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The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ MAY 2016

"Communicate: colleagues enjoy it when you ask what they are doing"

Andrew Koss, chief executive at Drax Power, on the dynamics of life at the top

PLUS

THE CONTEMPORARY TREASURER
The ACT's independent and comprehensive survey into treasurers' views on their role, corporate financial strategy and business growth

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ACT CONFERENCE 2016

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ACT
LEADING TREASURY PROFESSIONALS

Editor's letter

This is the time of year when the ACT looks forward to welcoming new and familiar faces to its annual conference, being held this year in Liverpool.

Whether you're a delegate coming to take the opportunity to discuss the latest trends in treasury, to catch up with former colleagues or enjoy the thought-provoking speaker programme – and hopefully for all of those reasons – the conference offers a welcoming environment in which to refresh your knowledge and contacts.

Last year's conference in Manchester, for instance, attracted 1,100 delegates from more than 400 companies and 35 different countries – a truly international crowd. This year's event speakers include respected treasurers from multinationals, along with Lady Barbara Judge, chair of the Institute of Directors, economist John Kay and broadcaster Mishal Husain.

This year, we are equipping you in advance of the conference with the ACT's latest research into treasurers' attitudes towards their role and the impact of the treasury discipline on corporate financial strategy and business growth. *The Contemporary Treasurer*, which is the only completely independent and global study of treasurers' perspectives on their role, begins on page 29 of this issue. It demonstrates, among many other notable points, that treasurers are spending increasing amounts of time on higher-level strategic issues and that they are becoming more and more recognised as valued advisers to their boards.

Elsewhere in the issue, business journalist James Ashton talks to Andrew Koss, chief executive at UK power station Drax. Koss, who has held various positions, including treasurer, head of corporate finance and investor relations, took the helm of the power station's treasury function during a hard-fought restructuring exercise. Today, Drax is forging a path towards renewable energy with biomass-fuelled generators, an evolution that has meant an entirely new supply chain and vast capital investment, requiring the support of both lenders and backers. Koss talks about his experiences, and the strong foundation that his treasury qualifications gave him, on page 20.

Staying within the industrial landscape, business journalist Paul Golden takes a look at project finance on page 24 and finds keen capital market appetite for infrastructure exposure. We also take a look at a community housing not-for-profit's transformational treasury management system installation on page 40.

I hope you enjoy the issue.

editor@treasurers.org
Follow us on Twitter @thetreasurermag

THIS MONTH'S CONTRIBUTORS

James Ashton is a freelance journalist and former executive editor of the *London Evening Standard* and *The Independent*. He has also written on business for *The Sunday Times* and *Daily Mail*. Born in West Yorkshire, the Drax power station was a familiar sight for him from the M62. His profile of Drax CEO Andrew Koss is on **page 20**

Dr Amrit Judge is an associate professor of finance at Nottingham University Business School. His research interests include corporate risk management practices, derivatives, measuring foreign currency, interest rate risk and the effect of credit ratings on capital structure. His feature on hedging is on **page 48**

Clive Lambert is director and chief analyst at FuturesTechs, an award-winning independent research house offering technical analysis across asset classes for traders, brokers, hedge funds, risk managers and corporates. His feature on using charts to track currency trends is on **page 50**

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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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Agenda

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WORDS

"Maybe some point down the line there might be a UK-US trade agreement, but it's not going to happen any time soon because our focus is in negotiating with the EU to get a trade agreement done."

US president Barack Obama (pictured above) on the 'special relationship'.

SOURCE: *THE TELEGRAPH*, 22 APRIL 2016

SHUTTERSTOCK

"This supports a wider trend we are seeing where innovation around mobile wallets and biometric payments is fast transforming the relationship between cash and shopping."

Co-CEO of Starcom Pippa Glucklich responds to research that says a third of Londoners believe cash will disappear in 10 years.

SOURCE: *CITY AM*, 25 APRIL 2016

{ CONTEXT OF TREASURY }

UK SMEs FACING MULTIBILLION-POUND CURRENCY RISK AS BREXIT VOTE LOOMS

UK SMEs are proving reluctant to commit to long-term currency contracts amid uncertainty around the upcoming referendum on EU membership.

According to a study from FX platform World First, a combined £35.6bn of FX exposures is potentially at risk from currency movements for the first three months of this year.

Meanwhile, nearly one quarter of UK SMEs (24%) felt negative effects from exchange-rate fluctuations during the period, and 15% said currency volatility had affected the investment decisions that would support growth.

While UK SMEs have traditionally protected themselves with long-term forward contracts to hedge against currency movements, data from the *World First SME Global Trade Barometer* shows a majority bucking this trend due to fears over a UK exit from the EU. In spite of a 75% increase in sterling volatility, many SMEs have only extended the length of their protection by 35% across the same period, leaving many companies unhedged over what is expected to be a time of considerable volatility following the vote on 23 June.

Concerns around currency volatility look set to continue, with 55% expecting continued sterling volatility over Q2 2016.

Jeremy Cook, chief economist at World First, said: "The fear is that, by failing to hedge themselves much beyond 23 June, many UK SMEs are putting themselves at the mercy of large currency swings, which could be detrimental to their business and the wider economy."

While sterling volatility is a continuing challenge, UK-based SMEs expect revenues from exports to continue growing, according to a report from Lloyds Bank. Some 43% of those surveyed grew their exports over the second half of last year, with only 17% seeing a decrease in exports. Lloyds' *Business in Britain* report surveys 1,500 UK companies. Among its findings, 37% of respondents predicted an uplift in sales to Europe.

{ CORPORATE FINANCIAL MANAGEMENT }

Private placement market grows strongly in 2015

Alternative private lending markets continue to make their mark in Europe, according to rating agency Standard & Poor's (S&P's).

According to S&P's second annual league table for private placement deals, 2015 saw a total of €12.8bn in transactions and 146 deals for mid-market companies.

Findings also show issuance of private funding for companies in the pan-European private placement market and German Schuldschein growing 78% to €32.8bn in 2015, up from €18.4bn the previous year.

Alternative European financing markets are, according to the report, growing at the expense of the US private placement market, which lost ground last year. Additionally, overall bank lending volumes also fell. As market participants across Europe work to harmonise private placement documentation, so investors are becoming more familiar with this asset class, the study's authors argue.

In terms of deal volume, Morgan Stanley dominates with €2.2bn placed last year. Crédit Agricole is second with €1.6bn and Rabobank is third with €1.3bn.

Crédit Agricole made 20 deals over the course of 2015, followed by Natixis with 18 deals, and Société Générale, which made 16 deals.

The French euro private placement market remains the largest, with €4.9bn in deal volumes and 38% of total European private placement volume. Belgium has 14% of the European private placement market, while Italy has a 13% share. The UK's share by volume is 7%.

The number of deals above €150m rose from eight in 2014 to 21 last year, representing 46% of total deal volumes for 2015, compared with 28% for 2014.

The volume of deals with longer maturities also grew. Deals with tenors of 11-15 years grew to €0.8bn last year, up from €0.1bn the previous year.

{ FINDINGS FROM THE 2016 DELOITTE SURVEY ON THE IMPACT OF AUTOMATION AND TECHNOLOGY ON THE UK JOB MARKET }

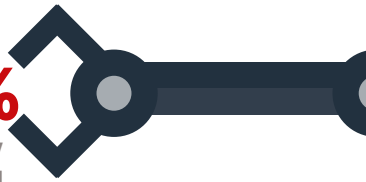
800,000 jobs lost in the UK to automation, but 3.5 million new ones created

£10,000 is the average salary bump for those new roles compared with the lower-skilled routine jobs they replaced

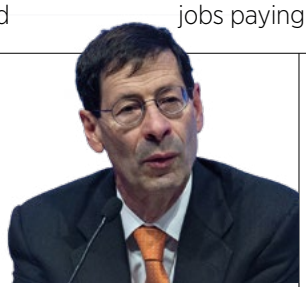
£140,000 is the net boost to the economy from that shift to high-skilled roles

£30,000 jobs paying less than this amount are five times more at risk from computerisation than jobs paying £100,000 or more

11% is the probability of business and financial project management roles being automated



WHAT THEY SAID



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"Growth has been too slow for too long. We definitely face the risk of going into doldrums that could be politically perilous."

IMF chief economist Maurice Obstfeld (pictured above) speaking about global recessionary risks.

SOURCE: *THE WALL STREET JOURNAL*, 12 APRIL 2016

{ CONTEXT OF TREASURY }

Corporate corruption and terrorist finance targeted in wide-ranging Home Office action plan

In wide-ranging changes to the UK's anti-money-laundering regime, regulators and enforcers look set to acquire new powers to tackle the flow of illegal funds.

Described as the most far-reaching changes in a decade, the proposals – set out in a UK government *Action Plan for anti-money laundering and counter-terrorist finance* – include a range of measures to improve the effectiveness of official responses to suspicious activity.

These measures have implications for corporations in both the non-financial and financial sectors.

Watchdogs would be granted new powers to designate a corporate entity "of money-laundering concern", and require that entity's business partners to take "special measures" when dealing with it.

The plan also calls for a reform of the UK's suspicious-activities reporting regime, which currently requires regulated corporate players to flag up any unusual patterns to the National Crime Agency (NCA).

Under the regime, resources for addressing suspect transactions would be improved to include greater information sharing between companies and officials.

Meanwhile, the NCA will receive new powers, such as the ability to issue Unexplained Wealth Orders to those suspected of money laundering.

{ FINANCIAL RISK MANAGEMENT }

Card data primary target for cybercriminals

A forensic study into 2015 online security breaches has found card payment information to be the number one objective for hackers.

In 60% of cases, attackers were after payment card data, according to a survey of hundreds of breach investigations carried out by cybersecurity company Trustwave. Out of those cyberattacks, criminals were found to be targeting both magnetic card track data, coming mainly from point-of-sale environments (POS), and card-not-present data, mainly from e-commerce transactions.

Retailers were the most compromised sector, making up 23% of the investigations, followed by hospitality businesses at 14%, and the food and beverage industry at 10%.

The study also found a shift in the environments and networks under attack. Compromises affecting corporate and internal networks increased to 40% in 2015, up from 18% in 2014. Some 38% of investigations were into e-commerce breaches, compared with 42% in 2014, while 22% were POS breaches. POS compromises decreased 18 percentage points from 2014 to 2015, making up 40% of Trustwave investigations in 2014.

The report reveals shifts in spam subjects. In 2014, pharmaceutical product spam made up almost three quarters of spam messages. However, that dropped to 39% in 2015.

The survey covered security breaches from 17 countries. Some 35% occurred in North America; 21% in Asia Pacific; 12% in Europe, the Middle East and Africa; and 10% in Latin America.

NUMBERS

83.7% – the new high for UK indebtedness as a proportion of GDP expected this year – neck and neck with the US, but fractionally below the average for euro area countries

51 – the number of lenders to be included in the European Banking Authority stress tests later this year, down from the 130 tested in 2014

$18bn – the estimated cost to Volkswagen of the emissions scandal

$15bn – the level of Chinese direct investment in the US last year, a new record high, according to an influential study by the National Committee on US-China Relations and the Rhodium Group

21,000 – the increase in UK unemployment between December and February, prompting speculation that UK employers may be holding off on hiring plans until after the EU referendum

THE STATS

{ KEY FINDINGS FROM THE NINTH ANNUAL AMERICAN EXPRESS SURVEY OF GLOBAL FINANCE LEADERS }

68% of finance executives say they will focus on optimising cash in the business

41% **say strengthening sales in domestic markets will be a priority**

9% is the percentage headcount that is expected to increase

32% will invest in new product or service development

31% **will target production efficiency**

{ AROUND THE WORLD IN 30 DAYS }

BAD DEBT IN CHINA, BREXIT AND THE IMF'S GLOBAL REPORT

China on bad debt alert

Reports that China's banking regulator has introduced new strictures on domestic banks and asset-management companies prohibiting them from drawing up repurchase agreements or other deals are focusing attention on bad debt levels.

According to paperwork seen by the Reuters news agency, the China Banking Regulatory Commission has moved to prevent banks and asset-management companies from deals that would transfer risk or alter the structure of non-performing loans. The measures come as China is struggling with a ¥1.27 trillion non-performing loan exposure.

Bank of England Brexit warning

Key markets that support corporate investment could be destabilised in the wake of a Vote Leave success in the EU referendum, the Bank of England's Financial Policy Committee (FPC) has warned.

In a statement from its most recent policy meeting, the FPC said that "heightened uncertainty" around the UK's territorial status, which has already begun to emerge, will become particularly testing around the time of the poll. In the event of a pro-Brexit result, the Committee cautioned that uncertainty could place a strain on core funding avenues that have already shown signs of fragility.

Saint Petersburg, Russia

SHUTTERSTOCK

IMF issues gloomy outlook report

The International Monetary Fund's (IMF's) twice-yearly assessment of the global economy did little to cheer markets and commentators. The *World Economic Outlook* put its global growth forecast for 2016 at 3.2%, down 0.2% from its January forecast, but is significant because it puts world economic prospects only slightly above the 3% that the IMF has previously referred to as a technical recession.

Most major economies saw their forecasts downgraded by the IMF, reflecting a widespread slowdown across all types of economies. Brazil and Russia are now expected to see weaker performance than suggested by previous predictions. However, the forecast for India remains unchanged at 7.5% and the IMF expects China's growth rate to increase by 0.2% to 6.5%.

{ CONTEXT OF TREASURY }

FINANCE PROFESSIONALS BULLISH ON SPENDING AND GROWTH

Findings from the ninth annual American Express *Global Business and Spending Monitor* saw UK executives reporting that they have plans to increase spending and investment levels by 13% this year – a small proportion, but higher than the 7% in France and Germany, and the 6% in Russia, who say spending and investment will increase.

UK finance professionals are more optimistic than their continental European counterparts about the economic climate and expect greater employment opportunities, according to the survey. It found that 64% of UK finance executives reported increased revenues for the past 12 months, and 75% expect to see economic expansion this year – higher than the global average of 65% reported in the survey and beating the European average of 62%.

However, sentiment among UK and continental European finance executives on plans for spending and investment for the year is muted compared with the global outlook, with UK and European respondents expecting to see significantly less spending and investment than their counterparts worldwide.

Meanwhile, some 87% of executives surveyed worldwide say their companies have plans to increase total spending and investment in 2016. Nearly half (49%) say they are planning increases of 10% or more. However, companies are still taking a cautious approach, with market uncertainty weighing on those plans: 61% worldwide reported that political and economic uncertainty in their own markets will make them cautious about spending.

Investment in employment is also expected to increase. Globally, executives anticipated a 9% increase in headcount over 2016. UK respondents also think they will see a 9% increase, while the average for Europe was 6%. Hiring suitable employees is not straightforward, however. In the UK and Germany companies say their performance goals have been hampered by difficulties in hiring skilled or specialised employees, 62% and 43% respectively.

EMEA bond and loan activity down steeply on last year

Analysis from rating agency Moody's put combined bond and loan issuance volumes for Europe, the Middle East and Africa (EMEA) down 68% for the first quarter of this year compared with the same period in 2015.

Combined leveraged bond and loan issuance volumes for the region totalled $16bn for Q1 this year, compared with $50.7bn last year, although large deals, such as with Virgin Media, Numericable-SFR and Altice Luxembourg, look set to more than redress the balance.

According to Moody's, March saw strong activity in the EMEA high-yield market, with $6.2bn in issuance, making it the most significant month for issuance in the year to date. However, volumes for the month remained 40% below March last year.

Associate MD for European leveraged finance Peter Firth noted that Brexit is increasingly a factor for investors in relation to the high-yield market. UK corporates represent a large proportion of the European high-yield market: 16.7% of European high-yield and leveraged loan issuances since 2010 were generated by UK companies. Moody's believes uncertainty could constrain future issuances in sterling or by UK companies in the near term.

MAKING THE NEWS

G20 leaders hunt issue interest-rate warning

Global financial leaders from G20 nations warned against a reliance on low interest rates as a means of returning a fragile world economy to growth. As a growing number of central banks shift into negative interest-rate territory, the G20 said monetary policy was not a guaranteed measure, according to a report in the *Financial Times*.

At the spring meeting of the International Monetary Fund, finance ministers and central bankers applauded encouraging indicators from China, but said weak productivity and a lack of monetary policy firepower could derail recovery. They also cited potential obstacles, such as the possible difficulty for China as it rebalances its economy, oil prices, disorderly capital flows, the UK's potential exit from the EU and continued difficulties for Greece.

ECB reports easing lending conditions

Meanwhile, the European Central Bank (ECB) has said that companies are seeing improvements in lending conditions in the euro area. In its quarterly *Bank Lending Survey*, the eurozone's central bank reported that conditions for corporate loans have been relaxed and demand has risen. "Competitive pressures and reduced risk perceptions were the main factors contributing to the net easing of credit standards," the bank said.

Saudi turns to global bonds in $10bn deal

In the face of decreasing oil revenue and prices, Saudi Arabia is to raise $10bn from a consortium of global banks. The five-year deal underlines a new dependence on foreign capital and opens the way for Saudi to launch its first international bond issue and marks a significant change in the kingdom's status as it moves from being a creditor nation to a debtor nation.

Global banks, particularly Asian banks, have shown strong interest in the deal, in spite of rating agency downgrades of Saudi Arabia's creditworthiness since successive falls in oil prices.

Argentina sets record on debt sale

In a landmark moment, Argentina has returned to global bond markets with the largest emerging-market debt sale on record. The $16.5bn global debt offering attracted high levels of investor interest, enabling Argentina to both increase the initial size of the deal while lowering yields. Underwriters received more than four times the value of the debt, according to a report in *The Wall Street Journal*. It also marks a change in sentiment towards the riskiness of emerging-market bonds as they seek out yields.

Central Bank of Argentina headquarters, Buenos Aires

HSBC REMAINS EUROPE'S BIGGEST BANK EVEN AFTER MAJOR DISPOSAL

HSBC Holdings plc has held its place as Europe's largest bank by assets for the fourth year in a row in rating agency Standard & Poor's (S&P's) top 50, in spite of the pending sale of its Brazilian interests to Banco Bradesco SA.

London-headquartered HSBC held €2.178 trillion in *pro forma* assets as of April 2015, making it the only European bank with more than €2 trillion in assets. According to S&P Global Market Intelligence, HSBC's assets were adjusted downward by €40.67bn to account for the pending disposal of HSBC Bank Brasil Banco Múltiplo.

S&P's league table of top European banks showed little change at the top. BNP Paribas remains Europe's second-largest bank, with €1.994 trillion in assets, down from €2.392 trillion in the 2014 league table, a decline of 17%. Crédit Agricole rose to third position, while Barclays fell to fifth place.

Deutsche Bank was at fourth place for the second year with €1.629 trillion in assets. Royal Bank of Scotland fell from sixth place to ninth, and ING fell from 11th place to 13th.

Italy's Banco Popolare Società Cooperativa was a new entry to the top 50 list, thanks to a pending merger with Banca Popolare di Milano Scarl, which will add €50.2bn in assets.

German banks feature most heavily in the list. Germany has seven banks in S&P's top 50, while France, Spain and the UK all have six banks listed.

