be a target; you have to go further than that," he said.

CONFERENCE STATISTICS

1,098
attendees

16
different countries represented

14
delegates from Chinese multinationals and regulators

92
speakers

81
exhibitors

2
opera singers

> "How do we half the cost of a transaction or improve the flow of money exponentially?"

Looking forward and looking back

Futurist Rohit Talwar dazzled the conference in a keynote presentation on the second day. He set out a present we are far from getting to grips with (most of us check our mobile devices in the morning before checking on our family, he asserted) and a future where health advances and wearable and embedded technology will prolong our lives far beyond the 120 years, often mooted to 180, or even more.

The early effects of genuinely disruptive technologies developing at an exponential pace are all around us, he said. Artificial intelligence will have the greatest impact. Google's DeepMind AlphaGo programme, for instance, stunned commentators when it beat a world-leading player of the Chinese board game Go earlier this year – a feat long-considered out of the reach of artificial intelligence due to the level of intuition required. Hyperloop transportation systems are set to dramatically cut journey times by 2020, and – with the aid of 3D printing – buildings can be assembled in hours rather than days or weeks. "These are serious challenges to the value chains that exist in big businesses today," said Talwar.

These developments will need to be matched by equally radical thinking about how we manage the world of work. The challenge he offered treasurers was to start conversations with real ambition. "How do we halve the cost of a transaction or improve the flow of money exponentially?" he asked.

In a presentation on interest rates, entitled 'Lower still and lower', RBS chief economist Stephen Boyle said that while Talwar looked to the future, he liked to look to the past for explanations of present trends.

When it comes to interest rates, Boyle demonstrated that the current trends towards persistently low rates had been in the making for some time. In fact, interest rates were in decline long before the 2008/9 global financial crisis prompted recent drastic cuts, and have their beginnings in the 1980s, he said. ›

The Question Time panel (from left to right): Katinka Barysch, Peter Montagnon, Claire Emes and Tom Keatinge, Alan Halsall and host Mishal Husain


Futurist Rohit Talwar

CONFERENCE TWEETS

Deutsche Bank GTB @TalkGTB
Public fury about the lack of accountability of finance managers in causing the GCF is justified according to John Kay @actupdate #actac16

Anna @BritBeagle
In the event of #Brexit there could be similar referenda in 10 other EU countries according to debate at #actac16 *EUref

Jamie Whiteway @jamie_taulia
Next stop Liverpool #actac16 theme emerging of continued uncertainty in financial markets but certainty in #fintech

Brendan Flattery @BPFlattery
Late payments can cripple #smallbiz – thank jpcstreasury for raising awareness of this important issue! #actac16

Michelle Price
Rohit, futurist states that Buenos Aires prefers to transact in Bitcoin. Virtual currencies will be part of the treasurer's world. #actac16

Colin Tyler @ColinTyl
Terrific insight into "actively open-minded thinking". Thank you Tim. "Science moves fwd one funeral at a time" #actac16

Financial leaders from organisations in China participated in a panel discussion

CHINA'S HARD HITTERS ON OUR DOORSTEP

For the many delegates interested in China's economy and the operation of its financial infrastructure, a panel session on day one of the conference offered the inside track.

The round table included a delegation of 14 senior financial leaders – executives from Shanghai Electric Group, China Petroleum & Chemical Corporation and China National Petroleum Corporation (CNPC). These were joined by the executive vice president of the China National Association of Finance Companies, Yanling Wang, which regulates China's finance companies, the special-purpose vehicles that include corporates' treasury functions.

Interpreting and facilitating the discussion, Jinny Yan, chief economist at London-based ICBC Standard Bank, pointed out that the corporates represented in the discussion were some of the biggest corporations in the world.

On the agenda for discussion were some of China's biggest economic questions and, by implication, some of the world's most significant commercial issues. China's debt levels, the expectation that currency depreciation will continue and the shift from an infrastructure-heavy economy to a more consumer-led one prompted discussion about how China will restructure to reflect that change and deal with a legacy of overcapacity.

Yi Qin, general manager of Shanghai Electric Group Finance Company, said that recovery and restructuring would take years rather than months. The biggest challenge, he said, would be achieving demand efficiency. Overcapacity and lack of demand were the significant issues, he said, which Shanghai Electric's finance function has addressed by looking closely at cash flow. "This is something our group has really concentrated on. We try to manage the number of days outstanding and the ways in which we receive cash, and we obviously try to manage our assets and debts. It's a very conservative approach, but very necessary in the context of China's recovery," he said.

"In every aspect of the economy you can see limitations – on housing and on cars"

Dr Zengye Wang, vice president, director, Finance and Accounting Research Institute, China Petroleum Finance Company, said Chinese consumers have a considerable collective spending power still, which will gradually be unlocked. "In every aspect of the economy you can see limitations – on housing and on cars. There are economic and administrative limitations on consumption. So there is a lot of room to rebalance from oversupply to consumption," he said.

"I see this low period in the Chinese economy as a trigger to reform how we operate. In my view, the economy will rebound after no more than two years," said Dr Wang.

The trend has continued because underlying growth in major economies has slowed while indebtedness has risen. "If we believe low interest rates are a long-term phenomenon, we should adjust our expectations of what projects will produce decent value," he said.

Where he did venture his own forward guidance was on the likelihood of negative interest rates for the UK. Boyle said he believes this to be unlikely. "Experience in Denmark and Switzerland, where the policy rate has gone negative, that policy hasn't loosened financial conditions," he said.

Nearer-term predictions made at the conference included a well-attended session on Brexit and the likely results of the referendum on the UK's continued place in the EU. In a delegate poll, an emphatic 85% said they were in favour of remaining in the EU and in a panel session on Brexit, Standard & Poor's global chief rating officer, Moritz Kraemer, said the UK would lose its AAA credit rating from S&P if the population votes to leave on 23 June.

In its own straw poll of infrastructure investors, S&P had found that around half of respondents would be less likely to invest in a UK disengaged from the EU, Kraemer said.

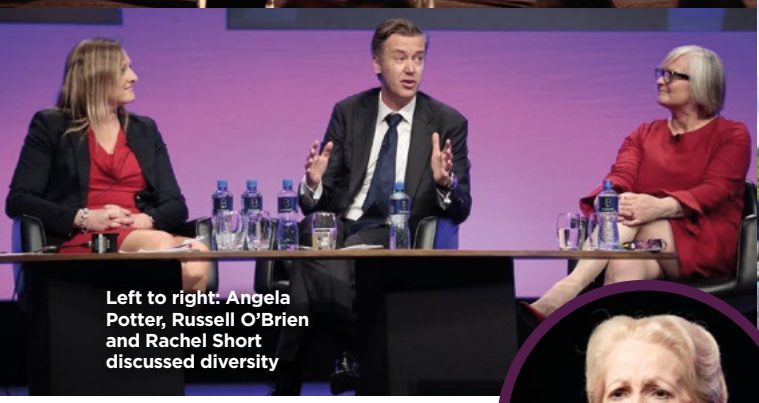
While the balance of polls in the UK still the 'stay' camp only a slight lead, David Marsh, MD of the Official Monetary and Financial Institutions Forum, argued that the remain camp will win out on 23 June with a reasonable margin. "The silent majority in favour of staying may only become evident on the day," he said.

In amongst IT

Delegates in search of discussion on treasury management systems and automation were well served by a session on integrating treasury functions. Royston Da Costa, group assistant treasurer at

ACT president Fiona Crisp spoke on day two

Opera singers Danielle Thomas and Jon Christos provided the entertainment during the evening



Left to right: Angela Potter, Russell O'Brien and Rachel Short discussed diversity

Delegates arrive at Liverpool Cathedral for the sit-down dinner

Delegates enjoyed the opportunity to exchange notes

Lady Barbara Judge of the UK Atomic Energy Authority

Wolseley took his audience through the journey that the building and plumbing supplies group has made towards eliminating manual processes and improving treasury tasks.

Key issuers for Wolseley were weighing up a software-as-a-service versus plug and play, improving straight-through processing and achieving greater visibility, with due consideration for security and guarding against cybercrime, he explained.

On the issue of cybercrime, Steve Ellis, executive vice president and head of the innovation group at US bank Wells Fargo, sought to reassure his audience that cybersecurity advances and security procedures have made mobile and internet-based banking very secure. Within Wells Fargo's corporate banking, incidents of fraud on 60 million transactions per annum were extremely low – around 15 to 25 incidents of attempted fraud per month. Among the 24 million personal customers who bank online and the 17 million who bank solely using mobile technology, the numbers of successful frauds were similarly low. "There is much less stolen online than in face-to-face transactions," he said. "If you do this right, you can take a lot of risk out of the equation."

In a session on commodity risk, an audience poll found that just over half of those present hedge their exposure. More than nine out of 10 said they hedge FX risk; around two-thirds said they hedge interest-rate risk; while just over half said they hedge their commodity risk.

Delegates had a chance to engage with a panel of business leaders and commentators on day two in a Question Time session hosted by broadcaster and journalist Mishal Husain. The panel – Peter Montagnon, associate director of the Institute of Business Ethics, Claire Emes, chief innovation officer at Ipsos MORI, Tom Keatinge, director at the Centre for Financial Crime and Security, Royal United Services Institute, Katinka Barysch, director of political relations at Allianz SE and Alan Halsall, chairman of Silver Cross – squared up to questions on Brexit, Bitcoin, corporate taxation, trust in business and Donald Trump.

Day three of the conference finished with panel discussions on sustainability and career development, a memorable presentation from the *Financial Times*' undercover economist and columnist Tim Harford, and an illuminating talk on nuclear energy from Lady Barbara Judge, director of the UK Atomic Energy Authority, after which delegates headed off to airports and rail stations replete with new ideas, contacts and old acquaintances renewed.

Day two finished with dinner inside the atmospheric Liverpool Cathedral

Liz Loxton is editor of *The Treasurer*

PASS NOTES

"The sessions that were best for me were the 'diversity' discussion on day one and 'The future of business' and 'Lower still and lower' on day two. They stood out as being thought-provoking and challenging. Exactly the kind of sessions that should be provided, and I thought were some of the best sessions I heard at the ACT conference."
Mary Tavener, FD, Advanced Medical Solutions Group plc

"The commodities session was very useful – seeing how other corporates are managing their fuel risk in what has been a very volatile market over the years."
Michael Payne, treasury manager, National Express

"The conference provided a great opportunity to meet new peers as well as reacquaint with old friends and colleagues. The information gleaned from these conversations, along with interactions with the banks and vendors, is an invaluable and intangible benefit of the conference."
Richard Abigail, associate director, group treasurer, Arup

Dressed for success

Companies expanding in the retail sector are rare commodities, and yet New Look is moving forward at home and abroad. Steve Humphreys discusses how his treasury team supports the business

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

Taking time out to travel to the northern hemisphere is a familiar rite of passage for many young Australians. For Steve Humphreys, this also signalled the start of a different journey – into the world of treasury.

"When I came over to the UK in the late 1990s, to finance my travels I was able to get a contract accounting role with a software telecommunications company based in London's Docklands," explains Humphreys, now head of group treasury at fashion retailer New Look. "I'd been based there for around six months when the FD approached me and said they would be interested in me taking on more of a treasury role. This was during the time of the dotcom boom and at the time the company was expanding rapidly globally.

"They were looking for someone who could manage the international treasury exposures, predominantly through liquidity management. There was a lot going on, with global cash-flow requirements, FX and managing the ever-changing liquidity needs of the international subsidiaries. I realised that I really enjoyed the work."

During the four years he was at Mobile Software International, Humphreys began to bring operations into a centralised treasury function, building a policy and a framework for how treasury operated. "That's how I got into treasury, and I've been doing it ever since," he says.

Following his return to the UK in 2005, after five years back in Australia (where he spent his time as a financial accountant and then assistant treasurer for multinational construction and development giant Multiplex Group), Humphreys became involved with the ACT, through the Certificate of International Cash Management (CertICM). "That was a great certificate to undertake as it gave me a really good overview of the theoretical aspects of global cash management," he recalls. "Through that initial course, I had a great opportunity to meet and network with like minds when it came to what they had to do on a day-to-day basis, be able to share experiences and really understand that you are not alone out there in the world."

Fashion goals

After treasury roles at Peacock Group and BMW (UK) Capital, and after passing his AMCT, Humphreys moved to New Look in 2011. "This was a great opportunity because New Look was at the stage where it had a capital structure that I felt had the opportunity for a treasurer to impact on," says Humphreys. "You could have that experience of taking a corporate through a full refinancing – or refinancings, as it has turned out – and have a really positive long-term impact on the company."

Back in 2011, New Look had a capital structure that was light on bank debt, but heavy on payment in kind (PIK) loans. The shareholders at the time were looking to restructure that. "I found I could add a lot of value by supporting that process with the senior executives and the management at the time," says Humphreys. "It was quite clear that the company would have to go through one or more refinancings, and I saw that as a great opportunity."

Another attraction of the New Look role was the opportunity to lead the treasury team. "In my previous role, I had been the treasurer, but there were also other team members that reported into a broader structure within a much larger organisation. Here, I get to lead the team and report directly to the FD and CFO."

New Look's treasury team won UK Medium/Small Sized Business Treasury Team of the Year in the ACT's Deals of the Year Awards 2015 (see *The Treasurer*, February 2016, page 29), so leading his five-strong team is clearly something Humphreys excels at. An investor relations manager also reports to Humphreys, and for the refinancing cited by the Deals of the Year judges, the team was supported by colleagues from the wider group finance function. The key responsibilities for Humphreys at New Look cover the traditional treasury risk management areas: liquidity risk management, FX management, interest-rate risk management, funding requirements and the associated effects on the balance sheet.

Investor facing

"The other area that I'm also responsible for, since I've joined, is the investor relations [IR] function," explains Humphreys. The background to this responsibility began in 2013, when New Look went through a capital markets refinancing and completed its inaugural bond offering on the capital markets. This saw the company's balance sheet move from a bank-funded, private loan-funded capital structure to a capital markets-funded structure with predominantly bonds on the balance sheet and some remaining PIK loans.

