IN THE KNOW ON KYC
Proof of ownership still providing complexity

THE NEW MIDDLE EAST
Digitisation and new trading opportunities in the region

TECH ON THE BLOCK
Distributed ledgers are the way forward

The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ NOVEMBER/DECEMBER 2017

IN IT TOGETHER

How the global FX code represents the upside of compliance

PLUS

GEORGE SAWTELL
UBM's head of treasury on efficiency

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ACT
LEADING TREASURY PROFESSIONALS

Editor's letter

Blink and you almost might miss it. The Bank of England issued its first rate rise in 10 years, at the end of October, raising the base rate from 0.25% to 0.5%.

The hike had been signalled well in advance and very few observers will have been taken by surprise. However, the decision still can't entirely be regarded as a foregone conclusion. Two members of the Monetary Policy Committee voted to hold interest rates where they were. No lesser figures than deputy governor for financial stability Jon Cunliffe and David Ramsden, deputy governor, markets and banking, both argued that evidence to show an acceleration in wage growth was lacking.

Meanwhile, in the US, the Federal Reserve held back on a further increase in its base rate, a decision that almost failed to register in the news cycle, eclipsed by the change at the top. President Trump's appointment of Jerome Powell as the next chair of the Fed does little to change the likely trajectory of interest rates there either. Powell is widely regarded as being as dovish as his predecessor Janet Yellen, and very close to her in outlook.

Neither of these rate increases appear to have moved the needle very significantly in the markets, and central bankers are still making their moves only very gradually. Nevertheless, interest rate rises look likely in the future and so management of their risk is back on the table for treasurers, albeit in a small way. The ACT's policy and technical team sets out its view on the year ahead on page 10, including six regulatory and market issues that will need attention in 2018. And on page 24, the ACT's associate and policy director, Sarah Boyce, discusses the FX Global and UK Money Market Codes, and explains why committing to their principles is a good way to embed still more sound risk management into your organisation.

Our profile interviewee for this edition is George Sawtell, head of treasury at UBM. Sawtell's priorities at the events company include streamlining management issues, such as banking arrangements and cash repatriation, issues that will be front of mind for many others also. Our profile of him is on page 20.

Our international coverage in this edition includes a focus on the Middle East. You can find out how China's Belt and Road Initiative is bringing opportunities to financial and non-financial players across the region, on page 32. We also look at evolutions in the region's digitisation (page 30) and payment technology space (page 34). And the ACT's Peter Matza sets out the themes and preoccupations that will be discussed at the ACT's Middle East Summit in November, on page 29.

I hope you enjoy the issue.

Liz Loxton

editor@treasurers.org
Follow us on Twitter @thetreasurermag

THIS ISSUE'S CONTRIBUTORS

Kathrine Meloni is a special adviser in banking and finance at Slaughter and May, and co-author of *The ACT Borrower's Guide to the LMA's Investment Grade Agreements*. She also co-authored this issue's article on Libor, on page 40

Stephen Powell is a partner at Slaughter and May, and a member of the ACT's policy and technical team. Together with Kathrine Meloni, he co-wrote *The ACT Borrower's Guide to the LMA's Investment Grade Agreements*. See page 40

Charlie Barling is an independent treasury specialist and ACT member, who follows technology developments in the blockchain and distributed ledger space. His article unpacking the myths around blockchain is on page 44

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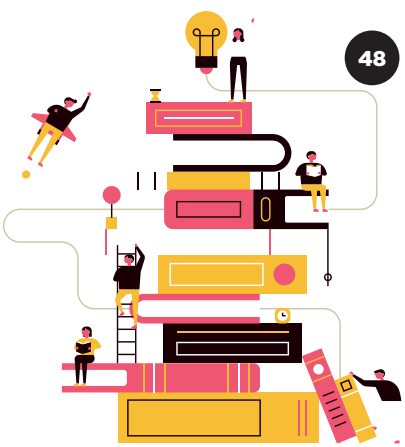


20 "Bank accounts have costs and risks; so that's the first part of the strategy, to become more operationally efficient"

George Sawtell, head of treasury, UBM

PHOTOGRAPHY: PAUL MUSSO

IKON IMAGES

Agenda

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

R3; BREXIT; EBA; MID-MARKET FIRMS; NAMA

R3 ROLLS OUT SHARED PLATFORM FOR DLT

Multi-bank financial software consortium R3 has said it will release a prototype solution for cross-border payments based on distributed ledger technology by the end of 2017.

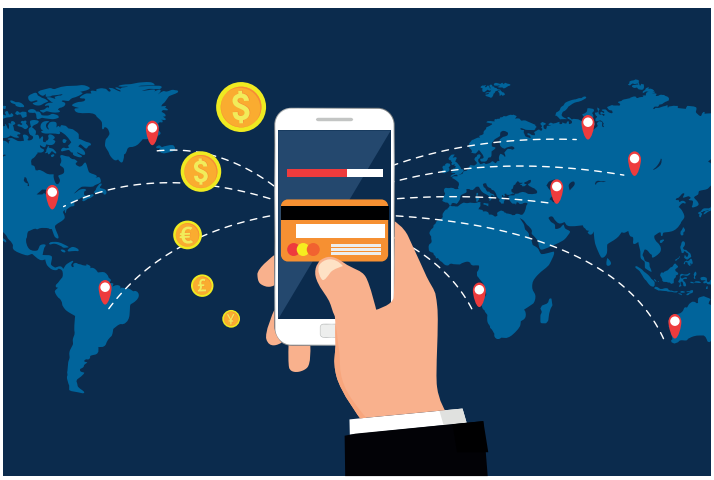
R3, which has 22 banks signed up to its approach, has developed a shared infrastructure to facilitate a full payments workflow. The solution works by creating a representation of fiat currencies on ledger, according to the consortium, and is programmed to enable interaction with central bank digital currencies as they are rolled out.

Meanwhile, Finastra, R3 and seven banks have announced they will cooperate to create an online marketplace for syndicated lending.

BREXIT STILL TOPS CFOS' WORRY LIST

A survey of UK chief financial officers from accountancy firm Deloitte found increased levels of optimism, albeit with respondents' appetite for risk remaining below the long-term average for the quarterly study into CFO sentiment.

Top of UK CFOs' list of concerns was Brexit-related uncertainty, although worries over the longer-term impact seem to be easing. Sixty per cent of CFOs said they expected the UK's exit from the EU to affect the business environment adversely, down from 72% in June. Almost a third expect the impact of Brexit to cause a decrease in investment over the next three years.



The second-greatest business risk, according to CFOs, is weak demand in the UK. A prescient 92% expected base interest rates to be higher than the 0.25% they stood at, at the time of the survey.

CFOs also identified inflation as a continuing risk and said costs were running at their highest levels for six years. Nevertheless, the survey found UK businesses to be in a more upbeat frame of mind than at the previous quarter.

NINE COUNTRIES JOIN EBA CLEARING'S GO-LIVE

Banks from nine countries have confirmed that they will join RT1, EBA Clearing's pan-European infrastructure for instant payments in euros. Many of the early participants have operations in several European countries.

RT1 will be used for 24/7 settlement of real-time payments in line with the European Payments Council's (EPC's) SEPA Instant Credit Transfer Scheme. RT1 has been in development since April last year and is open to any account-servicing payment provider adhering to the EPC's scheme.

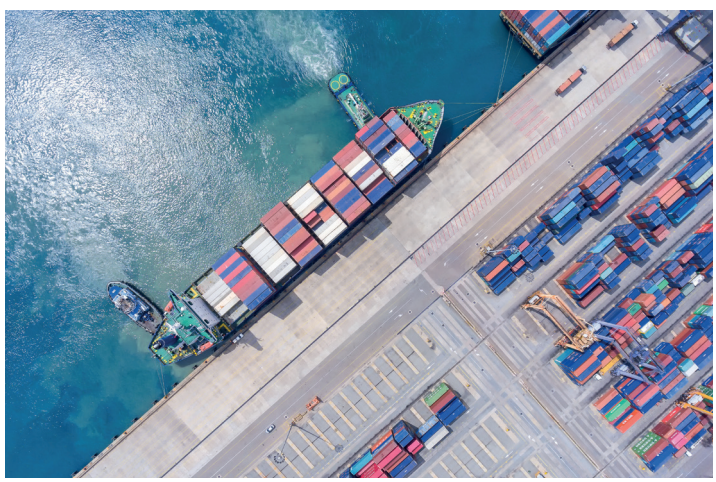
MID-MARKET FIRMS NEED TO INCREASE EXPORTS

A global study of mid-market enterprises has found that only 15% of revenues are derived from exports. The study, carried out by Oxford Economics in conjunction with HSBC Commercial Banking, surveyed 1,400 senior executives in 14 countries and found that only 3% expect global operations to contribute to their business's financial performance in the next three years. That's in spite of the fact that 55% identified volatility in their domestic markets as their top concern. Regulatory changes (52%) and skill shortages (50%) were also exerting a downward pressure on growth prospects.

Were these mid-market enterprises to increase their exports by 1%, however, they could add a combined $12.5bn to their economic impact, according to the study.

£500BN HIDDEN CASH IN UK BUSINESSES

UK businesses have £535bn tied up in excess working capital, according to Lloyds Banking Group. The bank's second annual working capital index found businesses were under pressure



THE 2017 DEALS OF THE YEAR AWARDS

The Treasurer's Deals of the Year Awards play a crucial role in championing the outstanding work of treasurers, both within the treasury community and the wider business world. A cornerstone of the ACT's advocacy for the profession, through them we recognise the achievements of the treasury teams that have stood out in the market over the prior 12 months. This year, we are delighted to extend the reach of the awards further by inviting nominations from the Middle East and Africa. We are also proud to launch a new award – the Green Finance Award for the best green finance initiative in support of the important area of future finance and sustainability. The awards are not just about recognising transactions, however, they are also about highlighting the people behind them, and the contribution of the treasury team to their organisation's success. Which is why, in addition to the Emerging Treasurer of the Year, which, for the first time last year, recognised outstanding individual up-and-coming treasury talent, we now have four awards categories for treasury teams large and small. Don't miss your chance to enter – the deadline for nominations is 20 November and winners will be announced at the prestigious Deals of the Year Awards Dinner in February 2018.

www.treasurers.org/awards/2017

to tie up more cash in spite of increasing input costs and delays in the payment cycle. The £535bn, which represents a 7% increase from a previous study in May is focused particularly in the manufacturing and services sectors. At the same time, a quarter of businesses surveyed reported longer receivables cycles in the past 12 months, leading to more cash being locked up.

NAMA TO REPAY EARLY

Ireland's National Asset Management Agency (NAMA) set up to take toxic debt at the height of the financial crisis, will make its final repayment of government guaranteed senior debt, three years ahead of schedule. With a final repayment of €500m, NAMA will have paid off more than €30bn of government-backed debt since 2010.

NUMBERS

$1.5 trillion
President Trump's rewrite of the US tax code includes sweeping cuts in corporation tax and more modest cuts for households

250
the number of people UBS might move out of London post-Brexit, fewer than the 1,000 originally feared

$32bn
the size of a recapitalisation of India's state-controlled banks

€998bn
in non-performing loans are on the balance sheets of European banks, according to the International Monetary Fund

amazon

€250m
the amount the EU has ruled that Amazon owes in back taxes

30 years
the length of time it may take the European Investment Bank to repay €3.5bn to the UK

$56 per barrel
the price the World Bank expects crude to reach in 2018

IN THE NEWS...

BANKING TROJAN HITS RUSSIAN BANKS

Financial institutions in multiple countries have been hit by a trojan operated by a cybercriminal gang that has been dubbed Silence. Cybercriminals have attacked 10 banks in Russia and other targets in Armenia and Malaysia.

Analysts at Kaspersky Lab said the cybercriminals showed similar tactics to a previously discovered gang, Carbanak group, which has been linked to the theft of more than $1bn from banks around the world. Both groups operate by gaining access to internal networks for a period of time. They monitor day-to-day activity and accrue as much intelligence as possible before stealing funds. The attacks are carried out via phishing emails to valid employee emails and show the vulnerability of accessing accounts via username and password authentication, according to reports.

The amounts stolen to date via the Silence trojan are said to run into millions.

