ASSETS AND LIABILITIES
IFRS 16 ushers in a brave new world of lease accounting

WHEN LOANS GO SOUR
What to expect when business partners come under pressure

FORGING CONNECTIONS
How to win friends and influence people online

The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ MARCH 2016

"Don't be afraid to challenge the status quo"

Alison Wilson, head of treasury and governance at innocent drinks, on purpose and vision

PLUS

THE TASK AHEAD
Europe's policymakers and treasurers face up to tough times

ACT

LEADING TREASURY PROFESSIONALS

Editor's letter

It is probably fair to say that certain banks, fund managers, traders and other corporates will have been glad to put February behind them, in the wake of a turbulent week mid-month that saw stock indices plunge downwards, rally to a degree, but fail to recover ground overall.

European bank stocks have not fared well since the start of 2016, but they are far from the only beleaguered parties on the world stage.

In an increasingly interconnected environment, February's mid-month incident wasn't the only notable event – far from it. China reported falls in its import and export figures, Japan's economy contracted for the fourth quarter on the bounce, Greece reported deflation in consumer prices and hopes of an increase in US interest rates were put on hold, as Federal Reserve chair Janet Yellen murmured that the stock-market drama had contributed to less-favourable conditions within the world's largest economy. Central banks that now resort to negative interest rates, meanwhile, increased in number, and any notion about oil prices rallying seems further off than ever.

As ever, our message is that treasurers are better placed than most to put across clear, independent analysis of the situation and to suggest ways for their organisations to tread steadfastly forward.

For instance, award-winning journalist and author Ian Fraser takes us through the challenges that lie ahead for policymakers and treasurers in Europe – and finds treasurers on the whole sanguine about the task of risk-managing corporates through possible disengagement in the eurozone. His feature begins on page 26.

Elsewhere in the issue, we talk to Alison Wilson, innocent drinks' head of treasury and governance, about how those two disciplines fit together, and the joys of getting involved with any and all aspects of life at the high-profile UK smoothie brand, on page 22.

We also take a look at trends in treasury for 2016, the intricacies of the petrochemical supply and value chain, and the advent of IFRS 16, *Leases*, which has been billed as the biggest change in corporate reporting since the introduction of international accounting standards in 2005. Something for all finance professionals to take on board.

Importantly, we also celebrate our winners of *The Treasurer*'s Deals of the Year Awards on page 12, in a visual round-up of the celebratory dinner held last month.

I hope you enjoy the issue.

editor@treasurers.org
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THIS MONTH'S CONTRIBUTORS

Vanessa Harwood-Whitcher is the ACT's director of education. She has worked in education for 20 years, and has a deep-rooted belief in the principle of lifelong learning as an important and proven means of furthering professional development. Her piece on learning styles is **on page 21**

Rebecca Brace has been writing about the issues affecting corporate treasurers for more than 10 years. Her areas of expertise include cash management, liquidity, technology, working capital and regulation. Her profile of Alison Wilson, head of treasury and governance at innocent drinks, is **on page 22**

Nick Hood is a chartered accountant and former licensed insolvency practitioner. He is the business risk adviser at restructuring and business services group Opus and appears regularly in the media as a business commentator. His feature on what to expect when a bank loan goes bad is **on page 34**

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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

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Lesley Flowerdew, group tax and treasury director at Atkins, and outgoing chair of the Deals of the Year Awards judging panel

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COMMERCIAL BANKING

TOGETHER

SUPPORTING SUCCESS IN TREASURY

Agenda

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WORDS

DOUG GRIFFIN/GETTY IMAGES

"Endowed with an exceptionally brilliant mind, but also an eagerness to see his ideas applied in the real world, he turned Lloyds into the most admired UK clearing bank of the time."

David Lascelles (pictured above), journalist and author, pays tribute to Sir Jeremy Morse, former chairman of Lloyds Bank and a former executive director of the Bank of England, who died last month.

SOURCE: *THE FINANCIAL TIMES*, 4 FEBRUARY 2016

"This is highly unusual. Call it the oil correlation conundrum."

Torsten Slok, chief international economist, Deutsche Bank, commenting to clients on the new and unusually close relationship between falling oil prices and plunging stock-market performance in early February.

SOURCE: *BLOOMBERG BUSINESS WEEK*, 11 FEBRUARY 2016

{ CONTEXT OF TREASURY }

SMALL TO MID-SIZED CORPORATES FARE WELL IN THE FACE OF TURBULENCE

A survey of investor sentiment into small and mid-cap company performance has suggested that this sector has been relatively sheltered over 2015 from the economic and political turbulence afflicting the bigger companies' market.

However, the fund managers' respondents to the third annual Quoted Companies Alliance RSM *Small and Mid-Cap Investors Survey* argued that companies in this sector need to up their game when it comes to investor communications.

According to the survey, the oil-price collapse at the end of 2014 drove money into the relatively safe haven of small and mid-cap stocks, as they were perceived as less vulnerable to global turbulence, such as exposure to China, and more likely to benefit from a strengthening UK economy. The ensuing volatility in 2015 has been seen as a factor providing opportunities for small and mid-cap fund managers.

While earnings and dividends are now felt to be under pressure as profitability becomes more critical in this sector, in general, the negative sentiment that dogs the large-cap company markets has yet to filter down to the smaller end of the market.

Respondents said that, while the quality of corporate reporting has improved in this market segment, small and mid-cap companies need to pay more attention to corporate governance and reporting quality, and that the appearance and substance of some corporate websites were lacking.

The survey also found M&A activity to have increased over the past year, leading to a reallocation of investor funds. There is mounting concern about increasing regulation for equity markets and the impact it could have on market liquidity affecting this sector. Specific concerns include aspects of MiFID II, particularly the ban on the use of dealing commissions to pay for investment research.

{ QUESTIONS YOUR FD IS LIKELY TO ASK THIS MONTH }

EUROPE & BREXIT RISK

How will we be affected by Brexit?
When one political announcement can move sterling by 1.6%, currency volatility is the most obvious concern. Trading risk is equally worrying, both in the short term until the British EU referendum outcome is known, and even more so if the UK votes to leave. The threat or the reality of new bilateral trade deals with EU states will inevitably inhibit investment and commercial activity in general. Labour supply and costs could be another worry; free movement of EU workers may be affected and heightened immigration controls are a probability.

Is Brexit our only issue in Europe?
Far from it. The China slowdown is affecting a broad range of sectors

from luxury goods to speciality manufacturing. The worldwide collapse of energy and commodity prices is another threat. Trade with and within Europe is already feeling the impact, diminishing export prospects and escalating counterparty risk. Lastly, the global migrant crisis has already destabilised Europe politically and culturally; it will surely also significantly affect business.

How can we manage all these risks?
Currency and input cost-hedging strategies will remain a key element; but even more important is knowledge. We must identify our counterparty risks in the UK and right across Europe, so we are able to focus on those most critical to our business as the situation unfolds.

Will it really be that bad?
Nobody knows how the current Brexit drama will play out, how chaotic it will be if the UK leaves Europe and how long disengagement might then take. We need to keep all related risks under constant review and be prepared to be as flexible as possible.

For an ACT perspective, go to blogs.treasurers.org/?p=313877

{ FINDINGS FROM THE FOURTH MOORHOUSE *BAROMETER ON CHANGE* 2015-16 }

97%
of board members and their direct reports say they need new or additional skills to deliver their strategies

66%
need these new capabilities to a great or fair extent

30%
feel very or extremely confident they can access those skills

69%
report an increase in the pace and pressure of change in 2015

80%
expect that increase to accelerate over the next three years

WHAT THEY SAID

What do you say?
Tweet us
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BLOOMBERG/GETTY IMAGES

"I see the other banks playing the same old game in the UK. When you think about things we're doing in the marketplace... my view is the challenger bank is RBS and Natwest."

Ross McEwan (pictured above), CEO of the Royal Bank of Scotland Group, marks out new territory for the bank.
SOURCE: *THE TELEGRAPH*, 13 FEBRUARY 2016

{ TREASURY OPERATIONS }

Payments UK launches directory to facilitate cross-border SEPA payments

With article 5 (7) of SEPA Regulation (EU) No 260/2012 now in force, eurozone banks and Payment Service Providers (PSPs) can process Single Euro Payments Area (SEPA) payments using only a customer's International Bank Account Number (IBAN).

As the UK is not a eurozone country, the regulation will not apply to UK PSPs until October this year. However, UK customers, particularly businesses that tend to be the recipients of these payments, will benefit with immediate effect, since they will be required to give less information to a payer overseas if they want to receive a SEPA payment from a eurozone country.

Previously, customers were required to also provide the Business Identifier Code (BIC) of the PSP they were intending to pay, in order for their PSP to process payment.

To coincide with the regulation coming into effect, Payments UK, working with the Financial Conduct Authority and the Bank of England, has released a SEPA IBAN-only directory. The directory, which can be accessed via SWIFT, provides PSPs with a means of finding the BIC from the IBAN and will, says Payments UK, help to ensure the change is seamless for recipients of SEPA payments in the UK, as well as ensuring that all eurozone PSPs (such as banks and large corporates initiating payments) have the necessary information to route a SEPA payment correctly to UK beneficiaries.

{ ACT NEWS }

Treasury expertise and influence on show at this year's ACT Conference

ACT members can look forward to a packed programme at this year's Annual Conference to be held on 18-20 May in Liverpool, featuring sessions on fintech, innovation and forecasting.

Headline speakers include Lady Barbara Judge, chair of the Institute of Directors and chair emeritus of the UK Atomic Energy Authority, who will speak on energy supply and the future for nuclear fuel. She will be joined by economist John Kay, vice president of financial markets at Royal Dutch Shell Ian Chisholm, journalist and broadcaster Mishal Husain, senior *Financial Times* columnist Tim Harford and Peter Montagnon, associate director of the Institute of Business Ethics.

The ACT Annual Conference attracts more than 1,000 attendees, who will this year hear case studies and panel discussions around the theme 'Financing tomorrow: integrity, influence, innovation'. Sustainability will be a key issue for speakers and panelists. Harford will talk on the issue of forecasts, and during an ideas plenary on the final day, with senior treasury professionals taking part, participants will debate what sustainability means to business leaders and their teams.

The role of treasurers in strategy and financial leadership will be explored on day two of the conference. Attendees will also be able to hear debates on the impact of Brexit and how treasurers can guide geopolitical, digital and ethical road maps within their organisations.

If you have yet to register for this year's conference, go to www.treasurers.org/annualconference or email events@treasurers.org

NUMBERS

€670m
The potential Greek tax revenue lost to illicit untaxed cigarettes, according to *Bloomberg Business Week*

£7.7bn
The size of Nigeria's budget deficit, worsened by collapsing oil prices

3.1%
The yield of Cardiff University's £300m 40-year higher education bond, the lowest yield in the UK's history for higher education bonds

102
The number of ships berthed with International Shipcare, off the Malaysian island of Labuan – twice the number this time last year, says *Bloomberg Business Week*

151,000
The number of jobs added to the US economy in January, a contrary economic indicator in the face of continued turbulence

37%
The jump in share-based compensation at Chinese e-commerce giant Alibaba, which outpaces its revenue increase for last year of 31%, according to *Bloomberg Business Week*

{ KEY FINDINGS FROM DELOITTE'S *CONTINUED EVOLUTION: 2016 GLOBAL FOREIGN EXCHANGE SURVEY* }

56% put lack of visibility on FX exposure and reliability of forecasts as one of their top three concerns for 2016

68% said inaccurate forecasts were a major source of ineffective management of FX risk

37% said boards did not receive adequate information on FX exposure and risk management

70% of respondents report only fairly basic metrics to the board, such as quantum of FX exposure, hedged positions and FX gains/losses

THE STATS

62% said lack of automation, such as the prevalence of manual FX forecasts from business units, contributed to difficulties around identifying exposure levels

{ AROUND THE WORLD IN 30 DAYS }

NEGATIVE INTEREST RATES, SHARE PRICES AND CRUDE OIL

Negative interest-rate club

The number of central banks in negative interest-rate territory rose when the Bank of Japan unexpectedly announced that it would impose an interest rate of -0.1% on some commercial bank deposits. The measure is intended to bring down interest rates generally, particularly on long-term consumer home loans.

Sweden, the first country to take its benchmark repo rate below zero last year, cut its rate further to -0.5% last month, prompting worries that the European Central Bank will follow with a rate cut. Switzerland's main bank interest rate stands at -0.75%. Twelve central banks worldwide have now imposed negative interest rates and, since the financial crisis, monetary policymakers at central banks have cut interest rates 637 times, according to *The Telegraph*.

Banking woes

Share prices of leading banks worldwide plunged last month in the face of mounting concern about global growth prospects.

Stock indexes fell dramatically at times; the FTSE 100 fell by 2.7% in one day, and the Hang Seng index fell by 5%. Individual European bank stocks gave investors a roller-coaster experience. Deutsche Bank shares fell 9.5%, prompting its CEO to issue an open letter of encouragement to employees, and Germany's finance minister, Wolfgang Schaeuble, to publicly state that he had "no concerns" about the bank. European stock markets rebounded and made partial recoveries by the middle of February.

Crude oil

Gloom over major economic indicators continued with a renewed weakness in oil prices affecting major stock markets. The global oil market is reckoned to be oversupplied by some 1.8 million barrels per day. However, a plan to freeze output worldwide may have little impact on pricing given the glut of oil that already exists in the market. Stockpiles are at record levels. Oil has shed 70% of its value since a market high of over $100 per barrel in June 2014.

The Bank of Japan is to impose a -0.1% interest rate

GETTY IMAGES

{ FINANCIAL RISK MANAGEMENT }

LACK OF VISIBILITY ON DATA HAMPERS FX MANAGEMENT

FX is set to dominate treasury operations during 2016, according to a global treasury survey carried out by Deloitte.

The report, titled *Continued Evolution: 2016 Global Foreign Exchange Survey* – a response to the increasing profile of foreign-currency exposure among corporates – found a lack of clear sight on risk among many respondents, along with poor forecasting and processing.

Lack of visibility of FX exposures and of reliable forecasts was a challenge for 56% of respondents, while 49% put emerging-market and restricted-currency-market volatility at the top of their list of woes. Manual exposure identification and capture processes were a concern for 48%.

Investment in automated FX processes has not kept pace with increasing exposure to a wider range of currencies, and the lack of visibility in this complex area means that companies need to focus on achieving real-time integration of different systems, data quality and consistency, if they are to make gains in visibility and reduce inaccuracies.

FX complexity increases as companies expand their footprints globally – 50% of the report's respondents operate in more than 20 countries. Inaccurate forecasts, poor communication and non-transparent exposures constitute the top three sources of ineffectiveness in managing FX risk. "FX risk cannot be managed effectively if it cannot be quantified in the first place," said the report's authors.

The survey looked at 133 corporations worldwide, with 64% of them in the $1-10bn in annual revenue range, 28% with $10-50bn in revenues and 8% of them with more than $50bn in revenues. Of these, organisations had an average of 6.3 people managing FX risk in front, middle or back offices (excluding people supporting FX management in the operating entities), with a maximum of 55 individuals.

{ CONTEXT OF TREASURY }

Revolving door for women leaves gaps at the top

The second annual report into gender and advancement in workplace hierarchies from consultancy Mercer found Europe and North America struggling for workforce parity.

Women are still under-represented at the higher levels, according to the study *When Women Thrive*, in spite of quotas and targets drawn up in European countries. Globally, women make up 40% of the average company's workforce; 33% of managers; 26% of senior managers; and 20% of executives.

The report found that, at the top levels, women are 1.3 times more likely to leave organisations than men.

Women are still under-represented at the higher levels, according to the study

"Quotas and targets in the UK and Europe have had a big impact in boosting female representation in senior roles," says Julia Howes, principal at Mercer. "While organisations are focused on recruiting women at the top, they are not developing them from within with the same focus... and that could threaten the progress they've made."

The research took data from 600 organisations worldwide employing 3.2 million people.

Of these, only 57% of organisations say senior leaders are engaged in diversity and inclusion initiatives, with the US and Canada joint first. The US and Canada also lead on pay equity, with 40% of organisations offering formal mechanisms to remedy inequality in pay, compared with 34% globally.

IKON IMAGES

READERS MAIL

{ LETTER TO THE EDITOR }

Many years of experience in both the treasury and economic professions have emphasised the value of rigorous, objective analysis in respect of political economy decisions. The EU membership debate is no exception. There were no significant differences in long-term UK GDP per head growth rates pre- and post-UK entry into the EU in 1973.