This change led to an influx of new investors, which was the point that Humphreys set up a debt-IR function. "As we

have a small treasury team, I set this up so that we could report to them effectively and efficiently – as the covenant of our bond facilities requires. I also wished to promote regular ongoing communication with investors through a variety of other avenues. This includes our quarterly reporting, investor conferences, investor meetings (either individually or group meetings), setting up store visits or taking them to our distribution centre. In conjunction, I also set up a debt-investor microsite so that we could store our financial information in a way that lets our investors access it to see financial results, the most recent quarterly reporting, investor reports and any press releases or relevant news regarding the company."

The 2013 refinancing raised just over £800m in bonds to support the New Look balance sheet. This was followed in 2015 with another refinancing that raised £1.2bn, which took place in parallel to the acquisition of New Look by new shareholders, allowing the company to completely repay the existing debt and put in place new debt to fund the business, so IR are more important than ever. "The IR function works very well for potential investors, as well as existing ones, to give them access to information to allow them to make an informed decision," says Humphreys. "If the company says it is going to do something, we do it and also report against that. The IR function provides our investors with a very clear reporting framework."

VITAL STATISTICS

£1,414.5m
Total revenue for the New Look Group in FY2015

575
Stores in the UK

170+
Stores across Europe and Asia

13%
Amount of revenues generated by www.newlook.com globally

£1.2bn
Successful refinancing in 2015

1969
First New Look store opened in Taunton, Somerset

Supporting strategic initiatives

New Look has a core strategy that centres on brand, product, international, menswear and multichannel.

Treasury supports all of these areas. One of the most obvious ways is by looking after the liquidity of the group, managing cash flows and ensuring there is enough funding on the balance sheet to support the strategic growth and plans of the business.

"If you look at all of the strategic pillars as a whole, the capital markets funding of the bonds is an example of treasury's support to the business," says Humphreys. "The 2015 refinancing to fund the business extended the maturity on our new debt out to seven to eight years. Under the previous debt, bonds were due to mature in 2018, but with the new debt they are due to mature in 2022 and 2023. We also lowered the average cost of our debt by around 300 base points."

Expanding into China, the New Look treasury needed to ensure that it was well funded and had the liquidity to grow the China business. "We have provided FX support when we are investing capital into China, to set up the subsidiary and the support centre in Shanghai, for example," says Humphreys. "We also supply funding for the capex that is required to open new stores. Approximately two years ago we opened our first stores in Shanghai, and today we have more than 85 stores in China. Treasury helped support that strategic initiative, which not only covers the international pillar, but also the multichannel, brand and product pillars as well."

On a micro basis, treasury supports the brand pillar by ensuring available funding for the ongoing refurbishment of all of the stores to make sure there is a consistent brand identity. "To do that, you need the capex capacity and the cash flows, helping to ensure that we have sufficient liquidity in place for this initiative," says Humphreys.

With the multichannel initiative, New Look's treasury helps support the set-up of the acquiring relationships and the banking relationships domestically in each country that it expands into. "This support allows the New Look project team to set up the stores, get the bank accounts opened and get the acquiring relationships in place," says Humphreys. "It also helps to get the banks and acquirers talking to our IT teams, to ensure that the connectivity between our point-of-sale equipment, our PIN entry devices and our payment service providers are all interconnected by the time we open the store."

The multichannel support also sees treasury responsible for fraud risk management, working with the payment service providers on e-commerce to manage the fraud risk. "All the transactions that go through our website also go through our payment service providers' fraud risk management service," explains Humphreys.

On the product front, treasury is responsible for hedging all of the FX risk related to the ongoing product purchases. New Look does the majority of its buying in US dollars, so the treasury function is responsible for buying those dollars and hedging the forward exposures related to the purchases of the product.

"[The CertICM] gave me a really good overview of the theoretical aspects of global cash management"

"We look forward around two seasons, so we can be buying spring/summer or autumn/winter," explains Humphreys. "Clearly, we have an obligation to pay suppliers at a point in the future for the product that we are ordering today. Some of the products can have long lead times, while a lot of it can have short lead times, so we know that we have a certain level of commitment rolling out over the next two buying seasons. Treasury supports the business by actively hedging the purchasing exposure to the US dollar."

As with the international initiative, the menswear pillar has seen the opening of new stores, with the first six stand-alone menswear stores recently opened in the UK. "We helped support that by making sure that the connectivity to the various acquirers is ready to go live on the day those stores were opened. Equally, we also regularly communicate to our investors on the progress we are making," says Humphreys.

Career support

On his journey from an Aussie abroad to the head of group treasury at a growing global retailer, Humphreys says that the ACT has been an important source of support for him.

"What I think the ACT does best is that it provides a forum and qualification that benefits those that undertake it to help support them through their careers and really help them with a framework to use on a day-to-day basis. The ongoing contact you have with the ACT – whether through the website, doing additional courses or attending events such as the ACT conference – provides an opportunity for treasurers, and those wanting to get involved in treasury for the first time, the ability to access information and develop their careers."

STEVE'S TOP TIPS FOR SUCCESS

1. **Know what is on the minds of your CFO and your CEO. Understand the strategy and what the objectives are. Be there to support that and make sure you can really add value as a treasurer. You can make a real difference.**
2. **The AMCT has given me the framework to take my career forward. It has given me the theoretical understanding and knowledge I needed to take the next step up from being an operational treasury individual to someone who looks strategically at the way the business operates.**
3. **My iPhone is possibly my favourite gadget – it is the one I use the most, at least. I rely on it the most for checking emails, texts and the financial markets... it enables treasury on the go!**
4. **I don't think there is any secret to career success. You have to be focused, work hard, ensure that you build a solid network, get to know the people you are working with, and understand and support their goals and objectives.**
5. **The worst question my FD could ask is the one that elicits the answer: "I'll have to come back to you on that."**
6. **The best way to wind down after a stressful day is spending it with my family. Having been working with big numbers and complex issues all day, it is a reality check to come home and hear about how my two little boys' day went and what is most important to them.**

STEVE'S CV

2011-present
Head of group treasury, New Look
2006-2011
Treasurer, BMW (UK) Capital plc
2005-2006
Group treasury manager,
The Peacock Group plc
2001-2005
Assistant treasurer, Multiplex Group

QUALIFICATIONS

Advanced Management Programme – Ashridge Business School (2016), **CertICM** (2006), **AMCT** (2010)

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

12-PAGE SPECIAL

CASH & LIQUIDITY MANAGEMENT

In the area of cash management, security and controls are fundamentally important. From payment fraud to the risk of error, corporate treasurers need to be aware of the different threats that can result in financial loss. "It's inevitable when you are moving money around that people will be thinking of ways they can defraud you," observes Chris Parker, independent treasury consultant and the former group treasurer of private equity and public companies.

The scale of such loss can be significant. Earlier this year, hackers stole $80m from the Bangladesh central bank after fraudsters obtained the bank's credentials. Further transactions were stopped after suspicions were raised by a spelling mistake; the total loss could otherwise have run to as much as $1bn.

For corporate treasurers, it is important to understand the full range of risks and threats – both old and new – and to make sure that appropriate security measures and controls are in place to avoid these risks. While cyberattacks such as the Bangladesh Bank heist attract significant attention, the risk of fraud has been around a long time. Security and controls should cover both internal and external risks, as well as the more mundane issue of payments made in error, at the wrong time or for the wrong amount.

Depending on the nature of the business, companies may also need to address the security of incoming as well as outgoing payments. "For companies in the B2C environment, it is also important to consider the fraud risks associated with collecting money from customers," comments David Stebbings, head of treasury advisory at PwC. "If you want to provide customers with mobile payment options, for example, it's important to understand and address the associated risks."

A further consideration is the risk that staff could be forced to transfer funds under duress. "As we move away from BACS and CHAPS, which can be stopped, to Faster Payments and 24-hour payments, we become more susceptible to this sort of fraud," remarks James Kelly, group treasurer at AB Ports. "Many banks offer a login password, which indicates a payment under duress – but this could escalate a dangerous situation if the funds do not appear to clear for the beneficiary."

IKON IMAGES/PATRICK GEORGE

Taking action

When it comes to tackling these risks, it's important to seek out up-to-date information about the nature of any possible threats. Nicholas Corker, assistant treasurer at Severn Trent, says he engages in regular update meetings with relationship banks in order to understand current threats. "In my recent discussions with banks, they've highlighted how fraud is becoming more sophisticated," he explains. "When I get the information through from banks, I'll forward that to the relevant teams – the risk team, internal audit and accounts payable."

With a clear understanding of the possible threats, it is important to mitigate any risks relevant to the company. From understanding the risks to managing tokens and passwords safely, treasurers should focus on the following areas:

Standardise and automate

When it comes to mitigating payment risks, Corker says the main goal is to standardise processes as far as possible. From an accounts payable point of view, this means making sure that everything goes through recognised procurement processes, such as a three-way match, whereby supplier invoices are matched with the relevant purchase orders and receiving reports.

"If we have to make manual payments, we try and keep those to a minimum, with full segregation of duties in place," he adds. "Internal audit has a rolling cycle of audits, which includes reviewing our controls to make sure they operate effectively. They report up to the audit committee, which reports into the board."

Corker says the company currently operates a manual treasury management system, but that a goal over the coming 12 months is to automate the system so that payments go through an automated, rather than a manual, approvals process. >

Watertight

FROM CENTRALISATION TO SEGREGATION OF DUTIES TO KEEPING ABREAST OF THE LATEST FRAUD TECHNIQUES – SECURITY REQUIRES CONSTANT VIGILANCE. REBECCA BRACE INVESTIGATES

Review processes
Bruce Meuli, global business solutions executive, global transaction services, at Bank of America Merrill Lynch, emphasises the importance of regularly reviewing processes from a control and compliance perspective, focusing on root cause analysis of any events, the ability to identify, evaluate and mitigate risks, and the continual education and training of personnel.

Centralise payments
Centralisation strategies can also be a useful tool in strengthening security. "The best practice is to centralise payments through a global payment hub. This means that there is a single centralised system managing all payments, sometimes run through a shared services centre [SSC]," says Bob Stark, VP Strategy at Kyriba. "From a technology perspective, implementing a single conduit to the organisation's banks reduces risks, as well as lowering costs and simplifying the management of payment systems."

Stark says that having a single payment system makes it easier for CFOs to ensure that the same types of controls are consistently applied to all payment workflows. "Minimising exceptions to payment policies is one of the best ways to achieve payment security," he adds.

However, PwC's Stebbings points out that not all centralised structures are suitable for managing all types of payment risk. "Certainly, you want your high-value payments to go through a centre of excellence so that you can control them better – but the SSC may not necessarily have the specialist resources for that," he observes. "SSCs are often about saving labour costs, which can work for commercial payments where controls are likely to be in the enterprise resource planning – but they may not have the skill set needed for appropriate control over irregular high-value payments."

Have a consistent policy
"All treasuries should have board-approved objectives, policies and procedures," says Parker. "Within those policies and procedures, you should have a control framework that specifies who can do what, what your authorised payment instruments are, what the limits are, who can authorise a certain payment and whether dual authority is required for payments over a certain amount."

Where policy is concerned, Stebbings points out that it is important to have a clear understanding of who is responsible

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CEO FRAUD

Also known as business email crime (BEC), CEO fraud is a significant concern for companies around the world.

CEO fraud involves a fraudster sending an email that appears to come from the account of the CEO or CFO of a company. The email asks an employee of the company to make an urgent payment to an overseas bank account, usually citing a confidential project, such as an acquisition. Increasingly, fraudsters are drawing upon personal details to make these emails sound as authentic as possible, and are often sent when the CEO is out of the office. The targeted employee may receive phone calls as well as emails.

The losses resulting from this type of fraud can be enormous. According to data published by the FBI, companies have lost more than $2bn in the past two years as a result of this type of scam. In February, Action Fraud UK revealed that it had received 994 reports of CEO fraud in the past year – including one company that lost £18.5m.

"BEC schemes where CEOs are targeted and mimicked can be avoided through the execution of consistent payment policies and additional mechanisms to confirm identify, including electronic approvals and digital signatures," says Kyriba's Bob Stark. "Also, as these types of stories are publicised, more CFOs and treasurers are able to recognise suspicious behaviour and implement appropriate safeguards."

Rick Martin, treasurer of GasLog, says that the company's IT team weeds out most such attempts before they enter the system. "On the rare occasions that they do, our staff is well-educated in identifying telltale hallmarks of these attempts, and also in both the treasury policy, and the process/approval flow charts that govern all payment processes," he adds. "These are tested regularly by internal audit, and jointly approved by the CEO and CFO. Further protection is provided by strict segregation of duties, and authorisation hierarchies that are embedded in both our enterprise resource planning, and our e-banking platforms."

for payment fraud. "Clearly the treasurer is responsible for treasury payments – but are they also responsible for commercial payments? I suspect that if you were hacked there would be some responsibility there," he says. "So even though this may not be the direct responsibility of the treasurer, you would expect them to be involved with the writing of the policy and making sure that the software vendors they use are following the relevant policies."

It is also important to make sure that any policies in place provide consistency across the organisation. "Having different policies for accounts payable payments versus treasury-initiated payments, and different procedures yet again for special payments, such as M&A, is what creates exceptions that fraudsters prey upon," says Stark. "There must be a payment policy that is implemented by all departments that initiate, approve and remit payments."

Nor is it enough simply having a policy in place. "It must also be understood by the board and operational executives as to how these policies are executed," says Meuli. "Ticking the box with a signed document is not enough. It must be an active document that is reviewed and managed against performance."

Manage passwords and tokens

Rick Martin, treasurer of GasLog, says that the tokens and passwords required for authorisation on the company's e-banking platforms are strictly monitored by the system administrators. "They are also limited in numbers to provide sufficient segregation of duties and redundancy, but no more," he adds.

"The treasurer is responsible for treasury payments – but are they also responsible for commercial payments?"

New technology may be helpful as companies look to establish more secure authentication processes. Shirley Inscoe, senior analyst at Aite Group, says that hardware tokens, issued to cash management customers for many years, can be overcome by some forms of malware. "In addition, hardware tokens may break, be left behind and not available when needed, or have the battery die at an inconvenient time."

However, Inscoe says that newer forms of technology can be used to enhance security – citing the use of biometric data to access accounts, including technology that enables users to register their eye vein patterns, for instance. "This allows customers to use the camera on mobile devices to easily authenticate themselves without being bothered with user names, passwords or tokens."

Consider all threats

While the latest cyberthreats may attract more headlines, it is important to remember that not all payment-related risks are highly sophisticated. Damian Glendinning, treasurer of Lenovo, says that traditional, non-connected payments and cash management processes are far from being completely secure.