RENMINBI STILL TO MAKE INROADS IN AMERICAS

Renminbi usage in the Americas remains far lower than in other regions, in spite of increasing amounts of infrastructure to support it.

The SWIFT RMB Tracker looking at data for August and September found overall the US dollar remains dominant in the region, while other mature currencies, including the euro, have seen significant increased use. Today, 107 financial institutions in North America are using renminbi for payments with China and Hong Kong.

The US accounts for around 25% of global GDP, and the US dollar is used for almost 40% of payments by value. China accounts for around 15% of world GDP. However, its currency is used for less than 2% of payments by value. The euro's share of global payments by value increased from 29% in 2015 to 33% in 2017.

According to the study, the recent nomination of the Bank of China as an official renminbi clearing bank for the US may increase the renminbi's traction in the US. Since the Industrial and Commercial Bank of China began operating as a clearing bank in Toronto, renminbi flows between China and Hong Kong to the Americas increased by 67%.

MACRO RISKS STILL TOP THE AGENDA

Unemployment, economic crises and failures of national governments remain at the top of the risk ratings for global businesses, according to the World Economic Forum (WEF).

The WEF's *Executive Opinion Survey* found business leaders identifying macroeconomic issues, such as unemployment and underemployment, fiscal crises and an unstable central government. It also identified energy price shocks and the prospect of financial instability as significant potential causes of concern.

The survey also cited failures within financial institutions; infrastructure vulnerabilities; cyberattacks; interstate conflicts; and terrorist attacks as high-ranking risks on the business agenda. The risk of failure within financial mechanisms or institutions was a significant feature for respondents in Europe, while increased geopolitical risks and failures of national governance were identified as a pressing concern in Europe, but also South Asia, Latin America and sub-Saharan Africa.

FIVE MINUTES ON...

DIVERSITY AND INCLUSION IN TREASURY

The ACT's Diversity and Inclusion Calendar has been developed to provide an inclusive platform for all treasury professionals. The aim is to enable all to share their experiences on engaging and empowering under-represented groups in corporate treasury, and reflects the ACT's commitment to increasing the profile and integrity of the profession.

Building a high-performing and effective treasury team isn't just about technical knowledge. An inclusive environment, where people can bring their best selves to work and contribute to diverse thinking in the workplace, is widely proven to increase profitability and to enhance organisational brand and reputation. Diversity and inclusion in the workplace concern all of us as professionals – by being part of a team, managing a team, hiring people, being hired – and as individuals.

The ACT Diversity and Inclusion Calendar recently held its inaugural event on bridging the gender gap. The lively debates of the evening provided plenty of food for thought and an encouraging beginning. It became clear that speakers' anecdotes and experience around gender equality resonated with those in the room. Despite broad agreement at the event that tremendous progress has been made already to make the treasury profession more equal today, the figures reveal the still unequal picture: while no official statistics are available, only 29% of ACT members and 33% of speakers at the ACT Annual Conference in 2017 were women. Clearly, there is an opportunity – and a need – to do more to close the gender gap.

Payment technology

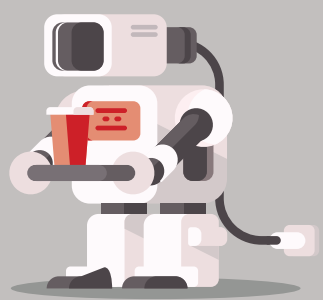
REAL-TIME PAYMENT PLATFORMS ARE TAKING HOLD, WHILE CROSS-BORDER PAYMENTS REMAIN CHALLENGING, BNY MELLON'S PAPER, *RETHINKING THE CLIENT PAYMENT EXPERIENCE IN AN ERA OF TECHNOLOGICAL INNOVATION*, FOUND

Among the technological initiatives currently in play in the payment space, real-time payments was deemed likely to have significant impact on the correspondent banking model. In BNY's survey of 80 banks, 44% said it would substantially change the payments environment. 35% rated the SWIFT global payments innovation as a change agent of substance. 27% said the same of blockchain (or distributed ledger technology), and 16% also rated tokenized payments as significant.

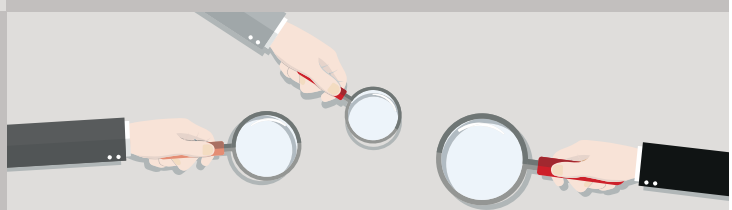
More than half of the survey respondents said it was too early to tell if peer-to-peer system interaction via application programming interfaces (APIs) would bring a fundamental shift in interbank correspondent banking (**59%**), while **36%** said it would bring about that order of change, and **5%** said it would not.

Almost two-thirds (**65%**) said they were not sure whether they will look to bank partners to integrate and facilitate API services to their clients.

Very few respondents were using artificial intelligence (AI), with most suggesting it would take three to five years to reach a point where they could reap benefits. Only 5% said they were using AI for rule-based analysis and robotic process automation to replace recurring manual tasks, for instance.



38% identified fraud detection and monitoring of payments based on predefined risk as the top potential uses for AI.



When it comes to adopting API technology in order to address current payment challenges and add value to clients, **56%** identified live tracking, amendment and cancellation of payment instructions as a must-have function. Directory lock-ups, real-time validations and payment assistance were must-haves for **49%**, while **44%** said they wanted capacity for virtual investigation/enquiry centres with up-to-date status tracking.

PREPARING FOR 2018

As 2017 draws to a close, we begin to look ahead to the new year and suggest a number of topics that might be on your agenda for 2018. There's not much new to say on Brexit and potential Libor replacement at this stage, but please keep revisiting the technical pages of our website where we post updates: www.treasurers.org/technical

We hope you enjoy the festive break – one thing's for certain, 2018 won't be quiet.

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

{ IN DEPTH }

Six things to plan for in 2018

As we head rapidly towards the end of the year, we offer some thoughts for issues that may not be front of mind, but which, nevertheless, you may want to consider as we enter the year ahead:

- **Rising interest rates**
  The period of very low interest rates may be coming to an end. Now is the time to make sure your teams appreciate the potential impact of operating in a higher interest rate environment, something many of them will not have experienced. As well as checking covenant triggers, the organisation's fixed/floating mix and interest rate policy should all be reviewed with the prospect of higher rates firmly in mind.

- **Leases**
  The new lease accounting standard IFRS 16 comes into effect on 1 January 2019. Lessees will now have to account for virtually all leases, such as renting office space, on balance sheet, which will require significantly more data on their leases than before. For those with more than a handful of leases or rental contracts, this could be a big task.

- **EU money market funds (MMFs)** The revised EU MMF regulation takes effect from January 2019, but decisions about which funds to invest in going forward need to be made and investment policies reviewed and potentially revised beforehand. (See story opposite.)

- **MiFID II**
  This may be relevant to you if you:
  - Issue bonds;
  - Use commodity derivatives, emissions allowances and related derivatives;
  - Use FX forwards – although the exemptions mean that most NFC- corporates will be exempted; or
  - An NFC+.

  MiFID II is extremely confusing. Unfortunately, much of the guidance available appears contradictory, and some elements of the regulation (for example, relating to derivatives) is still not finalised. At this stage, your lawyers may be the best point of contact. (See story below.)

- **Cash management**
  Another area where regulation may impact on the treasurer's choices: changes to the availability of pooling structures and regulatory change, such as ring-fencing in the UK, both mean that 2018 will be a good time to revisit your cash management structures and ensure that they are still efficient.

- **Interest deductibility**
  The Organisation for Economic Co-operation and Development's Base Erosion and Profit Sharing (BEPS) project is gaining traction. Treasurers will need to work closely with their tax colleagues to ensure that corporate structures are funded efficiently.

And three things to keep on the radar... none of these are likely to go away any time soon:

- **Brexit** – coming up fast. We should get greater clarity during 2018 of practical implications;
- **Benchmarks** – clarity should start to emerge about the future of Libor; and
- **Technology** – whether faster payments, distributed ledgers, managing KYC or cyber fraud, technology is increasingly core to treasury activities. Treasurers need to keep up to date as both risks and opportunities evolve.

{ REGULATORY }

DOES MiFID MATTER TO ME?

The Markets in Financial Instruments Directive II (MiFID II) comes into effect from 3 January 2018. MiFID II provides the regulatory framework for firms that provide investment services or perform investment activities in respect of financial instruments. Most non-financial corporates that deal in derivatives may be able to take advantage of the 'own account' exemption. However, corporate users of commodity derivatives, emissions allowances or related derivatives; entities who apply high-frequency algorithmic trading techniques; or entities who have direct electronic access to a trading venue (except where a non-financial entity enters into transactions for hedging purposes) are not exempt from MiFID II.

It's a complicated area and we would recommend reading Slaughter and May's briefing *MiFID II: Key issues for corporate users of derivatives*, available at slaughterandmay.com

ACT resources

View briefing notes, technical updates and policy submissions at www.treasurers.org/technical. In addition, there are web pages dedicated to Brexit, Best Practice (Codes of Conduct) and Libor reform, which can be accessed from the Technical Guidance and Comment tab on the ACT's home page.

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

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

SEC proposes streamlining disclosure requirements

As part of its ongoing disclosure effectiveness review, the Securities and Exchange Commission (SEC) is proposing amendments to Regulation S-K, designed to simplify and streamline disclosures made by public companies and reduce compliance costs, while continuing to provide all material information to investors. See www.sec.gov/rules/proposed/2017/33-10425.pdf

Update to ACT *Borrower's Guide*

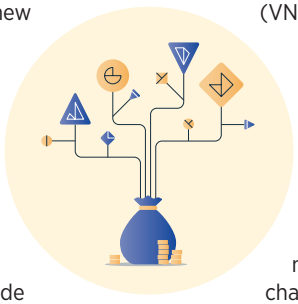
The fifth edition of the *ACT Borrower's Guide to the LMA's Investment Grade Agreements* was updated in September 2017. The guide gives a general overview of LMA terms for readers unfamiliar with LMA documentation, and a clause-by-clause commentary from the borrower's point of view. Members and students can download the latest version at www.treasurers.org/LMA-guide-2017

{ INTERNATIONAL }

EUROPE MMF reform – take action!

As reported in the September/October Technical Briefing, existing European money market funds (MMFs) have until 21 January 2019 to comply with the new European MMF regulations. While all MMFs will face change, the greatest change will be to those funds in which shares/units currently trade at a constant net asset value (CNAV). This is because Prime CNAV funds will need to convert to low volatility net asset value funds (LVNAV). The main difference between the current CNAV and the new LVNAV fund is that in order for a LVNAV fund to publish a CNAV, the net asset value must fall by no more than 20 basis points of a unit of €/£/$1. The Institutional Money Market Funds Association has produced a useful overview of the MMF reform, which is available at www.immfa.org/about-mmfs/investor-help.html

Fund managers are currently working on developing funds that comply with the new regulations, with migration expected in the latter part of 2018. At this stage, it is anticipated that the majority of corporates that currently hold Prime CNAV funds will move to LVNAV funds, although some may entertain the idea of moving to a full variable net asset value (VNAV) fund.



For corporate treasurers with CNAV funds, action needs to be taken early in 2018, as investment policies may need to be changed and auditors consulted on accounting treatment.

1. Decide which fund structure you are leaning towards (LVNAV or VNAV).
2. Speak to your fund manager(s) to understand what changes they will be making to their funds and their transition process.
3. Review your current investment policy to understand any restrictions that may need amending in order to continue investing in MMFs.
4. Obtain assurance from your auditors that the LVNAV or VNAV structure will continue to be treated as cash equivalents for accounting purposes.
5. Educate senior management and the board.
6. Update your investment policy as necessary.

{ ONE TO WATCH }

YEAR END CASH – BE PREPARED

A reminder to start talking to your banks sooner rather than later to avoid problems with depositing cash ahead of the 31 December year end. As banking regulations bite, appetite for cash can be very sketchy.