In S&P's league table, metrics were adjusted to take account of all mergers, acquisitions and divestitures, as well as any deals that closed after the reporting period ending April 2015. Assets reported by non-euro filers were converted to euros using period-end exchange rates. The majority of banks were ranked by total assets as of 31 December 2015.

THIS MONTH

FORECASTING AND REGULATION

Brexit continues to be debated and we have issued a Briefing Note (www.treasurers.org/brexit-briefing). Commentators are divided between warning about the uncertainty of an exit, and the risk that apathy makes the outcome a random event. Otherwise, China holds our interest, the US wobbles towards its election, while EU regulation pauses with several of the old topics in limbo. If you have views you'd like us to take into account, email us at technical@treasurers.org

Steve Baseby is ACT associate policy and technical director @BasebyStephen

{ IN DEPTH }

CHINA, THE US AND THE UK REFERENDUM: SO MANY VARIABLES

We have been receiving requests from members and the financial press to opine changes afoot, but the mix and scope of major changes developing across the world economies makes it difficult to forecast exchange rates and interest rates. Treasurers need to consider the potential for less technical- and more political-driven change to impact on their businesses as 2016 unfolds.

China

Chinese growth, the slowing or the calming down of (remains officially forecast at an enviable 6.5-7% for 2016), is still a hot topic. Meanwhile, the Chinese authorities manage concerns over domestic bad debt, develop their financial markets and are using their impressive accumulated FX reserves to invest externally.

On the regulatory side, Chinese money market funds regulation has been brought closer into line with that of the West, although Chinese funds are permitted leverage. A 5% liquidity buffer has been brought into effect, funds are now permitted to invest in tradeable securities of deposit, which could aid liquidity, and the weighted average maturity has been shortened by 60 days to 120.

On the domestic economy, the Chinese slowdown has seen some commercial businesses close, although there is an element of rebalancing as the domestic demand develops.

We should not lose sight of China's prodigious FX reserves and low external debt relative to major Western economies, which enables China to manage its domestic economy, but at risk to other economies as reserves are converted into cash. It is true that China's FX reserves are falling, dropping from $3.4 trillion to $3.2 trillion over January and February, according to Bloomberg. The causes extend beyond supporting the domestic economy and are made up of infrastructure investment, including overseas, and the commencement of loans through the Asian Infrastructure Investment Bank.

Now, consider that the UK's FX reserves at the end January were $159bn and, while China's external debt was $1.5 trillion at end of Q3, the UK's external debt was $8.4 trillion.

Schadenfreude persists in Western minds, but the Chinese can weather a lot more change than the UK before their problems become international.

US

The US election risk for non-US businesses could be increased protectionism regardless as to which party wins as the blue-collar vote becomes the decider. Treasurers may wish to consider what strategic risks of reduced access to US markets may have in a world where commodity and major capital goods prices remain dollar denominated.

UK

The outcome of the UK Brexit referendum remains uncertain. Voter apathy could be as much the decider, with expert commentators now stimulated to take note of the UK's underlying structural problems (see Kristin Forbes' insightful speech on managing the UK external deficit at www.bankofengland.co.uk/publications/Pages/speeches/2016/890.aspx made in March). Meantime, the financial press has started to look through an exit vote to ponder on the effect of the UK losing its status as an access point to EU markets.

Although stable at the time of writing, sterling has dropped 3.4% against the US dollar and 6.5% against the euro since 31 December 2015, which recommends a cautious approach to hedging.

So many variables, so little time before they start to crystalise. Perhaps time to fix those rates where the consequences of adverse change is not affordable.

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

Brexit: further resources: www.treasurers.org/node/318447 and a reminder of *The Treasurer*'s Brexit checklist: www.treasurers.org/brexit-briefing

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

Financial counterparties support single-sided reporting: www.treasurers.org/node/318782

{ TECHNICAL ROUND-UP }

EU MiFID II: DEFERRED, BUT NO CHANGE

MiFID II implementation has been deferred until 2018, but no change is intended. The ACT and others have advocated a change to the Own Account exemption (discussed right) and it is expected other parties will seek change.

UK PAYMENT SYSTEMS REGULATOR AND THE PAYMENT FORUM

The UK Payment Strategy Forum has started to meet to ensure that payment strategy forms reach user requirements. Visit www.paymentsforum.uk to understand the scope of its work and consider if you want to join.

{ INTERNATIONAL }

EU regulation – some changes

The European Banking Authority progresses to issue its guidelines, which will require banks to impose the capital valuation adjustment on corporate derivatives. This is where the margin is not collateralised in contravention of the EU Parliament's expectation that it had removed this cost from non-financial corporates under European Market Infrastructure Regulation. This conflict will require resolution within the Parliament.

MiFID II implementation has been deferred until 3 January 2018, but we continue to work with HM Treasury and through the European Association of Corporate Treasurers to try and restore the Own Account exemption, which enables corporates to use trading platforms such as 360T without being deemed traders by the Financial Conduct Authority and its national equivalents throughout the EU.

We have asked the Treasurers Forum, but we would appreciate any corporate letting us know the impact of the loss of this exemption. Please contact sbaseby@treasurers.org if you want your voice heard on this topic.

EU money market funds and financial transaction tax initiatives remain in limbo.

{ WATCH THIS SPACE }

UK Budget: corporation tax and wages

George Osborne made his 2016/17 Budget speech on 16 March. The main impact for UK corporates is affirmation of the intent to cap interest deductions at 30% of tax EBITDA with exceptions to be discussed and agreed, which are expected to be for private finance initiative and public–private partnerships projects. This brings the UK into line with Organisation for Economic Co-operation and Development (OECD) standards intended to promote the base erosion and profit shifting initiative, and brings the UK into line with other OECD members, including Germany in the EU. Treasurers will need to work with their tax colleagues to understand the impact on cash tax flows going forward and consider if structural changes to financing the balance sheet are required.

A secondary impact will be on labour costs. The already announced National Living Wage came into effect from 1 April 2016. Simply put, this could increase annual costs by £900 per 25+-year-old employee currently on the Basic Wage. Those businesses that rely on private contractors will need to watch development on what appears to be a review of IR35 practices to take effect in the 2017/18 tax year, aimed primarily at government employers, but worded as a broader review.

Chancellor of the Exchequer George Osborne

BEN PRUCHNIE/GETTY IMAGES

NAEEM QURESHI

ASSISTANT TREASURER AT UK POWER NETWORKS

How did you get into treasury?
I entered treasury when UK Power Networks started its treasury function from scratch after the CKI Group acquired the electricity network business from EDF Energy. Our financial controller had me set up a comprehensive group cash-flow forecast model. It went well and I was offered a role in the newly set-up treasury function.

What do you like about treasury and your role?
Each day comes with new challenges and experiences. My current role encompasses a wide range of treasury responsibilities. The all-round technical knowledge in various areas of treasury helps me participate in the financial decision-making process with real confidence.

What's the best thing about being a member of the ACT?
I have access to a wide and diverse network of treasury professionals. It is easy to receive technical guidance through the query service and various ACT publications; ACT events and webinars are also an excellent source.

What ACT qualifications do you hold?
The AMCT qualification.

How has your qualification benefited you in your career so far?
The AMCT qualification helped me climb the treasury career ladder more rapidly. I qualified as a management accountant and a chartered certified accountant several years ago. I then felt the need to equip myself with a treasury qualification. The AMCT imparted an excellent technical grounding and provided a toolkit that helps me stay on top of my responsibilities.

What's the most important lesson that you've learned during your career?
There is no substitute for hard work.

What's your ultimate career goal?
I'm really looking for a role that maximises my skill sets within both treasury and accounting.

Who is your greatest inspiration and why?
Steve Jobs – his passion for creativity.

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

ACT DIARY DATES

TRAINING, EVENTS & WEBINARS

TRAINING COURSE DATES

9 June, London
Corporate tax for treasurers
Join us for an overview of the core international tax concepts to consider when structuring cross-border activities, such as intercompany funding transactions.

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

14 September, London
Working capital optimisation
Understand why working capital management is vital for the generation of sustainable cash flow and survival of all companies. You will gain an appreciation of the techniques that can be employed to manage working capital and improve efficiencies within the supply chain.

15 September, London
Cash forecasting fundamentals
On this interactive course you will learn how to review or completely redesign your cash forecast framework and processes. Don't miss this great opportunity to broaden your understanding of the fundamentals of cash forecasting.

20-21 September, London
Treasury systems
Find out what drives the development of treasury technology and its role within the company. Learn how to identify treasury technology needs, and select and implement the required treasury management system.

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

ACT EVENTS

11 May, Dubai, UAE
ACT Middle East Annual Dinner 2016
Join us at a dinner that will provide you with the perfect opportunity to network with your peers while enjoying a three-course meal and fine wines. The ACT Middle East Treasury Awards will follow dinner – help us celebrate the achievements of 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 from every major industry and learn how digital advancements and global disruptions are shaping the future. Designed for the profession by the profession, this year's event delivers debate and expertise on the issues driving financial strategy and innovation in competitive businesses.

Whether generating game plans in the C-suite or integrating tactics across the enterprise, the landscape is swiftly changing and new road maps must be forged. This year's theme is 'Financing tomorrow – integrity, influence, innovation'.
www.treasurers.org/annualconference

21 September, Hong Kong
Asia Treasury Leaders' Forum
Join more than 200 treasury and finance professionals from across Asia for the ACT Asia Conference to discover the latest developments in treasury tools, tactics and strategy.

As the only conference of its kind in the region to bring together treasurers, experts from the financial services industry, policymakers and the Hong Kong Monetary Authority, it is the perfect place to share knowledge, experience and best practice, and build your professional network.
www.treasurers.org/asia2016

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

24-25 October, Dubai, UAE
ACT Middle East Annual Summit
Now in its seventh year, the ACT Middle East Annual Summit has established itself as the largest and most popular treasury conference in the Gulf Cooperation Council. You can expect to meet more than 450 finance and treasury professionals in attendance, hear from over 40 speakers, and talk business with more than 20 sponsors and exhibitors – all under one roof in our impressive exhibition. Spanning two days and covering the issues most pressing to corporate finance and treasury in the Middle East, this event is the ideal place to catch up with your peers and share best practice.
Opening for bookings soon

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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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{ BRITISH ECONOMY }

JEREMY WARNER

The UK's current account deficit is the largest in the developed world – and arguably at crisis levels

In commenting about the risks to the UK economy of leaving the EU, Mark Carney, governor of the Bank of England, recently warned that Britain was increasingly reliant on "the kindness of strangers". What he meant was that funding the UK's burgeoning current account deficit relies crucially on continued inflows of foreign capital.

If there was a sudden loss of foreign confidence in the integrity of the British economy, caused perhaps by a vote to leave in the coming referendum, then these inflows might slow, causing a fully blown balance of payments crisis, a sharp devaluation in the pound and a destructive rise in interest rates. As if to highlight his concerns, Britain's current account deficit swelled to a jaw-dropping 7% of GDP in the final quarter of last year, by far the highest in the developed world and a post-war record for Britain. If this was just a one-off, it wouldn't matter very much, but the UK has been in deficit for much of the past 30 years, and far from improving, the position now seems to be deteriorating even further.

The current account is the sum of the balance of trade (goods and services exports less imports), net income from abroad and net current transfers. When it is in deficit, it is indicative of a country that is essentially living beyond its means, consuming more than it earns. For a country in its development phase, sucking in imports to build infrastructure and industrial capacity, it would be a relatively benign phenomenon. Eventually, the growth thereby generated would eradicate the deficit. But for a mature, post-industrial economy such as the UK, where business and government investment is subdued, it is indicative of worrying structural imbalances. A deficit as large as the one run by the UK would normally be a sign of extreme overheating, with domestic demand far outstripping domestic output.

This is what we saw in some of the peripheral economies of the eurozone in the run-up to the crisis. Yet with UK inflation at virtually zero, there is no sign of such a boom. That hasn't stopped UK citizens continuing to consume a lot more than they produce. The consequent shortfall is paid for by sales of UK assets – government bonds, property and corporations – to foreign investors. This is only sustainable as long as foreign investors are happy to keep sticking their money in the UK. So far, they have been, though recently there have been signs of nervousness in currency markets. Some recent gilt auctions have also been barely fully subscribed.

Some observers draw comfort from the fact that much of the recent deterioration in the UK current account is not really about trade. Rather, it is to do with falling income on the country's huge stock of overseas assets, particularly multinational earnings, which have suffered badly from the commodities slump. At the same time, foreign earnings from the UK have increased.

Using market values, the UK's overseas assets still far outweigh its liabilities, in marked contrast to some of the eurozone countries hit by very large current account deficits. All the same, if overseas income doesn't revive soon, and with a struggling world economy there is little reason to believe it will, Britain could be in some trouble. There is no way of knowing what the economic consequences of Brexit might be; much depends on the terms. But at the very least, a vote to leave will lead to a prolonged period of uncertainty, and there is nothing international capital hates more than uncertainty. Get ready for a roller-coaster ride. Confidence is a delicate commodity. There one moment, gone the next, it doesn't take much to dislodge it.

A deficit as large as the one run by the UK would normally be a sign of extreme overheating

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

Risks from rising populism in Europe

The increase of populist politics runs contrary to Europe's need for growth, Kallum Pickering argues

Across Europe, support for populist parties is increasing. Economic difficulties in peripheral Europe since 2008 have led to a rise in support for left-wing radicals. Victory for Syriza in the 2015 Greek elections is the obvious example, but the far left has also gathered momentum in Spain. Core Europe has its populists, too. The migrant crisis and terror attacks have boosted support for the far right. Support for France's National Front jumped following the November attacks in Paris. In Germany, some recent successes for the Eurosceptic AfD in state elections reflect domestic resentment towards Merkel's decision to allow so many refugees into the country. And, of course, voters in the UK go to the polls on EU membership on 23 June.

It is not uncommon for populist parties to gain support during times of economic difficulty. The European recovery from the great recession has not been smooth. A policy failure by the European Central Bank in 2011 that allowed contagion to spread from Greece to the rest of the eurozone set the recovery back several years. Some of the steps taken to prevent a repeat of the financial crisis have also taken some of the fizz out of the recovery. Increased financial regulation and public spending cuts have led to more sluggish growth than might normally be expected. Several significant geopolitical crises east of the continent have added to that.

Challenging economic and political conditions are fertile ground for populist parties to gather steam. Tapping into the frustrations and fears of common voters and placing the blame on the mainstream parties and multinational institutions like the EU can be an effective tactic to build support. The problem is that, at first sight, populists may appear more in tune to the needs of the common voter. But, ultimately, arguments that foreign competition and workers threaten the livelihood of domestic workers are false. If individual European countries made a policy shift towards isolationism and protectionism, that would lead to slower and lower quality growth for both them and their trading partners.

Podemos leader Pablo Iglesias at a campaign rally in Spain

DAVID RAMOS/STRINGER/GETTY IMAGES

The key risk from all of this is the threat to European cohesion. If the UK votes out in June, that could encourage copycats to push for referendums in their own countries. Since the UK has remained outside the core club, an exit would be problematic, but ultimately manageable.

There is another risk. Radical parties that gain enough support to cause disruption, but not to gain power, can sap the capacity of mainstream parties to make changes. They distract from the core debate, sometimes require damage control if they win a couple of regional elections, as UKIP did in the UK, and they raise the probability of hung governments as Podemos did in Spain.

How should mainstream parties respond? Better efforts to educate and reduce the anxiety of voters about the beneficial societal, economic and cultural impacts of integration and immigration might work. But populists would treat such efforts with suspicion, as propaganda, while the political elites continue to progress their own political vision for Europe. This could backfire.

Another option would be to further integrate populist parties into the mainstream. Removing them from the edge of the debate could encourage them to shift towards the centre in order to gain supporters. But it risks crystallising their positions. The most effective solution would be for incumbent mainstream parties to go to greater effort with pro-growth reform. Populists rely on frustrated voters. Realistically, only changes that improve the status quo will treat the root cause of the problem.

It is not uncommon for populist parties to gain support during times of economic difficulty

Kallum Pickering is senior UK economist at Berenberg Bank

ACT LEARNING ACADEMY

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Treasury in a day

Dates available:
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A one-day introduction to corporate treasury and the role of a treasurer within the context of business, including the key treasury concepts and financial instruments commonly used.

TREASURERS.ORG/TRAINING

NEW COURSES THIS WAY →

{ TREASURY INSIDER }

Trial by committee

Time to stand up and be counted – and hope that our justifications hold water

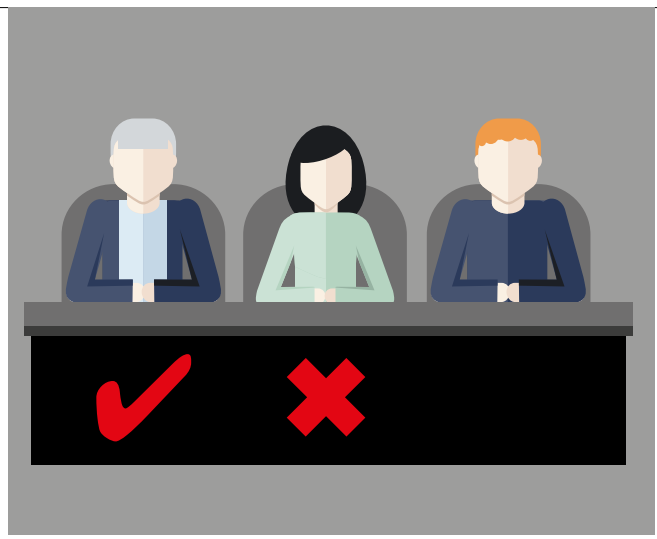
It's that most wonderful time of the year – finals and full-year reporting!

As well as year-end work, we have also had to face the annual trial by committee – well, risk committee – and have our policies, controls and positions reviewed by this board subgroup.

I should not complain too much. The risk committee has most of the non-executive directors who have generally been supportive over the years. And, as many are former FDs, they know their stuff – or at least think they do! They were mainly executives around 10 years ago, but have remained in touch and bring experience. This will be helpful this year, as markets have been volatile and some of our hedges are not looking so clever at current mark-to-market valuations.

We prepared fully (with appendices, summaries and a concise paper on the positions and proposals) and got ready to demonstrate that, despite having had a number of our team moved to a shared service centre previously, we have maintained controls and not had any adverse internal audit reports.

We did agree with the CFO how best to present the hedging position. We had met the policy of achieving sufficient hedges or positions, but the mark-to-market issue in isolation was distinctly less positive. Maybe the banks will not be so unhappy about the level of ancillary business – unless they've closed their positions already?



SHUTTERSTOCK

The risk committee has most of the non-executive directors who have generally been supportive

We decided that we must, at all times, be transparent. Hedges are for the medium term, not just for one season, and there have been years when it has been the other way around and in the money. We were not seen as heroes then, so why should we be villains now? The business is not so happy at present – feeling that costs were higher than if we had done nothing. We gently reminded them of the protection they received the year before last when hedges reduced the all-in cost as compared with spot pricing.

I don't mind appearing in front of the risk committee and have been trying to share the joy or opportunity with some key team members, so they gain the experience and recognition of explaining what they have been doing. It's also a chance for the committee to see some of the next generation of finance leaders.