"How hard is it to forge a paper signature?" he asks. "How hard is it to intercept and modify a written instruction to a bank, or a paper trade confirmation? How secure are voice systems for placing orders, especially in the FX market? Anyone who thinks these are safe has clearly never listened to the recording of a trade captured on a tape-recording system."

Conclusion

Managing the risk of loss through error or fraud continues to be a top priority for corporate treasurers. While new threats may be arising, the tools that treasurers have long used to manage payment-related risks continue to be relevant – from the segregation of duties to effective policies. That said, treasurers do need to understand the nature of emerging threats, and should explore how new technology solutions can build upon the safety measures already in place.

Rebecca Brace is a freelance journalist specialising in corporate treasury and banking

The hard stuff

NOTES AND COINS ARE STILL THE PAYMENT MECHANISM OF CHOICE ACROSS MUCH OF EUROPE, BUT THERE ARE EFFICIENCIES TO BE GAINED IN ITS HANDLING, AS GRAHAM LEVINSOHN ARGUES

The cash supply chain is highly fragmented across Europe and prey to chronic inefficiencies. In extreme cases, cash is counted up to 17 times from till to bank. Even in less extreme examples, the same cash may be handled and counted multiple times as it is transferred between parties in the cash cycle, creating an unnecessary cost burden on businesses and banks.

These are the key findings in our *European Cash Report*, the first of its kind, in which we studied cash use across 28 European (EU28) countries. The inefficiencies we found are troubling in the context of the varied and changing European monetary landscape, because even set against the rise of electronic payments, cash has an enduring popularity.

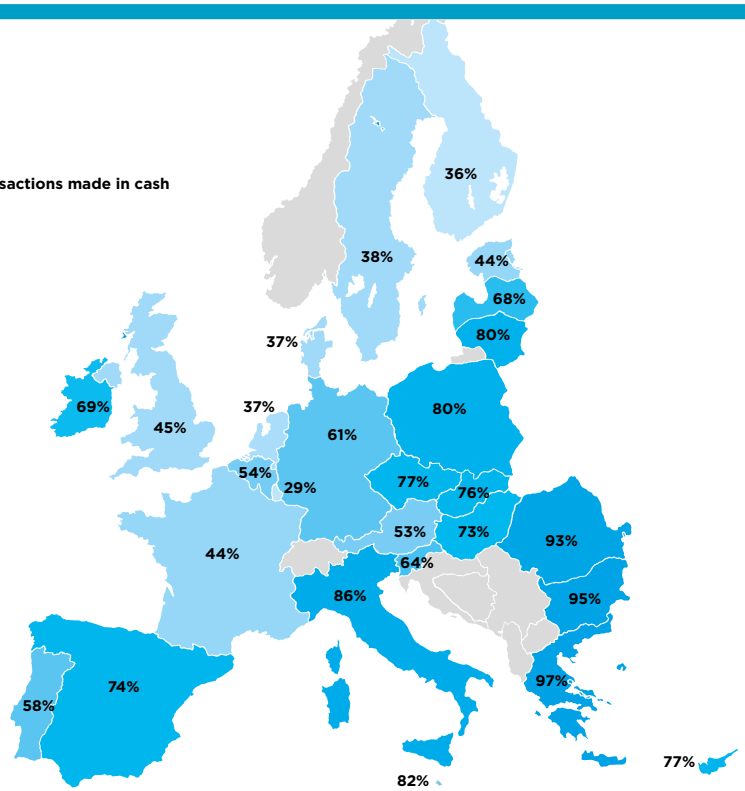
Some 60% of all payment transactions across Europe are conducted in cash, with Bulgaria, Greece and Romania paying by cash almost entirely. Cash usage is also high in Austria and Germany.

Cash is the largest payment instrument in terms of volume in all countries, except Denmark, Luxembourg and Sweden, and regional differences in cash use are arguably down to the availability of access to cash by the public through bank branches and ATMs.

We also found that the volume of notes and coins in circulation has increased 13% per annum since 2002. This growth is notable across all denominations, but the €50 and €100 notes contribute most to that growth.

Cash in circulation not only grows consistently in the euro area, but also in other major currency markets both within the EU (such as the UK), and outside the EU (ie in the US and Japan). In addition, the value for ATM withdrawals in Europe, a proxy for cash payments, rose by 14.6% between 2009 and 2014.

Country	% of transactions made in cash
Luxembourg	29%
Finland	36%
Denmark	37%
Netherlands	37%
Sweden	38%
Estonia	44%
France	44%
UK	45%
Austria	53%
Belgium	54%
Portugal	58%
EU	60%
Germany	61%
Slovenia	64%
Latvia	68%
Ireland	69%
Hungary	73%
Spain	74%
Slovakia	76%
Czech Republic	77%
Cyprus	77%
Poland	80%
Lithuania	80%
Malta	82%
Italy	86%
Romania	93%
Bulgaria	95%
Greece	97%



Portugal leads in the number of ATM withdrawals per capita, just before the UK. Bulgaria, Hungary, Italy, Romania and Slovakia are listed as the countries with the lowest score on ATM withdrawals per capita. This is interesting as these countries are cash-intensive countries, and one might have expected a higher ATM score.

Yet while cash volumes have continued to grow over the past five years, they have declined as a proportion of payments. The proportion of all payments made by cash has fallen, with 40% of payments across the EU now made by card, electronic and digital payments.

In eight European countries, non-cash payments now make up a greater proportion of transactions than cash. Countries in which cash use as a proportion of payments is currently below 50% include: the UK (45%), Estonia (44%), France (44%), Sweden (38%), Denmark (37%), the Netherlands (37%), Finland (36%) and Luxembourg (29%).

Cards, credit transfers and direct debits account for 94% of all electronic payments in the EU28. Card payments now represent the highest number of non-cash payments, 45% of all non-cash payments.

Local branches of monetary financial institutions offering payment services have been in decline since 2009, by almost 10%. France aside, access to cash via primary outlets, such as ATMs and bank branches, is also being restricted, despite the total

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European consumers and businesses will continue to use cash as part of a multi-payment economy. But we need to modernise how they use it

number of withdrawals at ATMs increasing. Meanwhile, bank branches also show an overall downward trend.

One could wonder why any industry would actively limit access to a product that is apparently in growing popular demand. The question is a practical and even social one, and was posed recently by the Sveriges Riksbank, the national bank of Sweden.

Sweden is considered by commentators as the most cash-free country on the planet: public transport is cashless, five of Sweden's biggest banks operate cash free where possible, and even Abba's Björn Ulvaeus, the man who composed 'Money, Money, Money', reportedly gets by without notes and coins.[1]

Yet even in Sweden, the electronic new order is being questioned, with the Sveriges Riksbank calling for access to cash to be a legal right. Riksbank argues that the banks have reduced their cash-handling services too quickly for consumers, resulting in notes and coins being less available to the public, particularly in remote areas of the country. Sweden became the first European nation to issue banknotes in 1661, and it seems even here they still have a future.[2]

What we have learned from recent history in Europe is that cash provides a secure and trusted backstop, particularly in times of crisis. In Cyprus and Greece, when capital controls were introduced as a response to the economic crisis, it was critical that ATMs were replenished, and cash made available.

If cash is to continue to bridge the digital gap, then cash handling must reform, and processes across Europe must harmonise.

Europeans mostly rely on cash for their day-to-day payments. We also found that payment services, cash and cash logistics share similar efficiency and reliability objectives across the EU.

The big questions remain: how will cash develop in the future? Which trends and developments will have the most impact on the future of cash? There is a fundamental transition in the use of cash across Europe. European consumers and businesses will continue to use cash as part of a multi-payment economy. But we need to modernise how they use it.

Across Europe the cash-transaction industry must work with the banking sector, central banks and policymakers to create this modern lean cash cycle. Challenges include:

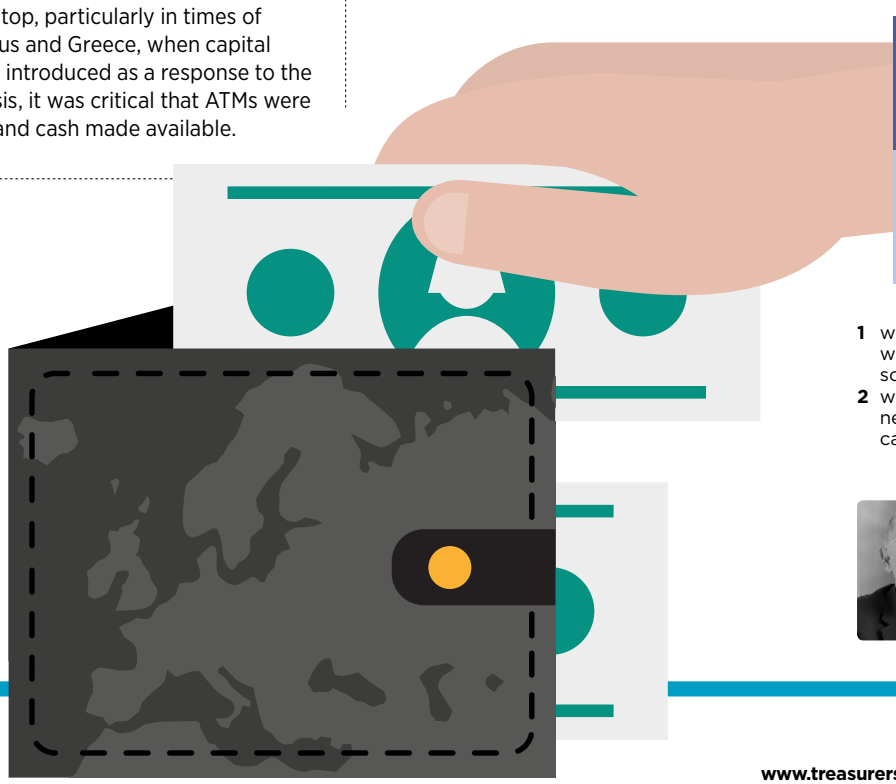
- **Shortening the cash cycle:** reducing participants, processes, resources and funding from till to bank.
- **Realising earlier value:** ensuring cash value is credited earlier.
- **Reducing the cost of cash:** minimising handling and processing costs for cash.
- **Combining the best of the old and the new with 21st-century cash:** better interface with electronic and digital payment methods.

We must take steps to ensure that cash becomes a true 21st-century payment mechanism, which integrates more fully with digital payment systems. In practical terms that means:

- **More units, more places:** We can more efficiently manage the cash cycle by extending the existing cash infrastructure across Europe.
- **Removing the middle man:** By minimising the number of actors, we remove inefficiency in the processing and counting of cash.
- **More efficiency:** Through a secure, integrated cash cycle, the cash-to-bank journey could be shortened.
- **A shorter, more efficient cash cycle** generates immediate value for deposited cash.

Root and branch reform will only be achieved by streamlining and simplifying the cash cycles across Europe, creating fewer transfers between actors and consequently less duplication of effort. Significant cost efficiencies can be driven through the cash cycle so that cash remains a cost-effective payment mechanism into the future.

The G4S *Cash Report* can be found at www.g4scashreport.com



1 www.theguardian.com/world/2014/nov/11/welcome-sweden-electronic-money-not-so-funny
2 www.ibsintelligence.com/ibs-journal/ibs-news/sveriges-riksbank-takes-stand-on-cashless-society

Graham Levinsohn is European CEO at G4S

New-age receivables

WHAT INSTRUMENTS CAN A CORPORATE USE TO STREAMLINE ITS COLLECTIONS? AJAY ADITYA PROVIDES A PRIMER ON OPTIONS USED ACROSS EMERGING MARKETS

The order-to-cash side of the working capital cycle caters to the revenue side of the business and begins when a buyer initiates a purchase transaction leading to the creation of a receivable. In an ideal world, corporates would receive cash as early as possible to reduce costs in the working capital cycle.

The choice of a receivables management solution will depend upon factors such as industry sector, size of the business, proportion of local versus international business, the competitive position of the company, market conventions and buyer profiles. But when it comes to what corporates want from their receivables management approach, there are fewer variables. Most corporates want a collection infrastructure with these features:

- Cost-efficient;
- Straight-through processing;
- Safe and secure;
- Eliminates float;
- Enhances fund availability;
- Wide adoption and coverage;
- Flexibility;
- Possibility of reporting and tracking;
- Reduces manual processing; and
- Mature clearing infrastructure.

The solutions offered by banks can be characterised as physical (cash) and electronic (non-cash) forms. Here are some examples:

Physical instruments

Cash collection is perhaps the most inefficient and expensive option. However, benefits include immediate availability, which makes it the preferred instrument during illiquid market conditions.

Cheque collection is still widely used in markets such as India (and also in the US) due to the prevalence of cheques as a means of funds transfer. However, implementation of mobile-initiated cheque submission and truncation options have reduced disadvantages, such as float and overhead costs associated with cheque clearance.

Lockbox: Post-office boxes and drop boxes are typically outsourced to service providers, such as banks or other third parties. Cheques are dropped with or without advice and are then scanned and sent for clearing. Cheque details are uploaded to client enterprise resource planning (ERP) applications so that credit can be immediately applied upon clearing, and credit lines can be released for the buyer. Benefits include reduced float and processing costs due to centralisation and scale.

Cheque management and discounting: In some developing markets where cheque collection is still underdeveloped, corporates use cheque management and discounting solutions from the banks. Examples of cheque management users include housing or real-estate developers warehousing post-dated cheques and presenting them for clearing on the due date. To obtain immediate credit, corporates can get cheques discounted by banks to avoid paying overdraft charges on a current account.

Electronic instruments

Direct debit is the cheapest option available to corporates. The buyer's commitment is prearranged and no formal communication is required before initiating the transaction, leading to more certain cash forecasting. Further benefits include a reduction in payer identification efforts as corporates initiate the transaction and receive information from banks on any individual failure of direct debit instructions.

Electronic payments: International collections via SWIFT or charge cards are increasingly viable. Using SWIFT, corporates can send MT101 or pain.001 messages to initiate transfer of funds requests, whereby receipt would transfer funds to the sender. A bilateral agreement is required between both the bank and its clients, so repeat payments are a condition for this method. Charge card-based payments can also be initiated by the payee. However, issues such as charging in the receiver's currency rather than the buyer's may make this option expensive for larger amounts. There are now various lockbox companies providing services to corporates along these lines.