A high percentage of UK trade has always been with the countries of continental Europe – and this is likely to remain the case. Regardless of the outcome of the referendum, the UK's greatest business potential lies in the expanding economies outside the EU: Asia, Africa, North and South America, and Oceania. This is recognised by the ACT in that it is now an international association. If companies follow the ACT's example and focus on wider international markets, then the outlook for business profitability will be positive.

My experience in the engineering industry is that, despite the downturn in UK demand in the recession of 1973-75, my company greatly expanded sales and profitability by focusing on new products – and new markets outside Europe. There are a large number of individual companies that have strong business reasons to be either pro- or anti-EU membership. I respect these professional viewpoints. The EU debate should focus on business opportunities in the wider global economy, whatever the outcome of the EU referendum.

Laurence Sanders MCT (recently retired)

MAKING THE NEWS

HSBC remains a Londoner

HSBC announced that it would keep its headquarters in London, after 10 months of uncertainty and murmurs about re-establishing a head office in Asia, where the bank makes most of its profits. The move comes in spite of a £3.4bn savings drive and its UK establishment means it must pay tax on its global balance sheets in the UK. Nevertheless, the attractions of London, its political stability, won the day. HSBC's board voted unanimously in favour of staying, given the UK's "internationally respected regulatory framework and legal system, and immense experience in handling complex international affairs", according to a statement from the bank.

Upheaval in China

China's official news agency has announced that the chairman of the China Securities Regulatory Commission, Xiao Gang, has been replaced. The top role has now been taken by Liu Shiyu, chairman of the Agricultural Bank of China. Local commentators expressed little surprise by the move, which follows a turbulent period for China's stock market, and which is thought to be an effort to reassure investors' confidence in the Chinese economy.

The high notes

Calls to abandon high-denomination bank notes gathered backing last month. Former secretary of the US Treasury Lawrence Summers called for the withdrawal of the $100 note. President of the European Central Bank Mario Draghi made a case for eliminating the €500 note because of its attractiveness to criminals and terror groups. And Peter Sands, former chief executive of Standard Chartered, published a paper on abolishing the higher-value notes, also as a means of stifling criminal activity. High-value notes play a crucial role in the underground economy, he argued.

Accused UK dealer fights extradition

UK futures trader Navinder Singh Sarao was in court last month fighting extradition charges to the US. The trader, accused of playing a role in 2010's 'flash crash', should, prosecutors argued, face charges in the US, because of his use of the Chicago market and the fact that most of his alleged victims are US-based. Lawyers defending Sarao argued that the claimed link between orders he placed and the crash, in which US futures and equities markets briefly plummeted, was "gossamer thin". The extradition ruling is expected on 23 March.

A toast to excellence

The 2015 winners of *The Treasurer*'s Deals of the Year Awards celebrated their success in style at a dinner in February

Words: **Peter Matza** / Photos: **Carol Moir**

Now in its 18th year, *The Treasurer*'s Deals of the Year Awards were celebrated at an awards dinner held at the Banking Hall, Cornhill, in early February. As always, this year's awards had as their focus excellence in corporate treasury, whether demonstrated in individual deals or in a wide range of treasury work done over 12 or more months. More than 125 guests, including treasurers representing corporates from countries across the EU, were welcomed by Clare Francis, MD, global corporates, commercial banking, Lloyds Bank, and by ACT engagement director Peter Matza. The awards were presented by George Culmer, executive director and CFO, Lloyds Bank.

These remain the only treasury awards in Europe from a professional treasury association, judged by treasurers for treasurers. What makes them doubly significant is that, important as they are, these awards just scratch the surface of the work done by corporate treasurers. We could all do yet more to highlight that contribution!

All types of deals, including bonds, loans and corporate finance transactions from corporates across Europe, are eligible for entry into the awards. The awards honour the winners and highly commended

Clare Francis from Lloyds Bank welcomed guests to Cornhill's Banking Hall; ACT engagement director Peter Matza (inset)

The awards offered a great opportunity for networking

Guests mingled during the drinks reception

The judging panel from left to right: Paul Watters, Philip Learoyd, Henryk Wupperman, Lesley Flowerdew, Peter Matza, George Culmer, Julie Fabris, Paul Johns, Richard Sedlacek, Clare Francis and Mark Venner

Clare Francis (left) and George Culmer (right) with British American Tobacco, which won two awards

Clare Francis and George Culmer with the overall Deals of the Year Awards winner: National Grid

Clare Francis and George Culmer with award-winning New Look

easyJet picked up the award for loans below £750m

ACT CEO Colin Tyler (left) with this year's award winners

nominees for their sound treasury management, innovative structures, the managing of treasury-transformation programmes or absolute success in prevailing market conditions.

The call for entries for the Deals of the Year Awards for 2015 attracted submissions from a diverse sector base: retail, infrastructure, aviation, housing and education among them. This year, deal sizes ranged from our smallest at £100m to our largest at £4.5bn. (The biggest deal that we have ever had nominated was worth a whopping $54bn!) The 2015 awards attracted some of the highest quality of nominations we have seen for several years, making the competition very fierce. It demonstrates, however, the fundamental importance of having skilled, professional and gifted individuals and their teams in control of corporate funding.

All of the categories were competitive, but an increasing trend is towards more nominations in our team categories, as treasury teams are obviously being recognised for utilising their skills on all aspects of an organisation's activities, bringing together financial and business strategy.

As I say above, there's no reason why anyone can't be a winner. There's no need to feel shy about your achievements! This year, for example, we saw the first-ever award for a housing association, London & Quadrant, showing the value of treasury to the social housing sector. And, as Lesley Flowerdew, group tax and treasury director at FTSE 250-listed design, engineering and project management consultancy Atkins, and outgoing chair of the Deals of the Year Awards judging panel, said:

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

For details of the winners and highly commended treasury teams, see www.treasurers.org/mags/316056/index.html

THIS MONTH

MiFID II, SWIFT AND REPOS

The Brexit vote is on the horizon; EU-wide financial regulation awaits a European Commission review of the Call for Evidence; and MiFID II is deferred for at least a year. China continues to vex the equity markets as we all try to understand the impact of its volatile economy worldwide – despite an enviable 6%+ growth rate. If you have views you'd like the ACT policy and technical team to take into account, please email us at technical@treasurers.org

Steve Baseby is ACT associate policy and technical director @BasebyStephen

{ IN DEPTH }

MiFID II: TRADING PLATFORMS AND MARKET MAKERS

Three months after the need to defer MiFID II was recognised, the European Parliament has managed to formally extend implementation until 3 January 2018. On reflection, it's of concern for future legislation that implementation should not require reversion to the elected body – a warning to all involved in complex change management.

A few believed they would be able to slip in some changes, but getting the simple deferral was always going to challenge a process designed for debate in an organisation with a fulsome agenda. For now, this is just deferral.

The immediate concern for the modern treasurer remains the impact on the use of trading platforms to deal with their banks. MiFID II adapts the 'own account' exemption of MiFID, which enabled corporate treasurers to make use of the improved internal control and efficiency of electronic trading.

MyTreasury and Thomson Reuters have each raised concerns that corporate use of their trading systems could require their corporate customers to adopt the burden of registration as traders with their local EU National Competition Authorities (NCAs): the Financial Conduct Authority for UK treasurers. We would also expect this to impact users of 360T, and to be copied throughout the G20 members if implemented in the EU.

There is light at the end of this tunnel, with associations poring over discussions with the European Securities and Markets Authority (ESMA) on the interpretation of the change in wording, to understand how ESMA intends to be used by EU NCAs, which may not be to catch non-financial counterparties at all. We will keep you updated through our newsletter and blogs as the debate becomes clearer.

Market makers retreat

Perhaps of longer-term concern is the continued withdrawal of market makers as the cost of implementing MiFID II across the EU adds to the capital cost of market-making operations. We have commented in the latest e-newsletter on those who have already departed.

The impact of worldwide G20-based regulation for treasurers is most likely the widening of secondary spreads of traded bonds and the knock-on effect to primary-issue pricing. Fewer market makers may have the benign effect of reducing intra-market-maker competition for a wafer-thin margin, but the fundamental effect of increasing the bond traders' capital reserves can only be to require greater trading income to cover costs. A few basis points here or there from government bond trading through to corporate bond trading will soon add to the corporate interest bill, as the Organisation for Economic Co-operation and Development is trying to reduce the tax wedge (see www.treasurers.org/node/315246 for the latest on UK Base Erosion and Profit Shifting).

This is all developing while the European Commission continues its push for increased bond issuance under the umbrella of the CMU Initiative, which requires a broad-based traded bond market to stimulate demand and maintain liquidity, as traditional bank lending is under threat from its capital regulation.

We will keep you informed as the EU position develops.

NEW ON THE WEB

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

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

Brexit: we have opened up the discussion with a blog: blogs.treasurers.org/?p=313877

Our response to the *Consultative Position Paper on the Evolution of Euribor*: www.treasurers.org/ACTmedia/ACT_response_Euribor_consultation.pdf

EACT report on regulatory issues February 2016, including an update on the financial transaction tax, money market funds and bank ring-fencing: www.treasurers.org/ACTmedia/Monthly_Report_Regulatory_Issues_EACT_February_2016.pdf

{ TECHNICAL ROUND-UP }

WMBA and BRRD

CHANGE TO WMBA BENCHMARK CALCULATION METHODOLOGY FOR SONIA AND RONIA

The Wholesale Market Brokers' Association (WMBA) has announced changes for these two benchmarks to take effect from 20 June 2016. These extend the day until 18:00 to keep in line with the extended CHAPS and CREST cut-off, and the fixing will be half an hour after that time. See http://tinyurl.com/gw78bud

BANK BAIL-IN PROVISIONS

As the Bank Recovery and Resolution Directive (BRRD) approaches, there have been efforts to clear up legacy bad debts. Italy has agreed with the EU government guarantees, sold at market rates, to enable Italian banks to sell up to €200bn of debt. See http://tinyurl.com/hgb87yp for a summary and discussion of this agreement, which serves to highlight differences between banking among the EU member states.

Italian savers have bought into bank-retailed savings products, which fall outside deposit-guarantee schemes, hence their concern that their banks remain solvent and their deposits are not exposed to any degree of bail-in.

This serves to illustrate the degree to which corporates will need to understand the business of their banking counterparties and the status of their corporate banking under BRRD, and after allowing for any changes required by banking separation.

{ INTERNATIONAL }

SWIFT AND GLOBAL PAYMENTS

So much effort has been going into facilitating retail payments that we can lose track of SWIFT's pre-eminence in communicating between banks. Large corporates have been signing up, as SWIFT participants will be able to initiate messages into the banking systems.

SWIFT has announced an initiative to develop direct access for corporate treasurers in the B2B payment market with the following key features:

- Same-day use of funds;
- Transparency and predictability of fees;
- End-to-end payments tracking; and
- Transfer of rich payment information.

See http://tinyurl.com/zhh5p3x

Chinese reserves

The call for China to introduce capital controls increases. The *Financial Times* reports on the pace of capital outflows as Chinese nationals seek to protect themselves against further renminbi devaluation. (See http://tinyurl.com/hqyfgfr)

Although it's worth keeping scale in perspective: Chinese forex reserves are down to $3.23 trillion; and recent outflows are averaging at around $100bn per month. Ultimately, we look to China to develop its internal economy to maintain the high levels of growth that support international trade and enable recent new-found wealth to trickle down to the poorer sections of its economy.

{ WATCH THIS SPACE }

REPOS

The repurchase agreement (repo) has provided a means by which natural holders of traded securities can provide security for short-term loans. Banks and other financial institutions, including your own pension fund, can use those holdings of long-term gilts they hold to manage their liquidity.

Treasurers of larger enterprises have made use of the repo market to enhance yield and diversify, and mitigate risk. The repo can be regarded as a stand-alone short-term investment or as additional security to enable increased lending to relationship banks during a period when corporates are holding increased cash to guard against market disruption.

A major drawback for corporates that have considered joining this market has been the documentation with the standard Global Master Repurchase Agreement, and the need for a custodial agreement and a settlement agent. The market already uses tripartite agreements to bring the custodian, settlement agent and counterparty together, and some exchanges are implementing multiple-counterparty arrangements. This is so the corporate lender does not need to agree a separate tripartite with each of its banks only to find that the appetite of some has disappeared over the potential six months of negotiation.

An initiative is being considered to draft more standardised agreements for corporate engagement in the market, which could simplify access, reduce engagement time and make this a more attractive cash management option, which will be simpler to explain to finance directors and boards.

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BANKING VOLATILITY MANAGEMENT, GROUP CORPORATE TREASURY, LLOYDS BANK

How did you get into treasury?
After qualifying as a chartered accountant, I became interested in derivatives. An opportunity came up in treasury advisory, so I grabbed it.

What do you like about treasury?
You have the opportunity to understand different facets of the business, and your daily job and decision-making have direct impacts.

What's the best thing about being a treasurer?
My experience in treasury has shown me that a treasury job can be both specialist and versatile. You need to interpret and work with numbers, but be able to articulate commercial impacts. You can be highly technical in one area, but you also need to appreciate other issues, such as tax and investor relations.

What's the best thing about being a member of the ACT?
Being in a network of professionals. I met my mentor through the ACT. He has given me a lot of valuable industry insight and support.

Which ACT qualifications do you hold?
The AMCT.

How has your qualification benefited you in your career so far?
The CertITM course gave me a comprehensive introduction and got me over the steep learning curve in my new job. The CertRM provided me with a systematic framework to assess risks. I cannot recommend the qualifications highly enough.

What's the most important lesson that you've learned during your career?
You need to understand what you are doing and why you are doing it. Make sure your work is of the highest quality, because this is how you build trust among your stakeholders.

What's your ultimate career goal?
To become a head treasurer or CFO.

Who is your greatest inspiration and why?
Anyone who, in difficult situations, did not lose hope and kept trying.

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

2016 TRAINING COURSE DATES

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

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

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

BRAND NEW

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

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

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

20-21 April, London
Advanced cash management
The cash management marketplace is morphing. New techniques are being introduced: partner banking, SWIFT Corporate Access and ISO 20022. And regulators, whether via SEPA or Basel III, are enabling competition to traditional banks. This course will prepare you for the changing environment.

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

BRAND NEW

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

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

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

ACT EVENTS 2016

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

11 May, Dubai, United Arab Emirates
ACT Middle East Annual Dinner 2016
The perfect opportunity to network with your peers while enjoying a wonderful three-course meal. The presentation of the ACT Middle East Treasury Awards will follow dinner, celebrating the achievements of the corporate treasurer and recognising companies and individuals that have shown innovation and excellence in corporate treasury from across the Gulf Cooperation Council.
www.treasurers.org/middleeastannualdinner

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

ACT WEBINARS

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.

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{ PRODUCTIVITY }

JEREMY WARNER

Have technological advances brought us to an economic tipping point? If the answer is yes, we've yet to see evidence within the data

Are we on the cusp of a fourth industrial revolution? This was the theme of the World Economic Forum annual meeting in Davos in January; it's fair to say that many participants left only half convinced.

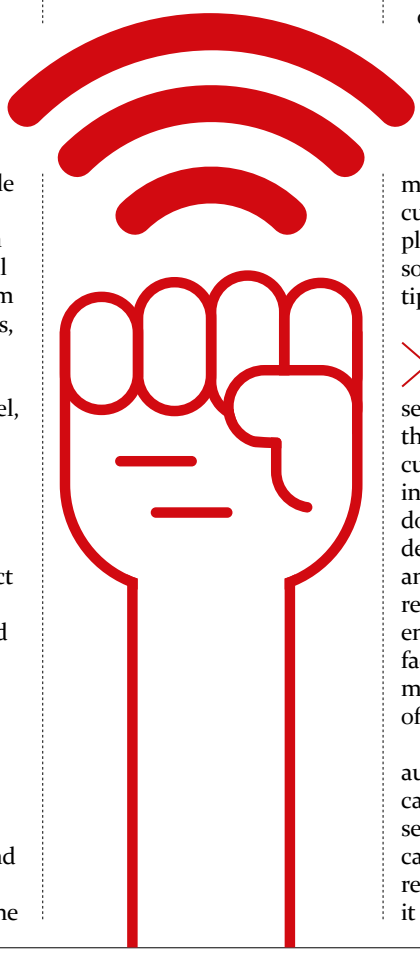
First, a little back story. Throughout much of recorded history, from 2000 BC to the beginning of the 18th century, there was no great improvement in the standard of living for ordinary people. There were certainly ups and downs, and there were pockets of advancement, but little in the way of explosive and sustained growth in output per head.

There were essentially two factors behind this lack of progress: a remarkable absence of important technological change and an accompanying lack of capital accumulation. But then, from the late 17th century onwards, the great age of commercial innovation began – coal, steam, electricity, petrol, steel, rubber, cotton, the chemical industries, machines, the production line, wireless, printing and flight.