Fortunately, the non-executives were sanguine about the position and saw hedging and treasury policies as a long-term arrangement, whereby you are not looking to be a profit centre. Being able to fix some parts of your cost structure and risks for certainty in uncertain times is something not all parts of companies are in a position to do. It felt good to have supportive, or at least understanding, 'friends in high places' in these circumstances.

At present, the overriding need is to be transparent and able to clearly communicate your position and strategy both inside and outside an organisation – particularly given the variety of stakeholders the treasury teams need to manage.

Internally, especially, it is vital to demonstrate that you have operated a clear and rational plan, and that it offers the benefit of certainty. Of course, in an ideal world you would play things very differently in some individual trades or actions, but having a balanced and sensible approach clearly validates a rounded risk management framework, and that we are the rightful guardians of much of it.

There – I've said it now and hope that will justify or confirm our existence in the next year or so. You never know when there may be another unexpected change and another finance reorganisation on the way...

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

{ ENGAGEMENT }

PETER MATZA

Banks, regulation, access – the concerns of treasurers in Asia look very much like those in other markets

Peter Matza is ACT engagement director

I have recently come back from a trip to Singapore and Hong Kong to talk to potential sponsors, supporters and institutions about our events in Asia during 2016, specifically the Asia Treasury Leaders' Forum on 21 September in Hong Kong. A number of different issues crossed my path, which I think will resonate.

Firstly, it's worth pointing out that treasurers in Asia are just as concerned with regulation as their global counterparts. Bearing in mind that Asia encompasses economies in varying states of economic development, a wide variety of FX and capital regimes, a huge mix of legacy and modern technology banking systems (especially in consumer and retail sectors) and an 800-pound gorilla economy in China, one can easily understand their concerns.

More specifically, compared with treasurers in the EU (yes, still including the UK at time of writing) and the US, Asian financial regulators haven't yet set about derivatives markets in ways that directly affect their local treasurers. Of course, Basel III, the G20 initiatives and IASB rules are dragging on the real economy, but in many respects, Asian economies and financial markets have yet to feel the full impact of the regulatory wave. There is some sense that there's a little time left, but, fortunately, there doesn't seem to be a corporate derivatives party, which will leave a bad hangover!

Hong Kong's Soho district in Central

IMAGESOURCE

Secondly, Asian treasurers have a much wider banking community to draw on domestically, but also cross-regionally. Does that make life easier? In these days of KYC/KYB and Basel III, it would seem not. Treasurers are challenged to understand which banks are well structured and capitalised, which have the right product ranges, which have the right international networks and who they can deal with safely and securely.

My third issue is that capital markets in Asia for corporates are not (yet) developed, liquid or even functioning in many regional economies. This is clearly a worry when bank capital will certainly dry up in the next few years and access to international markets will require regional corporates to become more transparent, as well as ratings agency- and investor-friendly. There are some suggestions of positive developments (see www.treasurers.org/node/318485), and many regional corporates have been to the US private markets successfully in recent years, but there is much work to be done.

All in all, these are exciting times to be a corporate treasurer in Asia and the ACT is stepping up its efforts to assist in the development of the profession. To mix metaphors, 'from tiny acorns grow huge bamboo'!

For those treasurers whose organisations are working in China or Hong Kong, why not plan your 2016 business trip to coincide with the Asia Treasury Leaders' Forum 2016, 21 September, HKCEC, Hong Kong? (see www.treasurers.org/asia2016) It's free to non-financial corporates.

I would be delighted to discuss these views with as many of you as I can, so I look forward to meeting you at one of the ACT events we have in our spring calendar, particularly the Middle East Annual Dinner and Treasury Awards in Dubai on 11 May (see www.treasurers.org/middleeastannualdinner) or the ACT Annual Conference in Liverpool, 18-20 May (see www.treasurers.org/annualconference).

Treasurers in Asia are just as concerned with regulation as their global counterparts

Don't hesitate to drop me a line at pmatza@treasurers.org

BAPTISM OF FIRE

A refinancing, a change of ownership and a radical move away from coal towards renewables – Andrew Koss's time at Drax Power has been marked by evolution

Words: **James Ashton** / Photography: **Rob Whitrow**

When Andrew Koss arrived at Drax in 2005, the coal-fired power station close to the town of Selby in North Yorkshire had already been a landmark for motorists on the M62 for 30 years. What passing traffic did not realise is that however solid and immovable this facility appeared – with 12 giant cooling towers spewing water vapour onto the skyline – it faced an uncertain future.

Koss had been appointed company treasurer to lead a refinancing as part of plans for Drax's initial public offering in December that year. Despite its strategic importance in producing 8% of the UK's electricity, the asset had fallen into the hands of its lenders when its largest customer, TXU Europe, went under following the collapse of Enron.

For Koss, the attraction was working on a bumper balance sheet restructuring, but also setting up, a treasury department from scratch. He ignored warnings from former colleagues at doorstep lender Provident Financial that Drax would be sold, not floated – and his new job would not exist anymore. It was a baptism of fire every bit as hot as one of Drax's six furnaces.

Says Koss: "As soon as I arrived, my new boss said: 'You're on your own, I'm going on an investor roadshow. We haven't got a CEO so I'm off to the States. Give me a call if there are any issues, but over to you.' In one respect it was quite scary, in another, it was a huge amount of responsibility and a real opportunity to take it on – but I was completely new to the sector."

The doubters were nearly right: Drax might not have made it onto the stock exchange. Between announcing its intention to float in the summer and selling shares in the December, it received three separate takeover offers that threatened to derail the management's plan. The company did get away – a remarkable reversal of fortune after losses that hit £700m in 2002 – only two weeks before Koss' wife was due to give birth to their first child.

"I can still picture it: we were in the final throes of the negotiation and I was painting our kitchen at 1am. On the other end of the phone were the banks all round a table. It was quite a surreal time." Koss has since moved up through the ranks, becoming chief executive of Drax Power, the company's generating arm, one of its three divisions, in a reorganisation a year ago.

Koss retrained in treasury after moving to Yorkshire from London 16 years ago and passed his AMCT in 2002. "I did find the AMCT very helpful to me when I was getting to know the ropes in treasury," he says. His last job in the City had been

"In treasury, you are that external face for debt relations with your banks – making the complex things simple"

working on Eastern European derivatives for an investment bank. It just happened that Provident Financial, based in Bradford, was looking for someone in that area as it expanded in the region. Koss found himself learning on the job, but also committed to doing the exams.

"On the banking side, you are dealing with customers; here was an opportunity to work on the corporate side and see how they approach things with the banks. I was gobsmacked at how different it was working in a corporate environment to working in a banking environment. The discipline and the rigour of working in a corporate was much stronger, I found."

A question of understanding

Drax has a long history. It was built by the Central Electricity Generating Board and transferred to National Power at privatisation in 1990. Then, it was sold on to American energy provider AES for £1.9bn in 1998. When AES quit the UK in 2003, the facility was passed into the hands of its lending banks. Koss joined at the same time as the financial controller and had to put in place a treasury team which hadn't existed before because Drax had never been a freestanding company.

"It really was a question of understanding what was going on and putting the basic controls in place around cash management and payments," he says. "All of our coal had been bought in the UK and we were only just starting to buying internationally. Realising that we had currency exposures because the coal was denominated in dollars took a little while."

Because it was a small team, Koss found himself writing policy and procedures one minute and, the next down with the banks, putting in place a £800m bank facility with trading lines. Negotiating that relationship with the banks was made more difficult because some of the lenders bidding to handle its refinancing were also among the exiting shareholders in Drax.

One bank, which was managing the group of lenders in the workout, failed to get the underwriting mandate because "they came in with very high pricing and a very conservative set of terms. They were miles away from where others were. But we had to keep them sweet because they were key to unlocking the deal when we moved from the old structure to the new. It was a very delicate balance."

By 2008, Drax was long past the survival stage and Koss' role expanded. An opportunity to take on the recently vacated role of head of investor relations came up, and Koss put himself forward when he bumped into the chief executive, Dorothy Thompson, on the stairs.

"I think there was a lot of commonality. In treasury, you are that external face for debt relations with your banks – making the complex things simple, which I think is a real skill. I felt, well how different could equity investors be to debt investors?"

Coincidentally, Thompson, who arrived just after Koss, came from the same treasury background. She worked as assistant group treasurer for Powergen and then ran the European business of InterGen, which was a subsidiary of Shell and Bechtel that also generated power.

"We developed cutting-edge technology, which we realised could make a huge contribution to the UK's carbon reduction"

It was her vision that took the company heavily into sustainable biomass. The attraction of biomass, or more specifically compressed wood pellets, made from low-grade material that solid-wood industries, such as construction and furniture making can't use, is that it has a carbon footprint 80% of that of coal and 60% of natural gas. Crucially, unlike any other renewable, it can generate energy exactly when it is needed.

Drax had been experimenting with the technology behind this greener model by burning compressed wood pellets instead of coal since 2003. The company originally planned to move into biomass via a £2bn partnership with German engineer Siemens to produce 900MW of power from three new biomass-fired plants. But, the business realised that an upgrade of the existing power station would be faster and more affordable than building something new. The UK government said it would offer Drax support if it converted three of its six generating units away from coal to biomass technology at its existing site.

More than just a cash cow

The changes would require an entirely new supply chain and an investment of approximately £700m, which would necessitate the support of both investors and lenders as it means a change to Drax's capital structure.

"Up to 2008, we were a cash cow. The launch of the partnership with Siemens was the first time we were saying, 'no, we want the cash to invest'.

"We developed some cutting-edge technology, which we were then able to apply to the plant at Drax, which we realised could make a huge contribution to the UK's carbon reduction targets and means there is a life beyond Drax as just a coal plant," says Koss.

So far, two of its six generation units have been converted and a third awaits a decision by the European Commission on whether it will allow state aid support. Koss envisages all six

VITAL STATISTICS

12
Drax has 12 cooling towers, each 114m high and large enough to house a building the size of St Paul's Cathedral

80,000
Around 80,000 tonnes of biomass are stored in each of its four large domes – each 30% bigger than the Royal Albert Hall

259
At 259m, the main chimney is approximately double the height of the London Eye

660
Each of Drax's six generation units is capable of producing 660MW of electricity, enough to power everything with a city the size of Manchester

being upgraded in time, especially as the government plans to shut all coal-fired stations by 2025 to lower carbon emissions.

Some facilities are mothballing sooner. Engie, the French utility that owns the Rugeley coal plant in Staffordshire, said in February it would close this summer because of power prices being close to 15-year lows and high carbon costs. Koss admits: "The economics of coal are very tough at the moment. I would say, without the moves we have made to convert half the plant, we would be in a very difficult situation."

He adds: "We have a historic hedge in place. Where we had sold forward we are protected, certainly last year and this year, because of the fact we hedged at higher prices than are available today. And today we are not necessarily selling forward very much at these levels. What we are doing, certainly on coal units, is all about flexibility: being there when the market needs us, when the wind is not blowing, providing back up, which tends to be when prices are a little higher."

But the UK chancellor also made electricity sales from biomass tougher last summer when he removed the climate change levy from renewable electricity schemes, a move that Drax forecast would cost it £90m between this year and last.

It was ever thus. Koss characterises the power industry as placing long-term bets – on strategy, financing and investment – and hoping that short-term shocks from the commodity markets or regulators do not derail the company. It explains why the business is run on conservative lines. In 2009, for example, when commodity markets turned, the company raised £100m of equity in an emergency fund raising to pay off all of the group's debt so it could keep its investment grade rating. Koss believes his early skills learned in treasury have stood him in good stead.

"We are not spread over 50 countries, we don't need to do big, consolidated sets of accounts. We are driven by understanding commodities risk, treasury risk and capital structure, so I think the treasury qualification has really helped me there."

James Ashton is a freelance business journalist

ANDREW'S TOP TIPS FOR SUCCESS

1. **Communication is absolutely the key. Hone that with your internal and external audiences, get to know your business as well as you can. Colleagues really enjoy it when you ask them what they are doing and it will make you a better treasurer.**
2. **The AMCT was a great grounding for learning the ropes. The MCT was great for corporate finance and broader business considerations.**
3. **My favourite gadget is my iPod shuffle if I go for a run.**
4. **The secret to career success – listen.**
5. **The most difficult question my FD is likely to ask is: our coal units aren't making any money – what do we do now? The answer is to cut your costs and grow your revenues whichever way. We have to explore all the options.**
6. **The best way to wind down after a stressful day is spending time with my kids or five-a-side football with the guys here.**

ANDREW'S CV

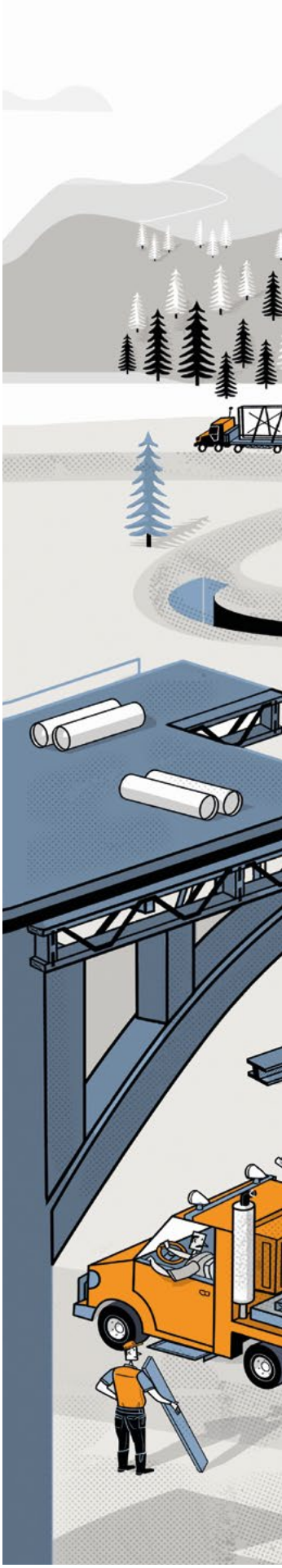
2015-present
Chief executive, Drax Power Ltd
2013-2015
Director of strategy, Drax
2010-2013
Head of corporate finance and risk, Drax
2008-2010
Head of corporate finance and investor relations, Drax
2005-2008
Treasurer, Drax
2001-2005
Deputy group treasurer, Provident Financial
2000-2001
Financial services manager, KPMG
2000
Business analyst, Dresdner Kleinwort Benson
1996-1998
Head of global bond options and exotic derivatives middle office, UBS
1995-1996
Equity trade analyst, Lehman Brothers
1992-1995
Corporate tax accountant, Coopers & Lybrand

QUALIFICATIONS:

Mathematics, operational research, statistics and economics (MORSE) BSc (Hons) first class, Warwick University (1992), AMCT 2002, MCT (2003)

If you build it...

Boosted by transport and renewable energy investment, institutional investors continue to increase their commitment to project finance. Paul Golden reports



Good news for investors who favour infrastructure projects: data from online intelligence service IJGlobal indicates that the global project finance sector closed significantly more transactions last year than during the previous 12 months. The number of deals rose by more than 10% to 859, although total transaction volume was up only marginally ($309.1bn compared with $308.4bn in 2014).

Data provider Dealogic recorded a similar increase in the number of projects closed, but recorded higher figures for global project finance volumes in 2015 ($422bn). Europe, the Middle East and Africa (EMEA) accounted for 37% of the total market, up from 33% in 2014, with 299 deals completed.

Energy received the largest amount of investment worldwide, although in Europe transport was the largest sector by volume.

These figures underline the view of Michael Wilkins, MD, infrastructure finance ratings at Standard & Poor's, that there is very strong appetite in the capital markets for infrastructure project exposure, both equity and debt.

"Commercial banks have been interested in debt exposure since the early days of project finance in the 1990s, and this level of interest has risen in recent years, particularly among northern European and Japanese institutions," he says. "The other source of finance is institutional, including pension funds, insurers, sovereign wealth funds and asset managers, who are looking for long-dated exposure with stable cash flows."

Banks (commercial, multilateral and export finance) account for 80% of total project finance, he adds. "Banks like transportation projects backed by large multinational developers acting as sponsors."

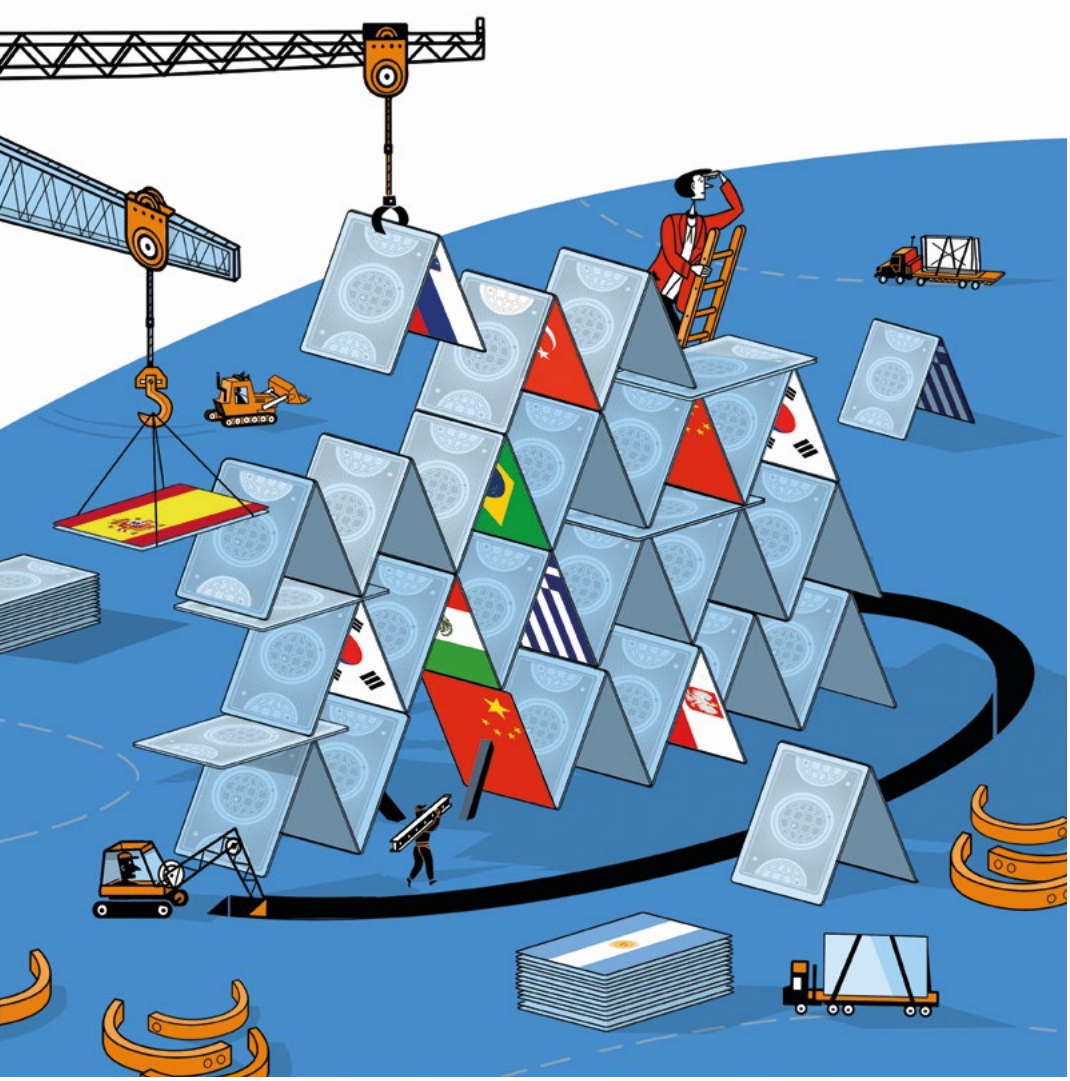
Competition and diversity

Doug Segars, associate MD of Moody's EMEA project and infrastructure finance team, suggests that funding sources are becoming more diverse. "Bank lending is highly competitive and public bond issues are making a comeback," he says, "particularly where large amounts of long-dated finance is needed, but the real story is private debt, both for new projects and as a source of refinancing for existing bank loans."