Electronic lockbox is generally implemented when collection services are outsourced or shared by a corporate and its subsidiaries, as scale is needed to make this option competitive in some markets. Electronic funds are received in a central account number on behalf of corporates by the outsourcing entity and then transferred to corporate ERPs at periodic intervals along with reference/buyer information to aid payee identification.

Virtual account is where various buyers of a corporate are assigned a unique identifier by the bank, and buyers are asked to pay the corporate using a combination of corporate identifier and buyer identifier. Once the payment has been received, internal processing at the bank will make sure that funds are applied to the right account of the corporate.

The benefits of this approach include immediate identification of the payer and application of funds, leading to faster release of credit lines. This helps to substantially reduce payer identification investigation and manual processing at the corporate end. Main users include telecom and utility companies, and tax authorities – all of which expect regular payment of smaller denominations.

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EMERGING MARKETS AND MOBILE PAYMENTS

Mobile payment services offer a safe, secure, cost-efficient, immediate electronic fund transfer by leveraging the coverage and reach of mobile infrastructure. This service has been popular in nations where financial inclusion is limited due to the low profitability associated with smaller deposit base accounts. This service is popular in markets like China, India and Kenya. Benefits such as 24-hour availability, immediate transfer, low cost and the extendable nature of this service suggest huge potential and growth.

There are four primary models for mobile payment:

- **SMS-based transactions;**
- **Mobile operator billing;**
- **Contactless Near Field Communication (NFC) payments; and**
- **Mobile web payments.**

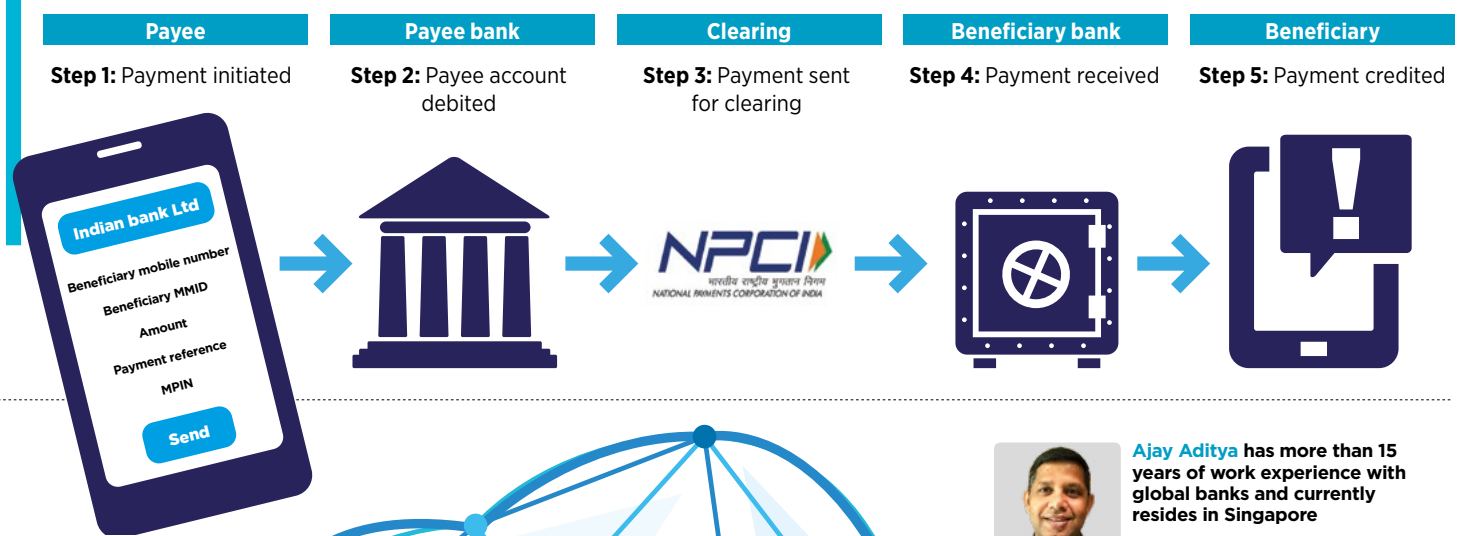
The SMS model is the oldest, where a customer is charged for the goods or services by sending an SMS to a particular phone number and charges are applied to the phone bill or mobile wallet of the request originator.

Mobile operator billing is used by e-commerce sites for the payments of services offered by them using two-factor authentication. The benefit of this model is that credit card operators and banks can be completely bypassed.

Contactless NFC payments are made using smartphones that are NFC enabled. The user charges a prepaid account using PIN authentication to approve a transaction. Both the buyer and seller should have an account with the same bank providing the facility.

Mobile web payment models are based upon wireless application protocol, in which an application needs to be installed or user connected by a browser to initiate payment transactions. Online wallets services providers like M-PESA (Kenya) or India's Immediate Payment Service (IMPS) are good examples of where users can transfer funds to the beneficiary using their network.

In the Indian market, the national payment corporation is at the forefront of rendering this mobile wallet service standardised and efficient. To initiate a funds transfer using IMPS, both remitter and beneficiary need to register for a mobile banking service with their bank and receive a Mobile Money Identifier (MMID). The payee initiates the transfer using their bank's app and by providing the beneficiary phone number and MMID along with the usual details. Money is debited by the payee bank from its account and a payment instruction is sent to the National Payments Corporation of India for clearing. After clearing, the funds are sent to the beneficiary bank to be credited to the beneficiary account, which may be individual or corporate.



Ajay Aditya has more than 15 years of work experience with global banks and currently resides in Singapore

All stocked up and nowhere to invest

US TREASURERS HAVE BUILT UP STRONG RESERVES, BUT REMAIN UNSURE ON THE RIGHT CHOICE OF INVESTMENT. ANTHONY J CARFANG ARGUES THE CASE FOR PRIME INSTITUTIONAL FUNDS

Consider what a great time it is to be a corporate treasurer on this side of the Atlantic. Low interest rates provide you with a great opportunity to build a solid balance sheet; the European Central Bank is rolling out the red carpet for your bonds, even at zero interest rates; inflation is quiet; there is ample liquidity in the markets; banks are interested in lending; the US dollar is relatively strong and stable; the economy is moving along, albeit in low gear; and technology is enabling and empowering you to expand your remit and create even more value for your company.

Now consider what a challenging time it is to be a corporate treasurer in the US. Money market fund (MMF) regulations are narrowing your investment and borrowing options; the Federal Reserve's $4 trillion balance sheet overwhelms the markets and threatens to blow up even the best strategies on the slightest whim of the governor; regulators, seeing the end of the current US administration, are running their printing presses at full speed, an action certain to create unintended consequences, while Basel III rules are still winding though the banking system with an uncertain, but presumably negative, impact for corporations; the interest-rate picture is not known; and pooling structures are either going away or are priced out of reach.

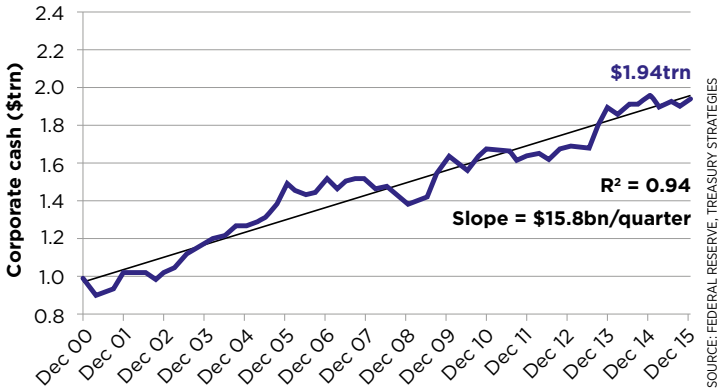
In this environment, we see our clients, treasurers of large companies, focused on three key areas:

- Accumulating cash;
- Preparing for the MMF regulations; and
- Optimising their use of technology.

Accumulating cash

Cash on the US balance sheets of companies doing business there continues to rise. At $1.94 trillion, corporate cash has doubled since the year 2000. At Treasury Strategies, we disagree with pundits and commentators who cite lack of capital spending and a slow economy as the culprit. Rather, we believe that this is a long-term trend in response to uncertainty, concerns about long-term access to credit and a tougher regulatory environment. Treasurers worldwide are simply holding more precautionary cash on their balance sheets.

US CORPORATE CASH



Fifteen years ago in the US, corporate cash was 9% of GDP. Today, it stands at 11%. In fact, over that period, for every $1 trillion increase in US GDP, corporate cash increased by $124bn with an astonishing statistical significance of 0.94.

As we work with corporates, we hear the precautionary theme again and again. Will banks restrict credit once the Fed tightens? Will regulation increase the rate at which public-sector credit crowds out the private sector? Will Basel III and the Volcker Rule make underwriting more difficult and costly? Together, these concerns are driving corporate cash accumulation and we don't see our clients changing that outlook anytime soon.

Preparing for the MMF regulations

On 14 October 2016, after a long battle, MMF regulations will go into full effect. Prime institutional funds will be required to float the net asset value (NAV) and their boards will be empowered to institute liquidity fees and redemption gates.

These regulations have led to steady outflows since the first proposals in 2010. Assets have fallen from $1.7 trillion to $1.2 trillion, mostly flowing into government MMFs. There is speculation that the decline will continue as the effective date approaches. In preparation, many fund managers are shortening their maturities. Some managers are investing very little with maturities beyond October 2016.

Several problems flow from this:

- Prime institutional funds are the market's largest purchaser of commercial paper. With assets shrinking, there are fewer buyers of corporate commercial paper.
- As fund managers shorten their maturities, treasurers are left with issuing shorter-term securities, creating transaction cost and rollover risk.
- As investors, treasurers find themselves relegated to lower-yielding government funds. Some treasurers feel that the combination

of a floating NAV, liquidity fees and redemption gates render prime MMFs a less effective instrument and possibly at odds with the company's investment policies. We have the contrary view that the regulations simply remove some of the clear advantages of prime MMFs and place them on par with other MMF instruments and bank deposits. Consider the three key planks:

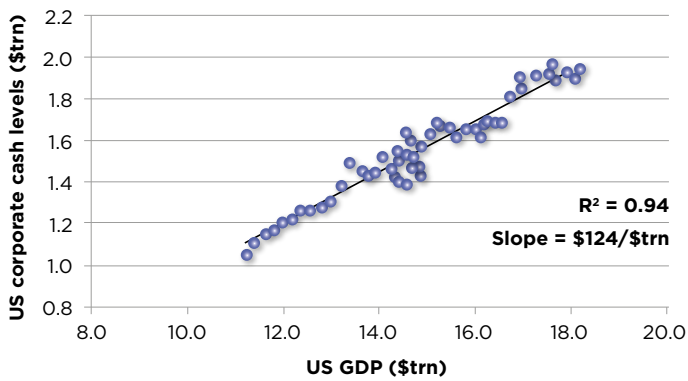
Floating NAV – Prime funds had enjoyed a constant NAV of $1 per share and treasurers loved that. Now they must float. In reality, though, every other instrument in the market that is not held to maturity with absolute certainty also floats continuously. A treasury bill that is sold prior to maturity will have fluctuated in value and created either a gain or a loss for the investor. Ditto commercial paper. MMFs are now simply on par with all other instruments.

Liquidity fees – Again, MMFs enjoyed daily liquidity, even when market stress imposed 'fees' on all other market instruments. Clearly, when an investor sells any other instrument into a stressed market, that investor will incur a haircut, tantamount to a liquidity fee. Similarly, a depositor redeeming a certificate of deposit prior to maturity will forfeit interest or incur other fees, also tantamount to a liquidity fee. MMFs are now simply on par with all other instruments.

Redemption gates – This is probably the most misunderstood market phenomenon. Money markets are generally robust and there are always buyers available to match sellers. Well, not quite. Markets can and do experience liquidity gaps, sometimes severe, in which no transactions take place. The market participants themselves impose the gate. The most significant recent example was the freezing of the auction rate securities market in 2008. Some investors are still unable to sell those securities, effectively experiencing an eight-year gate! Most bank depositors are unaware that, in the event of a bank failure, the Federal Deposit Insurance Corporation is not obligated to immediately repay depositors. Uninsured depositors (most corporations) could conceivably wait for years in the case of a complex resolution.

Treasurers are gradually becoming aware that, from the standpoint of investor utility, prime institutional funds are still the most attractive instrument. We believe that, although assets will continue to decline as we approach the October go-live date, they will rebound quickly and remain the instrument of choice for US treasurers.

US CORPORATE CASH LEVEL RELATIVE TO US NOMINAL GDP



Optimising their use of technology

Over the past several years, companies have been very busy upgrading their treasury technology. For most, this meant replacing older treasury workstations or upgrading to newer versions. As these systems grew in power and functionality, many companies underestimated the complexity of the implementations. They became the platform for efficient liquidity management.

The upshot was that many companies implemented the basics while the more advanced features were postponed until Phase II. Although the core cash management processes were automated and the new technology added value, there remained numerous Excel or other external workarounds.

Many corporate treasuries are embarking on Phase II this year. Companies are implementing modules that had been purchased, but unused. Investment tracking, FX, debt management, cash forecasting and risk management generally top the list. They are improving connectivity with all of their banks, not just a few. They are implementing comprehensive bank account management tools as well. This is a tall order and will keep companies busy well beyond 2016.

Challenges for US corporate treasurers abound. The market has given a temporary reprieve in the form of low rates and a relatively strong dollar. Wise treasurers are taking advantage of this environment to upgrade their treasury systems, improve their business processes and strengthen their balance sheets.

Anthony J Carfang is a partner with US consultancy Treasury Strategies

Examining the small print

THE PACE OF REFORM OF CAPITAL MARKET ACTIVITY IN EUROPE RARELY SLACKENS. IN PART TWO OF A REGULATORY OVERVIEW, KATIE KELLY SETS OUT ICMA'S POSITION ON KEY AREAS UNDER THE SPOTLIGHT

Regulatory authorities have relatively little exposure to issuers, so work carried out by the International Capital Market Association (ICMA) to encourage interaction and collect views from market participants is welcomed. Work on key areas of regulation that have an impact on corporate treasurers is outlined below.

Standardisation

One of the remits of ICMA is to explore market-led solutions to ensure the efficient functioning of the markets. This currently includes addressing the secondary market liquidity challenge, an area on which there has been much debate around the standardisation of corporate bond issuance.