It is possible to divide this progress up into three distinct economic revolutions: the first, based on steam, allowed the development of factories and railways and, with the accompanying agrarian revolution, drove a great migration from country to town. The second was based on electricity and petrol, allowing mass production and consumption on a hitherto undreamt-of scale. Then came the computer, communications and IT revolution.

Notably, however, the third of these revolutions doesn't seem to have been nearly as successful in driving productivity gain, and therefore improvement in overall living standards, as the previous two. As Robert Solow, the economist, famously put it: "We see computers everywhere except in the productivity statistics."

The data evidence for a fourth industrial revolution is even thinner on the ground; many question whether it exists at all. Since the financial crisis, productivity growth in virtually all advanced economies has slowed to stall speed, and so, too, has business investment. If there was transformative progress taking place, you'd expect the reverse.



Since the financial crisis, productivity growth in virtually all advanced economies has slowed to stall speed

There is, nonetheless, no denying the speed of change in many industries. From artificial intelligence to robotics, the internet of things, big data, renewable energy and medicine, there is enormous cumulative innovation taking place, which may have reached some kind of transformational tipping point.

I would suggest two reasons why we are not yet seeing this transformation in the data. One is that a lot of current change is in the service industries, and therefore doesn't require the same degree of capital intensity and investment as previous revolutions. Clever software engineers, yes, but not the factories, production lines, machines or even office blocks of previous revolutions.

Take the advent of electric, autonomous and driverless cars. On the face of it, this seems to require massive capital investment in retooling. On the other hand, it might ultimately lead to far fewer cars. As things stand, the average car is idle most of the time. Once driverless, your car becomes essentially a robotic Uber, able to operate 24 hours a day. Many people will choose not to own a car at all.

The other reason is that big increases in productivity may already be taking place, but are not captured by conventional ways of measuring it.

One example is music, which was once a comparatively expensive luxury, but is now available in virtually unlimited quantity for next to nothing. The evident gain in productivity this mass consumption implies goes unrecorded.

Whatever you call it – a fourth industrial revolution or merely an evolution of previous ones – something is plainly going on here, with the main focus of its impact on the service industries. Since these now account for the overwhelming bulk of jobs, get ready for some profound social upheaval alongside the commercial disruption.

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

{ TREASURY INSIDER }

Whose loan is it anyway?

It should be a simple matter to help out a colleague, but in reality that's not always the case – particularly if your colleagues are long on ambition

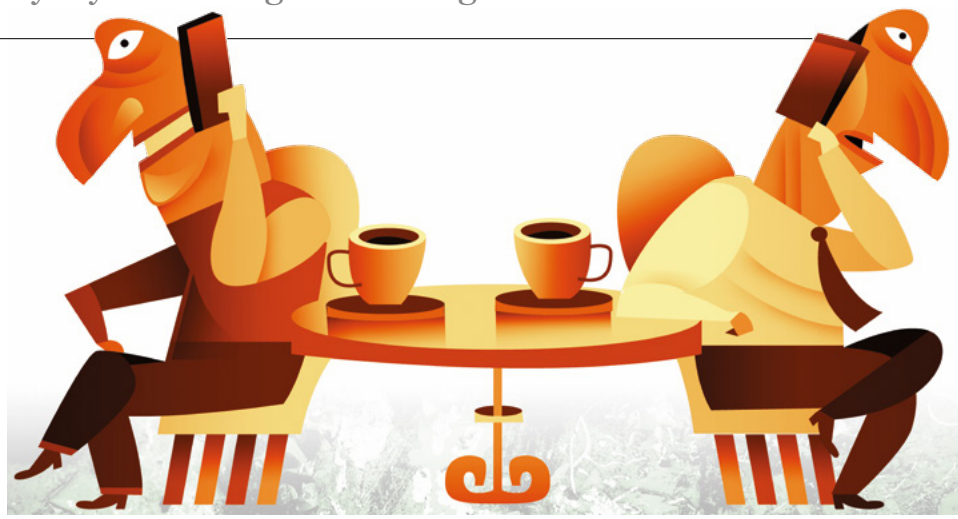


IMAGE SOURCE/PABLO BLASBERG

I had coffee with our head of tax last year. Well, somebody's got to do so. Anyway, we are key colleagues in our ivory tower head office and should operate seamlessly within The Business.

We started to discuss a star division's plan to set up overseas; a high-flying finance team member from the UK, who my colleague knows well, is to become its FD. The objective for this new operation is to provide growth in a high-margin environment with the objective also of positively re-rating the group – and so we have to be positive.

The head of tax said this new FD had asked for some funding to commence the project. When I asked whether any thought to the form and nature of this had been given, my colleague said it has to be truly arm's length, so we are fully compliant with the spirit and form of intragroup financing set out in Base Erosion and Profit Shifting (BEPS) protocols.

Ah, I thought, someone able to out-jargon me. I had read about BEPS, and so I said: "You want it fully arm's length, so you won't need to worry about the tax authorities challenging it." I received a positive response to this and was advised that the closer it mirrors our external funding agreements the better.

Discussing this within our team, we drew up a brief term sheet to start the conversation. We set out initial principles and suggested normal terms, including some basic covenants and protections as per external agreements. My tax colleague said: "It looks a bit heavy to me, but why don't you get in touch with the [star] FD and I'm sure you will sort it out. You are the expert in group financing and will add credibility."

Despite this flattery, I thought this could be tricky. Clearly, there is a collective will to provide funding in a compliant but practical manner, but it looked very much as if I could be set up as the fall guy here, having to negotiate between the divisional FD and the tax team. It got me thinking: Whose loan is it anyway?

The new FD was, in any case, unimpressed with this starting point, saying it would be unreasonable to meet covenants internally and that her division did not report to us, but to its divisional CEO and, ultimately, to the group CFO. Seeking to maintain a holistic head office view, I explained we aim to reflect external loans for credibility, but would come back with a more comprehensive agreement, and that we should meet to progress this funding.

I could see this was not a great start and sought out the tax team to establish some principles:

- Let's agree the relative risk profile of the new division and how it compares to the rest of the group.
- To be arm's length there will need to be some elements of external reporting and metrics met if the margins and group funding are to be a benchmark.
- Has the business and group considered the appropriate mix of debt and equity?
- Is the division responsible or incentivised down to interest and tax, or is it acting with fiduciary duties in mind?
- Which currency should we use and what happens in the event of a sale or change in business arrangements?

More importantly, who will discuss with our leader, the group CFO, the fact that the star FD has already 'gone native'?

Ultimately, after the initial round of sabre rattling, a sensible discussion ensued and a suitable loan facility agreed, without challenges as yet from any tax authority or auditor – as far as I know.

There are clear benefits in discussing these kinds of issues up front and in being an effective business partner. It is vital to agree who owns projects among head office teams, and important to not seek to pass the buck when things become difficult. Cross-border financing, whether internally or externally, is not straightforward – that's why we have a role to play and a chance to add value collaboratively...

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

{ EDUCATION }

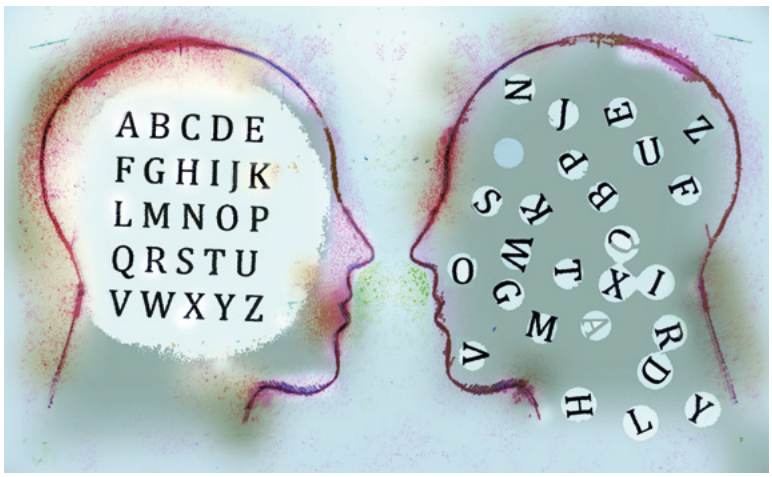
VANESSA HARWOOD-WHITCHER

Whatever your preferred learning style and circumstances, interacting with an expert will greatly enhance the experience

In these days of online, high-tech, cloud solutions, we sometimes forget how important human interaction can really be. It's an odd world perhaps in which individual entrepreneurs are praised for creating tech tools to enable us to avoid other people on the planet. There's probably a law – yet to be named – that identifies the relationship between how much we enjoy using online services and the frustration we feel when they go wrong.

This is particularly the case when you're learning. Online distance learning can be really helpful in enabling you to fit studying for your qualifications around a busy work and home life, as well as being a cost-effective way of building your career. However, ultimately, humans are social creatures and nothing beats face-to-face interaction.

There are several reasons why we spend a fair (or unfair, depending on your experience) amount of our childhood building our knowledge and preparing ourselves for the adult world in a classroom; the face-to-face interaction with a subject expert is an established, tried-and-tested approach to learning. It makes perfect sense to have a supportive figure to guide you through your learning.



IKON IMAGES/GARY WATERS

Learning styles, of course, come in several different forms, and yours might fit best in a face-to-face environment. Activist learners enjoy getting their hands dirty and tend to leap in with little planning. Reflective learners are more observant and considered; they often need the time and space to digest and think about what they are taking on board. Pragmatists need to be able to see how to put learning into practice in the real world and theorists like to understand theory, models, concepts and facts, and are well suited to self-study.

Over the years that I've worked with students from all sorts of different sectors, ages, geographies and backgrounds, one thing always seems to hold true: people who are able to experience social interaction in a classroom environment are likely to do much better than those studying on their own through distance learning. In a classroom environment people generally feel more confident to interact and, of course, a good tutor will encourage those students who haven't said as much as others, to ensure that everybody gets equal attention.

> People who are able to experience social interaction in a classroom environment are likely to do much better than those studying on their own

Here's an interesting statistic for you: 95% of ACT students who attended face-to-face tuition for the CertFMM exam in April last year passed it, compared with the overall pass rate of 61%. Across our qualifications, average pass rates are consistently higher for those attending face-to-face learning.

The ACT acts on feedback from students and always strives to improve the quality of the online experience, but the statistics don't lie. Whatever your learning style and however comfortable you are asking questions in an online setting (or not, as might be your preference), you'll have a much better chance of passing your assessment if your studying includes interaction with expert tutors and fellow learners.

So it seems slightly ludicrous to think that when we're learning as adults, having an interaction with an expert figure is not required or at least not considered essential. Your school may or may not have been a fun environment for you, but if you are studying (or perhaps thinking about studying) for a professional qualification, hopefully something in treasury from the ACT, then you should look for the option that offers you the best of all possible worlds. We'd like to think we can meet that demand.

Vanessa Harwood-Whitcher is director of education at the ACT

"Live well and die old"

Alison Wilson, head of treasury and governance at innocent drinks, has an enviable role that weds sound financial management with good corporate conduct

Words: **Rebecca Brace** / Photography: **Louise Haywood-Schiefer**

Think of the innocent brand and you are likely to think of fruit smoothies, small knitted hats and ethical business practices. From ingredients to packaging, sustainability is at the heart of the innocent philosophy.

"One of the things I love about working here is that we have a philosophy, which is made up of our purpose, our vision and our values," remarks Alison Wilson, the company's head of treasury and governance. "Our purpose is to provide people with healthy food and drinks that allow them to live well and die old. Our values – which are displayed in every loo and on every floor – are to be entrepreneurial, generous, responsible, commercial and natural."

In her current role as treasurer of the smoothie maker, Wilson says this means supporting the company's commercial strategy – but also supporting responsibility, which is realised through the ethical sourcing of fruit, as well as by using sustainable packaging and giving money to the innocent foundation every year. "As treasurer, I'm trying to execute the optimal financial strategy that delivers our one- to three-year goals – and as head of governance, my role is to make sure that we focus not just on the business, but also on the way in which we do that business."

Wilson's route into treasury was somewhat unconventional. Graduating with an economics degree, she reached a crossroads: she was torn between moving to London to join the Bank of England and staying in Edinburgh to work for a fund management company. "I wanted a change and I wanted to work for a central bank where I could directly use my economics degree," she recalls. "So I spent a number of years at the Bank of England, both in its international division and in its banking supervisory division."

Her next move was to join Citigroup, where she worked for 10 years. "I was almost exclusively working with financial institutions business," says Wilson. "My responsibility was to ensure that we understood the credit risk attached to portfolios for banking, insurance and fund management customers. I also did a brief spell in structured leasing, as well as working as chief of staff for the global industry head."

A fruitful journey

In 2003, Wilson left Citigroup to establish her own business, Cameron Graham Ltd, which makes eye-drop dispensers. "I learnt a huge amount during that time about how to run a business and how to wear multiple hats," she explains. "When you are the founder, the only employer, the only director and the only manager, you have to know a little bit about a lot – from patents to marketing and from manufacturing to sales. I spent five years on a very steep learning curve."

Once the business was up and running, Wilson says she looked in the mirror one day and wondered whether anyone would ever employ her again. She decided to test the theory and, after looking at her transferable skills, she applied for – and was offered – a role as finance manager at innocent.

"Innocent wasn't big enough when I arrived to justify even one full-time resource against treasury – all the activities were being done by various people across the finance team," says Wilson. "But over the next couple of years, it did get big and complex enough to dedicate some resource – and that was me."

In 2012, Wilson was appointed treasurer. "My opportunity to take on that role came from having been on the other side of the table as a banker, talking to treasurers about what they needed and what banking products we could offer them," she says. "I had an insight into the challenges and opportunities that treasurers have within an organisation – so I jumped at the chance."

This meant starting with a blank piece of paper and asking what the treasury function should look like – from its purpose and capabilities to the processes and systems that would need to be put in place. The first steps included looking at existing spreadsheets that were used to track cash movements and FX transactions, and making them fit for purpose. Wilson describes this as establishing the baseline.

"Once we had the processes and systems up and running, the opportunity I was really interested in was moving the treasury function from one that was very tactical and operational to one that was really informing


Alison was
here
Pleo

decision-making at a strategic level within the company," says Wilson. "Treasury can help deliver company strategy by managing not just financial risk, but other types of risk across the business – and by making sure that the company is well funded."

An ever-expanding role

Today, Wilson has a direct report in treasury, as well as working with a network of stakeholders and business partners across the business. Crucially, this includes business-partnering relationships with colleagues in supply chain, focusing on areas such as working capital, as well as managing risks related to FX and diesel exposure. Wilson's role has also recently expanded to include governance.

Wilson says her approach to treasury has evolved over time. In particular, she says she has become more confident in her ability to offer valuable input into discussions. "It's a two-way street," she observes. "You have to feel confident in yourself – but your other stakeholders have to feel confident in your ability, too. It takes time to build relationships and a track record of good judgement." Today, Wilson says her approach has become more self-directional – rather than standing back and waiting to be told what needs to happen, she is taking a more proactive role in expressing where the company should be going in terms of treasury and governance.

In order to do so, she believes in 'bringing the outside in'. "We are growing really quickly still. If you're not careful, all you do is run at 100 miles an hour with your head down, focusing on whatever you've been asked to do," she comments. "But actually, a lot of insight can only be sought from outside the four walls we're in every day."

The ACT plays a key role in providing that insight. Wilson says she values her corporate membership for two important reasons. "Firstly, the ACT does a lot of the heavy lifting for me when it comes to keeping up to date with technical and regulatory issues, as well as current thinking around treasury capabilities. In addition, the seminars they organise allow me to do a deep dive into particular areas of interest, to ensure that I'm bringing external thinking into innocent."

> "The ACT does a lot of the heavy lifting when it comes to keeping up to date with technical and regulatory issues, as well as current thinking around treasury capabilities"

A challenge a day

This year, Wilson is focusing on several key challenges. One of these relates to FX risk management. Until recently, innocent was largely UK-focused – but in the past few years, the company has focused on pan-European growth, giving rise to more significant currency exposures. At the same time, the recent strength of the dollar against the euro and sterling has presented some strong headwinds.

"One of my challenges this year is to make sure we optimise the hedge we have on the currencies that we need. I also need to ensure that I am a credible voice in all the discussions that happen internally on what those headwinds mean for our product mix, our pricing, our cost structure with our supply chain partners, and all the other elements that go into determining what the profit and loss looks like for next year," says Wilson.

Other challenges include building on the work done last year to adopt an enterprise risk management approach. This will involve understanding any risks that could impact on the company's business objectives and mitigating them where appropriate – or dialling up those risks in certain areas. Wilson's role is to join up pockets of risk management across the business and lead various levels of management through the process of identifying, assessing and mitigating those risks.