According to Segars, demand-risk projects are once again financeable, as long as sponsors are realistic about leverage and demand forecasts. "We see evidence of this in the number of European toll roads that have been financed or refinanced over the past several months."

Investors will need to be very comfortable about the sponsor's revenue projections, observes TC Treasury Services consultant Tony Chitty, director of international trade finance at engineering firm Mabey Bridge.

"Sponsors would be well advised to have a plan B in the event that the projected revenue was not forthcoming for whatever reason," he explains. "In most cases, lenders would be looking



BIG IN INFRASTRUCTURE – MAIN PLAYERS

The European Bank for Reconstruction and Development is owned by 65 stakeholder governments, as well as the EU and the European Investment Bank (EIB). Uniquely for a development bank, it has a political mandate – it will only assist projects in democratic countries. Projects of note include the construction of an arch to enclose reactor 4 at Chernobyl and seal its radioactive content from the surroundings.

The EIB is owned by EU member states and was formed to represent EU policy interests. It finances environmental and climate change initiatives, as well as providing infrastructure finance and funds projects mainly through loans. Its lending reached €77.5bn last year. In March this year, the EIB signed its biggest loan to date for India. This will go towards the construction of a new metro in Lucknow, and comprises financing of €450m. In 2014, the EIB extended a €900m loan to help finance expansion at the port of Rotterdam that will increase the port's capacity by 20%.

The Organisation for Economic Co-operation and Development export credit agencies, including UK Export Finance, ekn in Sweden and Exim in the US, also play a role in project finance, providing guarantees to banks. They have had significant involvement in power-generation projects, for instance.

for some measure of government support for public infrastructure projects, and if the project was of clear public benefit (for example, a bridge that significantly reduced journey times on a busy route, or a river crossing that negated a 20-mile diversion), the state may agree to provide such support, albeit only as a backstop."

Nedim Music, assistant director of corporate finance debt advisory at Deloitte UK, agrees that there is greater interest in infrastructure assets where there is an annual government contribution. "For example, investing in a toll road where future income depends on the number of vehicles that use the road is clearly less predictable."

Yield pick-up relative to comparable asset classes is one of the factors investors will take into account when considering whether to back a project, explains Wilkins. The average yield on a sovereign bond is around 1%, whereas infrastructure projects generate between 2.5% and 4%.

International Project Finance Association council member Darryl Murphy says a number of banks remain uncertain about their long-term financing appetite. "While there is interest in short-term acquisitions of infrastructure assets, many banks are trying to figure out what they can do in terms of long-term lending. In the meantime, private-placement investors, such as insurers and debt funds, are putting more capital into project finance."

Investment climate

Deal flow in Europe has been adversely affected by the economic climate, which has limited investment in new infrastructure projects. As a result, the ability of project sponsors to dictate terms has been strengthened.

"In terms of sectors, we have seen a move towards renewables as public-private partnerships have declined," explains Murphy. "However, there is still a strong focus on risk management and stability of revenue. Regulatory risk is also a concern for investors in light of retrospective

PROJECT FINANCE – A DEFINITION

The International Project Finance Association defines project finance as the financing of long-term infrastructure, industrial projects and public services based on a non-recourse or limited recourse financial structure where project debt and equity used to finance the project are paid back from the cash flow generated by the project.

"Bank lending is highly competitive and public bond issues are making a comeback, particularly where large amounts of long-dated finance is needed"

changes to renewables tariffs in a number of European countries."

"The project finance market is very liquid at the moment," says Music. "Insurance companies and pension funds are hungry for yields and looking to deploy capital, so there is a lot of appetite for infrastructure assets."

Most of the assets in the infrastructure space have behaved in a very predictable way, generating steady returns over a long-time horizon, says Giles Frost, chief executive of international infrastructure sponsor and manager Amber Infrastructure. One of the benefits of project finance is that the returns are largely (or in some cases completely) uncorrelated to wider economic factors.

Playing the long game?

Manish Gupta, head of infrastructure corporate finance at EY, also suggests that anyone looking to invest for a period shorter than seven to eight years should be looking for alternatives.

"There are many infrastructure debt instruments that are liquid, such as government-guaranteed bonds previously issued by Network Rail or high-credit-quality bonds issued by infrastructure companies, such as Heathrow Airport and regulated utilities," he says. "I am aware of many institutional investors who have invested in high-credit-rated bonds, in some cases as a replacement for gilts."

Matthew Cutts, financial institutions global sector head at built assets design and consultancy firm Arcadis, describes the availability of finance for private-sector projects in the UK as positive.

"The UK is becoming a mature market for insurers and pension funds to provide long-term debt and, despite the EU referendum, it is viewed as a long-term stable income market," he explains. "Transportation projects are probably still most favoured, although they are few and far between. Energy is probably more of a risk due to political uncertainty regarding tariffs and end-customer pressures."

A spokesperson for construction services company Carillion says project finance is generally available from financial institutions, such as Aviva and Legal & General.

When considering whether to back a project, investors take into account political certainty, availability of local partners (particularly operators) and certainty of long-term yield/revenues, adds Cutts. "Companies need to be able to deliver cost, operational and asset life cycle certainty."

Another important caveat, adds Segars, is that not all lenders have the same investment objectives. Sponsors may need to structure their projects to meet the needs of the particular investors from which they are seeking to raise debt. A recent example of this phenomenon is the financing of German wind-farm developer WindMW, which closed in December 2015 with eight tranches of debt offering different maturities and currencies.

It should also be noted that project finance remains subject to market cycles. In a report on project finance investment published last year by Clear Path Analysis, Viktor Kats, co-head of International Finance Corporation's global infrastructure fund, observed that, over time, the perceived risk profile of infrastructure projects will be adjusted, brownfield assets will no longer be viewed as risk-free and managed greenfield risk will be viewed as something that can be handled.

INFRASTRUCTURE DEALS

In December 2014, life insurance company MetLife announced that a consortium of its affiliates and third-party investor clients had provided $200m in financing to railway leasing firm Angel Trains Group, bringing its total investment in UK rail infrastructure to more than $1bn.

Most of the lending MetLife does is on existing operating assets – the majority of its infrastructure portfolio comprises of first lien debt, explains John Tanyeri, MD and head of infrastructure investments in Europe.

"As with most insurance companies, we are an asset-liability management firm, and when we look at the assets that match up with those liabilities, infrastructure generally has stable cash flows over long periods and some form of direct or indirect government support," he says.

The challenge for major institutional investors is maintaining deal flow as competition for large infrastructure projects intensifies, adds Tanyeri. "We have seen a number of new debt funds emerge and insurance companies and pension funds becoming more interested in the debt aspect of the capital structure for a number of infrastructure companies. This had led to increased liquidity, which results in tighter spreads and looser covenants."

Valuations for existing infrastructure assets are high, which has led to concerns that the market might be overheating. Companies such as MetLife are hoping that economic growth in Europe will create new investment opportunities in this asset class.

Another factor influencing deal flow is pension funds with very long liabilities buying infrastructure assets and holding them for much longer than conventional investors, who might recirculate the asset after seven to 10 years.

"We are always looking at how the asset performs over multiple economic cycles," concludes Tanyeri. "When you look across our $10.5bn portfolio, it is pretty much comprised of airports, rail, transmission and telecommunications – essential assets."

Paul Golden is a freelance business and finance journalist

The CONTEMPORARY TREASURER 2016

TRENDS IN TREASURY

ACT LEADING TREASURY PROFESSIONALS

Contents

Introduction

As a professional body, the ACT has two primary concerns: to advance the interests of its members and students, and to enhance the understanding and appreciation of corporate treasury as a discipline in financial and business management

For a fourth year, the ACT has commissioned a comprehensive, completely independent survey of treasurers' attitudes towards the evolving influence of treasury on corporate financial strategy and business growth. The survey represents a random sample of 191 treasurers, which is the largest group we (or any professional treasury body) have worked with to date on a global basis. These individuals are mainly, but not exclusively, ACT members and students working in non-financial organisations across the world, from west to east and north to south. This is the real voice of treasurers from the only Chartered body for the profession.

Corporate treasury is a profession built on the foundation of a number of financial, business and personal disciplines. The ACT defines these in its Competency Framework and considers them to be the skills and capabilities needed by treasury professionals to operate successfully in today's challenging business environment. From tactical to strategic issues, treasury is about advising on appropriate choices, the trade-offs and compromises involved, and executing corporate business policy.

The analysis and results of this continuing project helps the ACT and, by extension, other treasury associations we work with globally, to provide evidence-based support for our interactions with policymakers, legislators and regulators.

Additionally, this report helps inform our own work when providing professional training and delivering professional qualifications to individuals in both non-financial and financial organisations. And equally as important, it allows the treasury profession to speak with authority and integrity on the role that treasurers play in making their organisations successful.

The ACT's Competency Framework can be found at www.treasurers.org/competencyframework

What are treasurers really telling us?

Strategic focus: the amount of time treasury is spending on strategic issues is rising and this is the area most expected to see increased activity over the coming 12 months.

Pessimism wins: the cost of credit has started to increase over the past 12 months and further rises are expected.

Trusted adviser: more boards are asking for further advice from their treasuries – and then acting upon what they hear.

Regulatory drag: there is a continuing negative, albeit resigned, response from treasurers to the increase in financial regulation.

Technology drivers: while it is probable that treasury technology investment will remain stable or perhaps increase, treasurers are unlikely to be early adopters of wider fintech innovations.

Who is the contemporary treasurer?

For the first time in our series, we have asked respondents themselves to distinguish whether activities they carry out as part of their role are strategic or operational

Each to their own, but the question highlights where individuals think their activity is most focused.

The growth and development of the treasury profession has generally been concentrated in larger corporates, and just over 70% of our respondents work in companies with sales in excess of £1bn. The bigger the business, the weightier the issues; which is why we see a greater emphasis on strategy in businesses with more than £10bn of sales. Within these larger businesses, treasurers report that they spend 32% of their time on strategic issues.

But we are also seeing the rise of professional treasury roles in companies with sales as low as £200m, which suggests that treasury is being recognised as a strategic partner for business across all sizes of companies.

In general, our treasurers expect to spend more time on business strategy, risk and corporate funding, with operations and controls declining in focus. Clearly, this will vary by business, geography and need, but it says to us that the role of treasury is widening, with treasurers becoming involved in these issues to a greater extent, even if not at the leading edge within their organisations. (See figures 1 and 2[1])

Experience matters, of course – not to mention being professionally qualified, but our age and gender profiles are moving down the curve, which reflects the growth of the profession and the numbers of newer entrants. More than 85% of those surveyed had more than five years' treasury experience, which is why their opinions count. (See figure 3)

WHAT RESPONDENTS MEAN BY STRATEGIC VERSUS FUNCTIONAL ACTIVITIES

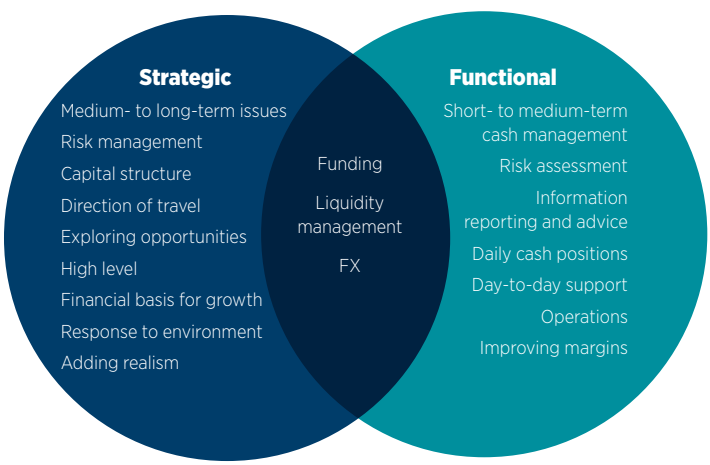
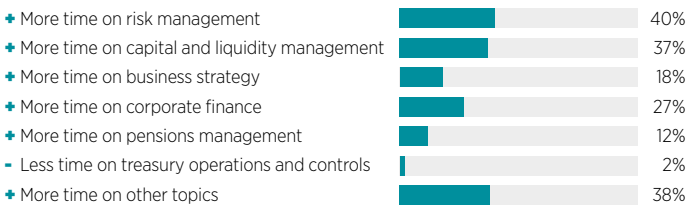


FIGURE 1. **DAY-TO-DAY ACTIVITY COMPARED WITH A YEAR AGO**

For treasury leaders asked: are you spending more or less time on these activities compared with one year ago?



For individuals in other treasury roles asked the same question:

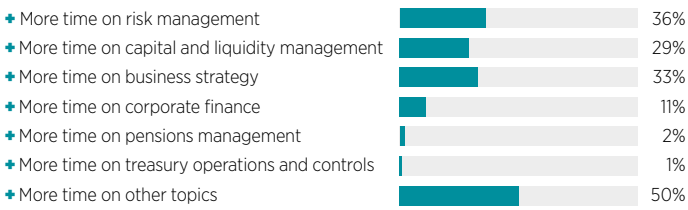


FIGURE 2. **CHANGES EXPECTED IN THE NEXT 12 MONTHS**

When asked whether they expected to spend more or less time on these activities in the next 12 months:

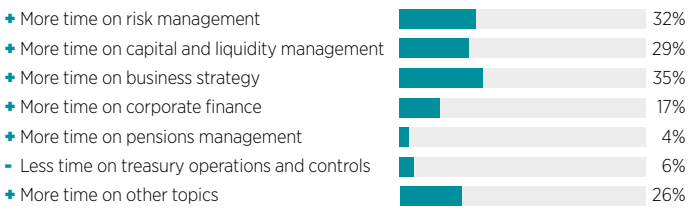
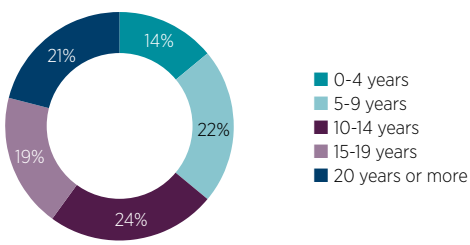


FIGURE 3. **EXPERIENCE**

Our respondents have an average of 13 years' experience in treasury and 86% have five-years-plus in treasury:



1 Figures 1 and 2 are net percentages

Who are we talking to?

The visibility of treasurers to their boards seems to be improving over time, judging by answers from the four years we have conducted this survey

We have seen increases once again this year for most groups, but it is noticeable that EU treasurers and those in government organisations in particular are reporting higher levels of exposure than their counterparts elsewhere. (See figure 4)

The subjects that respondents report on to their boards tend to reflect the main areas of treasury activity, so capital and liquidity management and risk management remain the topics most commonly reported on to boards. Corporate finance is the third most reported topic, although it is more commonly addressed by continental Europe-based treasurers than by those in the UK. That's the case for business strategy reports and pensions management, too.

We also looked this year at reporting by business type and found that different industries place different emphasis on particular aspects of their reporting. So, for instance, wholesale and retail companies place a greater premium on risk management and treasury operations and controls. Treasurers working in utilities are more likely to report on pensions management (45% of them) than overall (26%). Both manufacturing and wholesale and retail companies show higher than average levels of reporting on improving working capital (77% against an average of 61%) and supply chain finance (50% compared with an average of 31%).

So, if treasurers are talking to boards about funding options, what does that say about the funding they have? Unsurprisingly, debt capital markets are represented slightly higher up the chain for UK companies than for treasurers based in continental Europe or the Middle East. For smaller and non-public companies, bank finance still rules the roost, although asset-based finance appears important for smaller companies (below £250m sales). (See figure 5)

One area where treasurers are clearly living up to their cautious reputation has been their inability to predict the relative cost of credit. For three years, respondents have predicted that credit would become more expensive over the ensuing 12 months – and for three years, they have been wrong. Well, in the past year that caution has proved well founded – the cost of credit has moved upwards in the past 12 months. There is also broad agreement that the increased cost anticipated for next 12 months will be bad for business. Perhaps some treasurers haven't heard the ACT's message in the past few years to "fund early, fund often and fund long!" (See figure 6)

One area where treasurers are clearly living up to their cautious reputation has been their inability to predict the relative cost of credit

FIGURE 4. **THE ROLE OF THE TEAM NOW AND FIVE YEARS AGO**

All treasurers

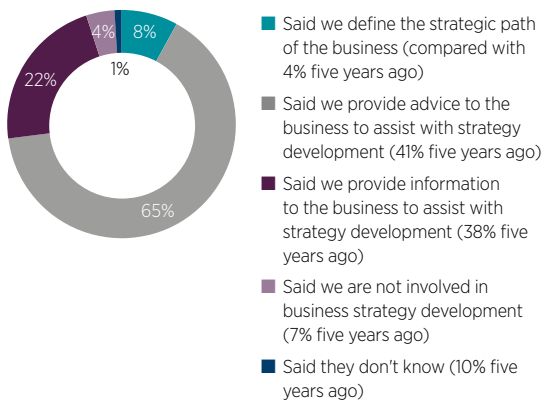
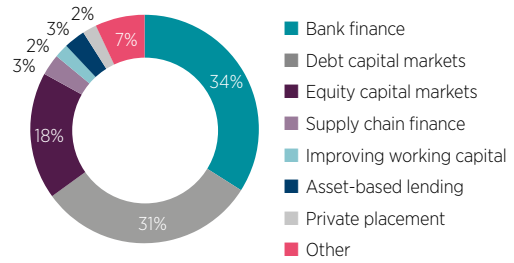
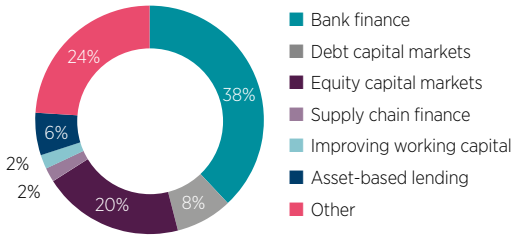


FIGURE 5. **CURRENT FUNDING BY ORGANISATION SIZE**

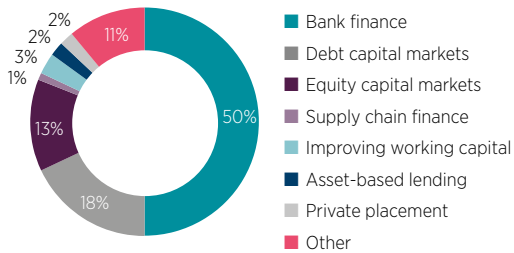
All companies



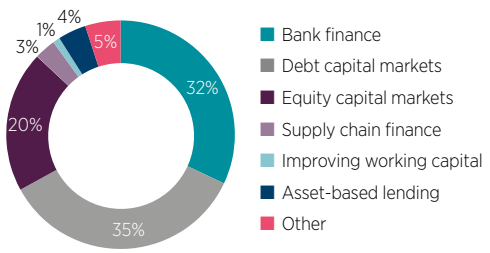
Companies with under £249m in turnover



Companies between £250m and £999m in turnover



Companies between £1bn and £10bn in turnover



Companies of more than £10bn in turnover

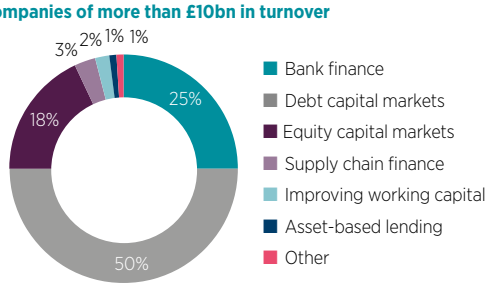


FIGURE 6. **RELATIVE COST OF CREDIT – A CHANGE, BUT NOT FOR THE BETTER**

When asked about the cost of credit (net positions):

Out of all treasurers

22% found credit more expensive in 2016 than in the previous year

61% expect the cost of credit to increase in the coming year

In the UK

11% found credit more expensive in 2016 than in the previous year

61% expect the cost of credit to increase in the coming year

Rest of world

33% found credit more expensive in 2016 than in the previous year

59% expect the cost of credit to increase in the coming year

In the EU

No net difference in cost of credit from 2015 to 2016

43% expect the cost of credit to increase in the coming year

In the Middle East

66% found credit more expensive in 2016 than in the previous year

72% expect the cost of credit to increase in the coming year

In Asia-Pacific

40% found credit more expensive in 2016 than in the previous year

80% expect the cost of credit to increase in the coming year

In North America

50% found credit more expensive in 2016 than in the previous year

60% expect the cost of credit to increase in the coming year

What is everyone else doing?