The standardisation debate may be viewed as one of a whole series of incremental measures that the market can take to improve secondary market conditions; another related measure is the development of electronic trading. However, electronic trading platforms don't lend themselves to trading corporate bonds, which are heterogenous, diverse and very different to equities. For electronic trading to work, it would require a more homogenous product, ie standardised bonds.

The discussion is likely to continue. The European Commission's approach, which is reflected in its Capital Markets Union (CMU) Action Plan, is that this issue is very much for the market to sort out. To this end, no relevant regulation is proposed. Concerns have been highlighted by ICMA to the European Commission on its Green Paper on CMU, as well as to the Fair and Effective Markets Review as to, among other things, loss of flexibility of funding for the issuer (and appropriate issuer compensation), fragmentation of the market, refinancing risk, inadvertent volatility and market infrastructure capacity.

Prospectus Directive III

One of the conclusions of the European Commission's CMU Action Plan announced in September last year was a review of the Prospectus Directive, resulting in Prospectus Directive III. Proposals include:

- removing the flexibility that issuers of certain non-equity securities currently enjoy to choose their home member state, which would mean that they would no longer be able to choose which competent authority approves their prospectuses;
- removing the €100,000 denomination distinction for disclosure purposes and applying one disclosure regime to all securities and requiring a summary for all issues of securities;
- obliging issuers to categorise risk factors according to their materiality (high, medium and low risk), and limiting the number of risk factors that can be included in a summary to the five most material risks; and
- requiring a summary for all prospectuses.

Concerns around these areas have been brought to the attention of the European Commission, as well as to national regulators, by ICMA.

Pan-European Private Placements

The Pan-European Private Placement (PEPP) market aims to benefit medium-sized and unrated companies by providing long-term debt funding that may not otherwise be available to them from the loan or bond markets. It may serve in this way as an intermediary and preparatory stage for these companies before they gain access to the public debt markets. The investment market is institutional, with a buy-to-hold strategy.

The PEPP Joint Committee, coordinated by ICMA, has published a market guide, which sets out best practice and recommendations, defines the roles of parties and explains expectations in terms of disclosure and covenants. The joint committee also promotes standardisation of transaction documentation and identifies barriers to entry for new issuers and investors into this market. In its CMU Action Plan, the European Commission indicated that it is fully supportive of this work.

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For a summary of ICMA's representations on the bail-in mechanism, ring-fencing, the net stable funding ration, repurchase agreement and allocations under MiFID II, see *The Treasurer,* April 2016, page 32.

Katie Kelly is a director in the market practice and regulatory policy team at ICMA

Rule changes, anyone?

THE EFFECTIVE DATE FOR IFRS 9 MAY BE SOME WAY OFF, BUT WITH WIDE-RANGING IMPACT, TREASURERS WOULD DO WELL TO LOOK CLOSELY AT ITS IMPLICATIONS, DEE KOTHARI ARGUES

IFRS 9 – a conversation killer if ever there was one. But while the international financial accounting standard has gone through a long period of stop, start, review and consultation, it is finally time to take a closer look at its impact.

The standard is effective for annual periods beginning on or after 1 January 2018 and the new hedge accounting requirements are more principles based, less complex and provide better links to your company's risk management activities than IAS 39. IFRS 9 also allows companies to apply hedge accounting more broadly to manage profit or loss mismatches and improve what might be regarded as ineffective hedging under IAS 39.

Key changes introduced by IFRS 9

- The removal of the 80-125% highly effective threshold. Moreover, when there is a change in the economic relationship between the hedged item and the hedging instrument, an adjustment to the economic hedge ratio, known as rebalancing, can be introduced (see below).
- Generally, more items qualify for hedge accounting, for example, pricing components within a non-financial item and net FX cash positions.
- Companies can now hedge account exposures that give rise to two risk positions (for example, interest-rate risk and FX risk, or commodity risk and FX risk) that were previously managed by separate derivatives over different time periods.
- We can expect less profit-and-loss volatility using options, FX forwards and FX foreign currency swaps. For example, a time value/interest differential component can now be deferred under other comprehensive income (OCI) and can either be amortised to profit or loss, or capitalised into the hedged item, depending on the nature of the hedged item.
- New alternatives are available for economic hedges of 'own use' contracts that have the potential to reduce profit-and-loss volatility.
- Fair-value hedging at group consolidated level with offsetting hedge item positions is possible, for example, asset-side bonds at fixed-rate offset with liability-side fixed-rate bonds using an interest-rate swap.
- Cash-flow hedging at group-consolidated level with offsetting or net positions (for example, acquisition of a non-financial asset offset with non-financial liabilities) is permitted, providing critical terms are met.
- Equity investments at fair value through other comprehensive income (FVTOCI), where ineffectiveness can be recorded in OCI.
- Cash instruments measured at fair value through profit and loss (FVTPL) are eligible as hedging instruments, too.

Who benefits?

Organisations engaging in economic hedging activities (irrespective of applying

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hedge accounting under IAS 39) have the greatest likelihood of benefiting from the changes. Corporates in mining and natural resources, airlines, agriculture and other industry sectors that use commodities are among those likely to benefit. The same goes for entities with significant foreign currency transactions or foreign funding sources that use derivatives to manage risk in their treasury and/or business activities.

How to use IFRS 9 hedge accounting

There are a few scenarios that highlight the main differences between IAS 39 and IFRS 9 in terms of its practical application:

Non-compliance with the company's risk management strategy: Under IAS 39, as long as the hedge is documented and effectiveness testing is met, hedge accounting is permitted. However, IFRS 9 states there is a requirement to comply with the risk management policy of the company to achieve hedge accounting. For example, rolling FX swaps or FX options to hedge three years out would not be permitted if the risk policy states up to two years only. Another example could be where the risk policy states that interest-rate risk can only be hedged when borrowings or funding is drawn or received. This policy would prevent treasury entering into a forward-rate agreement or forward-start interest-rate swap.

Conditions to achieve successful hedge accounting remain largely unchanged from the former standard, but IFRS 9 stipulates additional qualifying conditions on top of IAS 39. Importantly, an economic relationship must exist between the hedged item and hedging instrument; and credit risk must not dominate value changes from that economic relationship. For instance, physical purchase of jet fuel that will be priced off Platts' price benchmark with the reference derivative to a London Metal Exchange (LME) precious metal price (gold) would be disallowed, even though correlation is highly effective.

Rebalancing is prohibited under IAS 39, whereas IFRS 9 prospectively permits altering the hedge ratio without discontinuing or terminating an existing hedge-accounting relationship to improve effectiveness.

Hedge effectiveness: IAS 39 requires prospective effectiveness testing using a qualitative approach, such as 'critical terms' if met or a 'quantitative test' if critical terms are not met. Retrospective effectiveness testing requires a quantitative approach. On the other hand, IFRS 9 prospective effectiveness testing can be qualitative, using critical terms, which is acceptable still. Retrospective effectiveness testing is now no longer required.

Derivatives as hedged items: Derivatives are not allowed to be part of a hedged item under IAS 39. However, they are allowed to be part of a hedged item under IFRS 9. For example, imagine a GBP functional company issuing a 15-year, JPY-denominated fixed-rate bond. It synthetically converts it into a 15-year, fixed-rate GBP bond where critical terms are met using a cross-currency interest-rate swap. The company then decides to overlay the structure with a second GBP interest-rate swap paying floating one-month Libor and receives a fixed rate for 18 months. IFRS 9 would allow the second interest-rate swap as a hedging instrument for the first 18 months of the bond against the first cross-currency interest-rate swap, using partial-term hedging.

Commodity hedging: For hedges of non-financial items, for example, forecasted commodity sales or purchases, the hedged risk can only be the FX-rate risk or the entire cash-flow variability (which typically can include freight and insurance), and that increases the risk of hedge ineffectiveness under IAS 39. IFRS 9, on the other hand, states that we can select an observable and measurable risk component for the financial and non-financial hedged item, thus limiting variability, which would not impact hedge ineffectiveness. For example, we sold grade A zinc physical based, on the future average base zinc LME price plus freight for delivery in one month's time. The reference derivative here would be the zinc LME average price for the month.

Hedging a layer component: Cash-flow hedges under IAS 39 can be based on a proportion (percentage) or a portion (layer) of a specific item or group of items. However, a fair-value hedge is restricted to proportions of specific items, so that there is traceability to the hedged item. Under IFRS 9, however, a fair-value hedge can now be assigned as a percentage or proportion of the hedged item, for example, part of a monetary transaction volume, physical volume or nominal amount. For instance, hedge the first five million cubic metres of natural gas; the first 500 barrels of oil purchased; the first 500MWh of electricity sales; the last $20m of a $100m firm commitment; or $50m of a total $150m of floating-rate debt.

Net profit margin hedging for FX risk is not permitted under IAS 39. Surprisingly, and to the benefit of highly astute CFOs and treasurers, IFRS 9 allows the fair value of the derivative to be shown below the sales and cost of goods sold (COGS) line, as a 'hedging result' under a cash-flow hedge, as the accounting result of the derivative cannot be grossed up to affect both the sales and COGS line.

> Setting up an IFRS 9 project team with treasury and finance colleagues in the driving seat is a task that should be undertaken sooner rather than later

What now?

While there is some time to go before mandatory adoption is upon us, there are some benefits to adopting IFRS 9 early. As a first step, setting up an IFRS 9 project team with treasury and finance colleagues in the driving seat and IT as business partners to set out your road map for IFRS 9 adoption is a task that should be undertaken sooner rather than later. As with all new international accounting standards, the impact will affect systems, people and processes time and time again.

Dee Kothari FCCA AMCT
is a treasury consultant

BACKLASH

MOST ORGANISATIONS WILL SAY THEY DON'T RETALIATE AGAINST WHISTLE-BLOWERS. THE REALITY IS A LOT HARSHER, SAYS KEITH READ

IKON

Whistle-blowing, and whistle-blowers, are rarely out of the news; a whole industry has sprung up around whistle-blowing and it takes just moments to find a myriad of articles and learned papers about the subject. However, there are some practical whistle-blowing realities that organisations need to be aware of – and, crucially, they need to ask themselves whether that 'anti-retaliation' policy, however well-structured and carefully written, really prevents retaliation.

Most companies and organisations now have a whistle-blowing facility, provided either internally or externally, or through a combination of both. Organisations will often first establish an internal whistle-blower facility and subsequently migrate to an external hotline provider, which brings with it a potentially wider range of intake channels – including telephone, email, letter, fax, web forms and manager conversation capture – together with multi-language capability and managed anonymous reporting.

However, organisations often set up their whistle-blower hotline and, with that box ticked, leave it at that. Crucially, they often fail, for example, to make even the most rudimentary test calls to their own hotline. From personal experience, seven test report calls made to an organisation's internally provided hotline exposed an informal triaging process, which resulted in only two of those reports making it all the way through the process. Moreover, the handling of one call, made in a major European language, was so dire and slow that only the most determined caller would have persisted.

Organisations often underestimate the importance of their hotline infrastructure. So, for example, free-to-call is pivotal when it comes to encouraging reporters to make their call. But achieving that objective in all countries of operation can often appear to be an impossible challenge. The resulting mixed approaches will lead to companies issuing instruction handbooks that run to 30 pages of numbers and complex instructions. The procedures tend to be especially complicated for callers who want to remain anonymous. Clearly, again, this inevitably serves to directly deter callers.

Companies often fail to consider the situation in countries where they have a low employee population, but a high risk-operating environment, with the result that whistle-blowing report volumes often tend to be low, because employees

wanting to make a report are fearful of identification by a simple process of elimination. Put simply, if there are 10 employees and their manager in a country office, then it is not going to be that difficult to identify who might have made a report. There are techniques that can be used to deal with types of exposure issue, but organisations often fail to consider them and, as a result, forego what can often be vital information.

Anti-retaliation policies

The vast majority of organisations have an anti-retaliation or no-retaliation policy for whistle-blowers and, without question, it is clearly the right thing to do. However, most policies are just that – they sit on the shelf and often have little impact on what happens in reality day to day. Indeed, particularly in the case of anti-retaliation, policy communication is relatively poor – often because of a misplaced perception that "retaliation wouldn't really happen here".

Moreover, despite all these no-retaliation policies, it takes just moments to find appalling cases of retaliation – involving some very high-profile and household name organisations – that have taken place on both sides of the Atlantic, and elsewhere.

Organisations invariably find it a challenge to implement effective key performance indicators for their compliance programme, and the question of how to measure outcomes becomes even more challenging when it is related to retaliation.

Professionally, I have seen many instances of retaliation in action. The problem is that it can take many forms; it can take place at organisational, manager and colleague level, and involve both 'hard' and 'soft' retaliation – ranging from hard cases: discipline, dismissal and harassment, right through to soft cases: loss of a whistle-blower's career, including advancement, loss of overtime and other opportunities. Whatever form the retaliation takes, it certainly affects the individual and means that other people will inevitably think twice about whistle-blowing.

Retaliation data

In one case, where I suspected that, in spite of the existence of an anti-retaliation policy, retaliation was alive and well within one particular organisation. I decided to try to look at the whistle-blower data – who the whistle-blowers were and where that information was available – and then link those individuals to data that could indicate retaliation. This data included the individuals' subsequent annual performance review markings, pay rises, bonuses, disciplinary actions and an evaluation of their career progression compared to their peers. Not a full or exhaustive set of data, but a subset that I could work with to get an indication of whether my concerns were real or imagined.

> The vast majority of organisations have an anti-retaliation or no-retaliation policy for whistle-blowers

It became obvious within minutes that retaliation was clearly taking place; not everywhere, and not affecting every whistle-blower, but it was there. Moreover, some divisions, departments and locations had a noticeably greater propensity for retaliation than others and, I suspected, some of that was linked to certain managers and senior managers. Confirming that issue was largely beyond manual analysis, given frequent organisational changes and movement of individuals within the organisation.

Some individuals had clearly been high performers prior to blowing the whistle; after that event – at least if the performance review markings were to be believed – their performance had declined sharply and, in some cases, had never recovered; a loss to them, and a loss to the organisation.

The reality

Armed with this analysis, I was at least in a position to raise the issue – the reality of retaliation – and to get the message out there that retaliation was being monitored, however simply and crudely. I would like to think – and there was some evidence to this effect – that retaliation lessened to a degree once that signal had been sent around the organisation. But, clearly, it can take years for patterns to emerge.