UK WHT exemption confirmed

In the UK, HM Treasury has confirmed a new interest withholding tax (WHT) exemption for Quoted Eurobond debt traded on a multilateral trading facility (MTF). The exemption is good news for UK companies seeking to raise debt capital, as it is intended to make the UK more competitive in this area and reflects concerns that the current requirement to withhold tax is a barrier to the establishment of MTFs in the UK. The exemption will take effect from 1 April 2018, subject to the Finance Bill process.

New euro overnight rate

Following hard on the heels of announcements in the UK, US and elsewhere, the European Central Bank has announced it will develop a new euro unsecured overnight interest rate by 2020. The new 'risk-free overnight rate' will be based entirely on transactions in euros and will serve as a basis for an alternative to current benchmarks. The features of the new rate and a market consultation will be published in 2018.

UK payments operator

The UK's New Payment System Operator (NPSO) is rapidly taking shape with the recent appointment of Melanie Johnson as its first chair. The NPSO was created to consolidate the three payment system operators: Bacs Payment Schemes Ltd, Faster Payments Scheme Ltd and Image Clearing System, which will replace the paper-processing system for cheques currently managed by the Cheque and Credit Clearing Company. At a recent progress update for stakeholders, the expectations of the NPSO were outlined as providing strategic leadership for the retail payments industry; developing operational resilience and security; and ensuring best practice risk management.

Emirates NBD

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So whatever your horizon may be, we will help you get there!

CHRIS PEEK

TREASURY MANAGER, TRINITY COLLEGE LONDON

How did you get into treasury?
Banking and international payment experience helped, combined with a keen process-automation mindset.

What do you like about treasury?
Seeing every transaction within the business gives you the insight to stay ahead of the next challenge.

What's the best thing about being a treasurer?
You can find solutions that provide real benefits.

What's the best thing about being a member of the ACT?
Continuous learning and networking opportunities, and a great source of information on the next big issue.

Which ACT qualifications do you hold?
CertICM – I am studying for CertT. Qualifications are an essential platform for my career development.

How has your qualification benefited you in your career so far?
It has given me confidence in my own abilities, and prospective employers now require them as the premium standard of knowledge.

What's the most unusual responsibility that you have as a treasurer?
Keyboard cleaner, chief battery tester and monitor of keys are part of the senior day-to-day responsibilities.

What's the most important lesson that you've learned during your career?
No matter how much knowledge or skill you attain, a positive attitude is an essential requirement.

What would be your best piece of advice to someone else considering a career in treasury?
If you do not measure performance, you cannot effectively manage performance.

What's your ultimate career goal?
To become a treasury operations director or a shared services director.

Who is your greatest inspiration and why?
My father travelled overseas with work, and that gave me wider experience and appreciation of other countries and cultures.

If you weren't a corporate treasurer, what would you be and why?
A mortgage broker or professional games player – or maybe both!

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

2018 TRAINING COURSE DATES

20 March, London
Working capital optimisation
Principles and practices of effective investment management. Gain an overview of the key elements of effective investment management, including the significant factors that need to be considered when investing corporate cash.

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

25 April, London
Nuts and bolts of cash management
Develop an in-depth understanding of the basic principles and practices of cash and liquidity management, its importance to the business and to the treasury function at this one-day introduction to cash management. The programme examines the basic building blocks of cash management from the domestic perspective and through a series of case studies, extends these basic principles to tackling the complexities of international cash management.

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

For more information, contact Kelly Robertson at krobertson@treasurers.org or tel +44 (0)20 7847 2573

Members of National Treasury Associations benefit from special rates on ACT-led training courses.

ACT EVENTS 2018

7 February, Nairobi
ACT East Africa Treasury Forum
Join us for a programme that looks at how treasury professionals can add increased value and deliver results to their business. It's a great opportunity to get involved and meet like-minded treasury professionals.
www.treasurers.org/africa2018

14-15 March, London
ACT Cash Management Conference
Since February 2017, we've seen a general election, ongoing Brexit negotiations, Libor reform, and heard innovation, innovation, innovation. With new formats, thought-provoking speakers and more, join us on at the Hilton London Bankside for the leading conference specifically designed to help with all your cash management needs.
www.treasurers.org/cashmanagement2018

15-16 May, Liverpool
ACT Annual Conference – Stronger influence, smarter innovation
The ACT's award-winning flagship conference is back in Liverpool on 15-16 May 2018. Treasurers are increasingly expected to plan for global instability in their organisations, make sense of technological innovation and take a strategic lead in navigating their business through risky disruption. To help you succeed in this challenging marketplace, we are focusing two days of discussion, 100 speakers and more than 1,000 attendees on how treasurers can ensure they have stronger influence in their organisation, while harnessing smarter innovation to add increased value.
www.treasurers.org/annualconference


The Rhine Tower and Rhine River in Düsseldorf

27 June, Düsseldorf
ACT Europe Conference
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LOOKING EAST

THE RENMINBI, FINTECH AND FUNDRAISING WERE THE HOT TOPICS AT THE ASIA TREASURY LEADERS' FORUM. PETER MATZA REPORTS

What's the right balance between risk and reward? How do treasurers drive growth while managing the risks that growth brings? This was the overarching theme of the Asia Treasury Leaders' Forum held in September in Hong Kong. Nearly 300 delegates from the region's leading corporates spent a highly focused day debating the issues. With support from the territory's two treasury associations, the Hong Kong Association of Corporate Treasurers and the International Association of CFOs and Corporate Treasurers, this event is the largest professional treasury association conference in Asia.

Hong Kong is a business and financial conduit in and out of China both regionally and globally, and remains a leading international financial centre in its own right. As part of that leadership, the Hong Kong Monetary Authority (HKMA) makes considerable efforts to ensure business and corporate treasury in particular is at the forefront of its financial services management. Enoch Fung, HKMA's head of market development, emphasised the authority's focus on supporting corporate treasurers in their increasingly strategic role.

Alicia García-Herrero, adjunct professor in economics at the Hong Kong University of Science and Technology, described the split between global central banks, ranging from the hawkish – the US Fed – and dovish – Bank of Japan. The People's Bank of China wasn't likely to sanction a rise in the renminbi, she said, leaving it at the softer end of that spectrum. The renminbi remains a managed currency with occasional flip-flops between open and controlled capital movements.

Fintech drew some high-level discussion – does it deliver? Is it secure? – and some practical, case-study-driven examples of the benefits to operational treasury, such as regular FX trading. Contributors agreed on one essential feature: the pace of change is increasing and driven by new entrants into traditional banking and financial services. Some delegates were concerned that the region's multi-currencies, differing regulatory regimes and underinvestment in market infrastructures makes them slow to react to fintech; others were more optimistic on the benefits to corporate growth.

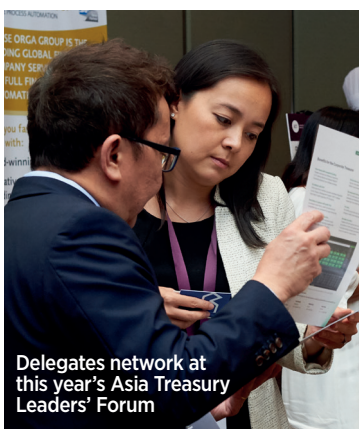
Corporate funding and finance were also on the agenda, and delegates heard presentations and discussions on regional cash management, corporate financing via debt-capital markets, establishing regional treasury centres and using onshore and offshore renminbi capital markets. The most important messages from speakers to delegates were that treasurers must have a structured approach, should look across a range of alternatives and, above all, should ensure their business has financial flexibility.

The treasurer's role

The final session of the conference shone a light on the ACT's *Business of Treasury* research and its clear message on the increased strategic role that treasurers now play. The ACT's chief executive, Caroline Stockmann, and Brendan McGraw, formerly group treasurer and now CFO at CLSA (a Hong Kong brokerage and investment firm, owned by CITIC, China's largest full-service investment bank), discussed the challenges for treasurers in engaging across a wide range of business issues. They were keen to stress that treasurers must have a full command of their operational brief, which would enable them to communicate clearly to their board, internal and external stakeholders on the full range of business and financial issues where treasury has a view.

Excellent communication skills are a prerequisite, Stockmann said, and treasurers should consider how they might develop a personal marketing and communications strategy alongside the development of their own and their teams' technical and professional skills. If you cannot get your message across, it matters very little how technically sound that message is.

Peter Matza is speakers' chair at the ACT



Delegates network at this year's Asia Treasury Leaders' Forum

Peter Matza (right) with Henry Webb of Morgan Stanley (left) and Peter Guy of the *South China Morning Post* (middle)

Ask the experts session (left to right): Henry Webb, Peter Guy and Vincent Liu of General Electric Company

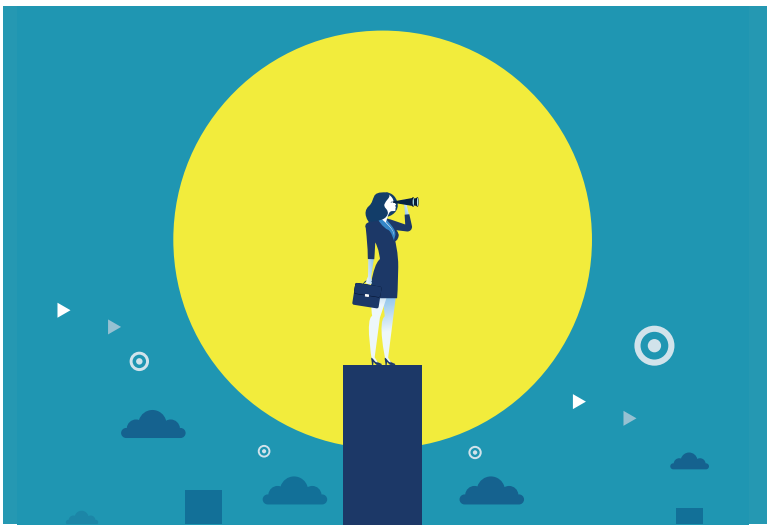
CAROLINE STOCKMANN

The ACT's chief executive reviews highlights of her first nine months

As the days draw in, and I am not quite, but almost, full circle in terms of experiencing the ACT for a full year, I look back at my first nine months with mixed feelings. That is a mixture of pleasure, passion, excitement, intellectual stimulation and pride – in my team, our members and our many partners, sponsors and other stakeholders.

Highlights are too many to name, but some that particularly stand out and serve well to illustrate the variety of the role would be:

- my first Deals of the Year Awards dinner on my second day in, where I remember commenting that it was the best organised event I had ever attended;
- running a workshop for board-ready women at a palace in Abu Dhabi;
- a comment from a treasurer after the joint launch with the Bank of England of the Codes as to how useful this had been for him and how grateful he was that we were raising awareness;
- getting to know and rekindle relationships with the European Association of Corporate Treasurers and International Group of Treasury Associations, as well as national treasury associations, which include South Africa and the US;
- a panel at our event in Hong Kong, which included the monetary authorities of both Hong Kong *and* Singapore;
- meeting Justin Welby, the Archbishop of Canterbury and confidential adviser to ACT members on ethical issues, an ex-treasurer who was also a bell-ringer (like me) and, also like me, has a great interest in how we address mental health issues – more to come on that;
- experiencing our learning and assessment for myself as a student, initially CertTF, and then CertT, including my first introduction to remote invigilation;
- launching our Diversity and Inclusion Calendar with our Bridging the Gender Gap event – to be followed by LGBT+ in the new year;
- speaking at the City of London Green Summit and continuing involvement in HRH Prince Charles's Accounting for Sustainability (A4S) programme; and
- stimulating discussions, whether with our council or advisory panel on our new vision and mission, or listening to what's on the minds of our FTSE20 treasurers.



I strongly believe in what the ACT set out to do almost 40 years ago

It has been both an incredibly intense induction and learning experience for me, as well as a period where I have been constructively challenging the way we operate, in a number of different areas. I strongly believe in what the ACT set out to do almost 40 years ago, and acknowledge that legacy, while at the same time wanting and needing to respond to current-day challenges.

The vision we have now agreed to underpin our strategy is "that treasury everywhere has the highest standards of professionalism, bringing success to organisations and creating strong economies through strategic balancing of financial risks and opportunities", which refers to the very broad vision we have for the treasury profession as a whole. Our mission, "to embed the highest standards of professionalism and integrity in the treasury world, and act as its leading advocate", is how we, as the ACT, contribute to that vision. I believe passionately in the need to maintain high professional standards in treasury, and that is what the ACT does, whether through our educational products, continuing professional development (including *The Treasurer*) or our events – as well as ensuring we remain the voice of treasurers, advocating for them and their needs.