In last year's report, we commented on the involvement of treasurers in new business and market development

The picture remains cloudy this year with some inconsistent results. For example, 19% of treasurers in businesses with more than £10bn of sales say they are not consulted at all, whereas, in companies with sales below £250m, more than half of treasurers say they are closely involved. A case of larger businesses having too many riches, or smaller ones recognising their talented staff, perhaps?

Treasury technology is playing a stable role. Almost all respondents plan to increase treasury technology investment or keep it at current levels. In fintech we have an almost perfect statistical model between innovators and laggards. In fact, treasury is slightly behind standard societal expectations when it comes to adopting new technology – a reflection of treasurers' famed sense of caution. (See figure 7)

FIGURE 7. **ADOPTING NEW TECHNOLOGY**

When asked about fintech (and disregarding the 'unawares' and 'don't knows'), treasurers surveyed gave responses very similar to the standard statistical model:

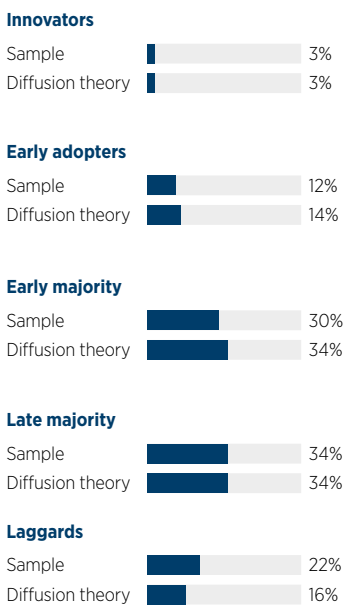
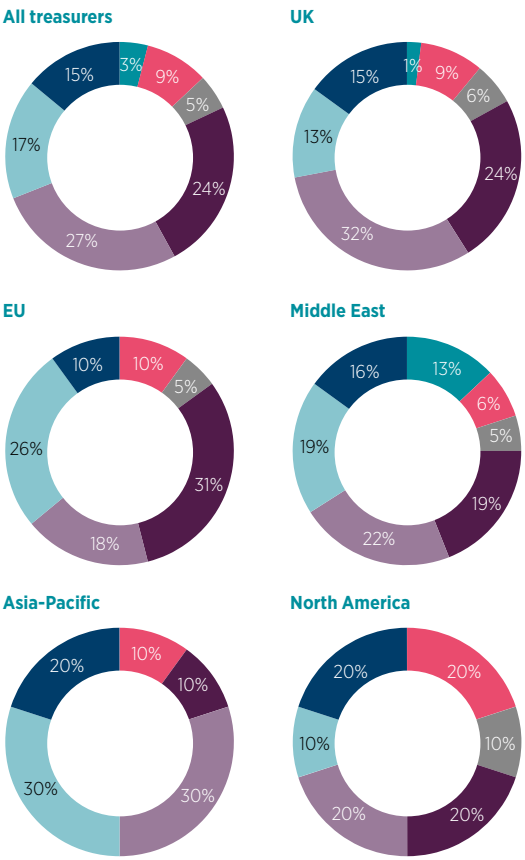


FIGURE 8. **RESPONDING TO FINTECH**

When asked: what has been your department's response to the expansion of fintech in terms of dealing with its financial activities?

- Said my department is a fintech innovator
- Said my department is very early to adopt fintech
- Said my department adopts fintech as it sees fintech systems being used successfully by early users
- Said my department adopts fintech systems only once the majority of the market is using them
- Said my department is very slow to adopt or unlikely to adopt fintech until traditional solutions are no longer available
- Said my department was not aware of the expansion of non-bank fintech tools
- Don't know/not applicable



The future of treasury

As in previous years, we asked our survey group questions about a range of topical issues

Financial regulation – and not just within financial services businesses – is still seen as having a net negative effect, although largely this is no worse than its peak in 2014.

Interestingly, those with more functional roles find regulation less onerous now than their more strategically focused colleagues in leadership roles. This suggests not only that we're getting used to pointless bureaucracy, but that younger treasury staff see regulation as part of the job.

The good news is that treasurers remain positive and generally satisfied about their role and the level of stimulation it brings to working life. With limited outliers, there is higher indication of increased interest over the previous five years now than was reported in 2014's survey. Additionally, treasurers in strategic roles on balance find higher levels of satisfaction and lower levels of frustration than those in more functional roles. That's the nature of career progression. (See figure 9)

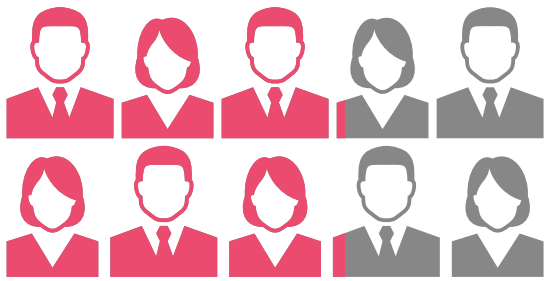
Last year's survey also talked about the skills young treasurers lack and the message is repeated, if nuanced, this year. (See figure 10)

We asked additionally this year: who is responsible for addressing skills gaps in younger treasurers? And the results show no great confidence in corporate remedies. (See figure 11)

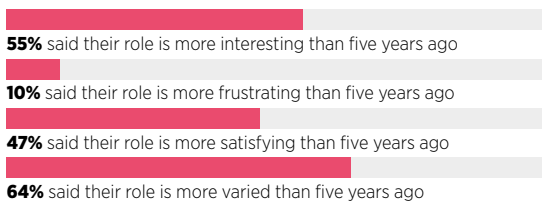
Although the ACT has revamped its qualifications over the past couple of years and online learning is now increasingly preferred, the survey suggests that, in some parts of the world (the US in particular), ACT qualifications lack presence in the local market. We are working very hard to change that perception. (See figure 12)

FIGURE 9. **SATISFACTION AT WORK**

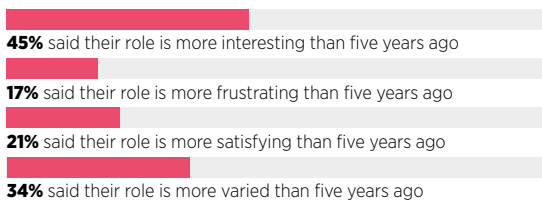
When asked whether their work was more interesting than five years ago, a majority, 63%, said yes. (In 2014, the figure was 60%.)



For those with a mostly strategic role



For those with a mostly operational role



The values above are net percentages

Treasurers remain positive and generally satisfied about their role and the level of stimulation it brings to working life

Of all the qualifications I've done, it is the most interesting and relevant. I've done more in the ACT than other qualifications – it's underrated

FIGURE 10. **SKILLS GAP IN YOUNGER TREASURERS**

When asked what skills younger treasurers lack, respondents replied similarly region to region:

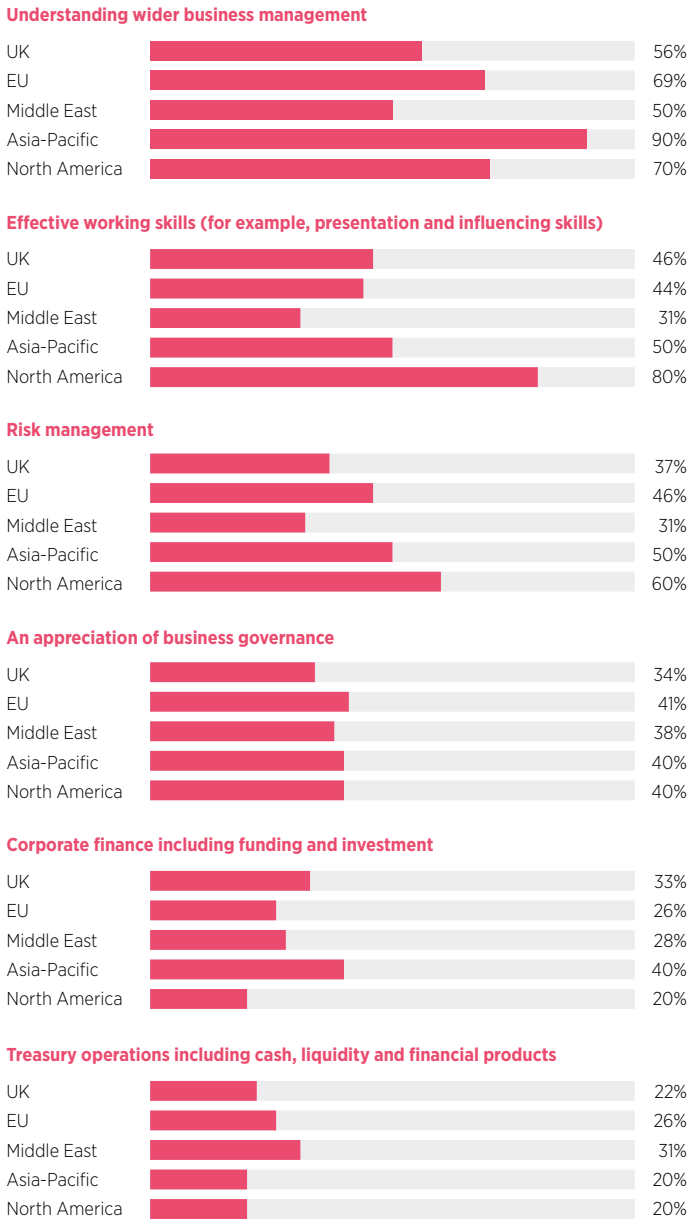


FIGURE 11. **ADDRESSING THE SKILLS GAP**

Who is best placed to address the skills gaps in younger treasurers?

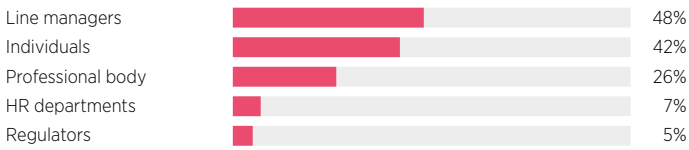


FIGURE 12. **SEEKING OUT ACT QUALIFIED INDIVIDUALS**

When asked whether, during recruitment, respondents seek out individuals who have ACT qualifications or who show a willingness to study for an ACT qualification, we had the following free responses:

Yes

"Of all the qualifications I've done, it is the most interesting and relevant. I've done more in the ACT than other qualifications – it's underrated." An EU respondent

"I view it as a benchmark in treasury; as a member, I am very supportive of the ACT." A Middle Eastern respondent

"If they don't have it, I make it a requirement to do it – I have been through the exams myself and I think it's a very good qualification to have. It also makes them sure that they really want to work in treasury and will dedicate and commit their time to it, as it is a specialist area." An Asia-Pacific respondent

No

"There is an Austrian competitor to ACT; its language is German, so it is more convenient for the business to use it." An EU respondent

"In Canada, it's not a well-known qualification, so it wouldn't be something I would actively seek out, but if it was there I would be interested." A North American respondent

METHODOLOGY

The findings in this report represent a tracking study looking at the role of the treasurer and the influence of treasurers on corporate strategy, repeated annually.

Telephone interviews were conducted by a professional research firm, with 191 treasurers randomly selected from the ACT's membership and relationship lists everywhere in the world. The interviews took place between early January and mid-February 2016.

Research and analysis was carried out by What's Next!

In search of a new accord

AS THE UK'S VOTE ON EU MEMBERSHIP DRAWS CLOSER, SO THE NEED TO LOOK AT IMPLICATIONS GROWS MORE PRESSING. STEVE BASEBY LOOKS AT FUTURE TRADING MODELS FOR THE UK

The UK hosts domestic business, multinationals with worldwide interests, branches and subsidiaries of multinationals. These organisations import and export goods and services, and are staffed by UK, other EU and non-EU employees.

Next month, the UK voting population will decide whether the UK is to leave or remain in the EU; debate and public opinion are deeply split as to the implications.

A key point to bear in mind is that if the UK votes in favour of leaving the EU, the UK will need to maintain equivalence if the financial services sector is to continue to be able to operate within the remaining EU. The financial services regulatory structure is most likely to remain in place, and this is reinforced by the UK's membership of G20, the source of most of the post-2008 regulation.

Staying in does not mean 'no change'

The UK prime minister's decision to call the referendum was made after agreeing with the other EU heads of state certain changes governing the UK's relationship with the EU.

In the UK, the press has tended to concentrate on changes to social welfare rights obtained by David Cameron, but the changes that affect financial markets are critical for treasurers and, in essence, recognise the ring-fencing of non-EU states from EU states going forward and the creation of a two-tier EU.

For example, banking union and resolution of banking issues only applies to eurozone states, thereby recognising that the European Central Bank's remit is limited to eurozone members. Similarly, further economic and monetary union can progress within the eurozone, but must respect the rights of non-eurozone member states to opt out.

Essentially, irrespective of the outcome of the UK referendum, the EU will become fragmented, comprising a eurozone bloc and some other non-eurozone countries.

But leaving does not mean regulatory freedom

'Leave' campaigners frequently make reference to the wish to be free from Brussels-originated regulation. However, it should be noted that with regard to financial regulation:

- The basic terms of the Capital Requirements Directive, Bank Recovery and Resolution Directive, European Market Infrastructure Regulation, and MiFID arise from the Pittsburgh commitments by the G20, which, as a matter of legal process, have been implemented through the EU. As the UK is a member of G20 and is not voting on 23 June on whether to remain in the G20, these regulations will still apply in the UK.
- Equivalence is a crucial word. The UK financial community is able to operate across the world's financial centres, including those of the rest of the EU, because the UK's financial regulation is similar in substance and enforcement to that of other global financial centres. Changing substantially from the current form would lose the UK's equivalence status and those markets would be closed to the UK. Losing equivalence would lose a substantial export market (and potentially the very people who populate much of the City of London as they decamp to other financial centres, with a knock-on effect on back-office jobs, the service sector in London and housing prices).

The vote itself creates volatility

The immediate concern for corporate treasurers

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has been the volatility in financial markets caused by the decision to call a referendum.

This volatility makes it more important for businesses to manage their financial exposures to hedge transactions that span the referendum.

What does leaving mean?

A useful approach when considering what form the UK relationship with the remainder of the EU might take in the event of a 'leave' decision is to consider the span of arrangements already in place. The UK could negotiate its own agreement and not follow any of these models.

The Norway model: European Free Trade Association with European Economic Area membership

- As a member of the European Economic Area, Norway has access to the single market and follows EU legislation in areas such as the free movement of goods, services, people and money.
- It is not bound by EU laws governing things like agriculture and fisheries or monetary union, but it does have to make a financial contribution to the EU budget. It is also liable to tariffs on exports of a number of agricultural products to the EU.
- An independent study commissioned by the Norwegian government has calculated that Norway has had to incorporate approximately 75% of EU laws into domestic legislation in return for access to the EU market, but with no vote or veto on the creation of those rules.

The Switzerland model: European Free Trade Association membership

- Access to the single market is governed by a series of bilateral agreements, which cover some, but not all, areas of trade. For example, Switzerland has agreements in place for goods, but not services.
- It makes a financial contribution to the EU, although it has no vote or veto over the creation of EU rules.
- This model is coming under pressure as Switzerland voted to limit immigration from the EU and does not automatically update its own rules to match those of the EU.

The World Trade Organization model: free trade agreement

- The World Trade Organization (WTO) sets out rules for international trade that apply to all members, so this is what the UK would adopt, after a period of transition, if no bilateral agreements were made following an EU exit.
- It would mean that the UK would not have to accept free movement or contribute to the EU budget, but goods exported to EU countries would have to meet EU standards.
- WTO trade agreements mean that the UK would have to apply to have a single universal set of tariff rates, covering imports from the EU and the rest of the world alike. Under WTO rules, the UK would not be allowed to treat any of the WTO's 161 other members differently, unless there was a trade agreement in place.

An exit will lead to a debate about trade

The UK business world has long been the home of multinational organisations. The London Stock Exchange's liquidity, and the UK's open and stable regulation, have made the UK a natural home for big business. Ease of access to the broader EU real economy and financial markets has made the UK a point of entry to the EU.

The longer-term uncertainty of leaving is that the continuing trade relationships with the remainder of the EU would have to be renegotiated. The freedom with which UK-based businesses import from, and sell to, other EU member states and that their staff have to move across EU borders, cannot be assumed to continue. For example, businesses based in the UK need to begin to consider how to operate in a world where similar customs duties and business visas are required to trade with and work in Germany as are required in the US.

In the event of a UK vote to leave the EU, each member state would wish to maximise its position. For example, Emmanuel Macron, France's economy minister, has already proposed that financial services could move from London to Paris.

How long will a renegotiation take?

The short answer is: nobody knows. The Treaty of the European Union, Article 50, is the much quoted source of the answer: two years to renegotiate, but: a) that period can be extended by mutual agreement; and b) any renegotiation requires a qualified majority of member states.