Five years on from that particular example, at almost every compliance event, the question of whistle-blowing comes up and the discussion usually turns quickly to the issue of retaliation and anti-retaliation policies. I invariably ask how compliance officers know that their policy is working. Without exception, people reply that they don't, but that they do have a policy. Talking about how even rudimentary analysis could be put in place often turns out to be a 'light-bulb moment'. People start to discuss what simple analysis they could undertake within their own organisations.

Anti-retaliation systems

Going forward, organisations will be able to bring their compliance-related systems – covering whistle-blower hotlines, case management, policy communications and training – together with their core HR data, such as annual performance review markings, pay rises, bonuses, disciplinary actions, career progression, overtime awards and suchlike. This will transform this simple approach into an effective real-time compliance tool – one that enables organisations to be confident that they genuinely have no retaliation – and that they are in a position to prove it.

Keith Read is an independent compliance consultant

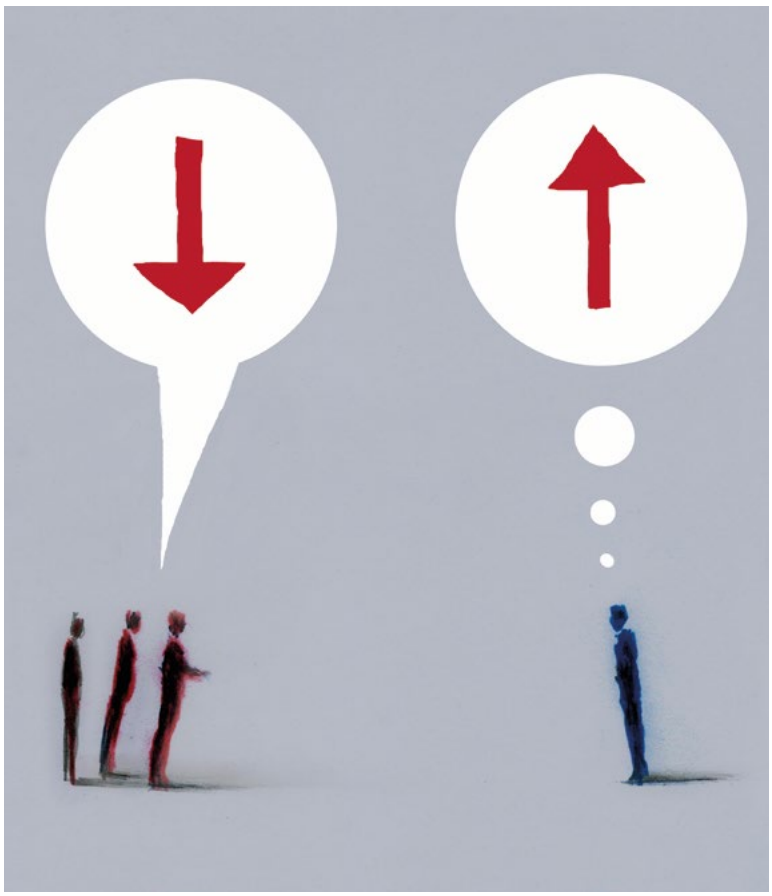
Declining interest

IN THE FACE OF HISTORICALLY LOW INTEREST RATES, TREASURERS FACE NEW RISK CONUNDRUMS. PAOLO ESPOSITO REVIEWS THE OPTIONS

Global interest-rate markets are experiencing unprecedented conditions. In addition to issues such as the potential impact of Brexit, currency wars, de-pegging and devaluation over the past year, we have also seen a great deal of debate around quantitative easing, timing of interest-rate hikes or cuts, and monetary policies.

In April 2016, there were roughly $7 trillion of government bonds (about one third of the Bloomberg Global Developed Sovereign Bond Index), offering negative yields, which is just one example of the peculiarities of today's situation. This is the case for the euro, Swedish krona, Swiss franc, Danish krone and Japanese yen. And it seems likely there is yet more uncertainty to come. It is expected that the volatility around interest-rate and monetary policies that characterised 2015 and this year to date will continue.

The following are some of the new challenges corporate treasurers face when it comes to managing interest-rate risks for their companies. This is particularly relevant today, as many corporates have a variety of currency exposures to manage and diversified funding sources.



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Negative rates

From a cost of borrowing perspective, negative rates should be good news, reducing the overall funding cost companies pay. Most commercial loan agreements, however, now include the so-called 'zero-rate' provisions as standard, ie clauses that, when rates go negative, set the rate to zero. These provisions are clearly a cost for the corporate borrowers, as they prevent them from receiving the benefits of negative rates. From a financial standpoint, these provisions constitute floors that the borrower has 'sold' to the lender (notably, without receiving the corresponding market value).

Under the current market conditions, these floors can cost the affected corporates several millions: on a €100m, three-year facility on the Euro Interbank Offered Rate three-month index, the missed benefit in funding savings is today in the region of €700,000. Corporates need to correctly assess their future cost of funding, especially those that are highly leveraged or cyclical businesses that require the full cost benefit of falling rates to compensate for lower economic performance during downturns.

The cash cost of the 0% floor in presence of negative rate (some of which are shown on the opposite graph), however, is not the only issue: the floors create an extra set of complications from a risk management standpoint.

Hedging challenges from negative rates

About two-thirds of UK listed companies actively manage the interest-rate risk associated with their debt, and the most common way to achieve this, historically, has been by entering into a swap. Normally, this provides very suitable hedging results as the floating flows on the swap perfectly match and offset the floating flows on the debt, leaving the company with a synthetic fixed debt and removing undesired earnings volatility.

In an environment of negative rates, however, the company would not end up with a fixed rate. If a company elected to enter into a swap when the loan includes a 'zero-rate' provision, then the negative floating flows on the swap would not be matched by offsetting negative flows on the loan, since the 0% floor removed this benefit.

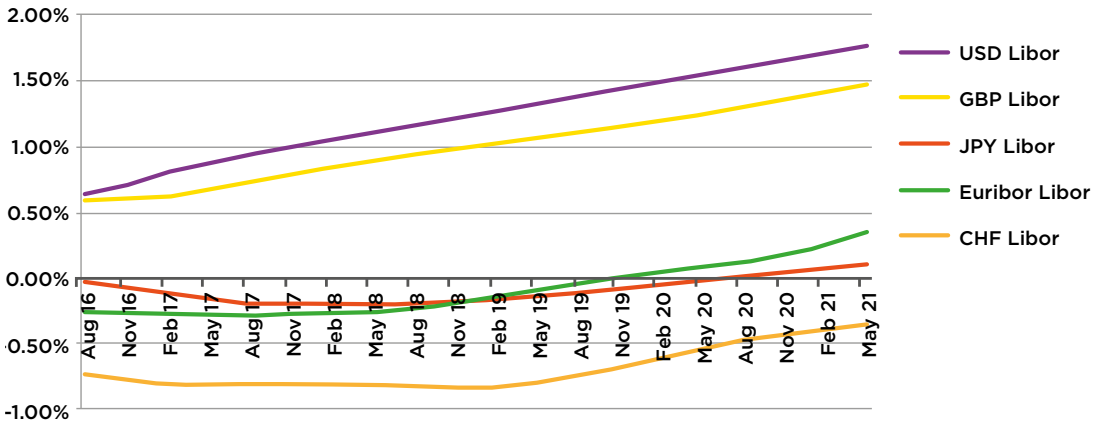
The end result is not only that swaps no longer provide certainty of interest expense when rates are negative,

but also that the company would then pay the fixed rate on the swap plus a floating rate (corresponding to the negative level). The presence of floors on loans and the current interest-rate environment have therefore introduced inconsistency and asymmetry between the debt's and the hedge's flows, resulting in hedge ineffectiveness and in additional costs.

So, what are the solutions for companies that are sensitive to earnings volatility and do not want or can't ignore this issue? Companies can buy a 0% floor (effectively 'buy it back', since they initially 'sold it' to their lender) and embed it into the swap. These 'swaps plus floors' are, however, not considered as a standard product and the assumptions used to calculate their price differ significantly from bank to bank; they also come at a significant cost, even if they are not in the money, or if they have no intrinsic value. Consequently, the pricing of 'swaps plus floors' should be carefully monitored, as they can be very expensive if priced inefficiently. This is especially the case when longer maturities are required.

Alternatively, for companies that are reluctant to (over) pay to buy back the floor, some good results can be achieved by structuring the hedge with a 0% cap. The idea is that the 0% cap, together with the 0% floor on the loan, creates a synthetic swap (at a rate given by the cost of the cap deferred over time). This solution solves the issue of the embedded floors from a risk management point of view (ie obtaining an effective hedge, which fixes the interest expense of the debt), and is also very efficient in terms of pricing (usually cheaper than a swap plus floor for indices with a liquid option market). However, given the peculiarity of its structure, this strategy requires some expert support in derivative negotiation and structuring.

INTEREST RATE FORWARD CURVES ON MAJOR INDICES



Basis differential

Another issue that is compounded by the current situation is the difference in rates between the various maturities, ie one month versus six months, on the same index as, say, GBP Libor: the so-called 'basis'. After the crisis of 2008, this difference has increased and reached historically high levels. The basis differential effectively reflects the preference, from a bank's point of view, to lend money for shorter maturities and their willingness to charge less in comparison with longer maturities.

In practical terms, it means that companies that have a choice (usually determined in standard facility agreements) could take advantage of the basis by switching their loans from semi-annual to monthly periods. This simple election reduces immediately the rate companies pay on their borrowings by up to 23 basis points, which on a £100m, five-year loan equates to savings on interest of more than £1.1m.

The only additional consideration is that, when looking at hedging derivatives, swaps or options on shorter maturity indices (such as one month if compared with six months) could be a bit more complicated to structure, as they are less liquid. Pricing of derivatives based on one-month Libor indices should therefore be discussed in greater detail with the hedging bank(s), or with the support of a hedging adviser, to ensure that corporates receive the full benefit of the current basis differential.

> Treasurers need not despair: there are still ways to optimise the risk management strategies

Interest-rate volatility

The volatility of rates has been historically high across currencies, geographies and maturities. While market turbulence puts hedging policies to the test and makes it more difficult for a company to make risk management choices, it also makes some hedging products more expensive than others. This is the case for derivatives, which include optionality (such as caps, floors and swaptions), as opposed to swaps. Volatility is in fact one of the inputs of the pricing models for options, and it directly affects the derivative's price.

In recent months, we have seen a switch away from options, as they've become relatively more expensive to account for the high volatility of the market. There are, however, companies that have a preference, or a need, to hedge with options, for example, companies that can't take the settlement risk for a swap terminated early on refinancing, or highly cyclical companies that need to reduce their interest costs when the economy slows down (hence usually opting for caps). In these cases, treasurers need not despair: there are still ways to optimise the risk management strategies in view of a company's specific requirements, by selecting the hedging strategy (such as product, index or maturity) that is most appropriate for the current market conditions.

Paolo Esposito
is director of European corporate advisory at Chatham Financial

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ROBOT REPLACEMENTS

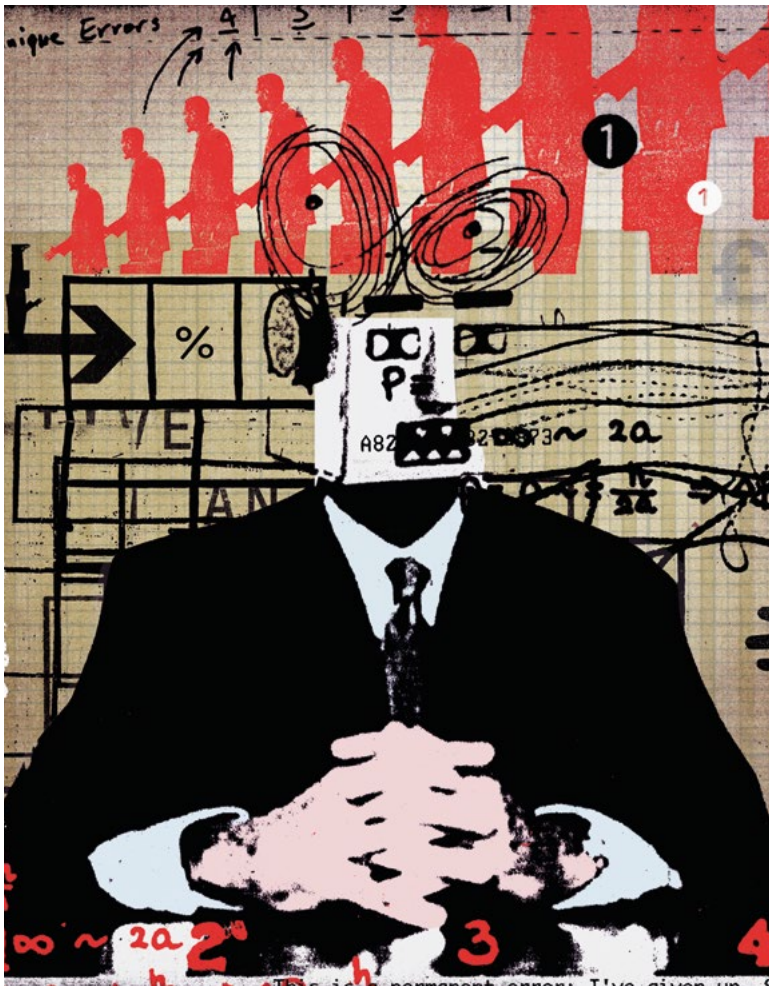
INCREASING LEVELS OF AUTOMATION ARE REDUCING THE NEED FOR MANUAL INPUT – AS THEY SHOULD. BUT ARE TREASURY ROLES AT RISK? LESLEY MEALL INVESTIGATES

It was the best of times, it was the worst of times. Over the past decade, crises in banking, credit, the euro and sovereign debt have formed some very dark clouds, but their silver linings have highlighted the tactical and strategic importance of efficient cash and liquidity management, the mitigation of risk and the need to optimise resources, save time and improve transparency – accelerating trends towards greater use of specialist software and systems in many areas of corporate treasury.

"Increased automation in treasury has become a strategic objective for Cairn Energy," says Robert Scriven, the energy company's group treasurer and planning manager; and Cairn is not alone.