I'm currently looking forward to Dubai and our Middle East Annual Summit, where we'll also be celebrating treasury achievements in the region at an awards dinner. We are still open (until 20 November) for nominations for *The Treasurer*'s Deals of the Year Awards, which will recognise green finance for the first time. So, don't delay if you have a deal, treasury team or emerging treasurer of your own, or a client's, who you'd like to enter.

I'd also like to thank you, the treasury community, in making me feel so welcome in my first year as chief executive of the ACT. You can contact me at cstockmann@treasurers.org

Caroline Stockmann is the ACT's chief executive

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Growth in the age of caution

This year has provided some key lessons and a turning point in our thinking about what recoveries look like

The year 2017 should be remembered as the first 'post' post-financial crisis year. Ever since the global economy nosedived nearly a decade ago when Lehman Brothers filed for bankruptcy, the advanced world has lived in the age of caution. Burned by the effects of the excesses that caused the crisis, firms, governments and households have acted with much more prudence than before.

While extraordinary central bank policies in the US and Europe have succeeded in reflating asset prices and lowering interest rates, instead of using the favourable credit environment to borrow and spend, households and firms have taken the opportunity to strengthen their balance sheets. Amid the caution, growth has been weaker than before. Firms have preferred to hire rather than invest to raise production. This has weighed on productivity growth.

But 2017 marked a turning point in the post-financial crisis recovery. The cautious growth of the past eight years is finally coming to an end. Looking back at this critical year, there are four clear lessons that will probably shape the expansion in the years ahead.

Lesson one: success breeds confidence. With eight years of growth in the bank and memories of the crisis fading, the advanced world is beginning to recapture some of its past vigour. After surviving the mini emerging-market and commodities crises in late 2015, and the Brexit vote, markets' confidence in the durability of the recovery has grown. For the first time in nearly a decade, markets are responding more stoically to the normal ups and downs in world affairs.

Lesson two: the old dog still has legs. Typically, as expansions mature, growth begins to slow as all the spare resources in the economy become employed. Meanwhile, some investors become extra cautious as they expect the 'ageing' upswing to end soon after years of unbroken growth. But this time is different. Late 2016 saw a broad-based improvement in global demand and trade that gained significant momentum in 2017. Rising profit expectations caused global equities to rally. Markets and firms recognise that, because the usual excesses in production, investment and credit have not yet occurred, there is no good reason to expect a recession soon. Unlike normal expansions where imbalances are typically appearing at this stage, a mid-cycle acceleration in economic growth can be sustained by improving fundamentals in the coming years.

Central banks are the ultimate source of liquidity

Lesson three: populism has probably peaked. Slow growth has fuelled populism in the Western world that reflects genuine frustration over stagnating living standards. But, as Donald Trump and Brexit have proven, populists cannot make good on their promises. Populism in continental Europe peaked well before the key elections in France and Germany this year. While French voters opted for a major regime shift, they did so by voting in centrist Emmanuel Macron and his new party En Marche instead of far-right eurosceptic Marine Le Pen's Front National. In Germany, where Angela Merkel prepares for a fourth term in office, populists did even less well than in France.

Lesson four: markets are becoming less reliant on central banks. As the monopoly suppliers of high-powered money, central banks are the ultimate source of liquidity. Through their extraordinary policies, including outright asset purchases and negative interest rates, central banks have provided a steady supply of liquidity to markets since the Lehman crisis. Remember the taper tantrum in 2013 when markets panicked at the thought of the US Fed taking the monetary crutch away? Fast forward to 2017, and the market is barely blinking as the Fed very gradually tightens its monetary policy and other key central banks slowly follow. When market sentiment is strong, investors are willing to trust each other and exchange assets freely. Markets by themselves provide the liquidity they need to function properly. In such a world, a gradual exit of central banks can occur in the background with little disruption.

For the advanced world, 2017 heralded the end of the age of caution and the first phase of a return to the more normal cyclical dynamics of boom and bust. Markets are now betting on a sustained upswing driven by investment and profit growth. Following the key trends of 2017, and, of course, barring a major unexpected shock, the medium-term economic outlook is more encouraging than it has been in a decade.

Kallum Pickering is senior UK economist at Berenberg Bank

REACH FOR THE SKY

Repatriating cash, streamlining bank relationships and fundraising are front of mind for UBM's head of treasury, George Sawtell

Words: Liz Loxton / Photos: Paul Musso

The view from the 19th floor at UBM's Blackfriars address in London provides an enviable panorama that takes in landmarks such as Tate Modern and The Shard when you look towards the City, and St Paul's Cathedral when you look northwards over the River Thames.

UBM plc's head of treasury, George Sawtell, is captivated by the peregrine falcons that can be spotted using Tate Modern as an urban cliff face, while as a culture lover he also enjoys the proximity of the art gallery.

With these landmarks as a backdrop, he expands on a career that provides proof, if any were needed, that the treasurer is an adaptable breed. Their priorities can vary hugely from one role to the next and are inextricably tied to the needs and strategic direction of whichever business provides their latest perch.

The cash-flow cycle of his two most recent roles, for instance, could scarcely be more different. As head of treasury at UBM, cash management, repatriating cash from the business's 20 territories and funding acquisitions are top of the agenda.

At his previous employment, as assistant and then deputy treasurer at capex-intensive Inmarsat plc – previously known as International Maritime Satellites – long-term fundraising measures necessitated close attention to debt and relationship management.

Journey begins

It is fair to say that Sawtell gave a number of professional disciplines a good try in the first stage of his career before alighting on treasury. He studied law at Liverpool University, but couldn't see himself as a lawyer and so detoured into accountancy, qualifying as a chartered accountant with Deloitte Haskins & Sells. However, far from giving him a sense of how businesses function, audit work proved repetitive and lacked scope. "I'm interested in how businesses work, but the audits I worked on could just involve auditing the debtors ledger, for example, for months on end, and I got no sense of how the business worked."

To get a better view of how corporates functioned, he took up a role as a treasury accountant at Delta plc. At that time, Delta was an international engineering firm with no treasury function. "It was a fantastic opportunity. I was there when the treasury department at Delta was being created," he says.

Sawtell quickly realised that sitting the ACT exams would be the most helpful next step and the move proved to be a decisive one for his career. Like many treasurers, he found the course content to be immediately applicable. "I can genuinely say these were the most useful exams I'd sat in my life," he says.

Completing his first round of ACT exams swiftly, he immediately began working towards his MCT, completing his studies at Delta. In the course of the day job, he helped implement a treasury management system and gained his first experiences in dealing. "I can still remember the day my boss told me to carry out a huge Deutschmark swap. You have to learn by getting on with it."

Communications

After three years, Sawtell decided he would have to move to a bigger company to expand his skills and move up the career ladder. He secured a role at Cable & Wireless, which had a treasury team of 10 at the time. Again, his route in came via accountancy; he initially took charge

UBM IN NUMBERS

300+
market-leading B2B events staged each year

3,500+
staff in 70 offices in 20 countries

£863m
in global revenues for 2016

$485m
paid in December 2016 on acquiring Asian events business Allworld

TOP TIPS FOR OTHER TREASURERS

1. **Consistently adding new treasury areas has expanded and rounded out my treasury knowledge, which keeps the day job interesting and, in turn, has enabled me to be better equipped for other risk management likes, such as pension work. I think networking is important, too, as you can learn a lot from fellow treasurers' experiences.**
2. **I passed my ACT and MCT exams during my first treasury position. The exams helped my day job and my day job helped pass the exams. Adding this qualification to my accountancy and law degree added real practical skills to better understand financial issues.**
3. **The best way to unwind after a stressful day is popping into the nearby Tate Modern perhaps on the way home, and then finding out what my 11-year-old twins have been up to.**

"I can genuinely say these were the most useful exams I'd sat in my life"

of the back office. Very quickly, however, he found himself moving on and involved in FX transactions once again.

"Cable & Wireless was very international, operating in many ex-colonial countries. The jewel in the crown at that time was Hong Kong Telecom with a significant amount of profits coming from that one entity," he says. Aware that it had to diversify before regulation forced its hand, the company sold off part of Hong Kong Telecom, and Sawtell managed the FX risk for the HK$6.5bn transaction. "You did see the market move; it was unavoidable given the amount involved."

Calling all ships

In 2004, Sawtell joined Inmarsat in a move that was to provide much more experience in debt. Inmarsat was formed some 30 years ago to provide safety at sea. Its network of satellites is sited over oceans so that shipping can navigate safely, port to port, around the world. At the time he joined, Inmarsat was backed by private equity, but within a year of joining, the company floated successfully. "It was a really interesting year, experiencing a little bit of private equity ownership, but also preparing the company for flotation."

One piece of work focused on the ability to pay future dividends through the holding structure. Since this was a new requirement, Sawtell was tasked with looking closely at, and modelling the points at which cash came into the business to assess how future dividends could be paid. He set up Inmarsat's hedging programme in 2005 and a new treasury policy, and was in charge of the quarterly treasury committee meetings with the CFO.

Most of the day-to-day work was around debt, however. Typically, Inmarsat periodically commissions four satellites at a cost of more than $1bn built over a three- to four-year period. Three would be launched into a constellation over the oceans, in such a way as to communicate with each other and shipping. "You would also have to anticipate launch costs and factor in insurance payments in case of a failure – a big cost centre in itself." Fortunately, to this day, Inmarsat has a 100% launch success rate. The fourth satellite acted as a spare, but would typically be launched as well.

Funding satellite-build programmes is big-ticket work, supported by layers of debt sourced from banks, governments and bond markets. Over the period he was at the company, the funding mix included a convertible bond, $900m in government debt from US government bank EXIM, a loan from the European Investment Bank (EIB), high-yield bond financing and a $750m revolving credit facility (RCF). In 2011, Sawtell secured $700m of long-term US government financing from EXIM after satellite builds were awarded to Boeing. It also involved rounds of negotiation and relationship management with government bank officials. As well as working with EXIM, Sawtell led on negotiating $308m in EIB funding, arranged in 2009. Sawtell led two renewals of the RCF in 2009 and 2011.

All change

After 10 years at Inmarsat, Sawtell decided the time was right for a change of direction and joined UBM as head of treasury in December 2014. He joined at a time of change. New CEO Tim Cobbold was ushering in a new strategy, refocusing this long-established news and media company into a B2B events business, clustered around market-leading and cash-generative events with common sales, marketing and procurement platforms.

UBM's strategy is to own 'must-attend' B2B trade shows in a number of industry sectors across the US, Asia and Europe. Some of UBM's most well-known events include Black Hat, a cybersecurity event held in Las Vegas, and CBME, a child, baby and maternity show held in Shanghai. UBM also stages events ranging from pharmaceuticals and construction to jewellery and furniture.

GEORGE'S CV

2014-present
Head of treasury, UBM
2004-2014
Deputy/assistant treasurer, Inmarsat
1996-2003
Various roles, including assistant treasurer, international, Cable & Wireless
1992-1996
Treasury accountant, Delta
1988-1992
Treasury manager, Deloitte Haskins & Sells

QUALIFICATIONS

MCT (with two distinctions) and AMCT (one distinction) **1995-1996**; Chartered accountant, ICAEW (**1990**); Law degree from Liverpool University (**1988**)

Sawtell worked on the $841m disposal of US-based PR Newswire, which closed in June 2016. "It was a great transaction for UBM, allowing the business to use half the proceeds to reinvest in more profitable events, as well as return £250m to shareholders as a special dividend. The transaction had a few moving parts, such as FX management, disaggregation of bank accounts, investment of funds, and rating agency and pension management."

In line with Cobbold's drive to simplify and streamline processes, treasury has been looking closely at bank accounts and the efficiencies and cost savings that can be gained through rationalisation. When Sawtell joined, the company had too many bank accounts and, over three years, 300 have been closed. "It's about simplifying. Bank accounts have costs and risks; so that's the first part of the strategy, to become more operationally efficient."