A further area of focus is governance. "We are a very entrepreneurial company – we like to be nimble and flexible, and there's a natural tendency to veer away from anything that would appear to be too bureaucratic," explains Wilson. "I completely applaud that starting point, but when you get to £250m turnover and have a complex and outsourced supply chain spanning multiple geographies, you need to have a good standard of governance across the group.

"I've been challenged with making sure that everyone is clear on what is expected in areas such as business ethics, having a

VITAL STATISTICS

£250m
annual turnover

10%
of profits donated to charity

350
employees

15
countries where products are sold

220,000
Twitter followers

good contract-management process in place and making sure that we are proud of our supply chain, because they share the values and ethics that we have. It's not about bringing a lot of paperwork and bureaucracy into the company, but about saying that good governance is critical to our longevity."

Meanwhile, low oil prices have made diesel hedging a particularly tricky subject – but Wilson says it's important to remember that hedging is about delivering certainty, rather than about delivering the best price. "If we'd all sat back with our crystal ball 12 or 15 months ago and knew that the oil price was going to fall off the edge of a cliff, you probably wouldn't have locked in at a slightly higher rate," she says. "But the logic behind the hedge absolutely works. It's a difficult message to take to the board, but I'm proud to be having these discussions with an educated group of people who understand the purpose of the hedge."

With a varied career path to date, it is clear that Wilson enjoys her current role. "What I particularly like is that I get access to decision-makers really easily," she explains. "I also enjoy getting involved with so many different things here – whether that's looking at commercial contracts with the sales guys or trying to protect IP with the marketing team. It's very difficult to find an activity within the company that I haven't been involved with recently."

ALISON'S TOP TIPS

1. **Have an enquiring mind and don't be afraid to challenge the status quo. Make sure you invest the time and energy in developing key leadership capabilities. Getting treasury knowledge is almost the easy bit – it's having the ability to apply that knowledge that's the value-added thing a treasurer can bring to the senior management team.**

2. **If I look back, I think I've been reasonably comfortable taking some risks during my career. It's about being flexible and open minded, and grabbing all the opportunities that might seem a bit left field at the time.**

3. **My favourite gadget is the mindfulness app on my phone. Life is incredibly busy, and 10 minutes of mindfulness every day improves my mental wellbeing. I think that's something too few people pay attention to.**

4. **The most difficult question my FD could ask is – at a tactical level – where will £/$ or €/$ be next year? I have to get my crystal ball out for that one. More strategically – do we have the right treasury and governance capabilities in place to deliver the next three-year plan?**

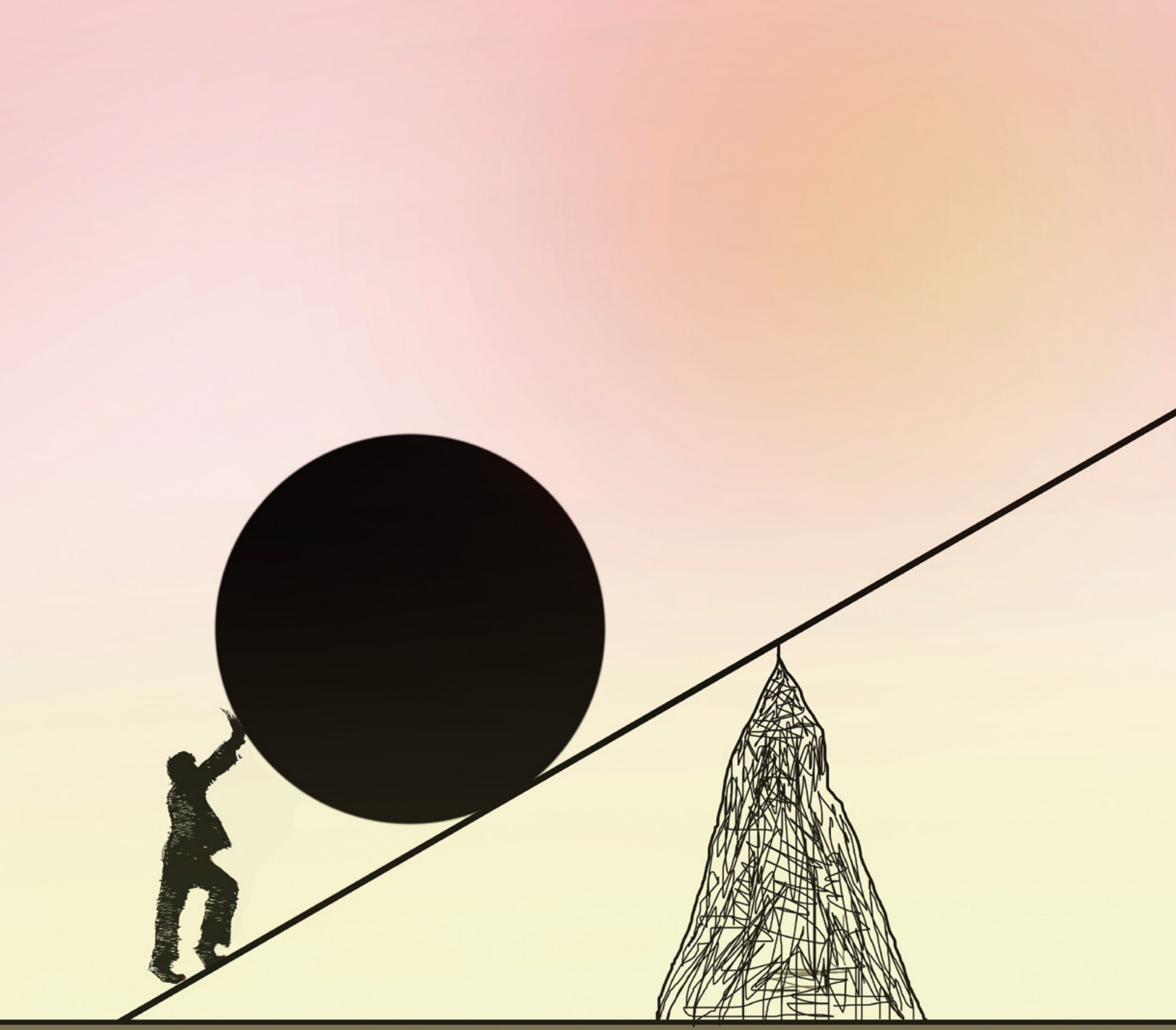
ALISON'S CV

2012-present
Head of treasury and governance, innocent drinks
2008-2012
Finance manager, innocent drinks
2003-present
Founder, Cameron Graham Ltd
2000-2003
Chief of staff, Citigroup
1993-1999
Credit risk manager, financial institutions, Citigroup
1991-1993
Banking supervisor, Bank of England
1988-1990
Analyst, Bank of England

QUALIFICATIONS

BA (Hons) Economics, Heriot-Watt University (1988)

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



"Whatever it takes"

Policymakers in Brussels and within European parliaments still face turbulence as they endeavour to encourage growth and restore unity. Treasurers are more sanguine, but likewise treading carefully. Ian Fraser reports

Back in July 2012, after a turbulent period when the euro's very survival seemed to be at stake following rolling sovereign debt crises that nearly saw Greece quit the EU, European Central Bank (ECB) president Mario Draghi pledged to do "whatever it takes" to save the single currency. Together with other ECB initiatives, including quantitative easing (QE), that was enough to put a floor under the euro and marked a turning point for Europe.

Four years on, the existential threat to the euro has arguably passed, but large parts of the 28-member economic bloc have yet to fully recover, suffering stagnant growth, high unemployment, low interest rates, below-target inflation and a refugee crisis that is causing fractiousness and disunity. Speaking at the World Economic Forum in Davos two months ago, Draghi admitted that Europe's economy was probably in need of another shot in the arm – possibly including further QE – as inflation remains stubbornly low.

The Italian-born central banker says the ECB has "plenty of instruments" at its disposal to rectify the situation and push inflation back up towards the central bank's 2% target. "We have the determination, the willingness and the capacity to act and deploy those instruments," Draghi told an audience in the Swiss ski resort.

That same week, French president François Hollande was forced to declare what he called a "state of economic emergency" in France, as he unveiled a €2bn job-creation plan aimed at reducing France's stubbornly high 10.2% unemployment and boosting the country's meagre 1% growth – as well as giving himself a chance of being re-elected as president. Hollande was galvanised into action after a package of liberalising reforms, spearheaded by economy minister Emmanuel Macron, failed to make any meaningful dent in unemployment. The declaration came hard on the heels of the national state of emergency Hollande declared after terrorist attacks in Paris and Saint-Denis killed 130 people on 13 November. Unemployment rates in other EU countries, such as the UK and Germany, are half those of France – but they are even higher in Italy and Spain.

Economic growth forecasts

In early February, the European Commission updated its forecasts for EU economic growth, saying it expected the bloc to grow at 1.9% in 2016, down from its earlier estimate of 2%. For the eurozone, it said growth would be a marginally slower 1.7%. Economic consultancy the Centre for Economics and Business Research (CEBR) said: "The trifecta of low inflation, accommodative monetary policies and a weak euro seem to be boosting the region for now."

Corporate treasurers are concerned that Europe's economy could once again go into reverse gear and are taking steps to ensure their firms are ready should conditions turn ugly. The treasurer of a large pan-European energy company, who asked to remain anonymous, says: "The euro crisis could raise its head again, and a lot of pain is still being felt in countries like Greece and Spain. I don't think it would take much."

> Corporate treasurers are concerned that Europe's economy could once again go into reverse gear

Paul Wilkinson, head of corporate finance and treasury at serviced office provider Regus, says: "We'll see some market turbulence, with the possibility of another economic downturn. There are a lot of uncertainties out there, so flexibility is key." Regus, he says, continues to pursue growth, but only "discretionary" growth – which can be turned off quickly. "We are looking very, very carefully at any marginal new

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investments, preferring not to give them the benefit of the doubt."

Emile Raymakers, group treasurer at Dutch animal feed giant Nutreco, says the company, which was last year acquired by privately held Dutch conglomerate SHV, is well placed to ride out shocks to EU economies. "Nutreco is quite spread out across the world, and our most important markets are Canada, Norway and Spain. We're also in a sector that's less vulnerable to economic downturns – in 2008 we were only marginally affected by the crisis."

What if the UK were to vote to leave the EU in the event of a referendum on the subject? French prime minister Manuel Valls paints an apocalyptic picture. He warned delegates at Davos that European civilisation itself would be under threat were the UK to go it alone. "It would be a tragedy," says Valls. "Europe could lose its historical footing and the project could die quickly. Things could fall apart within months."

In its latest forecast, CEBR says: "A Brexit is still very much a real risk and while the long-term implications of this are debatable, the short-term ones are clearly going to be very negative."

What impact would a Brexit have?

Treasurers appear less agitated by the risk of Brexit, and it's either because they simply don't see it happening, or else because they don't reckon on a major impact for their business. "We're not scenario planning around Brexit," says Raymakers. "I am not aware of it being on the board's agenda."

Sridhar Ramamurthy, group treasurer at Unilever, says he is not the right person to ask about the possibility of either Schengen being scrapped or Britain leaving the EU. "We operate across the world. Yes, Europe is important, but it is only about 25% of our business. The more important thing is to ensure that Unilever, as a company, is prepared to respond in an agile and flexible manner," he says. "Producing thousands of pages of scenario planning will keep the intellectual juices flowing, but it makes more sense just to prepare the organisation to be agile."

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To be sure, there are specific policy-driven headaches for treasurers. Energy multinationals, for example, are concerned about the lack of a level playing field in subsidies for renewable energy across Europe, especially since UK energy secretary Amber Rudd announced a 65% cut in such subsidies in December, and since Germany decided to close down all its nuclear power stations. Some countries like Spain have "pretty much turned off that tap" [of subsidies] as a result of post-crisis, austerity-driven cuts, says the group treasury of a utility giant, whereas in Germany renewable subsidies from feed-in tariffs are expected to remain at about €25bn a year or €600 per German household. The source says: "It's blowing around a bit, so you can't make long-term decisions."

> "Producing thousands of pages of scenario planning will keep the intellectual juices flowing, but it makes more sense just to prepare the organisation to be agile"

Priorities for treasurers

Volatility in commodity markets, the oil price, FX rates and continuing uncertainty about when non-US interest rates will rise remain front-of-mind issues for treasurers, especially after an

extremely volatile start to the year when financial markets gyrated as a result of crude oil slumping to a low $27 per barrel, and the 16 December decision of Janet Yellen's US Federal Reserve to raise US interest rates for the first time in nine years. The changes hammered home the message that a major unexpected shock may be lurking around the corner at any moment.

All the more important then that treasury functions have fit-for-purpose systems that create maximum visibility. Developing real-time or near real-time treasury management systems is the "Holy Grail" for treasurers, says Regus's Wilkinson, and a key plank in their defences against such shocks. Ramamurthy says: "One of our treasury priorities at Unilever is to ensure our IT systems are fully leveraged. We are aiming for real-time information about liquidity and the FX exposures that are arising in different parts of our business, so the central treasury team can apply the right hedging strategy or the right liquidity management strategy."

> "We are aiming for real-time information about liquidity and the FX exposures that are arising in different parts of our business"

Nutreco's Raymakers says: "One of the immediate challenges we face is to achieve real-time insight into the development of cash, either from bank accounts or accounting systems, but also in the development of FX exposure." He added that: "luckily, we have quite stringent discipline where FX exposure is concerned. The businesses alert us to their FX exposures on a daily basis, and we hedge them for them."

European corporate treasurers also say keeping track of their banking partners has become more of a top priority, in view of the fact that some banks are shrinking – withdrawing from geographies and lines of business – potentially leaving clients in the lurch as they retrench back to their home markets in response to the stresses and strains, and balkanisation of regulation that followed the 2008 financial crisis.

Assume that volatility is here to stay

Some treasurers say they were caught off-guard when the Royal Bank of Scotland closed its global transaction services arm last year. At its peak, the unit provided 7,000 large corporates with cash management services, including overdraft facilities and trade finance products, but when RBS informed clients it was axing global transaction services in February 2015, the corporates were obliged to find alternative banking partners at short notice. Raymakers says Nutreco has already found alternative banks in affected markets. Ramamurthy says Unilever now keeps international banking partners under constant review, to ensure they're appropriate for the future.

Unilever's Ramamurthy says that treasurers should treat volatility like sea captains treat the weather. Volatility, within exchange rates, commodity prices or other moving parts of the global economy, is a fact of life that underpins everything Unilever's 25-strong central treasury team does. "Anyone in treasury should assume that the volatility is here to stay. To assume that things will normalise and stabilise would be the wrong thing to do."

JURY OUT ON TAX REFORMS

Where tax is concerned, major changes are in the pipeline. The EU has, for some time, been targeting multinationals because of their ability to minimise corporation tax through the use of clever, but labyrinthine, corporate structures that often rely on 'captive' companies based in tax havens, and is seeking to claw back taxes from US technology giants like Apple. On 28 January, the bloc launched an ambitious package of measures aimed at clamping down on such behaviour. Building on the Base Erosion and Profit Shifting (BEPS) agreement hammered out by the Organisation for Economic Co-operation and Development and finalised last year, the measures include an anti-tax avoidance directive that is scheduled for sign-off by June.

Unveiling the European proposals, EU economic affairs commissioner Pierre Moscovici explained that the package aims to level the playing field between SMEs and large corporates. "The days are numbered for companies who avoid paying tax at the expense of others," he said.

Some corporate treasurers welcome the proposals, saying they will give businesses greater certainty by reducing disputes over the application of international tax rules. Others predict massive structural and behavioural change among corporates. The treasurer of one large European energy company says: "This will change how large European corporates structure themselves, fund themselves, pay cross-border interest and run their businesses across Europe, perhaps using more equity in certain positions as opposed to debt."

Regus's Wilkinson believes the proposals are going to be transformative. "BEPS changes both treasury and the thinking about how we do business," he says. He is also concerned that the EU proposals will cause some firms to pay "double tax" and significantly higher tax. "One of the frightening things about BEPS is the extreme transparency it potentially gives to tax authorities in different countries, enabling them to make comparisons and making it easier for them to challenge you."

Others are more relaxed about the EU's planned tax reforms. Raymakers says: "Nutreco's tax department, of course, is highly involved [with BEPS and the EU proposals]. There might also be some impact on treasury." Unilever's Ramamurthy says the proposals would have little impact on the workload of the consumer goods giant's treasury department.