A TRADING SUMMARY

- The EU remains by far the UK's biggest trading partner, accounting for **45%** of UK goods exported and **53%** of imports.
- In 2014, the UK imported **27%** of its food from the EU; while it exported £18.8bn of foodstuffs.
- The UK energy Net Import Dependency in 2014 was **46.2%** – that is, we imported **46.2%** of our energy when converted to 'thousands of tons of oil equivalent'.
- We imported **85%** of coal used in the UK in 2014, according to the Disasters Emergency Committee, which was sufficient to meet all coal used in electricity generation; but little of this energy originates in the EU.
- The UK runs net internal and external deficits. Its government debt at the end of January 2016 was £1,581.6bn, equivalent to **82.8%** of GDP; an increase of £52.7bn compared with January 2015. Approximately one quarter of this is funded by foreign lenders.

Source: UK government departments and research notes

The above is an edited extract from the ACT's briefing note on the implications of Brexit, which can be found at **www.treasurers.org/brexit-briefing**

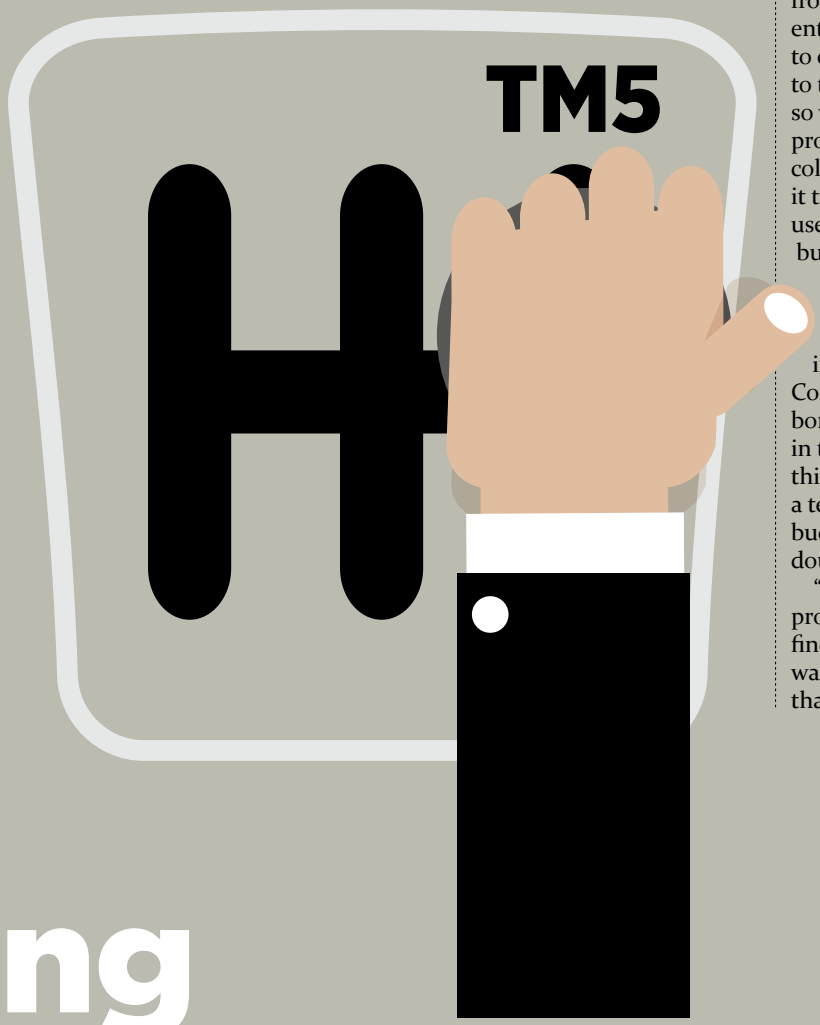
Steve Baseby is ACT associate policy and technical director

Driving transformation

SMALLER CORPORATES AND NOT-FOR-PROFITS SOMETIMES NEED ADVANCED TREASURY TECHNIQUES TO HELP WITH THE MORE UNUSUAL ISSUES THEY FACE. *THE TREASURER* LOOKS BEHIND THE SCENES AT DEVELOPMENT CHARITY REALL AND ITS TMS INSTALLATION

The past few years have been good to Reall. Previously Homeless International, in 2014 the charity rebranded and relaunched, shifting its business model from a development charity funded by grants to a social enterprise. Using a business-focused model to provide philanthropic support to its partner network, Reall expanded its operating budget tenfold and increased its expansion efforts twentyfold over its 2010 numbers. Meanwhile, future growth projections have highlighted the need to standardise and modernise the methodology used for tracking investments in partner companies.

At first glance, Reall does not seem to be the kind of company that would require a treasury management system. Providing technical assistance, advisory and financial support to a series of partner organisations – known as Community Development Enterprises (CDEs) – Reall's goal is to build homes and encourage commerce in Asia and Africa. These CDEs operate locally, performing functions ranging from mobilising poor urban communities; securing, processing and servicing land; developing vibrant, affordable residential neighbourhoods; and managing efficient end-user micro-mortgage systems to enable locals to purchase homes. While Reall will often hold some share in them, it does not usually have a controlling interest, and provides finance as a mixture of debt and equity.



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Transforming philanthropy

The year 2014 marked a transformation in Reall's operating philosophy towards the CDEs. Changing scope from a charity to a social enterprise, Reall continues to offer loans and financing to the CDEs, but now does so with a focus on funding profitable business that it can collect a return on. This gives it the funding, which Reall uses to reinvest in the CDEs, but also assures it that the money it invests supports another goal: building sustainable industry in developing nations. Combined with releasing bonds and seeking investors in their partner organisations, this change has resulted in a tenfold increase in Reall's budget, and more than a doubling of its efforts.

"Given our future growth projections, we needed to find a treasury system that was built for purpose rather than continuing to manage

our treasury function using a variety of spreadsheets," says Peter Mujtaba, head of systems for Reall. "Our aim was to find a system that was easy and quick to set up and intuitive to use. We followed a standard request for proposal process to research the marketplace and were quick to find a suitable solution for us with BELLIN tm5. We selected tm5 primarily because it was cloud based and met our business requirements out of the box – and because it came across as a good cultural fit. The team was approachable, keen, knowledgeable and also experienced in working with other UK-based charities."

Standardisation through implementation

At the heart of Reall's operations are the CDEs, and as such, a major focus of the project was a push for standardisation in Reall's investment contracts with them. There were 80 agreements, many of which had been written up with terms and conditions according to local rules and regulations, and interest rates that differ according to jurisdiction. These were long-term investments with cash flows projected over five years or more, which had not been standardised globally, meaning that details such as interest calculations, which may have been different between partners, needed review. These details were captured in aging spreadsheets, making tracking – much less change control – incredibly labour intensive. Using the implementation project as an opportunity to re-examine these agreements gave Reall an opportunity rarely afforded to organisations: not only could it define the standardisation of its future agreements, but it also provided the opportunity to look at past agreements and review their structure.

To do this, the CDEs were set up as separate counterparties. Investments were done with CDE subsidiary entities, grouped in counterparty groups. This permitted Reall to track its investment projects, while still allowing for flexibility in special project arrangements. In addition, it enabled Reall to map and monitor programmatic data (building units, land, etc) against the investment projects.

"What we wanted to do was standardise their processes," says Lena Pennington, BELLIN project lead. "One of our early tasks was to capture existing partner investment contracts along with their interest and repayment schedules. Now, Reall does not only track outstanding investment projects for current movements, but also uses this data to forecast future cash flows, enabling Reall to monitor currency and interest exposures, and plan for future investments and funding decisions."

Reall's new treasury management system (TMS) not only produces relevant project documentation, it also serves as the complete repository of all project documentation, as documents are attached to each of the investment projects directly. As all of this happens with the same set of templates in the system, future agreements are then standardised and codified easily.

"It has been labour intensive, but taking each contract one at a time and working methodically through each of them has resulted, for me, in a better understanding of not only the system but also Reall's contracts," explains Lisa Wesley, TMS project manager. "The system is user-friendly and flexible enough for us to be able to create the necessary investments. With the help of Lena we have successfully captured each investment contract within tm5 and each FX transaction. Phase one of the implementation process is practically complete."

> Reall does not only track outstanding investment projects for current movements, but also uses this data to forecast future cash flows, enabling Reall to monitor currency and interest exposures, and plan for future investments

Looking towards the future

With much done, but with even more left to do, both teams look towards the future and what they want to achieve. "Going forward, Reall will leverage the existing processes and establish a long-term forecast, which will include all investment, funding and operational flows," explains Pennington. "This will serve Reall as a basis for sensitivity analyses on FX and interest rate risks."

"The reporting side of the system is going to be invaluable to the organisation, not only for seeking new investors, but also for reporting back to current investors, donors and other stakeholders. We have future plans for further phased implementations of other functions within the system, which will be advantageous for the organisation," explains Wesley.

Reall's shift in focus has been transformative, not least of which has come through the application of new technology. "We see this a lot," says Pennington. "Companies engage with us because they need software, but what the exercise provides is the organisational push to reorganise and standardise operations."

What lies at the end of all this? "We hope we'll be able to continue to expand our efforts," says Wesley, "creating livelihoods, catalysing economic development and driving economic empowerment with each investment."

To follow updates on Reall's activities around the world, visit www.reall.net, and for more information on BELLIN see www.bellin.com

Wanted: new approaches to cash

CHANGES IN THE REGULATORY LANDSCAPE ARE MAKING TRADITIONAL MONEY MARKET FUNDS LESS VIABLE AND TREASURERS WILL BE SEEKING NEW OPTIONS, SUGGESTS MARK ASHLEY

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Since the credit crisis, prudent financial management by corporates has led many to accumulate substantial cash reserves. Historically, these reserves have been placed with banks or in money market funds (MMFs). However, with bank credit ratings having deteriorated and potential regulatory developments putting pressure on traditional MMFs, many cash investors are seeking alternative solutions.

This has brought attention to the repo market, which can potentially offer greater security for cash investors. The repo market itself faces challenges, but new approaches are being developed to offer attractive cash-investment alternatives that are secure and liquid, and offer the potential for yield.

Challenges facing banks

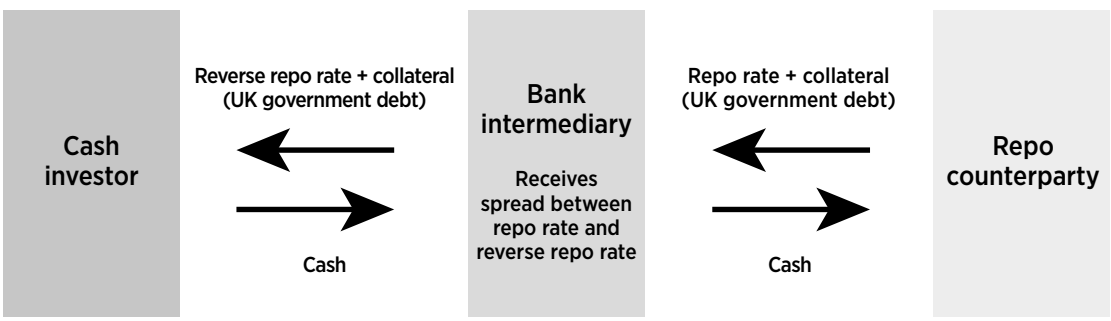
Basel III, developed by the Basel Committee on Banking Supervision, is a package of standards that aims to reform how banks approach capital and liquidity. It is set for full implementation in 2019, but some regulations have already taken effect, and many banks are already following the rules sooner than required. This is having a significant impact on how banks consider investors wishing to place cash with them.

Under the regulations, there are several parameters that define how much capital a bank sets aside to cover its liabilities. Core or strategic cash incurs a higher charge than operating cash, as it is deemed more likely that institutions will withdraw it during times of market stress.

As a result of Basel III, banks are less willing to take on cash investments with maturities of less than three months as they incur higher capital charges, preferring instead to offer three-month maturities or longer. Where banks are accepting short-term cash investments, in some instances, these banks are offering less yield to cover the cost of these new capital charges.

On top of regulatory pressure, many bank credit ratings have deteriorated in recent years. This has put pressure on the ability of corporates to diversify counterparty risk given limits based on credit ratings

FIGURE 1: HOW REPO/REVERSE REPO USING GILTS WORKS



For illustrative purposes only.

contained within many treasury policies.

Challenges facing MMFs

The challenges facing banks have led many larger cash investors to consider MMFs, but these are also facing some headwinds.

Historically, MMFs have offered a stable net asset value (NAV) with daily liquidity, meaning they were appealing to cash investors seeking both security and liquidity. But during the financial crisis in 2008, some US MMFs saw the value of their holdings fall significantly, resulting in them requiring financial support to maintain their constant NAV. One fund, the Reserve Primary Fund, 'broke the buck' and could no longer maintain its constant NAV.

In the US, regulations due to be implemented later this year will lead prime MMFs to adopt variable NAV status, apply liquidity triggers that limit investor withdrawals if short-dated assets drop below a certain proportion of the portfolio assets, and redemption fees. The exception is funds that invest only in treasuries, which will be allowed to maintain constant NAV status.

As a result of Basel III, banks are less willing to take on cash investments with maturities of less than three months as they incur higher capital charges

These changes have prompted an outflow of cash from US prime MMFs.

European regulators are following the lead of their US counterparts, and it is widely expected that regulations for MMFs, currently being drafted and set to be proposed soon, will follow a similar model. It is clear that if MMFs are required to apply liquidity triggers, redemption fees or convert to variable NAVs, corporate investors may have to reassess whether they are suitable vehicles for their cash holdings.

Cash investment and the repo market

Given these conditions, cash investors have been looking for alternative solutions to meet their requirements, and their focus has turned to the gilt repo market.

A repo is typically a bilateral trade. One party sells an asset to another party and agrees to buy the asset back in the future with interest. For the party buying the asset and selling it back on a future date, the transaction is known as a reverse repo. The interest rate they receive is known as the reverse repo rate (see Figure 1, on page 42). Historically, a bank has typically intermediated between both sides of the transaction, taking a spread as the cost of its involvement.

In effect, reverse repos are a form of short-term lending to a counterparty that provides collateral (such as gilts) as security. If the counterparty defaults, the investor holds the gilts: this compares well with other investments, which typically do not offer comparable security.

The repo market, however, faces its own challenges. The introduction of Basel III regulations has adversely affected banks with regard to repo transactions, as it requires them to hold capital against their gross repo book even if there are offsetting exposures. This has led to repo transactions becoming more costly for banks, and this increased cost has been passed on to counterparties through a widening of the bid-offer spread on repo. As can be seen in Figure 2 (left), at maturities of one month and beyond, this spread widening has been considerable.

In addition, while investors would typically prefer gilts as security, transactions are often arranged with collateral that is less secure than gilts, such as low-quality bonds or even equities.

It has become clear that if transactions can be arranged without bank involvement, it should be possible for counterparties on both sides of a repo transaction to enjoy better terms.

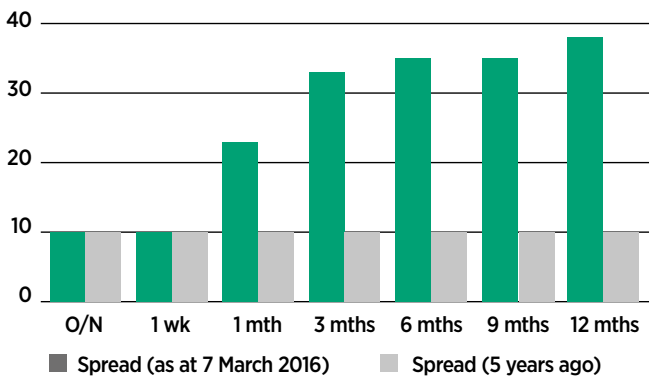
In light of this, some cash investors have opted for cutting out the intermediary by trading directly with a counterparty, and repos/reverse repos are being traded directly at superior rates as a result. However, this approach is typically limited to larger, well-resourced investors, which are able to analyse the credit quality of a counterparty and to manage the legal infrastructure that lies at the heart of repo transactions.

Another approach is the creation of peer-to-peer platforms, which aim to match cash investors and cash borrowers. These are still largely in development.

A new approach

In our view, treasurers looking to meet the standards of security and liquidity, with yield following some way behind, should be prepared to consider new approaches to the repo market. Ideally, these would potentially offer the security of gilts as collateral (via an MMF vehicle) as against traditional unsecured cash investments or those offering low-quality assets as collateral. At Insight, we have been helping treasurers enhance their cash-investment options without compromising on appropriate investment standards.

FIGURE 2: SPREAD BETWEEN THE REPO RATE AND REVERSE REPO RATE HAS WIDENED



Source: Insight Investment. Current spreads provided by one bank counterparty, which Insight deems to be representative of spreads available across the market

Mark Ashley is head of institutional business development UK & Ireland at Insight Investment

Insight INVESTMENT

SHIFTS IN COLLATERAL MANAGEMENT

IN THE FACE OF REGULATORY CHANGE, RENEWED FOCUS ON COLLATERAL MANAGEMENT COULD BRING EFFICIENCIES ALONG WITH RISK AND COST REDUCTION, ARGUES KARL WYBORN

For corporate treasury functions using and managing collateral, the next 12 to 18 months will bring significant changes in the regulatory environment, with new regulation driving, directly and indirectly, considerable change to conventional business models.

In this, the first of two articles on the role of collateral in corporate treasury, I will look at the nature of the changes impacting the market now and over that 12- to 18-month time frame, and comment on how innovation is bridging the gap between the new and old operating paradigms.

For some time now, where collateral is concerned, market commentators (and scaremongers) have been commenting on the timing and impact of forthcoming regulatory changes and how they will affect treasury management. Despite all the negative forecasts it seems, with few exceptions for corporate treasurers at least, that management of collateral has remained broadly unchanged during this period. In fact, I'd argue that, despite delays, the status quo will be challenged over the next 12 to 18 months. What is more, from a corporate treasurer perspective, by leveraging advancements being made in the field of collateral management, it is possible to materially reduce cost and risk and, at the same time, increase efficiency without major investment in new technology or material disruption to the overall strategic direction of the business.

To better evaluate the significance of the changes that are taking place, first let us understand and assess the role of collateral where it is used to support financial markets activity.

In short, collateral is an exchange of risk. Users of collateral are replacing counterparty credit exposure with a series of other risks associated with the management of the collateral itself. The concept being that these new risks, which are operational, legal and liquidity related in nature, can be directly managed where credit exposure cannot. Until recent times, this pact has been relatively straightforward to manage for most corporate treasury functions. The benefits have been material – where the values of collateral have remained quite modest, where available liquidity has not caused undue concern and where the operational processes associated with

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Definitions explained

Variation margin – the mark-to-market difference on a portfolio.

Initial margin – the sum of money that could conceivably be lost over a defined period, post a default. The period is defined by regulation and differs by instrument from one to 20 days or more. Critically, it is a forecast rather than a function of currently observable market values. The calculation of this forecast and the agreement with a counterparty (where their forecast may differ) is a material challenge for those market participants captured by these regulations.

The **liquidity coverage ratio** refers to highly liquid assets held by financial institutions in order to meet short-term obligations. It is designed to ensure that financial institutions have the necessary assets on hand to ride out short-term liquidity disruptions.

SOURCE: INVESTOPEDIA

the exchange of margin have been straightforward.

Shifting sands

The changes impacting collateral management as it relates to a corporate treasury can be divided between first-order and second-order effects (with ironically the second-order effects being, currently, at least, more apparent) and between cleared and non-cleared instruments, ie repo or non-cleared OTC derivatives and futures and options, and cleared OTC derivatives.