Cash management is the heartland of the UBM treasury operation and the team has put time and resources into making sure cash is swept back to the UK as efficiently as possible. While cash repatriation is relatively straightforward for the UK, the US and most of Europe, other territories present a greater level of challenge. UBM has subsidiaries in Brazil, Mexico, Turkey and many across Asia. Sawtell's team works closely with colleagues on how best to bring that money back, bearing in mind the differing regulatory frameworks from one territory to the next. "We work with our colleagues across Asia, whether it's loans or dividends, or prompt intercompany payments. UBM benefits from a cash-conversion rate of around 100% with all customer receipts received before an event is run."

A substantial proportion of the company's revenues and profits comes from outside the UK. "Repatriated cash is used to pay the dividend and short-term RCF drawings used to finance bolt-on acquisitions."

A significant acquisition last year brought more financing and cash management. Sawtell completed a $365m bridge financing in December 2016 for the purchase of Allworld, an Asian family-run events business.

In March 2017, he completed a debut US private placement for $370m after an investor roadshow in the US and London, together with CFO Marina Wyatt, which repaid the bridge debt.

As well as integrating Allworld's portfolio of shows, UBM is integrating offices across Asia. "The transaction has accelerated the requirement to rationalise UBM's existing and new banking relationships across Asia. This is a tremendous opportunity to better streamline bank relationships and reduce bank accounts. The project involves working with colleagues in UBM Asia's head office in Hong Kong and in each country, as well as best practice in accounts payable and receivable processes."

In fact, Sawtell has been overhauling banking relationships since he joined UBM. "My first task was to renew UBM's maturing £300m RCF. That was interesting because I had to look at the bank group and assess whether the bank's abilities matched UBM's future requirements." He completed a new £400m RCF in April 2015, with a lower margin and two one-year optional extensions bringing in four new banks with two departing.

Other responsibilities include pension management, presenting to the board on issues such as capital structure and refinancing, and managing relationships with rating agencies.

It is the wide-ranging nature of the role that provides its appeal. "One of the things I like about treasury is the variety of work, especially within an international business, whether it's debt management, external relationship management, dealing with banks, rating agencies, cash management, guarantees, derivatives or working with colleagues around the group – I enjoy being involved in all of this. In a company the size of Inmarsat or UBM, with a small team you can get involved in everything."

Liz Loxton is editor of *The Treasurer*

GOOD PRACTICE AS STANDARD

CORPORATE RISK MANAGEMENT NEEDS TO ADDRESS THE DAMAGE TO REPUTATION THAT CAN ARISE THROUGH MISCONDUCT. SARAH BOYCE EXPLAINS HOW TWO VOLUNTARY CODES CAN HELP

Illustrations: Neil Stevens

Treasury is really all about risk management. As treasurers, we spend our lives identifying and managing the financial risks that crop up in the organisation – whether that's a case of needing to raise or invest money, buy currency, or even, and here's a new one for those of you who have only been in treasury for the past 10 years, manage interest rate risk.

And these are seen as an accepted part of the treasurer's role.

But there are other (operational) risks, more nebulous, but nonetheless important, with which the treasurer has to grapple, and which increasingly are the focus of the board and other key stakeholders.

These operational risks include both accidental (human error) or deliberate (fraud) actions that place the organisation at risk of financial and reputational loss. Corporates dedicate considerable time and resource to considering how they should structure and manage treasury activities to protect the organisation from these risks.

One approach is to consider:

- Segregation of duties (and what used to be called the 'four eyes' principle);
- Development of, and adherence to, treasury policies and procedures;
- Establishment of clear delegated powers or authority from the board;
- Regular reporting and interaction with senior management; and
- Use of audit – both internal and external.

All of the above put safeguards in place both for the organisation and for the individual, but the challenge may be where to start.

The ACT has written previously about segregation of duties (see *The Treasurer*, May 2015, page 48), and this article offers some thoughts on the development of treasury policies and procedures.

Codes of practice

Turning to the financial markets, the Fair and Effective Markets Review (FEMR) of the fixed income, FX and commodities markets was commissioned by the UK government after numerous banks were fined billions of pounds for trying to rig the benchmark interest rate, Libor, and manipulate FX reference rates.

The FEMR found that the informal codes of practice that had traditionally existed across these markets had often been misunderstood or disregarded. A lack of internal controls and personal accountability had furthermore contributed to what the FEMR rather kindly called 'ethical drift'. In short, the market was not acting transparently or ethically and the regulator wanted this resolved. This resulted in various working groups comprised of a combination of public (central banks) and private parties (market participants) developing codes of good practice.

For example, an FX Global Code has been drafted under the auspices of the Bank for International Settlements. In the UK, the development of the FX Code meant that the Non-Investment Products Code had sections that were no longer relevant, and so the opportunity has also been taken to refresh guidance on the UK unsecured deposits and repos markets through the publication of the UK Money Markets Code. (Possibly less relevant for many corporates, a Global Precious Metals Code has also been published.)

Both the FX Global and the UK Money Market Codes are voluntary, but drafted to encourage the broadest possible range of market participants to become involved by signing up to the statement of commitment.

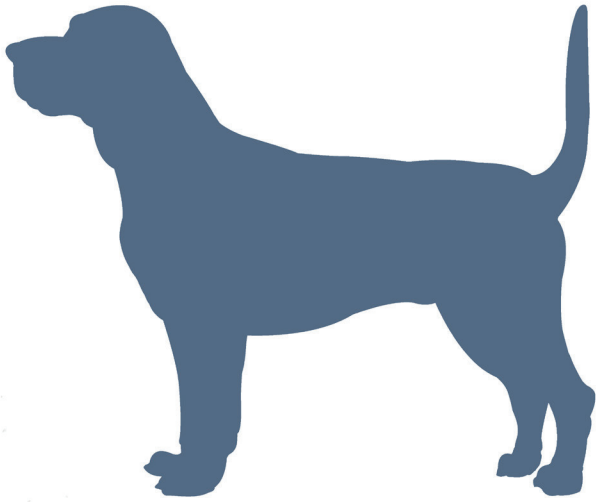
One might be forgiven for thinking that these codes of conduct have been developed purely to address the misdemeanours of the banking world, but, as well as setting out good practice in the various financial markets, these codes also set out the behaviours that a corporate can expect from its banks. And they are relevant for corporates, as they are classified as market participants.

In June, the Bank of England hosted a launch event for the ACT specifically for corporates at which they presented the background to, and rationale for, these codes – a clear demonstration of the importance that the Bank of England places on reaching out to corporates as participants in the financial markets.

The overarching principle of both of these codes is that market participants should strive for the highest ethical standards. Let's consider how these

The codes have been drafted to encourage participants to actively think about their behaviours

ACT LEARNING ACADEMY



WHICH DOG HAS MONEY?

A BLOODHOUND - HE IS ALWAYS PICKING UP (S)CENTS

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codes of good practice might also be a useful source of information and ideas for anybody developing treasury policy and procedures for a corporate treasury.

The FX Global Code

Taking the FX Global Code as an example: the purpose of the FX Code is to promote the integrity and effective functioning of a robust, fair, open, liquid and transparent FX market in which market participants can confidently and effectively transact in a manner that conforms to acceptable standards of behaviour.

The FX Code is principles based, to encourage active consideration of how best to integrate the desired behaviours into the day-to-day activities of market participants, and this makes it particularly useful for corporates looking to develop policies and procedures.

It is organised around the following six leading principles:

- **Ethics:** market participants are expected to behave in an ethical and professional manner to promote the fairness and integrity of the FX market.
- **Governance:** market participants are expected to have a sound and effective governance framework to provide clear responsibility for, and comprehensive oversight of, their FX market activity and to promote responsible engagement in the FX market.
- **Execution:** market participants are expected to exercise care when negotiating and executing transactions in order to promote a robust, fair, open, liquid and appropriately transparent FX market.
- **Information sharing:** market participants are expected to be clear and accurate in their communications and to protect confidential information to promote effective communication that supports a robust, fair, open, liquid and appropriately transparent FX market.
- **Risk management and compliance:** market participants are expected to promote and maintain a robust control and compliance environment to effectively identify, manage and report on the risks associated with their engagement in the FX market.
- **Confirmation and settlement processes:** market participants are expected to put in place robust, efficient, transparent and risk-mitigating post-trade processes to promote the predictable, smooth and timely settlement of transactions in the FX market.

Each principle in the FX Code is predicated on transparency and disclosure; ie providers of services need to be transparent about the products they offer and the ways in which they execute a transaction. Similarly, the buyers of those services must ensure that they understand what they are purchasing, to ask questions about how an order will be executed, and, when necessary, to provide clear guidance about their preferences.

The codes have been drafted to encourage participants to actively think about their behaviours rather than just complete a box-ticking exercise and, as a result, a clear benefit is that a treasury can work through each of the principles, decide not only how it might apply in their dealings in that particular market, but also consider how it might be reflected in internal policies and procedures.

To summarise, whether you are an active participant in the FX market or the various UK money markets, whether you need to understand what your banks should be doing when transacting with you in these markets, or whether you are looking for resources to develop in-house policies and procedures, the Global FX Code and the UK Money Markets Code are valuable resources for treasurers.

Details about the codes can be found on the ACT website at www.treasurers.org/codes

Sarah Boyce is associate policy and technical director at the ACT

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SURVIVE AND THRIVE

LIKE THEIR COUNTERPARTS ELSEWHERE IN THE WORLD, MIDDLE EAST TREASURERS ARE LOOKING TO HELP THEIR ORGANISATIONS GROW IN THE FACE OF ECONOMIC AND REGULATORY HEADWINDS. PETER MATZA PREVIEWS THE ACT MIDDLE EAST ANNUAL SUMMIT 2017

Corporate treasurers and finance professionals everywhere around the world are asking themselves the same questions: what can I do to help my organisation or business survive and thrive in the modern global economy? How do I integrate my financial approach with the needs of the business?

In 2017, at ACT conferences in the UK, Germany, Singapore and Hong Kong, treasurers have come together to question, debate and learn with their colleagues how best to answer this question. Now in its eighth year, the ACT Middle East Annual Summit on 21-22 November offers treasurers from across the region their local platform – and an unrivalled opportunity to have their say. Over those eight years there's no doubting the tremendous growth in treasury as a recognised discipline in major companies – public and private – as our Middle East Treasury Awards, which showcase the developments, innovation and excellence in treasury management in the region, testify.

Of course, each area has its own challenges and uncertainties: political, economic or social. The Middle East business environment is no different – facing change in demographics, social liberalisation, the impact of technology, transition from traditional business norms and even the introduction of public taxation via VAT in some countries. This makes it even more important for treasurers and finance professionals to share their experiences and exchange good practice with their peers. In reality, though, treasurers know their job is a 'game of two halves'. First, what can they control directly? And second, what do they have to worry about from outside their businesses?


Delegates at the 2016 ACT Middle East Annual Summit

Middle East treasurers and finance professionals know that inside their organisations they have to manage a whole range of issues. Who knows about your cross-border payments and cash flows in Africa, to the US, to China? What FX and interest rate exposures do I have? How can I access local and regional capital markets, conventional or Islamic? What systems and treasury technology will work for me?

While these are key operational questions, treasurers must also address (and answer) a range of managerial challenges. How do I make sure I have the right people with the right qualifications in the right roles, and where do I find them? How do I make sure the business knows what's important financially? What does the board and senior management need to know and when?

Workshops and plenary sessions

The Middle East Annual Summit offers tremendous scope to find the best solution with workshops on payments, trade finance, treasury systems and dynamic FX management all delivered by experienced treasurers and market experts.

By contrast, in a business and political environment that's dynamic, Middle East treasurers must keep themselves aware of what's happening in the outside world that can impact their business. What's the impact of new financial regulation and accounting standards, regionally and globally? How do I keep myself up to date with the latest in treasury and business management? How do I keep my investors, banks (local and international) and advisers happy? Oh, and how do I keep my CFO happy, too? We have all that covered with plenary sessions, panel discussions (including a CFO panel packed with experience and insight) and an exhibition and networking space for information exchange and building new relationships with services providers and other treasurers.

Treasurers in the Middle East have worked hard to develop the profession as a key part of the success of businesses both new and old. The ACT Middle East Annual Summit is your opportunity to contribute to that success. I'm looking forward to hearing what's on your agenda and how you and your team can work with the ACT network to the benefit of the profession and, in turn, the economy, in the region.