Ian Fraser is an award-winning financial journalist and author

De-risking DB pension schemes

JOHN TOWNER EXPLAINS HOW SPONSORING COMPANIES ARE INCREASING THE AFFORDABILITY OF BUY-INS AND BUYOUTS

Since 2008, UK companies have contributed £190bn to their defined benefit (DB) pension schemes. This is equivalent to around one year's worth of profits for the FTSE 100. Over this same period, the value of DB pension liabilities has increased by more than 50% to over £2 trillion and now roughly equals the size of the entire UK economy.

Despite this apparent lack of progress, sponsoring companies continue to take steps to address their pension obligations. In addition to making significant cash contributions, many companies have worked with their trustee boards to manage down risk and have increasingly closed their schemes to new members and future accrual. The Pensions Regulator recently reported that the proportion of UK DB pension schemes still open to new members and new accrual has dropped by nearly 60% since 2008. Today, only 13% of DB schemes in the UK remain open.

When a pension scheme closes to new accrual, this is often the moment that the scheme truly becomes a legacy issue for the sponsoring company, as it shifts from being a recruitment or retention tool to being more of a financial management exercise. As this occurs, control and management of the pension scheme often shifts from the HR department to the corporate treasury.

While the ultimate goal for many corporate treasuries will be to transfer these legacy DB obligations to an insurance company, we frequently hear companies say that a buy-in or buyout is an unachievable aim. Many companies' – and indeed trustees' – expectations of the cost of a buy-in or buyout are often anchored around the scheme actuary's solvency estimate and it is important to recognise that this figure is exactly that – an estimate.

Our experience has been that the actual cost of a buy-in or buyout can be significantly less than anticipated. In fact, transactions, such as automotive safety firm TRW's £2.5bn partial buyout, have demonstrated that, in addition to thorough preparation, such as ensuring membership data is up to date, companies and trustees can take a more dynamic approach to increase affordability further.

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Phased buy-ins

Although the traditional view of the route to buyout is of a smooth increase in the scheme's funding level to the point at which a buyout becomes affordable, the journey, in reality, is often more volatile.

The upside of this volatility is that opportunities may present themselves over time as scheme assets increase in value relative to insurer pricing, which opportunistic schemes can capture by putting in place a buy-in covering a proportion of the liabilities. Rather than waiting to transfer all of the risk to an insurance company at a single point in time, this approach enables companies to take risk off the table gradually, in line with the scheme's journey plan.

Deferred premium

Another option is a deferred premium buy-in policy, which covers all future benefit payments for specified scheme members, but allows the company and trustees to pay for the policy over time. Such an approach may appeal to companies that have schemes coming out of a valuation with a deficit relative to insurer pricing, but with sponsor commitment to provide deficit repair contributions. This can be an efficient way for companies to insure a proportion of their liabilities today, rather than waiting until the end of the recovery period.

Liability management

Increasing numbers of companies are running liability-management exercises, such as transfer value or pension-increase exchange offers, in conjunction with a buy-in or buyout project. Through these exercises, the scheme is able to offer members greater choice and flexibility in how they take their pensions, while reshaping the scheme's benefit obligations in preparation for transfer to an insurance company.

Companies that have schemes with more complex benefit structures are adopting this approach more frequently both to increase affordability and transfer a larger proportion of their liabilities to an insurance company than they otherwise could.

These are just a few examples of how insurers are helping sponsoring companies and trustees achieve and accelerate their de-risking plans.

John Towner is head of origination at Legal & General

Legal & General

Managing currency market volatility

LEE McDARBY DISCUSSES THE IMPORTANCE OF PROACTIVE FX HEDGING, AND OFFERS GUIDANCE TO THOSE NEW TO CURRENCY VOLATILITY ON HOW THEY CAN MANAGE DAILY CURRENCY FLUCTUATIONS AND ENHANCE FX PLANNING RELIABILITY

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From being jilted by the Swiss National Bank in January to coping with a potential split with Greece for a large part of the year, not to mention quantitative easing (QE), 2015 was a turbulent 12 months for the euro – as outlined in the graph on page 33.

Despite starting last year on the front foot – on 3 January £1 stood at €1.27 – the single currency soon began to wobble. By March, the pound had reached a more than seven-year high against the euro – hitting €1.40 for the first time since December 2007 – following the introduction of the European Central Bank's (ECB's) economic stimulus programme, a bond-buying scheme designed to revitalise the flagging eurozone economy.

Even the UK general election in May couldn't provide much respite for the single currency. With opinion polls predicting the outcome would be 'too close to call', the possibility of a second hung parliament in a row saw the euro begin to gain traction in the run-up to the vote. However, these attempts to gauge the public's intentions were proved to have underestimated the Conservative vote, which bore resemblance to their surprise majority victory in the 1992 election. Consequently, the pound made its biggest one-day gain against the euro for two years and continued its ascent for several weeks, as markets gave the thumbs-up to the prospect of a stable, Tory-led government continuing the austerity economics of the past five years.

Fast forward another two months and fallout from the ongoing Greek debt crisis, coupled with Bank of England rhetoric around a possible interest-rate hike in the new year, had pushed £/€ levels to an annual high of €1.43 by 16 July.

For UK businesses exporting stock to the eurozone, sustained euro weakness had a detrimental impact on their bottom line. For example, at the early January rate, €300,000 worth of stock would have generated £236,220, whereas at the March rate it would have been worth just £214,285. That's a difference of almost £22,000 in just a matter of weeks, simply due to fluctuating exchange rates.

So just how perilous was this period for the euro? Let's take a look at the average yearly £/€ rates since the 2008 global financial crisis. In 2015, the average rate for the pair settled at 1.37, compared with a previous annual high of just 1.25 since 2008; while in 2009, the average rate was as low as 1.12. This paints a picture of a currency that struggled considerably last year under significant downward pressure from various political and economic events.

What could 2016 hold?

The new year has signalled a shift in momentum, as speculation surrounding the likelihood (or unlikelihood) of a UK interest-rate hike, and the outcome of Britain's in/out EU referendum, began to weigh on the pound. By 20 January, the pound had weakened to €1.29, dipping below €1.30 for the first time in just over 12 months.

Looking ahead, potential UK interest-rate and EU referendum speculation could continue to play a large part in determining the euro's performance against the pound in the coming months. As will updates from ECB president Mario Draghi on the effectiveness of its extended QE programme.

Just a few months ago, Bank of England governor Mark Carney was warning City investors not to bet against an interest-rate rise. More recently, dovish rhetoric around the subject has revealed a change of stance from the central bank, influenced by news of collapsing oil prices, lingering low inflation, slowing UK growth and a 'weaker' global economy – propping up the euro, as expectations of a hike are pushed back to mid-2017.

The EU referendum will take place on 23 June, and mounting uncertainty surrounding the outcome of the vote in the lead-up to polling day should continue to benefit the euro; as was the case with the 2014 Scottish referendum, when the pound dropped to £1:€1.24 prior to the vote, before recovering as Scotland voted 'No'.

Having announced in December that eurozone QE would be extended by six months until March 2017, attention will now focus on the ECB's appetite to expand its landmark programme. Any move to increase the amount of money injected into the eurozone economy each month will be seen as a sign that it isn't working as planned, which is likely to depress the euro.

The single currency's performance since January last year has provided plenty of food for thought for any UK-based business that trades on an international scale. From sustained euro weakness during 2015 benefiting imports from the eurozone to a resurgence in the currency's fortunes in the early part of 2016, that has improved the landscape for exporters of goods and services to the continent. The question is 'how can a business manage exposure to currency risk?'

Hedging currency risk

Because we are now much more connected, increasing numbers of companies conduct some sort of trade abroad. Your firm might import raw materials from overseas, or export goods or services to other countries. Or perhaps it pays claims or dividends across international borders. The ensuing reliance on making international payments inevitably generates costs (as well as risks).

A major concern for any business conducting transactions in different currencies is market volatility, which can produce unexpected changes in currency exchange rates. The fluid nature of the FX market – demonstrated by the euro's performance in recent months – is dictated by its sensitivity to various external factors – from the release of positive or negative economic data to a political announcement. The resulting fluctuations in exchange rates can happen rapidly, making its performance difficult to predict. If not managed effectively, this could impact a company's profitability and the value of its assets and liabilities.

Therefore, currency hedging is used by organisations to reduce such risks when conducting business internationally. However, a lot of corporate FX hedging programmes are reactive rather than proactive. The typical process at many companies involves the execution of FX transactions by individual business units on an ad-hoc basis, with contracts executed for specific payment or collections. This decentralised process often leads to higher costs and increased risks.

By clarifying what the organisation is trying to achieve and understanding its true risks, across all of its currency pairs, it will be well placed to establish or revamp a currency hedging programme.

Businesses should speak to an FX expert that can help their business to develop, and implement, FX hedging strategies in line with their ongoing trading activities. Using a currency specialist can provide a personal, tailored service that may not always be offered by a bank.

It is important for a client to be understood and for an FX company to monitor the currency markets on their behalf, providing specialist guidance aimed at facilitating informed decisions around the optimum timing of international transfers. Using dedicated experts can also help a business to understand which FX products best suit its requirements.

Using the up-to-the-minute insight that FX specialists can provide informs companies of the driving forces affecting the currency markets. This can ensure clients are provided with crucial information in a timely fashion. Armed with this knowledge, businesses should be well equipped to make more-informed decisions regarding their hedging strategies and, ultimately, mitigate losses that may be incurred by exposure to FX market volatility.

The new year has signalled a shift in momentum, as speculation surrounding the likelihood (or unlikelihood) of a UK interest-rate hike began to weigh on the pound

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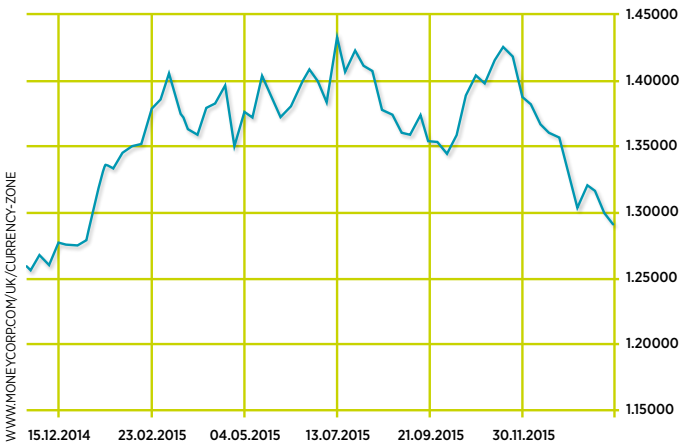

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Out of pocket

WORKOUT PROCEDURES HAVE MOVED ON SINCE THE FINANCIAL CRISIS, BUT CORPORATES STILL NEED TO KEEP A WEATHER EYE ON THEIR EXPOSURES AND THOSE OF BUSINESS PARTNERS. NICK HOOD EXPLAINS WHAT TO EXPECT WHEN LOANS GO BAD

No business is an island these days – one enterprise's problems ripple out across the commercial pond when financial stresses threaten its survival. They wash up not just on the shores of its lenders, but also affect its many other stakeholders, whether they are customers, suppliers, credit insurers, shareholders or employees.

As a result, those who are responsible for an entity's cash resources, liquidity and risk control need eyes in the back of their heads and a clear understanding of what is likely to happen if their own funders or those of a key business partner become concerned about their exposure.

Once upon a time, the fear would be that a secured lender would step in to take control of the situation. More often than not, this would take the form of first commissioning an independent review of the financial situation, then triggering a formal insolvency procedure, ensuring the appointment of its favoured professionals and calling all the shots to maximise its recovery – even if this might be to the detriment of the prospects for a rescue of the business and represent a cost to unsecured creditors or dependent customers.

Since the global financial crisis, however, the lender workout world has been transformed and not remotely in the way expected by pundits. Instead of the traditional initial rash of formal insolvencies, followed later by a higher peak caused by working capital starvation as growth returned, insolvency statistics around the world have spiralled steadily downwards since 2009. The corporate failure figures for Q4 2015, recently published by the UK's Insolvency Service, were at levels last seen in 1998, for instance. Insolvency professionals around the world are seeing a similar downturn in their workloads.

'Zombie' companies

At the same time, the 'zombie' company phenomenon has grown to unprecedented levels. Research published in late 2014 by the corporate financial health-monitoring firm Company Watch revealed that there were 240,000 companies in the UK with balance-sheet deficits of more than £5,000, which represented a staggering increase of 219% since 2009. These are not just overstretched small businesses. Their combined shortfalls totalled £72bn, up 231% since 2009, meaning that the average shortfall was some £300,000.

Here, too, this is a worldwide problem. Among the 500 biggest companies by sales in South Korea, 85% earned operating profits in 2014 that were below the level of their interest liabilities.

SHUTTERSTOCK

Why are insolvency numbers falling and why are so many apparently unviable companies being allowed to struggle on? The sustained ultra-low-interest-rate environment continues to be a key driver. Another factor in some jurisdictions has been the reputational damage suffered by banks and financial institutions because of their perceived role in precipitating the global financial crisis. Bankers are understandably reluctant to be accused of pushing businesses into insolvency, especially when depressed asset values make it unattractive to trigger defaults and crystallise losses against their collateral.

Even if a return to rapid growth or a rise in interest rates might change this scenario, pushing up insolvencies and reducing the zombie army of the walking corporate dead, other pressures will continue to curb the role of lenders in taking the lead when a borrower is under pressure.

If a return to rapid growth or a rise in interest rates might change this scenario, pushing up insolvencies and reducing the zombie army of the walking corporate dead, other pressures will continue to curb the role of lenders

In just the past six months, a dozen countries have either announced or implemented significant changes to their corporate insolvency regimes, including major economies, such as Australia, India, France, South Korea and the UK.

A core objective of much of this rush to reform has been to limit the power and influence of secured lenders, and enhance the rights of unsecured creditors, as well as to encourage rehabilitation and limit the use of value-destructive liquidation procedures. This is not to suggest that secured lenders will not have any say in how struggling companies are dealt with; instead, they are likely to play a far-less-assertive part, while continuing to influence in a more consensual way how the process works and, vitally, how it is funded. There will be more seats at the workout table, but lenders may well act as the chair of discussions, or perhaps as mediator.

What drives behaviour

So, if a loan has gone sour at a business partner or other related party to your business, it is important to know that, in any event, the behaviour of lenders when their exposure is at serious risk is driven by a wide range of both old and new factors, some commercial and others more psychological in nature. The interplay of these in any particular situation will vary according to the size and the culture of the financial institution. The major international banks have sophisticated workout units with established procedures, although not necessarily in every jurisdiction in which they operate.

Not everyone will agree with the decisions these units take, least of all those borrowers foolish enough to forget that using external finance implies that one day they might be asked to repay the money. But these decisions will usually be based on a rounded consideration of all the pressures affecting a business and a deep well of experience on which a judgement about the best way forward can be based. Nevertheless, the call made by a lender will reflect its own interests first and foremost, as it should. Other stakeholders' agendas may be taken into account and will be accommodated whenever possible.

These specialist units are not simply financial hatchet men, far from it these days; they are turnaround and restructuring experts and have seen it and often done it all before. Some are even incentivised to return a problem credit to the 'good bank' side of the institution, rather than just find the least-expensive exit route. Equally, some 'good bank' executives are incentivised to hand an impaired credit to their workout unit for the appropriate intensive care. But to an outsider, some of the decisions will seem brutal because, quite rightly, staff members have no emotional attachment to the debtor or to the lending.

The more challenging scenario is when the troubled finance has been provided by a smaller institution with limited workout expertise and resource or, worse still, by a non-financial source, such as an individual associated in some way with the borrower. Here, there is uncertainty on all sides and often some pretty toxic psychology, usually based on inexperience and fear. It can lead to irrational decisions and situations that rapidly spiral out of control.

How should a stakeholder react?

The first essential is to get a seat at that proverbial workout table, preferably one close to the chair. This means establishing a dialogue with the lender and other stakeholders as early in the process as possible. This can be achieved either through threats or by offers of support, usually best by a judicious mix of the two techniques. This means understanding where the power in the situation lies and what levers you can pull to be 'in the game'.

Other stakeholders will have professional advisers (either disclosed or behind the scenes); so must you. They should be wise in the ways of the workout and insolvency world, which has its own mafias and pecking orders when it comes to influence. Even in the largest and most-sophisticated jurisdictions, this is a small world where most professionals know each other and many owe each other favours. It is also a world where individuals matter more than firms.

Speed of reaction is vital. The sooner you engage with the problem, the better prepared you can be for the fight ahead. Equally, the earlier you bring in your own specialist advice, the fewer the chances that in the first skirmishes you will inadvertently put yourself at a serious and potentially fatal disadvantage. Needless to say, doing nothing is the highest risk strategy of all.