Let us primarily consider first-order versus second-order effects. First-order effects relate directly to those changes that the regulators, globally, are looking to implement to make markets safer. These range from the mandate to clear all vanilla OTC derivatives to the mandatory exchange of variation margin on OTC derivatives and the requirement (for the largest users of swaps) to exchange initial margin bilaterally.

From a corporate treasury perspective, the impact of these changes will be correlated to the instruments traded along with the scale of that activity. For a vast majority it is likely, in the near term at least, to involve a higher frequency of margin calls for non-cleared transactions (perhaps from zero) and the appointment of one or more OTC derivatives clearing brokers.[1] Both requirements (or indeed each individually) will lead to higher values of collateral being demanded.

It is the second-order effects of the new regulations, however, that are causing the nearer-term challenges. Much has been written about the zero (or lower) interest rates and quantitative easing that have defined central bank policy for many years now. No let-up is forecast for some time to come. The response from a number of treasury functions has been to use repos as a means of securing (albeit still modest) enhanced returns as an alternative to bank deposits or money market funds. Repos clearly involve some element of collateral. Again, dependent upon size, the ongoing margining of 'in-flight' repos is becoming more commonplace among treasurers who are keen to avoid the credit risks that are created through mark-to-market of collateral.

In addition to the above, those users of futures and options (and, in the future, cleared OTC transactions) are subject to some rather ugly second-order impacts created by the new capital rules impacting clearing brokers. In short, where cash is used as collateral, a clearing broker incurs far higher costs under Basel III (as a result of the liquidity coverage ratio).

Many treasurers have already witnessed the response from these same clearing brokers, which is to encourage the use of securities as margin wherever possible and discourage the use of cash buffers, historically used to avoid the operational headaches of moving margin every day. This is, of course, in tandem with many clearing brokers raising minimum fees and trimming their client bases to only those institutions that pay the higher fees. Notwithstanding the obvious challenges that increased fees and reduced access to clearing brokers represents, the use of securities as collateral, while delivering a desirable benefit, represents a meaningful operational challenge for many treasury units.

In line with the comments above, while these second-order effects are perhaps more apparent now, the new regulations driving the first-order changes will be implemented over the next 18 months or so, and hence will serve to compound the challenges that some corporate treasury functions face as they go about their core business.

In a nutshell

So, regulators' responses to the global financial crisis have had the effect of making the use of collateral far more commonplace than was historically the case. This expansion in the use of collateral brings with it an increase in cost and risk. Where, in turn, these increases negatively impact the exchange of risk pay-off that collateral represents, a solution is required to redress the balance. Where there is no solution, there is the (well-documented) possibility that the use of collateral starts to increase the overall risks that any given institution faces.

Needs must when the devil drives

In broad terms, where we might categorise this expansion of the use of collateral as a challenge, the various industry responses to the new financial 'landscape' could (or perhaps should) be considered an opportunity. As is often the case, innovation is at the heart of the more exciting advancements that are being made.

Very broadly speaking, it is possible to divide these advancements between new technologies and new infrastructures, with both terms being used in their widest possible sense. Whether technology or infrastructure, however, the objective remains the same: that is to support/facilitate the ongoing market activity in light of the new operating models created by the new regulation.

Whether any given corporate treasury function can simply continue on a business as usual basis is broadly a function of the nature or scale of its specific trading activity, ie whether its trading activity has a focus on non-financial counterparties with a positive or negative trading threshold.

In a second article, we will evaluate what options are available now to help redress the balance between the risk versus reward and the risk versus cost dynamics of the use of collateral, and what might act as a trigger for their adoption. It will argue that by leveraging some of the new solutions available, the corporate treasury function can reduce risk and cost without material disruption to other activities.

1 Whether this relates to whether the institution is an NFC- or an NFC+. For more information, refer to www.esma.europa.eu. The reality is, however, irrespective of whether an institution is captured by the regulations – they are not immune from the impact. Banks will charge more for uncollateralised transactions for a host of reasons.

Karl Wyborn is MD and head of sales at CloudMargin

CloudMargin™

Exchanging uncertainty for certainty

JOHN TOWNER EXPLAINS HOW UNDERTAKING A PENSION BUYOUT CAN TRANSFORM A COMPANY'S PENSION DEFICIT INTO A MORE ATTRACTIVE AND STABLE LIABILITY

Imagine you are about to go into a meeting with your FD to provide an update on a number of treasury initiatives. You have been looking forward to this meeting for a while, as several of your projects are nearing completion and things generally are ticking along well, but then there is your pension scheme. If you are like most companies in the UK, the news on this front will not be good.

The Pension Protection Fund estimates that defined benefit pension scheme deficits have increased from £158bn in May 2013 to £302bn in March 2016. Although deficits fluctuate, they have increased by £80bn from the start of the year to the end of March alone. This increase can be seen in the context of the near £190bn that companies have contributed to their respective schemes since 2008.

While the pension scheme may feel like the proverbial black hole, your situation does not have to be all bad news. On the bright side, FDs – compared with other stakeholders involved in pension schemes – can think more holistically and consider how the pension scheme fits into the wider capital structure of the company. Within this wider context, an interesting question to ask is whether there are ways you can transform your pension deficit into a more attractive liability.

One way this can be accomplished is by funding a pension deficit through a bond issue or other form of financing and then undertaking a buyout with an insurance company. A buyout, which is achieved with the help of specialist advisers, would transfer the responsibility of meeting your pension obligations to an insurer, thereby enabling you to remove the deficit from your balance sheet. Companies in the US, such as Kimberly-Clark, have used this approach to replace their volatile pension debt with contractual debt. A similar rationale exists in the UK.

UK pension deficits have several unattractive characteristics compared with other forms of debt, which could make this course of action attractive. First and foremost, pension debt is risky and volatile. A pension scheme's liabilities are a complex combination of interest rate, inflation, longevity and other investment risks, which are difficult to hedge, let alone manage. While pension trustees and their advisers have made great strides over the past 10 years increasing risk management within schemes, they nonetheless continue to struggle with low interest rates, volatile markets and increasing life expectancies, as evidenced by persistent deficits.

IKON IMAGES/MATT KENYON

Secondly, the covenants that underpin pension deficits are difficult to control. Trustees have considerable power under UK pension regulation to call on sponsoring companies to make extra cash contributions when deficits arise; not to mention the regulations themselves are subject to change. In addition, pension deficits tend to arise in less favourable economic environments at exactly the same time that a company may have less cash on hand.

Finally, the costs of running a pension scheme are significant and often underappreciated. To keep a pension scheme running, an entire food chain must be sustained. Asset managers, consultants, actuaries, administrators, lawyers and dealing counterparties all extract fees before any investment return is generated, irrespective of how successful (or not) the pension scheme is at generating return. For many pension schemes, these costs can run in excess of 0.50% per annum. While this may not feel like much, the scheme will essentially leak this amount every year, and if expenses were provisioned for in the valuation, they would have the effect of adding another 7.5% to the value of the liabilities today for a typical pension scheme.

For these reasons, demand from sponsoring companies for pension buyouts and other insurance solutions remains high. Over the past three years, more than £30bn in pension obligations have transferred from UK company balance sheets to insurance companies. A more holistic funding strategy as described above could help your company exchange a volatile and expensive liability for a more stable one. In the current era of share buybacks and other financial engineering, a straightforward pension buyout may just deliver greater value to shareholders.

John Towner is head of origination at Legal & General

Legal & General

A smoother ride

COMPANIES BASED IN COUNTRIES WITH BANKRUPTCY PROCEDURES THAT FAVOUR CREDITORS OVER SHAREHOLDERS HAVE A GREATER INCENTIVE TO HEDGE. DR AMRIT JUDGE LOOKS AT THE EVIDENCE

In their seminal work, Nobel prize-winning economists Franco Modigliani and Merton Miller (M&M) argued that in a perfect capital market, where there are no taxes and no contracting costs, such as those associated with bankruptcy, a firm's choice of financial policy does not affect its market value. As a firm's hedging policy involves the issue of financial claims against a firm, it is also a component of its financing policy. Therefore, the M&M proposition can be extended to hedging.

We might argue that, if a shareholder can buy and sell risk on the same terms as firms, no service is provided to shareholders by corporate hedging. A shareholder can obtain 'home-made hedging' by hedging for their own account, implying that the corporate hedging decision is irrelevant. Furthermore, since value creation in the M&M world takes place on the asset side of the balance sheet (through the realisation of positive net present value projects), hedging as part of the firm's financing policies cannot create value per se.

However, this view of hedging seems to be at variance with what we observe in practice. For example, my research on hedging, which examines the financial statements of listed UK non-financial firms over the period 1995-2015, reveals that more than 75% of firms used derivative instruments for hedging. So perhaps there's a country-specific reason why companies hedge.

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Hedging has the potential to increase value by reducing external claims to the cash-flow stream, flowing from the firm's assets and, in doing so, facilitating investment in value-enhancing projects. And in the UK context, it seems to have particular relevance in relation to risk management around potential corporate financial distress.

Financial distress occurs when a firm's income cannot cover its fixed claims, that is, interest payments on debt capital, and repayment of principal and other fixed contractual payments. Firms with lower interest cost coverage, along with greater variability of cash flows, are more likely to find themselves in financial distress. By reducing cash-flow variability arising from exposure to volatility in exchange rates, interest rates and commodity prices, hedging lowers the likelihood of the firm encountering financial distress and, in turn, lowers the expected costs of financial distress. This decrease in expected financial distress costs increases the firm's expected cash flows, and so benefits the firm's shareholders.

Direct and indirect costs

Financial distress costs can be categorised into direct and indirect costs. Direct costs consist of all the costs pertaining to the administration of the bankruptcy process, for example, accounting and legal fees, and management's time spent on the bankruptcy procedure. However, even if the firm does not actually experience bankruptcy, the perception of having a high likelihood of default can impose substantial indirect costs on the firm. These might come in the form of lost market share as customers switch their purchases to rival firms or suppliers tightening credit terms, leading to an increase in working capital requirements.

Loan covenants may also be triggered as a firm approaches financial distress, which might result in costly refinancing. These indirect costs will increase at an accelerating rate as the likelihood of financial distress grows. Firms with a higher probability of financial distress and higher financial distress costs will generate larger benefits from hedging,

and so have greater incentives to hedge their risks.

The severity of the indirect costs of financial distress depends crucially on the types of products a firm sells. Firms that sell products that carry warranties or include service agreements enter into long-term relationships with their customers. The value of these warranties and service agreements will be significantly diminished if these firms are under pressure, and potential customers may turn to more viable competitors.

This was the experience of several motor manufacturers, such as General Motors (GM) and Chrysler, in the months before and after they filed for Chapter 11 bankruptcy during the 2009 financial crisis. In 2009, GM saw sales halve and its US market share fall from 22% to 18% as customers switched to more creditworthy rivals. Speaking to *The Guardian* in May 2009, GM's CFO, Ray Young, said dwindling sales were partly down to the recession. He went on to say: "The other factor, frankly speaking, is the increased concern about bankruptcy by consumers, particularly in North America."[1]

Airlines and hedging

Indirect costs are also likely to be higher for firms that sell goods or services where quality is important, but difficult to determine prior to consumption. Air travel is a good example. Tickets are purchased in advance of travelling, but the customer won't know whether the travel experience is a good one until they have flown. The need to conserve cash and manage costs is the focus for most airlines, and the pressure intensifies during a downturn.

While in Chapter 11 bankruptcy in 2012, American Airlines began imposing cost-cutting contract terms on pilots and announced plans to lay off more than 4,000 mechanics and other airport ground workers as part of its restructuring. During this period, flight delays began to rise and American's on-time arrival rate of 59% was significantly below the 85% achieved by United Continental Holdings and the 76% achieved by Delta Air Lines, both operating outside of Chapter 11.

This suggests that all airlines should hedge their financial price exposures, such as jet fuel price, to avoid the distress costs. However, evidence suggests that hedging practices between US and European airlines vary. Since 2014, jet fuel hedging has been on the decline in the US, in response, some would say, to the decline in its price volatility. American Airlines has not hedged its jet fuel exposure since the second quarter of 2014; United Airlines hedged 21% in the fourth quarter of 2014; Southwest Airlines hedged 25% of its fuel cost in 2014; JetBlue Airways hedged just 15% of its second-quarter 2014 fuel consumption; and US Airways, which recently merged with American Airlines, has gone without hedging since 2008.

Airlines outside the US are hedging a significantly higher percentage of their fuel costs, however. According to recent analysis from Platts, hedging remains a key tool in managing fuel-price exposure for Europe's major airlines. Platts noted that Ryanair had hedged 90% of its fuel consumption for the year ending March 2015; Aer Lingus hedged 90% of its requirements for 2015; easyjet was 80% hedged in 2014; Lufthansa had covered 78% of fuel exposure for 2014;

This suggests that all airlines should hedge their financial price exposures, such as jet fuel price, to avoid the distress costs

and Air France-KLM was 65% hedged in 2014. Reports suggest that British Airways and Air France-KLM have not made major changes to their hedging plans in response to falling oil prices.

Outside Europe, a similar picture prevails, with Qantas hedging 94% of its fuel requirements for the first half of 2015; Japanese ANA Holdings hedging around 75%; and Virgin Australia and Air New Zealand hedging 72% and 67% of their 2015 fuel exposures, respectively. Notable exceptions are Etihad and Chinese carriers, who currently have no jet fuel hedges in place. However, as these airlines are backed by their governments, it could be said that they have fewer concerns about future oil price hikes.

Outside the US

Even prior to the recent decline in oil prices, airlines in the US have traditionally hedged on average a relatively smaller fraction of their fuel purchases than their European competitors. But financial distress costs are higher in Europe (and other countries) than in the US. This, I believe, might arise because of differences in the bankruptcy code between the US and other countries. The bankruptcy code in the US is regarded as shareholder-friendly, because it places greater emphasis on management or shareholders retaining control in the event of default. This enables firms to seek advice at an earlier stage of financial distress, resulting in a greater chance of long-term survival. When Chapter 11 works, the company emerges from the process as a financially healthy company.

On the other hand, the restructuring of bankrupt companies via an administrative receivership, as practised in Canada, New Zealand, the UK and in various European countries, is perceived as debt-holder-friendly because it confers greater rights to creditors. If these rules make liquidation more likely for firms in financial distress, then firms in these countries potentially face higher distress costs than they would in the US. So, firms based in countries with bankruptcy procedures that favour creditors over shareholders have a greater incentive to hedge.

Several interested observers, such as those holding senior positions in the airline industry outside the US, have argued that Chapter 11 has enabled US airlines to walk away from many obligations, such as billions of dollars of pensions liabilities, resulting in a considerable competitive advantage. A number of commentators are calling for the UK to adopt a similar procedure or at least 'cherry-pick' the best aspects of the Chapter 11 regime.

1 www.theguardian.com/business/2009/may/07/gm-results-bankruptcy-fears

Dr Amrit Judge is associate professor in finance at Nottingham University Business School

WHY LOOK AT CHARTS?

ALL MARKET TRENDS BECOME CLEARER ONCE YOU CHART THEM. CLIVE LAMBERT WONDERS WHY MORE OF US AREN'T BOTHERING

Corporate treasurers and risk managers use a multitude of resources available to them in order to evaluate and implement their companies' policies towards currency exposure and risk. Over the years, it has staggered me just how few use charting as a tool within this process, particularly as charting can signify very clearly when an event has or is in the process of occurring that could influence a currency's direction for many months, even years, into the future.

What is the standard response given when I ask "why not?" Because it's a load of tea-leaf-starring hoodoo? I beg to differ. (Although I would, because I make my living covering the major currency pairs, interest rates, commodities and equity indices.) So, let me give you one recent example of why charts are important.

The Bank of Japan

The recent move from the Bank of Japan to negative interest rates came just one week after I'd flagged a really important area on the chart for the US dollar to Japanese yen. On 20 January, we saw a dip down to 115.975. Also on this day there were some whispers (I think out of Davos) that the Bank of Japan would do 'anything required' to defend its currency and sustain a weak yen. This caused a spike higher, and it was very timely because, as I'd flagged to my clients in my commentary earlier that day, 116.50 was a really important line in the sand on the chart. Had we established below 116.50, the chart (based on a chart pattern that we see repeatedly over many years, across many markets) would have given a sell signal with a target of 106-something.

Central bankers look at charts, hence the noise the Bank of Japan made on that day. They then made the move to cut rates to negative just a few weeks later, a move that saw USD/JPY spike up to 121.70.

In subsequent daily commentary, I was able to highlight that this spike could just be temporary and it was actually capped by something Japanese chart watchers call the 'Ichimoku' cloud. It then started selling off again, and only a few days later, I was once again shouting from the rooftops to anyone that would listen, that if USD/JPY broke below 116.50, we could see a serious move lower. By 11 February, within four days of breaking 116.50, we were printing 111.00. This was all on the charts. In fact, the charts were screaming this information. It wasn't in the fundamentals because, according to the vast majority of analysts who don't use charts, the Bank of Japan was going to keep 'slinging arrows' (to use the Bank of Japan governor's phrase) to keep things where they wanted

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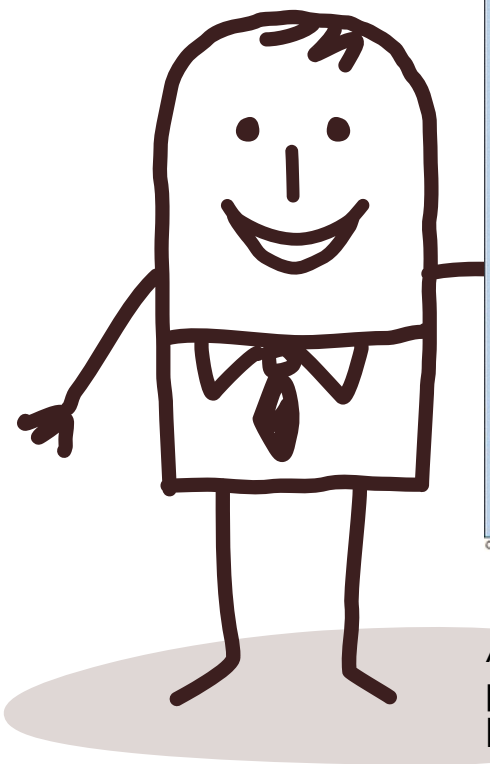
THE THREE PRINCIPLES OF TECHNICAL ANALYSIS

1 Prices move in trends, and trends persist
Oil to $150, then all the way back to $30 again; dotcom and banking boom/bust cycles; bond market bull run (for the past 30-odd years!)... There are so many examples around, I don't think I need to say any more on this one apart from to reiterate: there are three trends in the market: up, down and sideways.

2 Market action is repetitive
Chartists look for recurring patterns of behaviour, like the three peaks that make up the 'head and shoulders' in the chart on page 51. This fits in with the idea that markets are driven by sentiment. After all, as humans, we are all subject to the age-old truth that we'll continue to do the same thing over and over again, even if it's wrong every time.

3 Everything is in the price
This is, for me, perhaps the most important of the three principles when it comes to differentiating technical analysis from more traditional approaches to market analysis because of that word 'everything'. So that includes sentiment. It doesn't matter whether your rigorous analysis of a situation says the price of something is wrong and should be higher; if the market doesn't like it, it will go lower.