Peter Matza is ACT speakers' chair and co-chair of the ACT Middle East Annual Summit

DIGITAL PATHWAYS

DIGITISATION AS A ROUTE TO MAXIMISING CUSTOMER SERVICE IN THE RETAIL BANKING SPACE IS WELL ESTABLISHED. NEIL ARMITAGE EXPLORES ITS POTENTIAL FOR CORPORATE CUSTOMERS

Digitisation is at the forefront of all our minds. As consumers of retail products, it is impossible to ignore the developments in the way we can purchase goods and services. While we enjoy more efficient ways to make a purchase and track the progress of the purchase to final delivery, we should not forget what is really driving these developments. Companies are investing heavily in digital solutions to attract new customers, retain existing customers, create loyalty, ultimately leading to increased profits and creating shareholder value.

Digitisation enables companies to offer increased levels of service in a cost-efficient way and it provides much greater intelligence on the buyer's behaviour, enabling pinpoint targeting of marketing programmes and the elimination of unprofitable and non-value-creating activities. The retail-banking industry has embraced digitisation, and any prominent player in the Middle East banking arena now has a mobile app to support its online banking platform.

The banking industry in the United Arab Emirates (UAE), and indeed the wider Gulf Cooperation Council, continues to be highly competitive, which drives down banks' lending margins and fees. Every bank in the UAE, in particular, is looking for a way to differentiate itself from its competitors. Customer service has for some time been seen as a key differentiator for banks, as they strive to win new customers and increase the wallet share of business from existing customers. Banks are now looking to differentiated service for different segments of customers, usually driven by the value the customer creates, or potentially can create, for the bank.

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The focus of this discussion is to look at the benefits that digitisation can bring for the corporate service model.

The impacts in retail banking suggest the need for a differentiated service model for the corporate client, which has been embraced by banks in the UAE. The reality of this model is that it has been driven by customer need.

This is where the thinking of the banks needs to change: reacting to the needs of the customer is not going to be enough in the future. The Oliver Wyman report, *The State Of The Financial Services Industry 2017*, supports this view. This research shows that, while financial institutions have invested in mobile banking, cloud technology and process re-engineering, very few have articulated their digital plans on how they will drive future shareholder value. This goes to the root of the argument: banks have embraced the benefits of technology, but have they really understood it from the customer standpoint?

Digitisation enables companies to offer increased levels of service in a cost-efficient way

The needs of a business

The corporate client by definition has a diverse list of service needs and these needs will differ greatly, depending on the nature of their business. Take the example of an FX business. It needs seamless efficient payments and a competitive FX service, together with an ability to track payment progress. Its business model is based on maximising the number of payments it makes for its customers, making small commissions and FX margin on each payment. Any type of delay will cost it money and damage its reputation in the market. While a bank-dedicated service resource will be able to deal with queries and problems, what the bank really needs to provide to the business is a window on its processing systems. It may well be a challenge for the

bank itself to see this, but this is where the paradigm shift in thinking is required.

In the case of an import distribution business, its needs will centre on trade finance service. The movement of goods drives its business and it needs speedy processing of its import documentation, such as bills of lading, to eliminate supply chain delays. Coupled with this, the collection of its receivables is paramount, since this drives the cash flow and, ultimately, the profitability of the business. In this case, the customer needs to know exactly where the trade documents are, not just within the bank system, but beyond. Ideally, this should be linked to a view of where the actual goods are as well. This is a case of where the bank needs to link with the other providers in the supply chain to provide a single view of the customers' trade cycle.

Internal versus external information

We also see what Accenture refers to as the difference between 'inside' and 'outside' information. This concept was discussed in the Accenture report, *Digital strategy execution drives a new era of banking*, first published in 2015, but still relevant today. The report refers to research from a number of global banks, making the point that using digitisation to improve the customer journey (the 'outside'), requires many facets of change to the way a customer interacts with the bank. The report goes on to say that these changes will only be effective if the bank is successful in digitising its internal processes (the 'inside'). This will involve challenging existing practices and making changes to specifically improve the customer journey.

The digitisation journey has to begin by looking at what the customer needs, but the true differentiator will be giving the customer the services that they have not even imagined, and will find valuable to their business. This takes the idea of a differentiated service model to a new level, in that not only will a bank provide an enhanced service to its priority customers, but it will be able to segment its service based on the customer's needs. The type of service will be tailored to exactly fit the customer's needs, eliminating information the customer does not need. In addition, the bank-service employees can also be segmented in the same way, meaning when there is the need to speak to someone, that person is a real subject-matter expert in the customer's area of business. At the same time, the bank should have the ability to be able to review the transaction flow/service requests generated by the customer, to constantly validate the nature of the service provided. This enables the bank to spot a differing trend in the customers' business, which will prevent either the over- or underservicing of the customer.

Turning now to the 'inside' information, this clearly needs to drive the quality of the information/data that is provided to the customer. This is an area of challenge for the banks, as they traditionally have to work with multiple systems internally that don't always talk to one another very effectively. Typically, the bank will need a good deal of human intervention to produce the 'outside' information, which has led to difficulties in producing the exact information the customer needs. In addition, as the example above showed, there is a need to either link with, or look into, other industry information systems to dovetail with the bank information.

The challenge the banks face should not be underestimated, but the rewards are clear to see: a loyal customer base, well defended against the competition, with the ability to win new customers. All of this leads to the creation of shareholder value. So, how do the banks approach this challenge?

There must be an understanding that defining the end state of what they will provide is difficult. These types of project have to be approached with an agile technique. The concept of the 'minimum viable product' precisely fits this project. There will be a constant need to build on the initial offering, moulding it to meet the customer's needs. Stakeholders will have to be carefully aligned, as banks have a habit of allowing stakeholders to dominate projects, which will lead to the end result not meeting the customer's needs. Banks that are successful in making these changes will have a revolutionised and truly differentiated corporate service model, placing them ahead of the competition.

It is very clear that digitisation can really power changes in customer service, but despite the technology, there will still be occasions when the customer needs a face-to-face contact to solve their problems. We should not lose sight of this.

CATEGORIES	SPECIFIC NEEDS
CRITICAL	• Competitive pricing
DIFFERENTIATORS	• Demonstrable understanding of the business • Local market presence • Existing relationship
CORE	• Market reputation • International/cross-border capabilities • Innovative products
NON-ESSENTIAL	• Quality of request for proposal/pitches • Mobile capabilities • Ancillary

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بنك أبوظبي التجاري
ADCB

BY LAND AND SEA

CHINA'S BELT AND ROAD INITIATIVE BRINGS WIDE-RANGING OPPORTUNITIES FOR NEIGHBOURING COUNTRIES, PARTICULARLY THEIR BUSINESS AND FINANCE SECTORS, AS DAVID ALDRED, YUSUF ALI KHAN AND JAGADESHWARAN KOTHANDAPANI EXPLAIN

The Middle East, North Africa, Pakistan and Turkey (MENAPT) are crucial geographic and economic elements in China's ambitious Belt and Road Initiative (BRI). Investment in power, roads, rail, ports and other infrastructure, coupled with the economic uplift these investments will bring, present financial institutions, corporates and sovereigns with a multitude of opportunities from a cash and trade perspective.

China's BRI is a vast connectivity and cooperation plan that will open new economic corridors across a large swathe of the world, transforming economic flows and the lives of millions of people. The project seeks to reshape the international trade landscape by promoting enhanced connectivity, trade flows and investment opportunities between China and numerous emerging and developed markets.

BRI encompasses 65 countries (representing 60% of the world's population and 30% of global GDP). Of these, 15 are in the MENAPT region. Neighbouring Pakistan is the focus of the China-Pakistan Economic Corridor. Currently, 26% of China's total trade volumes are with BRI countries. By 2025, this is forecast to increase to 40%. The benefits for the MENAPT region are expected to be significant.

BRI has six principal land (Belt) and sea (Road) corridors: many of these will impact MENAPT. For example, Belt corridors, a network of overland roads, bridges, tunnels, rail routes, oil and natural gas pipelines, and other infrastructure projects, will connect China with Pakistan, and China with the Persian Gulf and Mediterranean Sea via Central and Western Asia. The sea-based Road corridors extend from China's coastal ports to the Indian Ocean, Africa and Europe via the Suez Canal and will consist of ports and other coastal infrastructure projects.

The impact of BRI

BRI is already delivering benefits to some countries in MENAPT: Pakistan, one of the project's initial focuses, is believed to have gained flows of between $45bn and $60bn as a direct result of the initiative; there has also been investment in Bahrain, Egypt, Iraq, Qatar (where the renminbi can now be cleared), Turkey and the United Arab Emirates (UAE) (including a bilateral currency swap deal). In many countries, BRI is building on strong foundations: China-UAE bilateral trade has increased threefold since 2004 – China is now the UAE's leading source of imports, while the number of Chinese tourists visiting the UAE increased by more than 1,000% between 2005 and 2016, for example.

One attraction of MENAPT to China is that the Middle East is home to more than half of the world's oil reserves: China became the world's largest net oil importer in 2013 and has since increased its oil import dependency from 30% in 2000 to 57% in 2014.[1] For national security reasons, China has sought to diversify its energy portfolio across geographical regions.

However, China is not merely seeking improved access to MENAPT's energy resources; it wants to expand trade between countries in the BRI plan across a wide range of sectors, including telecoms, autos, electricity generation, building materials, chemicals, engineering machinery, metals and textiles.

Preparing for BRI

CFOs and treasurers seeking to take advantage of the opportunities presented by BRI will need to adapt to changing economic flows in order to achieve their growth objectives, so they must be able to count on treasury arrangements that are fit for purpose. While initial projects associated with BRI are likely to concentrate on infrastructure – benefiting primarily companies in the construction sector, for example – many other sectors will benefit from the broader economic benefits of BRI in the coming years.

Companies expanding within MENAPT will need cash management services to manage payables and receivables, as well as operating, collection and debt-servicing accounts that meet complex regulatory requirements across the region. Companies working with Chinese counterparties

will need special assistance with settling transactions. Escrow facilities may be necessary in order to facilitate secure investment given the characteristics of the region. BRI has already prompted a wave of M&A activity; companies will require appropriate advice.

Much of the finance for Chinese companies taking part in BRI is likely to come from the Chinese government's Silk Road Fund, China's policy banks (Agricultural Development Bank of China, China Development Bank and the Export-Import Bank of China), China's big four state-owned banks, and the Asian Infrastructure and Investment Bank. In this regard, two Chinese banks have already been granted licences to operate in Pakistan; the most recent is Bank of China, which has 19 of its branches located in countries that are part of BRI. However, both Chinese companies and those in MENAPT will also need to access funding from international banks in the form of project finance, syndicated loans, bonds and export credit agency, and multilateral agency support, including that of the Chinese export credit agencies.

Chinese and local corporates will also typically require access to traditional trade finance solutions, long-term funding for projects, cash-collection solutions and risk-mitigation structures. Instruments such as standby letters of credit, performance bonds and techniques such as bill and invoice discounting will be essential tools for treasury. Where possible, treasury must be optimised by linking trade and cash management. For example, innovative reconciliation tools can be integrated into receivables flows to improve efficiency and enhance working capital management.