Thankfully, restructuring has come a long way from the dark days of even 10 years ago. Engage with the process positively and professionally, and the outcomes can be surprisingly good.

Nick Hood is a business risk analyst at Opus Business Services Group

IMAGE SOURCE

Plus ça change

GEOPOLITICAL AND MARKET RISKS MAY FLUCTUATE, BUT THE CHALLENGES FACING TREASURERS REMAIN FAIRLY CONSTANT. SJOERD VAN ZOELEN AND MARK VAN OMMEN REPORT

The world is changing rapidly. Technological developments succeed one another at an unparalleled pace, and have a bigger impact on our lives than ever before. On a daily basis, we read about turmoil within financial markets – including the steep drop in oil prices, the introduction of the famed circuit breakers on the Chinese stock market and ever-present speculation about upcoming interest-rate hikes. On top of that, we have political uncertainty, the refugee crisis and the tense relationship between Russia and the West, for instance. However, in the world of treasury, most of the key treasury trends and developments for 2015 are of continued importance in 2016.

Although we see a number of topics remaining high on the agenda of a corporate treasurer each year, we have identified five key trends for 2016:

- Managing uncertainty;
- Creating transparency, triggered by new regulation;
- Business integration;
- Exponential technology; and
- Centralisation, simplification and virtualisation.

Managing uncertainty

The first trend that treasurers will need to deal with this year is rising uncertainty in the world. Whether it is the increased threat of terrorism, the geopolitical turmoil or the growing prevalence of cybercrime, multinationals face a great deal of upheaval. And these operational risks can readily become financial risks and find their way to corporate treasurers' desks. If, for example, the fight against terrorism were to cause European borders to close, companies that trade across those borders will be seriously impacted. Incidents of cybercrime seem to occur ever more frequently. If big tech companies such as Twitter are subject to cyberattacks, stock exchanges and banks are unlikely to remain immune, particularly given the sheer prevalence of electronic payment and collection systems.

Higher volatility in financial markets undoubtedly needs attention from the treasury department in 2016 as well. The highly unpredictable character of emerging markets and the volatility of currencies, including the Brazilian real, Russian rouble and Turkish lira, to name a few, mean that corporates have to address the way they do business and determine to what extent they can create natural hedges. In cases where that is not possible, treasurers will be closely monitoring and seeking to manage their positions.

Creating transparency

Triggered by new regulation, we see corporates pushed towards ever greater levels of transparency throughout their finance department. The two major regulatory changes prompting this transparency creation are: 1) The Organisation for Economic Co-operation and Development's (OECD's) Base Erosion and Profit Shifting (BEPS) project, and 2) The new standard from the IASB, IFRS9, *Financial Instruments*.

BEPS seeks to address corporate tax strategies that try to exploit gaps and mismatches in tax regulations (ie companies try to allocate profits to low tax regimes). The initiative consists of 15 action points. Not only should these actions lead to a limitation in BEPS, they will also create more transparency within corporates. Intercompany finance activities, in particular, should become more transparent.

Because interest on debt financing is usually tax-deductible, a corporate might benefit from allocation of interest expenses in a country with a high tax rate, while having the interest income taxable at a low rate. The action plan of the OECD will restrict interest deduction in certain situations (for

example, within 'hybrid mismatch arrangements').

While IFRS9 does not become effective until January 2018, it is already seen as a hot topic in treasury. IFRS9 will replace IAS39, *Financial Instruments: Recognition and Measurement*, and shall focus on classification and measurement, impairment and hedge accounting. In particular, the focus on impairment will have an impact on the transparency of corporates. For now, impairment models under IAS39 are subject to *incurred* losses, which means that there is no monitoring of losses that might occur in the near future. With the new standard, the impairment model will look at *expected* losses instead. As a result of this rule change, corporates will have to become more open about future expected losses.

Business integration

We see a trend among corporates towards greater interaction and cooperation between treasury and the core business. As a result, we can expect treasurers to be better enabled to identify, measure and manage financial risks – whether FX risk, interest-rate risk, commodity risk or credit risk. For example, more integration enables treasurers to mitigate financial risk arising through the supply chain or from the business's customers. These hedging solutions are often overlooked in organisations where the treasury department is disconnected.

Another way for multinationals to mitigate financial risk is to look at the geological footprint of the business and opt for a strategic initiative. If a corporate does not necessarily have to be located in an emerging market, there might be merit to a strategic shift of part of the business. In that way, a multinational can manage its currency exposure and reliance on derivatives. It might also be possible to create a natural hedge. For example, a corporate could try to buy its supplies in the same currency as the one in which it sells its products. This structural solution is increasingly being seen as an alternative to engaging in financial derivatives.

Increasing integration between the treasury department and the core business not only improves financial risk management, but makes the finance organisation more versatile. Combining the financial market knowledge of the treasurer with the business knowledge of other departments, better positions the company to react to changing market circumstances.

More than ever, the financial market knowledge of the treasurer will be called upon to steer the business through unpredictable and volatile times

Exponential technology growth

Big data, of course, has been a hot topic for a while, and not only within treasury. Although this subject is not new, we do think that it should be high on the agenda of corporate treasurers in 2016. We see an increasing demand among corporates for advanced real-time business intelligence solutions.

Technological developments related to big data can help the corporate treasurer make a better, more integrated and more thorough analysis of liquidity, risk exposures, treasury performance and other treasury activities. Where big data can be seen as the technological development tool that ensures data is available for analysis, business intelligence can be classified as the means to presenting and visualising the analysis. To put it another way, business intelligence can turn big data into scalable reporting and visualisation solutions, enabling real-time reporting of key performance indicators to senior management.

Another key trend in the technology space is the increasing presence of fintech companies, addressing very specific requirements for their customers. More and more corporates are electing for a central enterprise resource planning system covering core functionality, supplemented with fintech systems for specific areas, such as working capital management, cash-flow forecasting or treasury operations performance. Two other developments that we see continuing into 2016 are the move from locally installed systems to Software as a Service and the maturing of so-called 'payment hubs', in which bank connectivity is centralised by implementing SWIFT or a similar solution.

Centralisation, simplification and virtualisation

Lastly, we see increasing centralisation, simplification and virtualisation. Although centralisation and simplification are not recent developments in the field of treasury, they remain hot topics for 2016. Corporates continue to shift activity towards shared service centres and increasingly for front-office functions, as well as back-office operations, leaving treasury departments scope to focus on more strategic, value-added activity.

A good example of simplification and virtualisation is the increasing popularity of virtual accounts. These can either be used for customer reconciliation or to support receivables on behalf of structures. The former can help a corporate to increase automatic reconciliation rates for customer receipts and thereby ensure customer credit remains available to continue the sales process. The latter can help a treasury department to increase the level of centrally controlled cash and reduce the number of physical bank accounts required.

While not new, the trends of centralisation, simplification and virtualisation are key enablers to a huge number of financial and qualitative benefits. On top of that, they enable the treasurer to focus on their role as a strategic, value-adding business partner to the business.

If these key trends make one thing absolutely clear, it is that 2016 will be an exciting and challenging year for the corporate treasurer. More than ever, the financial market knowledge of the treasurer will be called upon to steer the business through unpredictable and volatile times. The treasurer will also need to be a regulatory, accounting, geopolitical and IT expert.


Sjoerd van Zoelen is a consultant; and **Mark van Ommen** is a director at Zanders

Warning: evolution needed

FINTECH, APPLE, REGULATION – THE THREATS LINED UP AGAINST THE MAINSTREAM BANKING SECTOR ARE PERVASIVE AND FORMIDABLE. TIME FOR A NEW APPROACH TO CUSTOMERS, SAYS MICHAEL BARRINGTON-HIBBERT

As banking consumers, we shop around for the best deal. We may have a current account with one provider; an ISA and mortgage with another; and savings, loans and investments with different providers again. We know that it is prudent to review our financial management regularly. So, why are corporate banking trends behind the curve?

The democratisation of the financial services sector – mainly due to the accessibility of information online – has introduced the notion of a 'shared economy'. Customers put their trust in independent and niche companies more than ever before; we know how to do our own research and due diligence.

These consumer banking trends have had a knock-on impact on the corporate banking and investment market, but many banks have been slow in responding to market needs. The result is that some former market leaders are finding themselves under threat from challenger brands coming into this sector.

Loyalty for one single provider is diminished due to the ever-growing choices we are offered as individuals, and the same is true for businesses and corporations, irrespective of long-standing relationships with banks. Many of the corporate and investment banks that have continued to stick to traditional product offerings and service experience are now finding themselves under pressure due to changes in client appetite.

With continued and sustained low interest rates, de-risking and the threat of challenger brands eroding their market share, many of the corporate banks are now looking to define their own unique and differentiated strategy in order for them to remain relevant. Recent research suggests that, by 2020, players in alternative banking will be worth €7bn, offering customers a suite of products and services tailored to their specific needs. Corporate clients will be able to cherry-pick services from

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Corporate banks are ready for increased debt-market pressure throughout 2016

multiple suppliers, just as we do as consumers.

In addition to new products and services, banks also need a new style of leadership to drive new and evolving business models, identifying new markets and delivering new services: the ideal candidates are hybrid bankers, who possess not only leadership qualities, but a high level of experience in risk management and a broad understanding of the multitude of credit products, derivatives and enhancements that sophisticated corporate clients want and expect. Importantly, candidates must also be willing to embrace change. This type of talent comes at a premium, which is evident in the aggressive recruitment strategies we've seen in 2015 and highlighted in our *Corporate Banking Review Study for 2015*.

Each year, we interview more than 400 corporate bankers who work for the top 10 ranked UK corporate banking franchises in London. The 2015 study shows that there is a direct correlation between a bank's products and services, and how it compensates its coverage bankers. The study also shows that managing directors of the top five banks are being offered, on average, a 38% increase on salary packages to join a challenger bank. That's a hugely more competitive landscape on talent acquisition, and we predict that the war on talent in 2016 is only set to intensify.

The rise in executive pay is set against a starker backdrop of banks' compliance demands. Banks are not only having to pursue robust systems and processes to grow profitability, but also to demonstrate greater accountability as a result of tighter compliance regulation. Too much attention has been placed on 'running the bank' and maintaining the status quo rather than on innovation and 'growing the bank' and its products and services.

Corporate banks are ready for increased debt-market pressure throughout 2016. It is therefore critical that the hiring strategies of UK corporate banks remain robust to mitigate against increased stresses that this environment will bring.

Corporate clients and banks are also finding that they can no longer wholly depend on long-standing institutional relationships.

The UK government's current focus on financial inclusion for all represents an additional set of competitive pressures; especially targeting lower-income citizens. Financial inclusion not only helps individuals and their families, but it can also be a powerful driver of economic growth. The banking changes we are seeing year-on-year, particularly around digital access and mobile banking, have the potential to usher in a new era of financial inclusion and enable mobile money, branchless banking and unimaginable innovation. These agile new providers are flooding into the market to respond to an as-yet unmet demand. Nonetheless, it is still the case that two billion consumers worldwide currently do not have a bank account. Instead, they use on average 14 different financial services, and a staggering 91% save via informal systems. Are the corporate banks ready to serve these new, divergent breeds of financial customer?

As banks continue to retrench from regions or sectors where they are unable to meet specific demand and revaluate their operational strategies, they will need to be able to rely on their personnel more and more to deliver evolving products and services.

Michael Barrington-Hibbert is CEO of Barrington Hibbert Associates and oversees the firm's financial services practice

STAYING RELEVANT – A CORPORATE VIEW

It is clear that the digital revolution has caused significant disruption in the retail banking space, particularly consumer payments and lending. A plethora of new entrants have seized the opportunity to transform the customer experience. Challenger banks will hope to evolve to the corporate space; however, they are unlikely to be of significant relevance. Hefty capital requirements will also hamper their ability to effectively compete with traditional lenders.

The real threat to banks comes from the non-bank players. In the payments space, Amazon, Apple, Google, Microsoft, et al, bring serious and sustained competition with a loyal and digital-savvy customer base.

The banks have always invested in technology; however, the regulatory burden and the cost of maintaining legacy systems results in an inability to match the pace of change of the more nimble fintech companies. They have to change and be able to continually innovate or risk becoming marginalised to simply providing the pipes for others to use, resulting in falling profits and a real lack of opportunities to generate additional revenue.

The banks need a digital strategy to remain relevant – and how effectively they utilise new technology either via acquiring or partnering with fintech will determine who remains standing as we see further consolidation in the banking sector. British American Tobacco already partners with fintech companies to support treasury operations and e-commerce while currently assessing providers in the trade finance space. Over the coming years, we hope to see the banks make the necessary investment to support the domestic payment modernisation currently under way across the world. While we want real-time payments, they can't just be fast, they have to address concerns around reliability, risk, security, compliance and enhanced automation. We also expect significant improvements in cross-border payments, with fintech again leading the way. Distributed ledger technology is a game changer and it is reassuring to see the banks now starting to make the necessary investment and reassessing their approach to payments. Those that can commercialise their strategy and invest in digital infrastructure will be the clear winners in the long term.

Neil Wadey is group treasurer at British American Tobacco

CRUDELY PUT

THERE ARE COMPLEX PRODUCTION AND SUPPLY CHAINS WITH OPAQUE IMPLICATIONS FOR PRICING AND HEDGING – AND THEN THERE IS THE PETROCHEMICAL INDUSTRY. GARY SLAWTHER THROWS SOME LIGHT ON THE SUBJECT

As a parent, there comes a stage in life where our children ask us the question we've always dreaded, but know will be innocently asked: "Daddy, where does polyethylene terephthalate (PET) come from and why would this concern a treasurer?" A good question and a testing one.

The petrochemical chain is elaborate and highly interconnected, and there are good reasons for treasurers to get to grips with its main features.

Firstly, there is a common misconception that the pricing of petrochemical products is entirely linked to the price of crude oil. If only life was so simple. The petrochem supply chain is complex and the determinant of pricing at each link in the chain, for both inputs and outputs, is also affected by supply and demand constraints and surpluses. Each link has its own microeconomic dynamics.

Secondly, the chain reacts differently to input prices, depending on the rate of change in prices and, ultimately, rate of change in the price of crude. In other words, there is no constant correlation between feedstock prices and crude oil, but, in essence, a variable correlation. This makes finding a market hedge for the various petrochemical products near impossible.

Generally, the faster the rate of change in crude oil prices, the greater the correlation of prices down the chain. For example, when the price of crude falls rapidly, as it is did in Q4 2014, then feedstock prices of paraxylene (PX) and purified terephthalic acid (PTA) and, ultimately, PET prices, all moved in around a 98-99% correlation to crude. The normal correlation is around 60%.

The petrochem chain

First of all, let's look at the petrochem chain in more detail. Crude oil is extracted and transported to the refinery. Of the refinery's output, over 90% is gasoline and other fuel products (such as diesel, fuel oil, aviation fuel), plus gases, coke and asphalt with well below 10% used for petrochemical feedstock. So, petrochem products aren't really at the heart and soul of the refiner's business.

Hence, if demand for fuel, in particular gasoline, goes down, then the refinery may reduce production and that can drive a fall in oil prices. So, even if demand for products at the end of the petrochem process, such as plastics and synthetics, doesn't decline, the availability of the raw material goes down. Therefore, prices of petrochem feedstocks can go up, while oil is coming down.

Another feature of the chain is that feedstock can be used for different products. The next stage of the process is for the petrochem feedstock, mainly heavy naphtha, to go into the reformate pool, and then on to aromatics separation. Aromatics (not as attractive as they sound) are chemicals derived by two routes: (1) The high temperature 'steam cracking' of heavy or light naphtha; and (2) The 'catalytic reforming' of heavy naphtha. Separation yields the stable molecules of toluene, benzene and mixed xylenes.

Which of those three chemicals is produced depends on which can be more easily sold or commands a better price and margin. Benzene is used to produce polystyrene

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and nylon. So the more demand or better prices for benzene, then the less availability of mixed xylenes, which will then start to push the price of mixed xylenes back up. The mixed xylenes lead to the main feedstock for my PET.

Tracking the mixed xylenes downstream, now we have the price of crude oil, demand for gasoline and relative pricing of the aromatics to contend with. The mixed xylenes are now split into PX and metaxylene (MX). PX is then used to manufacture the main feedstock for PET, which is PTA.

PTA pricing

Generally, the petrochem supply chain prices on a 'cost plus' basis, with the cost being the feedstock price and the plus being the conversion cost and profit margin. The lower a producer can keep their conversion costs, the higher the profit element.