"We want to ensure that our treasury processes are as efficient and as automated as possible," says Guy Morgan, treasurer for Australia's Export Finance and Insurance Corporation, which recently opted for a cloud-based treasury management system (from Reval). "Our goal is to have end-to-end workflow on a single platform to eliminate manual intervention," says Morgan, enabling straight-through processing (STP) of payments.

Meanwhile, Cairn Energy has improved STP on the back of its installation, identifying a need for trade through trading, confirmation, payment and so on, says Scriven. But there are challenges. "Suppliers are not well integrated and this is particularly difficult outside FX, where auto quoting and trading are less developed," he explains.



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Intelligent software

At MAHLE Industries, the entire multifaceted processing of remittance advices – many of which arrive by email – has been automated. The global automotive supplier has implemented a solution that uses specialist software (eFLOW from Top Image Systems) to automatically identify, extract, classify and verify the relevant information from these payment advice emails and then deliver this electronically, directly into the FinanceSuite AutoBank Automatic Cash Application (an SAP add-on from Hanse Orga), which has built-in intelligent reconciliation logic for bank statements, remittance advices and lockbox information.

"We are happy to have been able to automate these processes," says John Nielsen, MAHLE Industries' treasurer. The project has enabled the company and its finance function to save time and improve efficiency, he says. "The previous remittance advice processing was dominated by tedious manual tasks," he recalls. "The time savings we have experienced due to the project have been so significant that our finance staff now has time to focus on more value-adding tasks," he adds.

As software and systems become smarter and able to exchange information more easily, the potential for replacing manual and semi-manual processes that once required people, with entirely automated processes, is increasing. We are already seeing use of software-based robot process automation (see box, opposite) in some treasury activities and more may follow suit. But does this mean that treasurers are heading down the slippery slope towards extinction? Can all treasury activities and complex processes potentially be automated? Might smart software one day replace the entire treasury function? As with many such big questions, perspectives and answers tend to vary based on who you ask.

Robot replacement

Daniel Wong, formerly global treasury manager at British American Tobacco (BAT) and now BAT business development manager (M&A), says: "I think there is definitely potential to replace some activities in the near future, but not all."

Recent research from Oxford University and Deloitte, *From Brawn to*

Brains, predicts a bleak future for finance and accounting professionals in many areas, and treasury seems unlikely to be immune. But can all treasury processes follow accounts payable and receivable down the road towards robot automation?

"Some activities are already being performed by robots today," Wong says. "It's easy to see this in the cash management and payment space where you can have robots recognising patterns that do cash allocation and general ledger clearings and postings. In the risk management space, it's also easy to see that robots or programs can consolidate and analyse data very quickly." In the near future, there may be little need for big teams of people to manually manipulate data. "In the dealing space, there can be algorithms that can be run to manage small positions as and when they arise," he adds.

So perhaps the direction of travel is clear; perhaps not.

"I think there is a lot of complexity in treasury that makes it hard to completely remove a human's touch," says Wong. For example, managing sanctions, responding to changing regulations and making strategic decisions on funding and risk appetite. "All these things will require judgement, although these decisions can be aided by robots," he says. Time will tell: it may be the next generation of automation that radically reshapes treasury, rather than current incarnations of robot process automation.

What are software robots?

Hollywood has helped shape our perceptions of the future and robots. However, as Raheem Hasan, president of the Institute for Robotic Process Automation, explains, the reality of software robots is rather different.

"A software robot or robotic process automation is the application of technology or computer software that can be configured to capture, interpret and interact with existing applications for processing transactions, manipulating data, triggering responses and communicating with other digital systems," he explains. Their potential scope is vast.

Large-scale users of knowledge workers can leverage software robots or robotic 'full-time equivalents' to perform high-volume transactional processes, at a fraction of the cost of people. "Just as industrial robots are remaking the manufacturing industry, software robots are revolutionising the way that knowledge work gets done," he adds. This is just the beginning.

Dawn of the machine

"We are seeing the dawning of machine learning in corporate treasury," says Jukka Sallinen, a cash management domain expert at OpusCapita, a financial process automation specialist. "Software robots are good in automating simple repeatable processes where you deal with masses of transactions," says Sallinen. "Many treasury tasks are more complex by nature," he adds.

The combination of robot process automation and machine learning now emerging will create many new possibilities, because machine learning can help with the automation of complex decisions that cannot be done solely using rule-based process automation.

Machine learning uses computer algorithms that can learn and make predications of data. "It's not a new concept. We've already seen many applications around automated stock markets and in the medical industry, to name but a few," says Sallinen. Potential applications for corporate treasury vary from self-learning cash forecasting to detection of payment fraud anomalies. The latter is a good example: treasury has a key role in mitigating cash-flow-related crime attempts, but to mitigate the risks, you need high-quality payment processes and the capacity to monitor flows, then make necessary adjustments to the strictness of your payment processes. This undertaking is a mountain for a person, but it's a molehill for a robot.

"Machine-learning algorithms can be introduced to alert and stop exceptional flows," says Sallinen. In fraud detection, no matter how knowledgeable or experienced a person is, they are pitting their wits against an algorithm that is built on a model containing huge numbers of past transactions and variables, along with their potentially myriad correlations. "This means the model is much more powerful and able to catch suspicious flows at an earlier stage than a human," he adds. So the model has a much greater potential than a person or a team to help with the mitigation of risks in corporate payment processes.

Where does this leave treasurers? "Technology is advancing at a rapid pace and it's important to keep on top of the trends," says Robert Waddington, a director in PwC's corporate treasury and commodities group. When it recently identified eight technology trends that could impact future treasury teams[1], the list was topped by robotic processing and data analytics, vital components in the next generation of smart systems.

Services around machine learning and artificial intelligence in treasury and cash management remain largely at pilot stage. Treasury professionals with an eye on the future will want to watch this space.

Does this mean that treasurers are heading down the slippery slope towards extinction? Can all treasury activities and complex processes potentially be automated?

1 www.pwc.blogs.com/finance_and_treasury/2016/01/trends-in-technology.html

Lesley Meall is a freelance journalist specialising in technology and finance

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Attention: brains at work

BUSINESSES ARE WAKING UP TO THE IDEA THAT OUR MENTAL CAPITAL NEEDS A HEALTHY WORKING ENVIRONMENT IF THEY ARE TO THRIVE. DR JENNY BROCKIS EXPLAINS HOW BRAINS ARE OUR OWN PERSONAL ASSET CLASS

Traditionally, companies have invested a great deal in buying the latest technology to stay up to date and competitive. Similarly, it has been expected that the management of staff expertise would include investment in further training and hiring of new staff with particular skills.

This is, of course, a huge cost to business, but one seen as essential. What has previously been overlooked has been any consideration of how to better manage the staff's existing mental capital. If your company has a number of talented individuals hired for their particular expertise, who are not working to their capacity, this is a huge waste of human talent and a missed opportunity to accelerate their potential – and therefore the growth of the company.

The view has been that the soft stuff – how people are managed within the workplace – was somehow less relevant or important to business than technical knowledge. This view might have been applicable in the industrial era, but it has no place in the modern workplace.

The human species has been so remarkably successful because of both our ability to adapt to change in our environment and our ability to connect with each other. We are social beings, hardwired to flourish through working and living with others. It is our relationships that matter above everything else – the relationships we have with our family and friends, our acquaintances and work colleagues.

In business, relationships with customers are only one facet of the social web of connection we enjoy. Our future success and happiness as individuals and organisations depends on our ability to form, nurture and maintain our relationships.

IKON IMAGES/ROY SCOTT

The companies that understand the importance of this will be the ones that will grow through the development of a culture that is brain friendly, a culture that values and respects all brains at work.

Today, the pace of change and the introduction of new ideas and technology is so fast, it can be difficult to find the time to absorb and assimilate what could be most useful to us before the next round of advances and upgrades arrive on our doorstep. Which is why it can sometimes be tempting to keep the door closed, hunker down and hope everyone will leave you alone until you are ready to come up and draw breath.

Choosing to invest in the mental capital and wellbeing of every staff member is the obvious path to responsible organisational health. The *Foresight Mental Capital and Wellbeing* project, produced by the Government Office for Science in London, concludes:

If we are to prosper and thrive in our changing society and in an increasingly interconnected and competitive world, both our mental and material resources will be vital. Encouraging and enabling everyone to realise their potential throughout their lives will be crucial for our future prosperity and wellbeing... An individual's mental capital and mental wellbeing crucially affect their path through life. Moreover, they are vitally important for the healthy functioning of families, communities and society. Together, they fundamentally affect behaviour, social cohesion, social inclusion and our prosperity.

What is implied is that, as individuals, we can expect to take greater responsibility for our own health and wellbeing, as well as ensuring that our needs and agendas are being appropriately taken care of in our lives and at work. From an organisation's viewpoint, this is about developing greater inclusivity, responsiveness and openness to conversations around performance and development.

So what is 'mental capital'?

The Foresight Group defines it as the combination of cognitive ability (mental flexibility and efficiency) and emotional intelligence (dealing effectively with stress, resilience and social skills). It defines 'mental wellbeing' as a dynamic state in which an individual can develop their potential, build strong and positive relationships, and contribute to the community.

Mental capital implies a value base, which ties in nicely with the idea that brains matter and that growing brains to work at their best makes perfect economic sense.

Growing healthy workplaces leads to high performance

"Organisational health," writes Patrick Lencioni in his book *The Advantage*, "will one day surpass all other disciplines in business as the greatest opportunity for improvement and competitive advantage." He defines organisational health as the integration of management, operations, strategy and culture. Sure, business needs strategy, marketing, finance and technology, but it also needs to deal with those people issues poisoning so many workplaces:

- Bullying;
- Micromanagement;
- Poor communication or, worse still, lack of communication;
- Confusion around expectation;
- Silo mentality;
- Change resistance;
- Lack of trust;
- Lack of relatedness;
- Lack of collaboration;
- Lack of innovation; and
- Lack of effective leadership.

There is a lot of 'sickness' in many of today's workplaces, which ultimately leads to a loss of integrity and organisational health.

Lencioni is right. Restoring organisational health has to start with going back to the basics of creating a healthy brain capable of consistently thinking well, with less effort, even when under pressure. People today live and work under an incredible amount of pressure. Having to juggle multiple, often complex, tasks with the perception of time poverty stresses us out. This in turn can compromise mental performance.

Organisational health is about making sure that:

- You feel you have the capability to do your work and do it well;
- You can enjoy what you spend so much of your time doing; and
- You feel you have enough time and energy at the end of the day to devote to those things that give you pleasure and mean most to you.

Media business commentators, such as Alan Kohler in Australia, love to discuss the reasons why various businesses are or are not performing well. A commentator will note the links between profit margins, profit forecasts and ASX performance, but until fairly recently, there has been little research into which specific elements of human behaviour contribute to high performance.

A study published by the Society for Knowledge Economics in 2011 revealed some fascinating insights into what makes the biggest difference to how well a business performs. Cutting through all the business-speak, Steven Vamos, president of the Society for Knowledge Economics, summarised its findings nicely:

The study shows that leaders in higher-performing organisations prioritise people management as a key priority, involve their people in decision-making processes; are more responsive to customer and stakeholder needs; encourage a high degree of responsiveness to change and learning orientation, and enable their staff to fully use their skills and abilities at work. High-performing organisations are not just much more profitable and productive, they also perform better in many important 'intangible attributes', such as encouraging innovation, leadership of their people, and creating a fair workplace environment.

From the survey of more than 5,600 employees from 78 Australian organisations who participated in this study, it was revealed that the highest-performing workplaces enjoyed a 12% higher level of productivity, which translated into a profit margin roughly three times higher than found in low-performing workplaces.

The key differences were all derived from human interaction and behaviour. How we think and how we work as a consequence are hugely influenced by our mood, health and interactions with others.

Humans think and feel. It's time to put the humanity back into how we choose to live our lives and do our work.

This is an edited extract from *Future Brain: The 12 Keys to Create Your High Performance Brain*, by **Dr Jenny Brockis** (Wiley, 2016)

First, bring your ideas to life

NERVES ARE NORMAL WHEN WE ARE PUT IN THE SPOTLIGHT OF PUBLIC SPEAKING. FOCUSING ON YOUR IDEAS AND MESSAGES IS THE KEY TO OVERCOMING THEM. CAM BARBER EXPLAINS

SHUTTERSTOCK

The cause of public-speaking anxiety is uncertainty. In fact, the cause of all anxiety can be traced back to feelings of uncertainty.

This simple principle helps us master public speaking because it breaks us out of vague thoughts about 'feeling uncomfortable' and helps us focus on specific actions: "What am I uncertain about, and what can I do about it?"

It's perfectly natural to be nervous in the face of a public-speaking assignment. Knowing how to process our nervous symptoms is the key to thinking clearly under pressure of the spotlight.

So what should we focus on first to reduce uncertainty?

The curator of TED Talks, Chris Anderson, recently spoke about what he's learned from watching thousands of great TED Talks. He said there is no single formula, but there is a common cause – a desire to "transfer into your listeners' minds a gift, a strange and beautiful object, that we call an idea".

That's the basic focus I've been teaching would-be public speakers for more than 15 years. The route to success in public speaking is message transfer. Distil your idea into a key message and embed it into the mind of your audience.

There are many ways to achieve this and it can be done using an unlimited number of unique styles. Regrettably, most public-speaking training has been complicated, with a focus on a narrow set of performance skills – acting, body language, gestures, eye-contact techniques, PowerPoint slides and so on.

This kind of public-speaking training advocates that you prioritise performance skills over bringing ideas to life, so natural style gets crushed. People bounce out of public-speaking courses with a robotic, mechanical delivery that hinders their ability to relax and connect with the audience. And when our mind is cluttered with rules, tips and techniques, we find it harder to think clearly and explain our ideas effectively.

So, let's dissolve the myths that arise...

Myth 1: Your body language is more important than your words

This is the biggest myth and it underpins the acting and performance approach to public speaking. But it's not true. The only time your body language is more important than your words is when it contradicts your words.

When you are clear on your message and comfortable in your own style, there's little chance you'll have contradictory body language. It will flow naturally as you speak. Sure, public-speaking anxiety can make it more difficult to focus than normal, but when you know how to redirect your attention, even this will dissolve.

Myth 2: You must eliminate nerves to be a great speaker

No, you don't. Many people have a niggling thought: "If I was a good speaker, I wouldn't get nervous. But I do get nervous, so I'm not good enough."