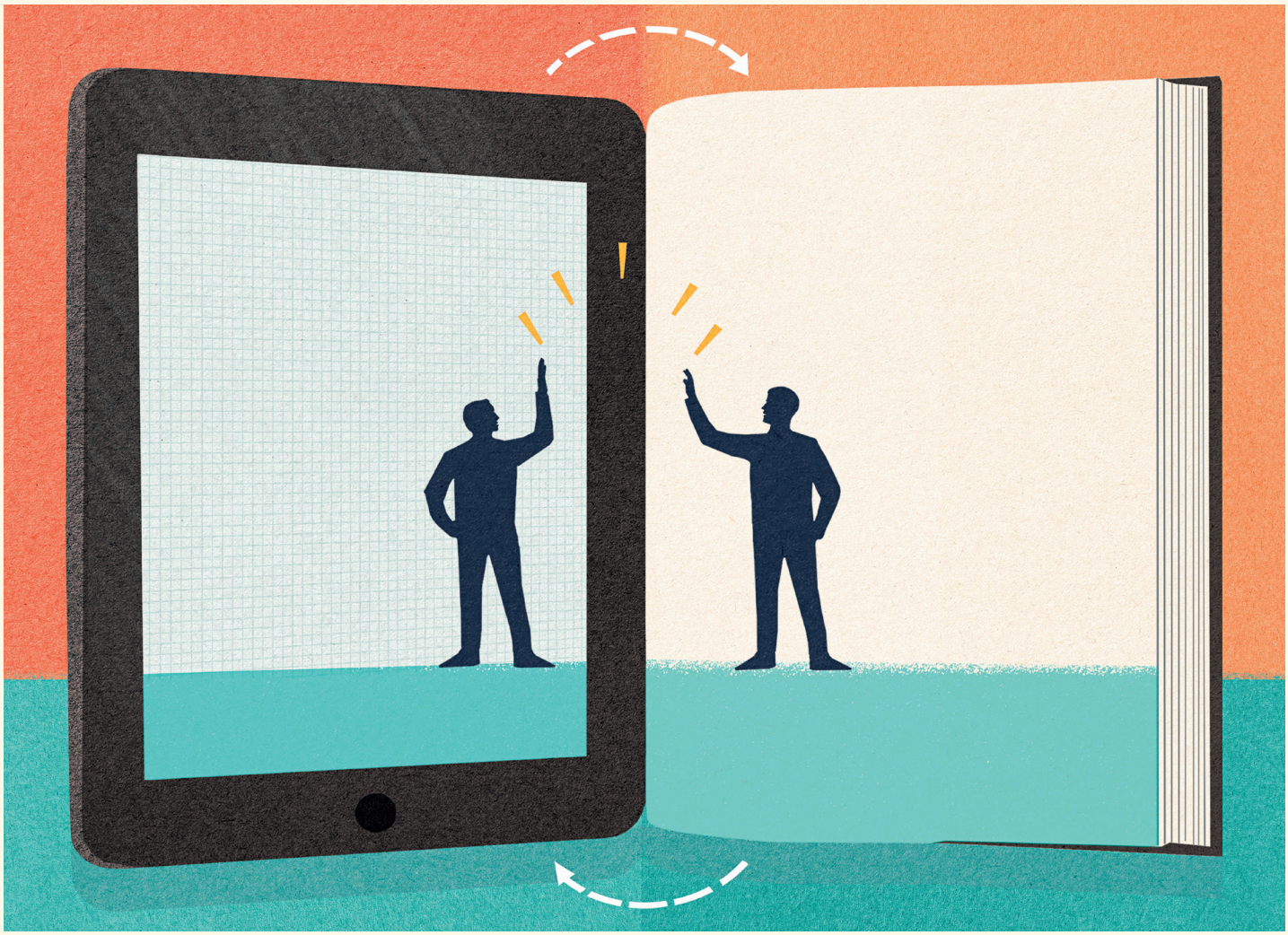
Choosing the right partner

The countries that BRI spans are extremely diverse, with a variety of regulatory environments and business practices. For companies active in MENAPT seeking to prosper from the opportunities presented by BRI, it is essential to work with a banking partner that understands the specific challenges of the region and has experience of how to help clients achieve their strategic objectives.

In this regard, banks with a strong international footprint coupled with an on-the-ground presence in those countries impacted by BRI and an in-depth knowledge of local conditions, regulatory and legal frameworks would be best placed to offer specialist support to Chinese companies requiring access to financing or seamless movement of funds.

1 energy.gov/sites/prod/files/2016/04/f30/China_International_Analysis_US.pdf

David Aldred (left) is head of cash management product; **Yusuf Ali Khan** (middle) is head of trade; and **Jagadeshwaran Kothandapani** (right) is head of sales, Middle East, North Africa, Pakistan and Turkey, Citi Treasury & Trade Solutions



SAND IN THE ENGINE

TECHNOLOGY PROMISES A GREAT DEAL IN TERMS OF EASING THE FLOW OF FUNDS. BUT PROCESS CHANGE IS IMPORTANT, TOO, AS SEBASTIAN ROJAS ARGUES

We are living in a time of extreme change. A wave of money is flowing into financial technology and innovative competitors are moving up the payments value chain to challenge the traditional correspondent banking. What's more, the shift towards real-time payments is a global phenomenon, so it is unsurprising that expectations and demands for cross-border payments are also increasing. Customers want it all: more speed and transparency, end-to-end traceability and all this straight through their systems.

However, while new innovative technologies are changing the shape of the global payments industry, regulators are also introducing new rules to tackle the challenges of control, KYC, fraud and money laundering. These present a significantly increased compliance burden and are driving additional changes across the global payments infrastructure.

According to a new paper produced by EuroFinance and SWIFT, *The future of payments: a corporate treasury perspective*, the payments landscape is likely to be unrecognisable by 2020. "Globalisation and digitisation have encouraged companies of all sizes and sectors to internationalise their businesses, both conventionally and via e-commerce," the report states. "The incumbent payment providers, in both the core infrastructure of payments and at the level of the bank intermediaries, are under existential threat from new, fintech and non-bank competitors; and that new technologies, such as blockchain, will render current methods obsolete."

Other regulatory changes, including the introduction of PSD2, the EU's second

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payment services directive, are also affecting the payments ecosystem, attracting new competitors into the payments space. While the majority of these are targeting retail customers, some also focus on improving the traditional correspondent banking model. *The future of payments* identifies networks that "re-intermediate" banks in consortia offering "global automated clearing house" services, which could be appropriated for certain types of cross-border corporate payment.

"Others use versions of blockchain technology to provide a service superficially similar to correspondent banking," the report continues, "but with improved performance. In addition, dozens of new and more established platforms offer service-layer access to the global payments network, tailoring their offerings to businesses of a particular size, type or location."

However, despite the plethora of new developments in payments, it is still not clear how many will be truly relevant for corporate treasury. Many have yet to demonstrate the scalability and security that are required for global regulators and new compliance legislation. Most importantly, if there is to be a payments revolution in corporate treasury, any new solution must solve the problems treasurers put at the top of their list of priorities.

Understanding challenges

For treasury, the core concerns are the pain points in B2B international payments and it is treasurers' demands for solutions that will prompt fundamental changes in the cross-border payments space. The traditional correspondent banking model for cross-border payments has been around for decades. Contrary to domestic payments, cross-border payments are slow and can take multiple days to complete. Furthermore, there is no transparency on costs, on when the payment will be received and no confirmation of credit.

> It is likely that treasurers will be unwilling to invest significantly in adopting new systems

According to the paper, corporate treasurers and their associations around the world stated that their main concerns/requirements are in the areas of:

- **Credit confirmation and timing:** Same-day or faster payments are important, as is confirmation of the payment reaching the beneficiary account.
- **Traceability of payment:** Corporates require the ability to track the progress and status of cross-border payments.
- **Straight-through processing (STP) and integration:** Any payments tracker or related global payment innovation service would need to be delivered as an integral element of their existing treasury and payments infrastructure.
- **Quality and completeness of remittance data:** Improvement is needed to ease automated reconciliation of payments with invoices.
- **Fee transparency, including FX costs:** Fees levied by correspondent banks are often unpredictable and can create reconciliation problems as well as additional payment claims from the beneficiary when the full amount is not received. This problem is exacerbated by FX conversions.
- **Rejections and investigations:** Treasurers and finance managers have little visibility of when and why a payment has been rejected, and the investigation process can be time-consuming.

All of these concerns conflict directly with treasurers' needs to automate processes, prevent fraud, increase cash and fee visibility, and optimise liquidity management. Moreover, they arise largely from the structure of the correspondent banking system. As *The future of payments* highlights, "This turns a simple payment between two parties into a game of pass the parcel for six: payer, payer's bank, payer's bank's correspondent, beneficiary bank's correspondent, beneficiary bank, beneficiary. These parties do not themselves act consistently: some have STP, some do not; some take longer than others to release funds; the fees charged along the way differ bank to bank, country to country and FX spreads are inconsistent."

The addition of KYC, anti-money-laundering rules, sanctions and an inconsistent global regulatory playing field has simply thrown sand into what was already an inefficient engine.

Stepping up

In such a quickly evolving landscape and with a clear set of requirements set out for a much-improved cross-border payments experience, the banking industry is committed to delivering on the demands of its corporate customers. Corporate treasurers, in turn, tend to have long-lasting, stable and loyal relationships with their banks and are not likely to jump ship just to save a few euros on bank fees without guarantee of all the other elements that come with the banking services package: security, reliability and resiliency, to name but a few. There are also significant questions about how suitable blockchain would be as the foundation of the global payments system.

It is likely that treasurers will be unwilling to invest significantly in adopting new systems, as they only offer an incremental improvement over the current incumbents.

The paper argues that treasurers are correct to adopt a wait-and-see attitude. "Most fintech initiatives are designed to profit from the margins available in retail and small SME payments, and from helping smaller businesses gain some of the advantages of digitisation. They do not address the cross-border payments issues facing companies large enough to have a corporate treasury."

Therefore, the paper continues, an obvious solution is to re-engineer existing systems. And, since most of the issues in cross-border payments arise from behaviours and processes that banks could change, rather than technology, changing these processes seems the obvious first step.

Treasurers also know that, in an initial burst of innovation, few ideas survive in the marketplace; and they know that the incumbents upon whom they rely have a huge incentive, as well as the deep pockets required, to innovate themselves.

Sebastian Rojas is head of corporate engagement at SWIFT gpi

IFRS 9 HEDGE ACCOUNTING: ADOPT NOW OR LATER?

THE BIGGEST CHANGE TO FINANCIAL INSTRUMENT ACCOUNTING SINCE THE 2005 IMPLEMENTATION OF IFRS IN EUROPE IS ABOUT TO TAKE PLACE – THE INTRODUCTION OF IFRS 9. STANISLAV VARKALOV AND COLIN McKEE EXPLORE SOME OF THE KEY CONSIDERATIONS FOR CORPORATES OF THE NEW HEDGE ACCOUNTING RULES OF IFRS 9

From 1 January 2018, IFRS 9, *Financial Instruments* will replace IAS 39, *Financial Instruments: Recognition and Measurement* – and it is more than a mere upgrade. According to the IASB, the aim of IFRS 9's hedge accounting element is to provide more useful information about hedging, which better aligns to how companies manage risk in practice.

The standard also deals with the classification and measurement of financial instruments and impairment of financial assets, which *The Treasurer*, we understand, will cover in a future article.

Are hedge accounting changes imminent?

While the application date of 1 January 2018 is just around the corner for calendar year-end companies, it is easy to overlook that it is possible to defer application.

An exemption offered by the IASB in paragraph 7.2.21 of IFRS 9 was provided mainly in order to help banks avoid changing their systems twice – once now and a second time when the 'macro hedging' project is completed in a few years' time. While macro-hedging may not be relevant to most corporates, this exemption is available to any type of company. According to this exemption, the new hedge accounting rules only become mandatory when the macro-hedging project is completed – which could be five or more years away.

What are the pros and cons of deferring adoption?

IAS 39	Population of hedges	IFRS 9 treatment and key required actions	Examples
Designated as hedges	Trades for which no significant change to the hedge designation is required	**Continuing hedge relationship** • Prepare IFRS 9 hedge documentation • Decide on effectiveness assessment methodology	**Interest rate swaps** – designated as either fair value or cash-flow hedges
	Trades impacted by 'costs of hedging' rules, ie FX forwards, cross-currency swaps, options	**Continuing hedge relationship** • Prepare IFRS 9 hedge documentation • Decide on optimal treatment of costs of hedging • Determine any impact on comparative year figures • Decide on effectiveness assessment methodology • Are systems able to separate costs of hedging?	**Cross-currency swaps** – elect to treat basis spread as a cost of hedging to minimise profit-and-loss volatility and determine how to implement this **FX forwards** – decide if a spot FX (discounted) or forward FX rate designation is more appropriate
	Trades for which IFRS 9 may allow for a more effective hedge designation	**New hedge relationship** • Prepare IFRS 9 hedge documentation • Decide on effectiveness assessment methodology • For non-contractual risk component hedging, consider what supporting information is needed • Where basis risk exists, consider optimal hedge ratio	**Commodity hedges** – re-designate against risk component to minimise profit-and-loss volatility
Not designated	Trades for which IFRS 9 may enable hedge accounting to be applied		**Inflation/commodity hedges** – where hedge accounting was not previously possible
	Trades where hedge accounting is not possible/ required	**Not designated**	**Natural offsets** – for example, offsetting interest rate swaps, natural FX hedges

Key considerations

Many of the hedge accounting changes of IFRS 9 are expected to be positive, and could be factors in favour of adopting the new rules from the get-go. These include, but are not limited to, the fact that:

- It should be possible to apply hedge accounting, for example, to sterling interest rate swaps, pre-hedging interest rate risk on a forecasted foreign currency debt issuance, which will be swapped

back to sterling. IFRS 9 enables cash flows from a combination of a derivative and a non-derivative (known as 'aggregated exposures') to be designated as 'hedged', removing the IAS 39 prohibition on hedging most cash flows arising from derivatives. Future foreign currency debt would be swapped into sterling with a cross-currency swap once issued and the new rules would allow such derivative cash flows to be included in the hedged item.