The economics work so that the plus is the marginal cost of production of the last, and usually highest, cost supplier to satisfy demand. For example, let's say productive capacity around the world for a particular chemical is two million metric tonnes (MT) per month, the cost per tonne of its feedstock is $600/MT and the delivered, direct, cash-conversion cost ranges from $50/MT for the most efficient producer to $200/MT for the least efficient with all producers on a sliding scale. If demand is 1.6MT/month, then the market will buy its marginal MT at a conversion cost of $160/MT. That means the most efficient producer makes a profit of $110/MT, the marginal producer breaks even and the least efficient producers either don't make anything or produce at a loss of up to $40/MT.

If you notice, the conversion cost referred to is only the direct cost of production and the logistics cost. This is because as long as the price at least covers the direct cost and makes a contribution to overheads, then it is worth producing, ie produce until marginal cost equals marginal revenue.

Of course, as industry use starts to approach 100%, the price goes up. That sales price is the next player in the chain's purchase price. So what happens if PX, for example, has limited production capacity, but PTA has a lot of capacity? Well, the model holds true. The PX producers will make good money through scarcity of demand and pricing at the cost of the highest cost producer, whereas the PTA output will price at the cost of one of the lower cost producers.

Notice the price of crude has little impact. That was someone's input cost higher up, but now I'm faced with production and supply constraints or surpluses, competing uses for feedstocks and relative costs of peer group producers. Of course, when the price of crude hits the news, everyone along the supply chain wakes up and either rushes to buy, offering good prices to buy now (a classic inflationary market) or realises there's no need to buy now or pay today's prices because costs and prices will soon come down (a classic deflationary market).

So how do I, as a treasurer, manage this? The first stop is, as always, the natural hedge. Make sure there is no timing difference between the time raw materials are priced and the time PET is priced. In terms of currency risk, I do have the benefit that the petrochem supply chain, outside the EU, is denominated in $, so the vast bulk of my sales and purchases are in $, with only minor exposures to € and £.

Time and distance

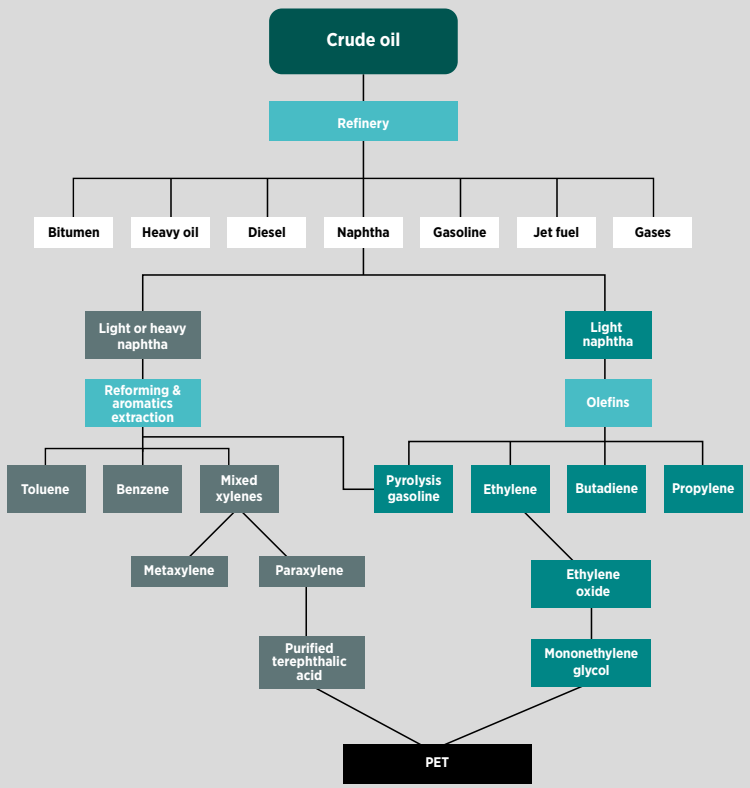
On top of commodity and currency risk, I also have liquidity. The petrochem supply chain is not just lengthy in the number of links, but also in terms of physical distance and time. Oil goes from the oilfield, say, in Saudi Arabia, to a refinery, which is best placed close to its primary market, say, China. The refinery carries out aromatics separation through to PX and PTA, and perhaps supplies customers in Korea. The PTA is then shipped to me in Oman, turned into PET and shipped to a packager or preformer in California, where it is then converted into packaging before going to a packager in Mexico, from where it is shipped to Tesco in Warrington, where my wife buys it, puts it in the fruit bowl, chucking the packaging in the recycling bin two minutes later.

That whole chain (including the last two minutes) can take between 12 to 18 months. Nobody wants to pay before they've got their money and nobody wants to take credit risk, so letters of credit (LCs) of up to 180 days stretch along the chain. That is apart from the last parts of the journey after Oman, where suppliers and customers usually operate on (credit-insured) open account.

A final piece of advice would be to be aware of the liquidity risk and the need for very sizeable non-funded (usance or sight) LC facilities.

> The faster the rate of change in crude oil prices, the greater the correlation of prices down the chain

PETROCHEM SUPPLY CHAIN



Gary Slawther is financing adviser to the CEO of Octal and is based in Oman

FAREWELL TO ALL THAT

THE BIGGEST CHANGE TO ACCOUNTING AND REPORTING SINCE INTERNATIONAL ACCOUNTING STANDARDS BRINGS AN END TO OFF-BALANCE-SHEET LEASING ARRANGEMENTS – AND CORPORATES WILL NEED TO PREPARE. HENRY WILSON EXPLAINS

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In January, the IASB issued IFRS 16, *Leases*, the long-awaited new accounting standard for leases. It supersedes IAS 17 and will be effective for annual reporting periods beginning on or after 1 January 2019. As anticipated, lessees will no longer distinguish between operating leases and finance leases, and will report leased assets on balance sheet, essentially treating all leases as finance leases.

Lessor accounting will be largely unchanged, aside from the impact of revised guidance on lease definition and certain additional disclosure requirements. Later this year, the IASB's equivalent body in the US, the FASB is expected to issue a new US accounting standard for leases, broadly aligned with IFRS 16, but retaining the distinction between operating leases and finance leases for profit-and-loss and cash-flow reporting.

Lease definition

IFRS 16 defines a lease as a contract that 'conveys the right to control the use of an identified asset for a period of time in exchange for consideration'. This is similar to the current definition, set out in IAS 17 and interpreted in IFRIC 4 (a document produced by the International Financial Reporting Issues Committee), but IFRS 16 provides new guidance on the concept of control as follows:

A customer has the 'right to control the use of an asset' if:

- the customer has the right to obtain substantially all of the economic benefits from use of the asset; and
- the customer has the 'right to direct the use of the asset'.

A customer has the 'right to direct the use of an asset' if:

- the customer has the right to direct how and for what purpose the asset is used; or
- decisions about how and for what purpose the asset is used are predetermined and:
  - the customer has the right to operate/direct operation of the asset; or
  - the customer designed the asset in a way that predetermines how and for what purpose it will be used.

An asset is an *identified asset* if it is explicitly or implicitly specified in the contract. An asset will not be an identified asset if the supplier has a right to substitute the asset, and exercising that right is both practically feasible and of economic benefit to the supplier.

An identified asset must also be physically distinct; the floor of a building could be an identified asset, but not capacity in a pipeline.

As with IAS 17, certain types of leases are excluded, such as exploration leases and leases of intangible assets.

The vast majority of arrangements, which are currently classified as leases under IAS 17, are expected to be leases under IFRS 16.

Lease payments include: fixed (or in-substance fixed) payments; payments that vary with an index or benchmark rate; the cost of exercising a purchase or termination option if reasonably certain to be exercised; and expected payments under residual value (RV) guarantees.

Lease term is the non-cancellable period together with any periods covered by an extension option reasonably certain to be exercised by the lessee (or a termination option reasonably certain not to be exercised).

Reporting under IFRS 16

Under the new standard, leases will be reported on balance sheet as a right-of-use asset ('lease asset') and a lease liability. For leases of low-value items (indicative threshold $5,000) and leases whose term is one year or less, lessees may elect *not* to apply the new requirements and simply recognise lease payments as an expense over the lease term.

Lease assets will be evaluated as the present value of the lease payments discounted at the interest rate implicit (IRI) in the lease, or, if that cannot be determined, by the lessee's incremental borrowing rate (IBR), being the rate of interest the lessee would pay to borrow over a term similar to the lease term and with a similar security.

Lease rental profit and loss will be split into depreciation and interest expense. Depreciation will typically be straight-line, but interest expense, and therefore, total lease expense, will be higher at the start

of a lease and lower at the end (see Diagram 1, Chart 1). Over the term of a lease, the total expense recognised will equal total lease rental, and so for companies with a portfolio of evenly distributed leases, IFRS 16 will not impact lease expense.

Lease rental cash flows will be split into interest paid and debt repayment. At the start of a lease, when interest is higher, debt repayment will be less than depreciation and so the value of the lease asset will be less than the amount of lease liability. Only at the end of the lease will the value of the lease asset equal the value of the lease liability (see Diagram 1, Chart 2). So, for companies with a portfolio of leases, at any point in time lease liabilities will exceed lease assets and equity will be reduced under IFRS 16.

Impact on key metrics

IFRS 16 will have a significant impact on the balance sheets of those companies with a material amount of lease commitments – for a sample of 14,000 listed companies, the ratio of the average present value of future lease payments to total assets was 5%, for airlines and retailers it was greater than 20%. The impact on key financial metrics is shown in Table 1, below.

Rating agencies already treat operating leases as financing and adjust cash flow and debt accordingly. IFRS 16 will allow lease commitments to be evaluated with greater precision, which for many companies will actually improve rating agency metrics.

DIAGRAM 1: LEASE RENTAL

Chart 1: Lease expense profile

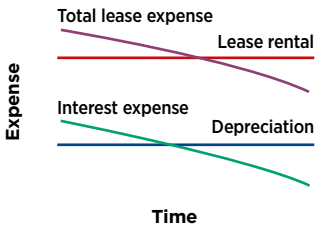
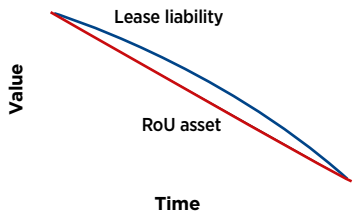


Chart 2: Lease asset and liability profile



Transition rules

IFRS 16 will apply from the date of initial application (DIA), which is the beginning of the first annual reporting period starting on or after 1 January 2019. For contracts that are already in place at DIA, companies may elect to continue to apply (to *all* such contracts) IAS 17/IFRIC 4 to identify leases.

Companies may also elect to apply, to their portfolio of leases, a full retrospective approach (ie as if IFRS 16 had been in place in prior reporting periods) or a modified retrospective approach with the cumulative effect of applying IFRS 16 recognised at the DIA.

Under the modified retrospective approach:

- Comparatives are not restated;
- Lease liabilities are measured at the DIA as remaining lease payments discounted at the lessee's IBR;
- Lease assets are measured at the lessee's choice and on a lease-by-lease basis at:
  - An amount equal to lease liability (adjusted for any prepayments or accruals); or
  - An amount calculated as if IFRS 16 had been in effect from lease commencement, but discounted using the lessee's IBR at the DIA; and
- Lessees may elect *not* to apply the new requirements to leases that end within 12 months of the DIA.

For practical reasons, many companies are likely to take the modified retrospective approach, calculating lease assets for the more significant leases as if IFRS 16 had applied from lease commencement, thereby reducing lease asset values and future depreciation. Under the modified approach, however, discounting (at IBR) is still likely to be lower than under the full retrospective approach (at IRI).

Actions required

The impacts of applying IFRS 16 are far-reaching and for many companies this will be the biggest change to accounting and reporting since the adoption of IFRS.

Discount rates will need to be derived for new and modified leases, and amounts expected to be paid under RV guarantees will need to be estimated. For leases whose rentals are linked to an index, lease liabilities will have to be recalculated when the index changes.

New processes will be needed, not just to collate the additional information required by IFRS 16, but also to ensure the completeness and accuracy of data that had previously been used only for stand-alone annual disclosure. New software will be needed to hold lease data centrally and to integrate it into general ledger accounting. Systems and processes will need to be able to deal with leases entered into during the transition period, reported initially under IAS 17 and then under IFRS 16.

For most leases, the new rules mean that keeping assets off balance sheet will no longer be a reason for leasing them; leasing will need to be justified in terms of RV risk transfer and/or the cost and availability of leasing as a competitive source of funding. By highlighting the financial commitments made through leasing, the new rules will also encourage companies to reduce these commitments, for example, through short-term leases or minimising the fixed element of lease payments.

Treasury departments will play a key role in modelling the impact of IFRS 16 on financial metrics; communicating these changes to investors, analysts and rating agencies; reviewing the impact on financial metrics in debt covenants; revisiting financial frameworks, including gearing targets; amending governance and planning procedures to accommodate lease capital expenditure and financial liabilities; and revising company-leasing strategies.

TABLE 1: IMPACT ON FINANCIAL METRICS

Metric	IAS 17	IFRS 16	Impact
RCOP	Lease rentals	Depreciation	Increase
Operating cash flow	Lease rentals	Interest paid	Increase
EBITDA	Lease rentals	Nil	Increase
Fixed assets	Nil	PV commitments	Increase
Financial liabilities	Nil	PV commitments	Increase
Equity			Decrease
Gearing			Increase

Henry Wilson MCT works in structured finance at BP

The fine art of negotiation

NEGOTIATING IS ONE OF THE MOST IMPORTANT SKILLS IN BUSINESS. NO OTHER SKILL OFFERS A BETTER CHANCE OF OPTIMISING PERSONAL SUCCESS AND THAT OF YOUR ORGANISATION. STEVE GATES EXPLAINS HOW TO EXERCISE YOUR POWERS

Your negotiations can only progress if communication flows and those who are directly or indirectly involved are allowed to make decisions. Understanding the role of empowerment in your negotiation is fundamental to managing the relationships and communications that stand between you and progress.

However, with empowerment comes exposure, and this brings with it risk. It is this risk that organisations seek to control by empowering individuals with limits, or caps, beyond which they must escalate to higher authority. Too much empowerment and any individual can become dangerous or vulnerable, and so can the organisation they work for.

The complete skilled negotiator will understand empowerment in terms of:

- How it can be used to protect you;
- How it affects your ability to be creative;
- How it affects your ability to build value; and
- How it affects the other party's thinking and behaviour.

Essentially, it is the degree to which you can negotiate and make decisions without having to refer or escalate them to a higher authority. In other words, empowerment relates to the scope and range of variables and the authority within which you have to negotiate or operate. If you regard empowerment as simply a gauge to broaden or narrow your trading opportunities, or to provide 'stop limits' up to which you can negotiate, you can start to get a feel for how empowerment can work *for* you, as well as *against* you.

To negotiate collaboratively requires the scope or empowerment to work with many variables and possibilities. Limiting this, as many organisations do, can help protect you from the escalation and disempowerment tactics sometimes used by others.

Great negotiators tend to be unsung heroes. Great deals become so over time as the contract delivers the value it was intended to offer, rather than necessarily at the time when the deal was completed. Negotiators often work as part of a team, which can involve specialist lawyers, corporate treasurers and others. Because the last person to become involved in the negotiation dealings is the boss, the act of negotiation is usually, and appropriately, delegated further down the

line, further diluting the transparency of who is actually controlling events. And when the deal is done, the need for confidentiality, as well as the need to protect the operations of those companies involved, means that the true facts and figures agreed are rarely publicised to the degree to which you can measure the relative performance of the negotiators involved.

One of my personal experiences as a negotiator involved facilitating a highly charged negotiation between a Japanese electronics company and a trade union in the UK. The level of trust between the parties involved, together with the climate of the meeting and the relationship, was poor, hence the need to bring in a neutral party to facilitate events. On my advice to my client, I was provided with no scope with which to negotiate, which allowed me to focus on the process and not be drawn on specific proposals. My role included helping the parties with establishing solutions, starting with why they thought they could not agree to the terms that had already been tabled.

Most high-profile negotiators tend to be political figures or union leaders, because they use PR as part of posturing during or leading up to discussions. However, these individuals neither work by themselves nor are they fully empowered to negotiate on all issues. Using the press and media is part of how they frame, anchor and publicise their position and progress to those they represent, the parties they are negotiating with and any other third parties.

How empowered are they?

Rushing into negotiations without qualifying whether the other party is empowered to negotiate is a mistake many eager and ultimately frustrated account managers have made. The need to question, qualify and explore requires patience. It is during this phase of initial discussions that the issue of empowerment should be qualified by simply asking: "Are you in a position to sign off the agreement?" or "Who else would you need to consult with as part of signing off this agreement?", or even "What limits are there that might prevent you from signing off the agreement?" All of these questions will help you to decide whether you are dealing with the right person or people.