The reality is, it's normal to feel speaking anxiety, no matter how experienced you are.

Entrepreneur Richard Branson admits he gets nervous in public-speaking situations and has done since he was a teenager. Watch him speak. He looks a little awkward, but so what? The nerves haven't held him back; he's one of the most sought-after speakers on the planet. People want to hear his ideas.

Myth 3: Bad first impressions can't be overcome

Of course they can! Have you heard that audiences form their lasting impression in the first 30 seconds? Or even that they do so the first

eight seconds? This is very misleading. It implies that the lasting impression of your presentation won't be your wisdom, the clarity of your message or the relevance of your information, but that it all rests on your performance in the first few seconds.

What pressure! The fact is that public speaking is not as hard as all that, or as mysterious. No matter what happened in the first 30 seconds, engage your audience with subsequent impressions and they will be left with a positive overall impression.

Here are some key principles to master public speaking and dissolve speaking anxiety.

1. Craft a vivid message

Great leaders talk in messages. Steve Jobs, the late Apple CEO, was a great speaker and a master at messaging. For example, the message for the iPod was 'A thousand songs in your pocket'. It's simple and memorable.

When people listened to a Steve Jobs presentation, they all came away with the same key message. This is no accident. He always started with the message – and built his presentation from there.

So, here are three steps to crafting a vivid message:

- Clear your mind of the details and look into the mind of your audience.
- Write down what you want them to think or do as a result of your talk (for example, 'This project will succeed', or 'Use this procedure every time you do X').
- Write down why your audience would do or think what you have suggested (for example, '...because of X, Y and Z', or 'because it will improve productivity and reduce mistakes').

Now combine steps two and three, and you have a draft of your vivid message. For instance: 'This project will succeed because of X, Y and Z.'

'Use this procedure every time you do X, because it will improve productivity and reduce mistakes.'

Of course, you still have to explain the details of your idea; but the only way your listeners will remember the details a day later is through the doorway of your vivid message.

2. Structure your ideas

The best way to structure your ideas is to break them down into two, three or four chunks. The human mind can't remember more than five things without a memory device.

Structuring your ideas is the way to keep people engaged and progressively bring your idea to life.

The most-watched speech in history is Steve Jobs' 'Stanford Commencement speech'. It's divided into three stories and a wrap-up. You can look at the breakdown of his structure at www.vividmethod.com/speech-outline-for-steve-jobs-stanford-commencement-address

Structure your knowledge into a series of presentations. Create presentations that simplify your knowledge and deliver them in the workplace. For example, what are the three steps to getting something done or the four stages to achieving a goal? Packaging your knowledge helps other people recognise it, and use it. The better you are at doing this, the more value you offer the world and the more success you will have.

3. Redirect your attention when under pressure

The stress response is designed to help us – to prime our body to deal with an important event. However, the adrenaline that is released to give you energy to deal with your speaking event can create physical symptoms, such as shaking, blushing, sweating and so on.

But these symptoms aren't the problem. The way we react to them is the key to dissolving them. Redirect your attention to something that helps you focus, such as breathing comfortably.

And when you understand that message transfer is the key measure of your success when speaking in public, you see that people will accept you with your imperfections. Direct your attention to bringing your message to life and speak in a style that is comfortable – your natural style.

So, keep your eye on the public-speaking prize – focus on compelling messages and natural style – and you'll have twice the impact with half the effort.

When you understand that message transfer is the key measure of your success, you see that people will accept you with your imperfections

Cam Barber is a speaker, speaking coach and speechwriter

BASE JUMPER

EXCHANGING FOREIGN CURRENCY IS AN ESSENTIAL PRACTICAL TASK, WHICH ALL TREASURERS NEED TO TACKLE WITH CONFIDENCE. DOUG WILLIAMSON SHARES A WINNING TECHNIQUE TO ENSURE YOU GET IT RIGHT EVERY TIME

FX is such an important part of a treasurer's responsibilities that it appears in most assessments for the ACT's qualifications.

Multiplying troubles

A recent Examiner's Report shows many candidates need to brush up their FX conversion skills.

> The commonest error was to multiply by the exchange rate where division was required.
>
> *Examiner's Report, International Cash Management, October 2015*

Back to basics

Exchanging one currency for another needs us to apply a quoted market price, known as the exchange rate. Sometimes we need to multiply by the rate. Sometimes we need to divide by it.

It all depends on how the rate has been quoted. And this won't always be the same.

Money for stuff

Pricing is easier when we're buying or selling physical stuff for money. We simply multiply the quantity by the money price per unit.

Let's say the oil price is $50 per barrel, and we want to sell a million barrels. The money value for the exchange is simply:

$50 per barrel x 1 million barrels = $50m

Why we multiplied

We multiply by commodity prices because of the way they're quoted. The commodity quote is a variable amount of money per fixed conventional unit of the commodity.

Oil prices are quoted in dollars per barrel. So, multiplying a number of barrels by dollars per barrel gives the dollar value for the exchange.

The oil is the basis, or the 'base' of the conventional oil-price quote.

Oil deal base = oil

Money for money

Currency dealing means exchanging money for money. Does simple multiplication work for currency deals? Sometimes, but not all the time. It depends which way round the rate is quoted.

For FX, we need to ask two separate questions:

(1) Which is the base currency in the given quote?

(2) Are we converting from the base, or to the base?

Which is the base currency?

The base currency won't always be the same. For example, the rate between dollars and euros can be quoted as either:

(i) A variable number of dollars per €1; or

(ii) A variable number of euros per $1.

Exchange deal base = ?

€/$1.25

The first-mentioned currency is conventionally the base. That's euros in this case. The euro is the currency that there's one fixed unit of.

This is quoted in the market as EUR/USD 1.25, meaning the base currency euro would be exchanged for dollars at a rate of €1 to $1.25.

Best of order

Note the ordering of the currencies in the exchange-rate quote. We saw that the first-mentioned currency is the base.

This is a different convention from commodity prices, such as dollars per barrel = 50. For a commodity, it's the second-mentioned item that is the base. In our example, this is the barrel of oil.

Currencies are conventionally quoted the other way round. This can make FX tricky.

$/€0.80

Taking another example: which is the base currency in the quote USD/EUR 0.80?

Again, the base currency is the first mentioned. In this case it's the dollar. So the quote USD/EUR 0.80 means $1 would be exchanged for €0.80.

Interestingly, $/€0.80 is just an alternative way of expressing our earlier quote €/$1.25. The base has jumped from euro to dollar, but it won't make any difference to the results. So long as we apply either of the quotes correctly, they will each produce exactly the same results, subject to any minor rounding differences. Base jumping is also an exciting extreme sport. But let's stay with FX just now.

Getting it right

Having identified the base currency in our exchange rate, we need to apply it the right way round. One reliable method is to follow the rule in the following:

Base conversion rule

When converting:

- From the base, multiply.
- To the base, divide.

From the base

To convert from the base currency, we multiply by the exchange rate. Just like multiplying to apply a commodity price. Indeed, our base currency can be viewed as the commodity in the quote.

Say we need to convert €8m into dollars, by applying the exchange rate EUR/USD 1.25.

The euro is the base currency. We're converting from the base. So multiply:

€8m x $1.25 per euro
= $10m

To the base

The recent exam question needed a conversion to the base currency. This caused difficulty for many candidates.

Simplifying the numbers in the exam, candidates needed to convert €8m into dollars, using an exchange rate of USD/EUR 0.80.

Try this example now, before reading the rest of the article.

Work it on out

The base currency in the quote USD/EUR 0.80 is the dollar. The quote means $1 = €0.80.

We're converting from €8m to dollars. So we're converting to the base currency dollars this time. So, we'll divide by the exchange rate of 0.80:

€8m/€0.80 per dollar
= $10m

Congratulations if you got it right! If you didn't, don't be discouraged.

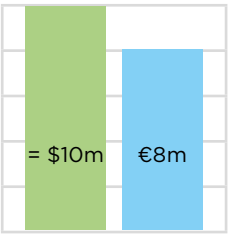
Perfect proportions

If we tabulate our results, we see that each currency stays beautifully in proportion with the other.

	$	€
FX rate	1	0.80
Amounts	10m	8m

There are more dollars than euros in the rate $1/€0.80. There are also more dollars than euros in the final money amounts, $10m exchanged for €8m.

Converted €8m to dollars



Why did candidates go wrong?

Possible reasons include:

- Not being familiar with the currency pair;
- Being more used to seeing it quoted the other way round, with euros as the base;
- Exchange rates of less than 1 are trickier; and
- Not practising enough.

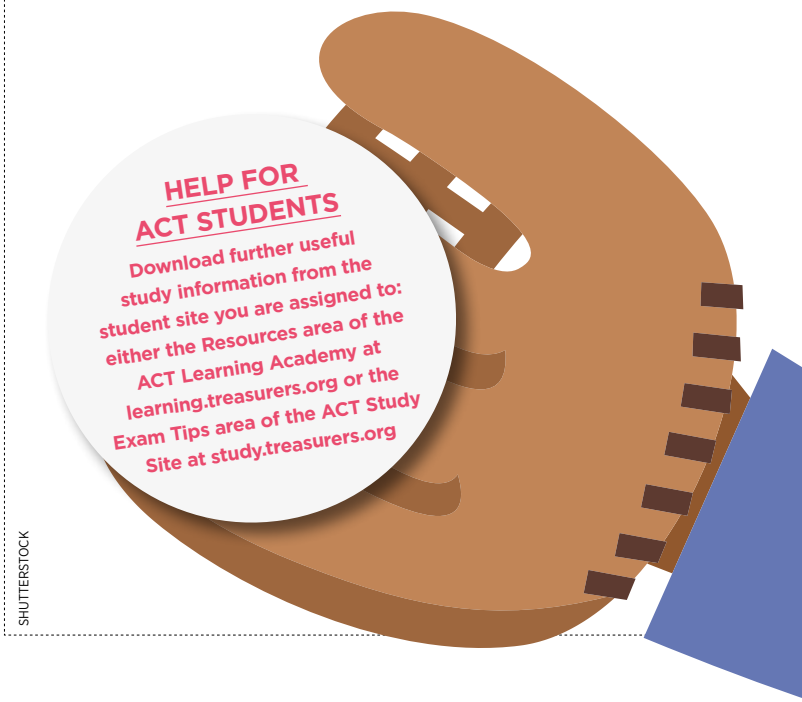
Don't be disheartened

Listen to this excellent advice from a successful student, George Worden:

1. Don't be disheartened if you get the wrong answers to start with.
2. First focus on getting right answers.
3. Once you're getting things right, only then work on speeding up.
4. Practice makes perfect.

Reap the rewards

If you follow Worden's advice you'll master FX and treasury, which are just as rewarding as base jumping. And less dangerous.



SHUTTERSTOCK

Doug Williamson is a treasury and finance coach

Stress rehearsal

Workplace stress? Not as far as Mr Treasurer is concerned

"Well, then, Mr Treasurer," said the lady with the oddly shaped, but expensive-looking, glasses. "Thank you for taking a day out of your busy schedule for this one-on-one workshop on stress in the workplace."

Taking a day out of his busy schedule for a one-on-one workshop on stress in the workplace was exactly the sort of thing that would give Mr Treasurer workplace stress. But – needs must, diktat from above. Curses.

It was Strickard-Folley's fault, of course – poor chap – though he had rather brought it upon himself. One Tuesday afternoon, the boys and girls in the post room came back from lunch almost 11 minutes late – and two or maybe three of the team appeared to have the smell of alcohol on their breath. Young Scuggins, the apprentice postage-stamp clerk, had been sharing a little of his joy at having put a tenner on Leicester City Football Club last autumn at 2,500/1. Young Scuggins wasn't feeling stressed at all – and after spending 11 minutes too many at The Shiny Sixpence public house, neither were the rest of the post-room team.

When Strickard-Folley, the facilities manager, ticked them off, Scuggins got it into his lager-and-cash-fuelled head that it would be a fine idea to stuff Strickard-Folley into a cardboard box, tape it shut and have him couriered to a suburb of Samarkand, in eastern Uzbekistan. Scuggins' employment was swiftly curtailed. Strickard-Folley was recovered from the box long before the courier firm arrived to take it away, but his nerves had been put through the post-room shredder.

Faced with the choice of issuing a company-wide missive on stuffing other people into boxes and trying to courier them to Asia on the one hand, or organising a series of one-on-one stress in the workplace workshops on the other, the decision seemed obvious to the HR director.

"So, what causes you to experience stress in the workplace, Mr Treasurer?"

After several long minutes' thought, he replied, "Cash-pooling arrangements in Turkey." His one-on-one stress counsellor had no idea what that meant, but it sounded awfully technical. She was thrilled to bits.

"Ah!" she almost shrieked. "Difficult concepts, complicated financial tricks, challenging to master all the details, no support from your line manager, *stressed* –" (she stressed the word 'stressed') "– about losing millions of the company's money and that a culture of blame will come raining down on you?"

"Er, no," said Mr Treasurer. "Sorry, no. Not at all."

IKON IMAGES/ROGER CHOUINARD

Sportingly, he felt as though he was rather letting the side down by not being stressed about such things. "We don't have any cash-pooling arrangements in Turkey."

To say she looked stressed would be a slur on her reputation as a professional stress counsellor, but she was definitely unrelaxed.

"It's just that my phone rings goodness knows how many times a week with advisers and consultants of all sorts trying to persuade me to buy into suchlike arrangements," he explained. "The point is, we don't have any businesses in Turkey." He leaned forward slightly. "But my busy schedule is constantly interrupted by 'professionals' trying to get me to do things I don't need to do."

There was silence. Quite a lot of silence, actually. She got the hint. "Well, thank you, Mr Treasurer. I think that was a very successful workshop. Let's just tick this one off the list, shall we? No need to reconvene after lunch."

Mr Treasurer cleared his throat. "Um, The Shiny Sixpence does a rather nice steak-and-ale pie..."

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IN THIS ISSUE:

The highlights of the June 2016 issue of *The Treasurer* include: A round-up of this year's ACT Annual Conference in Liverpool, on page 18. New Look head of treasury Steve Humphreys talks about the expansion of the clothing company, on page 22. Our 12-page special on cash and liquidity management starts on page 27. Discover the ins and outs of whistle-blowing, on page 42. Learn how to become better at public speaking, on page 54.

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