A chartist, on the other hand, identifies certain price points that would change the trend, leading to a new directional skew and outlook

them. On this occasion, the arrows missed, and the chart told us when and where this started failing, as well as offering an indication of the risks attached to such a failure.

We are living in a world where central bankers appear to be the most important players in the markets (until they're not) and I know central banks look at charts, so surely knowing that, the rest of us need to watch the currency charts also?

Chart analysis trends

Chart analysis deals with trends or, put another way, they translate the hoodoo into English, and are able to identify, most of the time, which of three trends we are seeing. I say three trends because markets can go upwards, downwards or sideways. It is not a binary deal, and sometimes (in fact some would argue up to 70% of the time) markets trend sideways. This in itself is valuable information, and information that can be used to manage risk-mitigation strategies.

As a chartist, I am also able to approach my analysis in a very different way to economists and those analysts looking at the fundamentals. Their approach is to say "this pair should be higher because..." – which tends to mean that they are likely to still be saying the same thing a week or a month later, even if it's lower, and even if those lower prices are clearly flagging up a change in sentiment.

A chartist, on the other hand, identifies certain price points that would change the trend, leading to a new directional skew and outlook. It is possible to be bullish one week, and then to see something happen the next week that turns the chart bearish. I believe it is a key element of charting to have this flexibility and ability to say: "price action is signalling another sentiment change".

Sentiment is the key word here. As per the 'three principles of technical analysis' (see box on page 50), everything known or thought about an asset is in the price. The price is set by the minute-by-minute auction that is open to everyone. And markets behave irrationally because they are driven by human beings.

Technical analysis

My job isn't to say whether I think something should be higher or lower next week or next month. It is to say whether it can – to look at the probabilities. I do not concern myself with the why, but rather the where – where things have been and where they may be going on that basis.

Technical analysis has stood up through crises past and present, and the advent of algorithmic trading is testament to its robustness. Universities are increasingly adding it to their business and finance courses, and many businesses now make sure their staff has at least a working knowledge of the subject, or has access to analysts who can offer a technical view on market movements and potential risks.

Despite the rise of the machines, it is still people that move markets, and so markets will always be at the mercy of the irrationality of the human mind; an irrationality that can be best tracked with a flexible but robust trend-following approach.

Clive Lambert is director and chief analyst at FuturesTechs

Riding out volatility

STERLING'S PERFORMANCE SO FAR IN 2016 HAS HIGHLIGHTED THE IMPORTANCE OF MANAGING CURRENCY MARKET VOLATILITY FOR UK COMPANIES THAT CONDUCT BUSINESS INTERNATIONALLY, LEE MCDARBY ARGUES

As the new year dawned, sterling was still in relative good health – on 4 January the pound stood at €1.36 – thanks to the wave of success it rode in 2015. Borne out of political and economic factors, such as steady economic growth in the UK, quantitative easing (QE) in Europe and Greek Grexit speculation, this fruitful period for the pound saw GBP/EUR reach a seven-and-a-half-year high in July 2015, when £1 bought €1.44.

Q1 of this year was a different story, however, as sterling failed to maintain its bull run against the euro – as outlined in the chart on page 53.

A range of events conspired to put the pound under considerable downward pressure during the first three months of 2016: concerns over Chinese economic growth once again reared their ugly head; the UK quarterly *Inflation Report* revealed inflation running worryingly close to 0%, meaning expectations for higher UK interest rates were pushed back to 2017; and, most notably, speculation surrounding the outcome of the upcoming referendum – dubbed 'Brexit' – on the UK's membership of the EU intensified.

Ever since UK prime minister David Cameron emerged from lengthy negotiations with the European Council in February, clutching his list of EU membership reforms, and subsequently announced the referendum will take place on 23 June, significant sterling volatility has ensued. A trend fuelled by a 'Leave' campaign that is gathering considerable momentum thanks to the backing of some high-profile political figures, and subsequent concerns among investors that a departure from the EU could have a detrimental impact upon sterling, have added to the uncertainty. For example, in the three days following London mayor Boris Johnson's announcement that he would be throwing his weight behind a Brexit, the pound plummeted to a seven-year low against the US dollar, falling from 1.4330 to 1.3879.

JONATHAN MCHUGH/IKON IMAGES

The potential impact of the pressure applied to the UK's relationship with its largest trading partner has been reflected in the global currency markets. By early March – when £1 stood at €1.28 and £1 = $1.39 – the pound had fallen by 4.7% against the euro and 4% against the US dollar since the start of the year.

What does the remainder of 2016 hold for sterling?

This downward spiral has turned into more of a market roller coaster as the chance of a Brexit becoming a reality mounts. The majority of recent opinion polls indicate the UK population will choose to stay in Europe, but the figures are tight enough and the number of undecided voters high enough that a shock exit is not out of the question. Consequently, by 7 April the GBP/EUR pair had dropped to its lowest level – £1 = €1.23 – since June 2014; although, to further highlight market uncertainty, in the month of April, sterling has recovered by almost 5% against the single currency.

The official campaign period began on 15 April and this should add to the ongoing turbulence, while it is predicted that nervousness surrounding the result of the referendum may continue to direct negative sentiment towards the pound. With this in mind, market analysts are forecasting a tempestuous two months ahead. In terms of sterling's relationship with the single currency market, forecasts suggest that the rate could trade as low as 1.15 before the vote.

As markets come to terms with the prospect of a Brexit, we should try and gain some perspective. Yes, our immediate concern is the coming weeks leading up to the referendum itself, and its influence on the pound. However, both ongoing opinion polls – albeit by a fine margin – and political betting markets, which have become increasingly respected following the pollsters' mistakes in last year's general election, indicate that the public will vote for Britain to remain in the EU.

If the UK does choose to dissolve its membership of the EU, some experts predict a hangover to the tune of a 20% slump overnight in the value of sterling. However, if the public decides against upsetting the status quo and votes to maintain the country's position in Europe, the pound could rally given the precedents of last year's general election and the Scottish referendum before that. If we look back to 2014 as a recent case study, the pound dropped to £1 = €1.24 days before the ballot as polls began to suggest a surprise vote to leave the UK was in the offing, before surging to a two-year high versus the euro, as Scotland decided against independence. This scenario could well be repeated in June, and most market forecasters expect it, with average predictions for GBP/EUR being 1.35 and GBP/USD 1.46 by the end of the year.

What's more, the GBP/EUR rate could be provided with further support by events elsewhere in Europe: namely ongoing QE in the eurozone and the renewed threat of a Grexit, as Greece struggles to meet the fiscal targets required by the bailout programme. We believe there will be a need for FX management services whatever the outcome of the EU referendum. The EU referendum is a democratic decision and we have employees and customers with a wide range of views. We will adjust to either circumstance.

> Sterling volatility in 2016 presents a challenge for treasurers of companies that trade internationally, as they seek to protect their cash flows

Managing market volatility

Sterling volatility in 2016 presents a challenge for treasurers of companies that trade internationally, as they seek to protect their cash flows. For UK businesses that import, the pound's recent misfortune could have had a detrimental impact on their bottom line if they were not hedged. For example, at the early January rate of £1 = €1.36, €200,000 worth of stock would have been priced at £147,000; whereas at the April rate of £1 = €1.23, the cost would have increased to £162,500. That's a difference of £15,500 in just a matter of weeks, simply due to fluctuating exchange rates.

Using the services of an FX expert service can help to mitigate the risks posed by such market movements, through the provision of astute financial risk management. FX management specialists can help businesses develop – and implement – FX hedging strategies in line with their ongoing cash-flow forecasts, and can provide a proactive service that may not always be offered elsewhere.

GBP VERSUS EUR Q1 2016

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Sweat and tiers

MANY CORPORATES ARE HOLDING A LOT OF CASH. THE DIFFERENT WAYS TIERED INTEREST RATES ARE APPLIED MAKES A BIG DIFFERENCE TO TOTAL INTEREST EARNINGS. DOUG WILLIAMSON EXPLAINS

Tiered interest is credited at higher rates on larger balances. Calculations can either be (i) stepped or (ii) banded. Banded interest is better for customers, because the higher rates are applied to the entire balance.

Most corporate groups also have large numbers of bank accounts. *Pooling* balances for interest calculations, where possible, will also give significantly better results for customers.

Group tiers

Let's develop a simple example, based on a recent exam question.

Holdco plc has one subsidiary, Sub A. Both companies have accounts with the same bank. Interest is currently applied on a *stepped* basis on the individual average surplus balances of £390,000 and £510,000.

Amount (£000)	Interest rate per annum
Up to 250	0.1%
250-500	0.2%
500-1,000	0.5%
1,000-2,000	0.9%

Calculate the annual benefit to the group of introducing a notional pooling arrangement where interest is applied on a banded basis.

Certificate in International Cash Management, April 2015, Q3(a) simplified extracts

Simple and best

The simplest calculation gives us the best result, so we'll start there. Pooling and banding, applied together, results in the highest interest earnings.

Pooling the balances of £390,000 and £510,000 gives a total balance of £900,000. This falls into the 0.5% per annum interest tier.

Banded interest means applying the 0.5% to the entire £900,000.

Annual interest enjoyed is:

900,000 x 0.5%

= **£4,500**

Our entire group balances of £900,000 are all earning interest at this beneficial rate. These are the grey 'Banded and pooled' bars in each of our two charts on page 57.

Complex and worse

Without the banding and pooling arrangements, the deal is worse for the customer in two ways:

(1) Credit interest is applied in steps (increments) rather than banded.

(2) Accounts are treated individually, rather than being pooled.

Stepping down

Stepped interest means only the incremental amounts in higher tiers earn interest at the higher rates. Let's consider Holdco (H) on its own.

Tier (£000)	H balance (£000)
Up to 250	250
250-500	140
500-1,000	-
	390

Only £140,000 earns at the better 0.2% rate (coloured blue). Most of the balance (£250,000) goes into the worst-earning tier at 0.1% (coloured pink).

Many candidates got this wrong, awarding themselves too much credit interest at this stage.

Divided we fall

Now let's bring back Sub A. Without pooling, the stepped balances in A's account are treated similarly to H's. But A is calculated individually, ignoring the account held by H.

Tier (£000)	H (£000)	A (£000)	Total (£000)	Rate	Interest earnings (£)
Up to 250	250	250	500	0.1%	500
250-500	140	250	390	0.2%	780
500-1,000	-	10	10	0.5%	50
	390	510	900		1,330

Interest-earning power is substantially reduced. Most of the total group balances now earn at the very worst rate of just 0.1%.

Only a small increment is earning interest at the favourable rate of 0.5%, compared with the entire £900,000 under banding and pooling. This results in much lower interest earnings – just £1,330.

These are the multicoloured 'Stepped' bars in our two charts on page 57.

Handy benefit

The annual benefit of pooling and banding is £3,170. This is the difference between the £4,500 earned under the better arrangements, and £1,330 under the worse ones.

This kind of calculation is important in practice and frequently examined. Getting quick and confident at them needs your focused effort.

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Middle East Treasurer

Sweat it out

I recently discussed study focus with GK, an MCT graduate and a sponsoring employer. He attributes his own study successes to:

- Starting early;
- Family support;
- Transferring skills; and
- Making sacrifices.

Start early

When studying, I put an hour in early – usually 6-7am, to make sure I'd always got something done should the work day get away from me. Where possible, I'd also book an office for an hour at lunchtime to study.

Family support

One Easter, before the April sitting, I needed the long weekend to study. To support my effort, my wife and children went on holiday. I sat, properly under exam conditions, eight past papers, morning and afternoon in the correct order and exact time slots on consecutive days from Good Friday to Easter Monday. I also read through my scripts critically against the model answers in the evenings. It was exhausting! But absolutely worth it.

Transfer skills

I'd applied these practices successfully to earlier studies, on advice from a colleague I respected. It was a no-brainer to transfer them to my ACT work, knowing:

- It was for a limited period; and
- I really wanted the qualification.

I got clear passes in both my MCT exams.

Sacrifice

All this led me to have little sympathy for any of my team members who claimed they "hadn't been able to fit in the study required". That's simply unacceptable. You really do have to decide whether you want the qualification enough to make the necessary sacrifices, or not. Particularly if your employer is paying.

GK, former director, Big 4 advisory firm

One more company

Let's follow this good advice by pushing on with our earlier group case study. We'll introduce one more group company. Say our new company has a surplus cash balance of £245,000.

What's the annual benefit of pooling and banding now?

Banded and pooled

Total pooled balances are now:

0.39m + 0.51m + 0.245m
= **£1.145m**

This total £1.145m falls into the tier above £1m, and the interest rate of 0.9% in our 'Group tiers' table, on page 56.

Banding means the 0.9% applies to the entire £1.145m.

So, interest earnings are:

1,145,000 x 0.9%
= **£10,305**

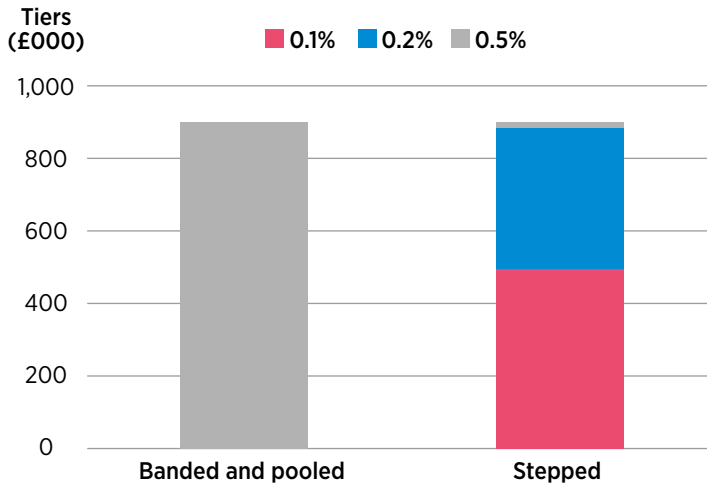
Individual and stepped

Now, turning to the individual and stepped arrangement – on this basis, the additional £245,000 is all in the very lowest tier – below £250,000 – earning just 0.1%.

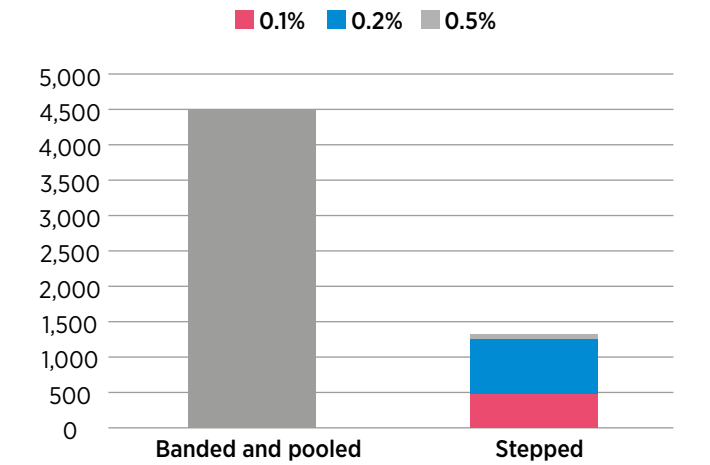
Interest on this incremental amount is:

245,000 x 0.1%
= **£245**

Banded boosts earning power of £900k surpluses



A big step down: interest earnings £1,330



Added to the £1,330 we calculated before, total interest earnings under the individual and stepped arrangements are now:

1,330 + 245
= **£1,575**

More rewards

The total benefit of pooling and banding becomes £8,730. Again, this is the difference between the handsome £10,305 now enjoyed under pooling and banding, and the rather derisory £1,575 without them.

Well worth investing a little time and sweat to understand. Having understood, make sure you always negotiate with your bank for the most favourable basis. Banded will always be better. Notional pooling will also be better, where permitted by local regulations and offered by the bank.

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

With many thanks to Paul Cowdell and Michèle Allman-Ward for all their valued suggestions.

Doug Williamson is a treasury and finance coach

All shook up

In? Out? Mr Treasurer can't decide how to vote in the Brexit referendum

Mr Treasurer realised he couldn't put it off any longer: he simply had to decide how to vote in the Brexit referendum.

He felt obliged to make his mind up now because all of his friends and colleagues kept asking him, "Well, Mr Money Man, should Britain remain in the EU? Should we leave? How should we vote?" Mr Treasurer demurred – not least because he hated being called Mr Money Man, but mostly because he hadn't the foggiest idea.

He thought about it long and hard – in fact, he thought about it so long and hard, he felt as though his brain had been hit by something long and hard. He needed a methodical approach: list the pros and cons – the debits and credits. He tried to remember from his training days whether debits went on the left and credits on the right or vice versa, but it was no use, and no matter.

So he began...

Remain – debit.
Leave – credit.

Many eminent businesspeople support the Remain campaign.
But many other eminent businesspeople support the Leave campaign.

Many of those in the Remain campaign seem to come from larger businesses, which should therefore carry the most weight.
But the smaller businesses that seem more likely to want to leave are the future – and our company's suppliers.

All those stories about 'straight bananas' and banning mushy peas are just silly nonsense.
Leaving Europe means we don't have to put up with the real nonsense from Brussels – like MiFID and EMIR.

Didn't MiFID and EMIR come out of our G20 commitments? We'd have had to implement rules like that anyway.
Maybe. But at least they'd be written in Whitehall and debated in Parliament.

That's an improvement, is it?
Hmm. Good point.

A vote to leave would create uncertainty for years.
You're a treasurer. Dealing with uncertainty is part of the job description.

Just as Mr Treasurer's mind was starting to wander seriously off-piste, the CFO knocked and walked into his office. "Ah, Mr Treasurer!" said the CFO. "I've been thinking about Brexit – and I've reached a momentous decision."

Invariably, the CFO's momentous decisions involved Mr Treasurer having to do more work. This one would prove to be no exception. "I've decided that you –" [Uh-oh!] "– are the best person to write a paper about what Brexit would mean for our organisation. Pros and cons. Debits and credits. In or out. Shake it all about. That sort of thing."

"By a spooky coincidence..." started Mr Treasurer, but he was cut off.

"And I'll present it to the board," said the CFO. "Fifteen, 20 pages ought to be enough. Don't go overboard with it – just cover the main points. Business strategy, regulations, corporate structure, banking relationships, funding, FX. Risk, of course..."

Mr Treasurer groaned. The CFO left singing an Eagles song: "You can check out any time you like, but you can never leave..."

Mr Treasurer looked at his Brexit balance sheet and compared it with the topics the CFO had asked him to cover. Hmm. Must try harder, he thought to himself.

In a flash of inspiration, he typed 'treasurers.org' into his web browser (see also page 38 of this issue). Two clicks later, he found a document that made a small smile start to cross his lips. He still couldn't decide how to vote, but he found it a lot easier to build his list of debits and credits...

SHUTTERSTOCK

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

IN THIS ISSUE:

The highlights of the May 2016 issue of *The Treasurer* include: Drax Power's chief executive talks about the progression of the company during his time there, on page 20. The ACT looks at the implications of a Brexit, on page 38. Discover how collateral management has developed following regulatory change, on page 42. Find out about the importance of chart analysis, on page 50. What does sterling volatility mean for your business in 2016? See page 52.

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