Being disempowered

We are socially conditioned to conform, and most of us lead our lives respecting the laws of where we live and others around us. Laws provide, in some instances, freedom of movement, for example, effectively empowering us to travel and choose how and where we travel. Laws can also disempower us, in that we may not travel faster than a given speed or, when driving, having drunk alcohol, and so on.

The written word carries an assumed authority in that it has been published. It is designed to be legitimate. In your negotiation, the other party may present you with, say, a price list. Rather than accepting this as it is, you should regard it as their opening position. Different situations require different considerations, yet many will wrongly assume that, not only is the printed price fixed, but the person issuing it is disempowered to negotiate.

The more empowered you are, however, the more exposed you become. You may carry more risk to your business and therefore be accountable for the total impact of your actions. Organisations have a tough challenge in providing a level of empowerment to their employees, which helps the business conduct 'good business', but not with such risks that the 'good business' could be concluded with unintended consequences or unforeseen costs.

Many organisations actively promote business values, such as creativity, entrepreneurship and even empowerment. Yet when negotiating with suppliers and customers, they recognise that there have to be limits within which individuals are empowered to operate, otherwise the business will lose total control of its operation. They operate a disempowered structure to protect their own business operation.

This is an edited extract from: The Negotiation Book: Your Definitive Guide to Successful Negotiating*, 2nd Edition, by Steve Gates (Capstone)*

Steve Gates is founder and director of The Gap Partnership negotiation consultancy

STAGE PRESENCE

A LINKEDIN PROFILE IS MORE THAN A DIGITAL CV. CAREFULLY USED, IT OFFERS A COMMUNICATION CHANNEL BETWEEN YOU AND YOUR STAKEHOLDERS, AND A MEANS OF PROMOTING YOUR EXPERTISE AND THAT OF YOUR ORGANISATION. ADAM GORDON EXPLAINS

As the world becomes more transparent, standing out in the saturated world of social media becomes increasingly difficult. It is now part and parcel of the digital experience to have a carefully constructed social media presence, but there are pitfalls. We've all seen profiles and attempts to foster dialogue online that appear clumsy and contrived. Initiating conversations and nurturing meaningful relationships is challenging and requires a considered approach.

With more than 19 million members in the UK and 400 million worldwide, LinkedIn is a great business development resource. If you want to build influence and become better connected, this is the best place to start. Your efforts will need a strong foundation, however, which means that a great personal profile is key. We have all come across the kind of attempt that causes a raised eyebrow or roll of the eyes. A bad LinkedIn profile is almost worse than not having one at all.

Fortunately, avoiding the pitfalls is straightforward enough. A frequent *faux pas* is a bad profile picture (or no picture at all). A clear and recent photograph of yourself is an important first step; if you have a professional headshot, even better. Complement this with a clear headline that features your job title and includes key words specific to your job description.

The summary section is your opportunity to display your professional highlights; always write in the first person and keep your wording clear and concise. This is also a great section to link to any articles, significant work, events or videos that you're a part of, and is a key enhancement to any individual profile.

It is imperative to take advantage of all the sections LinkedIn provides and to highlight your skills and experience by providing a comprehensive employment history, with start and end dates, your position and a few words on responsibilities and achievements. LinkedIn has its own publisher, LinkedIn Pulse, which provides a highly effective way of sharing content with a wider audience. If time and resources don't allow for long-form content, think about writing personal statuses as a means of drawing attention to pertinent issues and starting conversations with your connections. Remember that this activity should be a two-way street. It is in your best interests to comment on and interact with your connections' content.

Creating a virtual community

Virtual communities are an excellent way to foster a meaningful online presence, as the ACT has done with LinkedIn groups and social media feeds, building up LinkedIn groups with more than 10,000 members and offering curated treasury,

Top 10 social media tips

1. Inspire your team – get everybody involved
2. Build an excellent company profile
3. Optimise your personal profile
4. Create thorough content calendars
5. Identify your total addressable market
6. Continue your relationships offline
7. Consider your brand
8. Cultivate useful tools
9. Be aware of your audience
10. Test, monitor, adapt

Three LinkedIn group fails

1. Over-branded communities
2. A lack of robust content schedule
3. Lack of a strong invite list

risk and finance content. However, be aware that LinkedIn groups need to be curated. In order for a LinkedIn group to thrive, it will need clear guidelines for members on what to post, and what will be removed. You will also need to moderate the group.

Be prepared – this does take time. However, your profile and that of your business can create significant competitive advantage by maintaining your LinkedIn own groups. You can increase trust and develop your reputation as an industry leader by providing a space where like-minded connections can exchange ideas, tips and connections. While this has very quickly become an established way of building influence in your area of expertise, LinkedIn groups often fail.

There are three reasons for this. Firstly, they are often over-branded and are too often a very obvious marketing exercise. This will weaken the group immediately, as people don't like clumsy and overt marketing. Unless you're a widely recognised expert, don't include your organisation's name in the community name. Instead, create a subject-specific name for the community and direct it specifically at the kinds of people you wish to attract. This means that when invitations are sent out, they won't look like spam; recipients know why they have received an invite and how they will benefit from joining your group.

Subtle links to your company can be beneficial. For example, the owner of your community should be the most senior or best-known professional in your organisation. This will give your community credibility and link it, at second glance, to your organisation. Try to also recruit other senior professionals from inside your organisation to act as managers within the community. They may not have to undertake much work personally, but their visible presence will add further credibility. You should similarly invite professionals from outside your organisation to become managers of your community.

The importance of implementing a thorough content schedule

The second reason online communities fail is that groups are often created with good intentions, but flounder without the support of a robust content schedule. The content you share in your group should be relevant, educational, and encourage engagement and discussion among group members. Before you create your group, decide on the kind of content you want to post, the discussions you would like to see evolve and set a timetable for how often you will post. Once you have a plan of action, have a small bank of content already posted ahead of sending your initial invites. A welcome discussion should be the first thing that members see, and it should come from the owner of the community.

From there, work to a schedule to really maximise your efforts. Planning your content allows you to weigh up what will and won't work in the group, allowing you to create tailored and effective posts. You can send an 'announcement' to all members, which they receive as an email once every two weeks. Use these announcements to create some structure to your communications; this will become part of your community's brand and the member experience. At the end of each month, for example, you could send a monthly summary of activity to the community and publicise any upcoming features. Whether you are the sole moderator or you recruit senior members of your business to contribute to the group, a thorough content schedule will facilitate success.

Have a strong invite list

The final reason groups fail is when their sponsors don't do enough to create a strong invite list. There are simple steps to successfully populate your community. Your company database will already contain an instant guest list, so make use of this existing data. Also ensure that you go through your existing LinkedIn connections and invite relevant individuals to join, and ask all appropriate colleagues to invite their relevant contacts from LinkedIn, Twitter or other sources, as well as sourcing potential members you don't know. Remember to promote your group. Encourage the group managers and others in your organisation to mention the community in their online profiles or broadcast your community on other social media channels.

This is by no means an exhaustive list, but these general principles can be applied across various social media platforms. Cross-referencing your social media channels is an invaluable way of earning followers, impressions and engagement – ultimately solidifying your position online. Your content and approach will need to be tailored to the channel that you are posting on. Content that works for LinkedIn will need to be adjusted for Twitter.

Coupling developed best practice with a comprehensive understanding of your industry means that being seen as a reliable and influential social media contributor is an achievable and realistic goal. By identifying your audience, planning carefully and preparing a content calendar, the digital world is your oyster.

> Virtual communities are an excellent way to foster an online presence; LinkedIn groups need to be curated

Adam Gordon is MD of Social Media Search

BEYOND COMPARE

YIELDS AND DISCOUNT RATES ARE TOO OFTEN TANGLED UP. DOUG WILLIAMSON SHOWS HOW TO FIND YOUR WAY THROUGH THE CONFUSION, TO YOUR ORGANISATION'S ADVANTAGE

Most organisations invest or borrow money, or both. An essential task for treasurers is evaluating returns on investments and costs of borrowing, and making comparisons on a consistent basis.

In this article we focus on investments, but the same principles apply to borrowing.

Like with like

Financial markets have evolved in different times and places. For this reason, market quoting conventions differ. Making direct comparisons of headline quoted rates can be misleading. To get the best deal, you need to understand the different quotes.

Be aware to compare

The difference between a yield quote and a discount rate quote is fundamental.

- Yields add on. Yield quotes are applied to the initial amount invested.
- Discounts are taken off. Discount rate quotes are applied to the final repayment amount.

From an investor's perspective, all other things being equal, a given percentage discount rate represents a better return than the same percentage figure as a yield.

Yield starts from the Start

Let's look at a simple example. The starting amount for an investment is £10m. The gain for the single period from the start to the final maturity is £2.5m.

The periodic yield (r) is:
(r) = Gain/Start amount
= 2.5/10
= **25%**

Discount rate goes from the End

Let's turn to a discount rate calculation.

The maturity amount for an investment is £12.5m. The gain for the single period from the start to the final maturity is £2.5m.

The periodic discount rate (d) is:
(d) = Gain/End amount
= 2.5/12.5
= **20%**

Same deal, different quotes

Did you notice that our yield of 25% and our discount rate of 20% both relate to exactly the same deal? £10m is invested now, and £12.5m is repaid at the end of one period, for a gain of £2.5m.

The 25% periodic yield is equivalent to a 20% periodic discount rate.

Bigger gains

All other things being equal, the bigger the gain on the same initial investment, the higher the yield. Confirm your understanding now, by recalculating the results in the table below.

Periodic yield (r) = Gain/Start			
End amount	11	12	12.5
Start amount	10	10	10
Gain (end – start)	1	2	2.5
Periodic yield	**10%**	**20%**	**25%**

Discount down

Now let's recap on discount rates. We've seen that a periodic discount rate describes the same cash flows as a yield quote, but expressed as a proportion of the end amount.

Say the gain on an investment is £1m and End amount is £11m.

Periodic discount rate (d) = Gain/End amount = 1/11
= 0.0909091
= **9.09091% (to the nearest 0.00001%)**

All the discount rates

Continuing with the same investments as in our table of yields, the periodic discount rates are summarised on the next page.

Periodic discount rate (d) = Gain/End			
End	11	12	12.5
Start	10	10	10
Gain	1	2	2.5
Periodic discount rate (to nearest 0.1%)	**9.1%**	**16.7%**	**20%**

Worth bothering about

At first sight, the difference between the periodic yield of 10% and the periodic discount rate of 9.09091% might seem insignificant. However, if our investment amount is large, even very small percentage differences can result in large differences in money terms.

If the periodic yield was 9.09091%, rather than 10%, then the gain on the investment of £10m would be:

£10,000,000 x 0.0909091 = £909,091,
rather than the £1m enjoyed at a yield of 10%

We'd be worse off by **£1,000,000 – £909,091 = £90,909**

All other things being equal, we'd always prefer to receive a discount rate of 9%, rather than a yield of 9%.

Catch of the day?

In practice, we'd be most unlikely to get the benefit of a choice like that for free (see *The Treasurer,* February 2016, page 52).

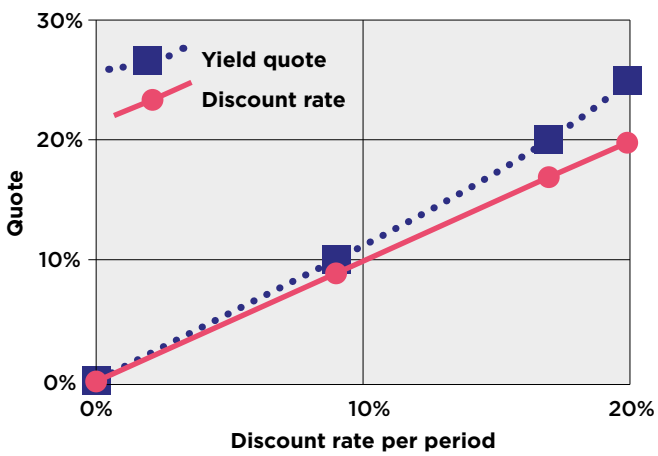
However, we still need to quantify the costs and benefits of different choices like this, in order to evaluate them properly.

Higher or lower?

For the same cash flows, discount rates are lower numbers than yields. This is because discount rates are calculated and expressed as proportions of larger numbers, namely the amounts repaid at the end of the investment.

By the same logic, yields are higher numbers, because they are expressed as proportions of smaller figures, namely the start amounts.

We see these differences in the graph below.



HELP FOR ACT STUDENTS

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

Check it out

Let's confirm our understanding now, using a question based on the Certificate in Treasury Fundamentals (CertTF) syllabus. Try the question before you look at the answer.

CashCo is considering a one-year investment of £20m, which will repay £22.5m at its maturity. All rates are quoted on a 365-day basis.

Calculate: (1) The annual yield; and (2) The annual discount rate.

Answer to question

Thank you for trying that question. Working step by step:

First the gain = 22.5 – 20 = £2.5m

(1) Yield = Gain/Start = **2.5/20 = 12.5%**
(2) Discount rate = Gain/End = **2.5/22.5 = 11.11111%**

What's the saving?

If CashCo had a choice between the same periodic yield and discount rate of 11.11111%, then this would have a big impact on the amount it received from its investment of £20m.

We can work out the difference between these deals and recommend the better one for CashCo, all other things being equal.

Better benefit

We've seen that a periodic discount rate of 11.11111% is equivalent to a periodic yield of 12.5%.

The gain at a yield of 12.5% is:
£20m x 0.125 = £2,500,000

On the other hand, the gain at a yield of 11.11111% is only:
£20m x 0.1111111 = £2,222,222

The benefit of the better deal = 2,500,000 – 2,222,222 = **£277,778**

That's a great return

Invest the time to learn and practise these essential calculations. They will yield a handsome return on your investment.

Doug Williamson is a treasury and finance coach

WHAT **YOU SAY** AND WHAT **THEY HEAR**

Treasury is working ever more closely with other functions, not least procurement. But are treasurers' messages lost in a sea of confusion and miscomprehension? Here, we provide a handy guide to help treasurers appreciate that what they say may not actually be what their audience hears...

What treasury *says:*	What procurement *hears:*
"Hi, Mrs Buyer."	"You're going to hate this, Mrs Buyer."
"I'd like to ask your opinion on a few things."	"It's a done deal. You just have to give it the procurement rubber stamp."
"I've had a pitch from our bankers about some very interesting new products."	"And you're going to be responsible for implementing them."
"Procurement cards sound like a great way of empowering staff..."	"We're basically going to let everyone in the whole company be their own procurement director..."
"...and they also improve spending controls."	"...and you're going to be responsible for it all."
"It also means we can get cash into the pockets of our suppliers more quickly..."	"...without actually paying them more quickly."
"...which is good for our working capital management."	(No idea what this means – it sounds like ancient Greek.)
"There are also some interesting supply chain finance tools that would suit some of our larger suppliers."	(Nope. Still no idea.)
"I'll take you through a flow chart showing how it all works at our weekly meeting."	"You'd better study Finance 101 before Monday."
"But it's quite straightforward."	"Or better yet, get an ACT qualification."
"And it's a value-add we can offer our suppliers."	"It'll take the sting out of paying them later."
"Obviously, we in treasury can help procurement roll it out."	"Obviously, we in treasury are going to meddle in your hard-won supplier relationships."
"I also want to talk to you about the oil price."	"Because I messed up."
"You remember when oil was looking really cheap at $62 a barrel..."	"You remember when you told me oil was going to carry on falling well below $62 a barrel..."
"...and you and I agreed it was prudent to hedge our position..."	"...and I decided to overrule you and buy tonnes of the stuff at $62."
"...Well, the benefit of having cost-certainty is a little outweighed now by the fact that our competitors appear not to have hedged at the same level we did."	"I played poker with company money. I lost."
"So we're going to have to be even keener on managing our cost base."	"So procurement has to find more cost savings."
"But, hey. You're the expert on that."	"You're going to have to save our skin – again."
"My door's always open, so just pop in if you have any questions."	"Send me an email."

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IN THIS ISSUE:

The highlights of the March 2016 issue of *The Treasurer* include: Alison Wilson, head of treasury and governance at innocent drinks, talks about financial management, on page 22. Find out what's happening with growth and unity in Europe, on page 26. How insurers are helping sponsoring companies with their de-risking plans, on page 31. What can you expect when your loans turn bad? Find out on page 34. Learn how social media can work for you, on page 46

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ADVANCED CASH MANAGEMENT | 20-21 April

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"The ACT really knows how to identify the important areas that 'real' people are interested in and then finding the best tutors to deliver the training in a simple, engaging and memorable way - I definitely recommend both the course and the Association!"

Kerri Knowles,
Head of Internal Audit,
Genting Casinos

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