- Under certain conditions, IFRS 9 may make it possible to hedge inflation risk in fixed-rate debt. This may be particularly useful to utilities that typically match their inflation-linked revenues to synthetic inflation-linked funding using inflation swaps.
- Time value of options, forward points and currency basis would be redefined as *costs of hedging* and allowed to be amortised to profit and loss under IFRS 9, instead of a fair value approach being taken for such excluded components – as IAS 39 prescribes. This could lead to a decrease in income statement volatility, particularly from hedges with options and cross-currency swaps.
- Under the final text of IFRS 9, the hedge effectiveness corridor of 80%-125% as well as the requirement for retrospective effectiveness testing has been removed and replaced by a set of broader economic hedge effectiveness criteria. The new standard allows for commodity components, ie components of non-financial items – such as the wholesale diesel price in fuel-purchase contracts, to be designated separately. This, along with abolition of the effectiveness corridor, could increase the scope for achieving hedge accounting for commodity hedges.

That said, there are also a number of reasons why a company and, more specifically, a treasurer, might want to defer adoption of IFRS 9 hedge accounting. One of these is the current workload. After all, IFRS 9 isn't the only major accounting change in the pipeline – with the mandatory adoption of IFRS 15 on revenue recognition in 2018 and IFRS 16 on lease accounting in 2019.

Depending on the nature of your company's business, these could trigger significant implementation projects in their own right, with IFRS 16 placing particularly heavy demands on the treasurer's time. So, if an IFRS 9 hedge accounting implementation project is avoidable in the short- to medium-term, that could be appealing.

Additional factors weighing in favour of deferral include the fact that:

- The rest of IFRS 9 must be adopted at the same time and, since it includes other components related to the accounting of financial instruments, companies would do well to evaluate how the whole standard affects their accounting – a larger exercise.
- Designating foreign currency exposures on an 'undiscounted spot' basis would no longer be possible in accordance with IFRS 9. IAS 39 is not explicit on this issue, however, in widely accepted practical application of undiscounted spot designations, perfect hedge effectiveness is often simply assumed irrespective of any differences between the timings of the underlying cash flow and of the forward contract. Taking away this fundamental assumption could lead to a disruption of hedge accounting, since the timing of cash flows for such hedges would have to be newly collected, and discounting calculations carried out. Companies that have invested time and effort in designing IAS 39-compliant FX hedging systems using the undiscounted spot assumption may be tempted to postpone the implementation of IFRS 9 due to this impractical new provision.
- Voluntary de-designation of hedge relationships will also be prohibited. While hedging contracts themselves could be terminated voluntarily, thereby achieving termination of hedge accounting, the fact that a change of actual transactions would be required to trigger a change of an accounting designation may be inconvenient in the future.

Deciding to defer or adopt

If a company does decide to defer IFRS 9 hedge accounting adoption, it may be worth considering how this message should be communicated to stakeholders and creditors, especially if peer companies decide to adopt. Deferring also means missing out on the opportunities IFRS 9 brings, at least over the next few years. In the absence of adoption of IFRS 9 for hedge accounting, problems may remain in areas such as hedging of commodities, as well as hedging of inflation risk in fixed-rate debt, and interest rate risk in operating leases. These factors must be taken into account in any decision.

For those deciding to adopt the IFRS 9 hedge accounting rules in 2018, however, time is running out. As such, a clear and defined strategy will be required. The table opposite provides a brief summary of the main groups of hedging relationships requiring attention.

Time to choose

In summary, the new hedge accounting rules arrive very shortly and they could be put to good use by some corporate risk managers. For example, those issuing significant quantities of foreign currency debt, as well as those with material commodity purchases, could benefit significantly from the application of hedge accounting changes in IFRS 9.

Due to the option to defer, however, those who are happy with the existing arrangements have a practical alternative of deferring the application of the new hedge accounting rules, also enabling them to learn from other corporates' IFRS 9 adoption journeys.


Stanislav Varkalov (left) and **Colin McKee** (right) are directors in capital and risk advisory at Lloyds Bank

LLOYDS BANK

THE REGULATOR AND LIQUIDITY

POST-FINANCIAL CRISIS REGULATION HAS HELPED MONEY MARKET FUNDS INCREASE THEIR ABILITY TO MEET LIQUIDITY NEEDS, ESPECIALLY IN STRESSED MARKETS. THE RULES CONTINUE TO DEVELOP, AS ROBERT O'RIORDAN EXPLAINS

The financial crisis showed that money market funds (MMFs) could become vulnerable in stressed market conditions, especially when faced with large redemptions. Since then, however, regulators have globally put regulations in place to help MMFs manage their liquidity needs, enabling them to better position themselves to meet investor redemptions during periods of financial instability.

In this paper, we explore some of the main regulatory rules on liquidity – this includes some of the new changes from the EU MMF regulation published on 30 June 2017, which effectively goes live for existing funds on 21 January 2019. The new rules include the use of repurchase agreements (repos) as a risk management technique. We reveal how they can be applied in practice and which types of MMF are placed to take the greatest advantage of the regulation.

Liquidity management in MMFs

Post-financial crisis, regulations have strengthened MMFs' liquidity management toolkits, helping them to better manage cash flows and meet investor redemptions in stressed market environments. Here, we list three key liquidity management tools:

- *Liquidity buffers*
  One of the crucial measures that were introduced to enhance MMFs' liquidity profiles after the financial crisis includes minimum liquidity requirements. Public debt constant NAV (CNAV) MMFs and low volatility NAV (LVNAV) MMFs are required to have a minimum 10% of NAV held in daily maturing assets and a minimum 30% of NAV held in instruments that mature within a week. Portfolio managers will look to increase the liquidity levels above the required weekly buffer in order to avoid mechanistic triggers on redemption gates and/or fees. These triggers, as outlined by the regulations, are based on weekly liquidity levels (see Figure 1, below).

  Daily liquid assets comprise cash, and daily maturing assets, including overnight reverse repurchase agreements (reverse repos) and overnight deposits. Weekly liquid assets comprise weekly maturing assets, including reverse repos maturing within five business days, deposits maturing within five business days, and certain government and government-backed assets. Liquidity buffers should give MMFs enough headroom to prevent the triggering of redemption gates and fees.
- *Stress testing*
  Regulation also requires MMFs to regularly (at least twice a year) conduct stress testing for different possible scenarios. The tests should seek to identify possible events or future changes in economic conditions that could negatively impact the MMF. The tests also need to take into account certain hypothetical factors, such as changes in liquidity levels, credit risk, interest or exchange rates and redemption levels.
- *Repurchase agreements (repos)*
  One of the upcoming changes of the recent regulation is that all MMFs can use repos to raise cash for liquidity management purposes. Therefore, if a surge in redemptions occurred and additional cash was required beyond the 10% of daily liquidity and 30% of weekly liquidity buffers, the repo market can now act as a backstop to allow MMFs to access additional cash before having to trigger redemption

FIGURE 1: REDEMPTION GATES AND FEES

PREVIOUS ARRANGEMENTS	UNDER NEW REGULATION
• UCITS directive has provision for gating redemptions **If net daily redemptions exceed 10%:** • Prospectuses allow the board of directors to apply redemption gates	**If weekly liquidity falls below 30% of the fund value and net daily redemptions exceed 10%, the fund board has the option to:** • apply liquidity fees on redemptions; • apply redemption gates, which limit daily redemptions to 10% of total number of shares for up to 15 days; • suspend redemptions for up to 15 days; or • take no immediate action. **If weekly liquidity falls below 10% of the fund value, the fund board must:** • apply liquidity fees; and/or • suspend redemptions for up to 15 days.

gates and/or fees. MMFs are allowed to raise cash up to 10% of their assets, and are only able to use these repos for no more than seven working days.

What is a repo?

A repo is a form of short-term borrowing to raise cash. The borrower (the MMF) enters a repo contract (known as a Global Master Repurchase Agreement) with an investor, in which it will sell assets that it owns to the investor as collateral, in return for cash. The MMF agrees to repurchase the assets from the investor at a later date (see Figure 2, below).

The repo market – an additional source of liquidity

The upcoming regulation allows the use of repos to effectively build an additional 10% liquidity buffer. MMFs that have suitable assets, such as government debt that they hold directly, can use a repo transaction to generate additional liquidity. However, in the search for yield, government bond holdings are typically a small component of many MMFs. But if the MMF has suitable assets in their collateral pool, they may sell these in the repo market in return for cash – this process is called rehypothecation.

Which MMFs can benefit from repos?

In periods of market stress, investors typically flock to 'safe haven' assets in search of calmer waters. This 'flight to quality' was demonstrated during the financial crisis and more recent periods of market uncertainty where there has been an increased demand for government debt. Therefore, MMFs holding government debt as collateral are more likely to find demand, enabling them to utilise the regulatory provision to access additional liquidity.

Liquidity versus yield

Government debt MMFs have a large allocation in suitable repo collateral, either directly or via a reverse repo that has been collateralised with government debt. However, traditional government debt MMFs, which face banks as counterparties, generate a yield significantly lower than prime MMFs. This has made them less attractive to investors looking for both liquidity and yield.

Recent innovation in the industry has addressed this issue. Government debt MMFs are able to enter reverse repos directly with non-bank counterparties. A reverse repo is very much like a secured loan where cash investors can secure cash against assets, such as government debt, while receiving interest. Traditionally, banks were the ones supplying the assets used as security, but regulatory pressure on the bank is driving up costs of transacting this type of business. However, investors can enter reverse repos without banks, enabling them to avoid the higher transaction costs imposed by banks, which translates into a yield enhancement.

Non-traditional government MMFs help investors benefit from investing with non-bank counterparties in a more simplified fund structure, allowing them government debt security, daily liquidity and a yield enhancement over traditional government MMFs that transact with banks.

Conclusion

Regulators around the world have put regulations in place to help MMFs better prepare for times of market stress. However, certain MMFs can utilise some of these rules better than others, in particular, the use of repos to manage liquidity. Furthermore, a new breed of government MMFs, which are able to invest predominantly in reverse repos secured exclusively against government debt, with non-bank counterparties, can offer investors both the liquidity and yield they desire.

FIGURE 2: HOW DOES A REPO WORK?

AT THE ONSET:

Money market fund (seller of gilts) → **Gilts as collateral** → **Investor (lender of cash)**

Money market fund (seller of gilts) ← **Cash** ← **Investor (lender of cash)**

AT MATURITY:

Money market fund (seller of gilts) → **Cash + interest** → **Investor (lender of cash)**

Money market fund (seller of gilts) ← **Gilts as collateral** ← **Investor (lender of cash)**

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Insight INVESTMENT

GOODBYE TO ALL THAT

KATHRINE MELONI AND STEPHEN POWELL ANSWER KEY QUESTIONS ARISING FROM THE POTENTIAL DEMISE OF THE LIBOR

Since the Libor-rigging scandal came to light almost a decade ago, several institutions have withdrawn from Libor contributor panels and, according to the Financial Conduct Authority (FCA), it seems that some or all of those who continue to contribute, are doing so largely at the regulator's behest. The announcement by Andrew Bailey, chief executive of the Prudential Regulation Authority, in July that the FCA will no longer exercise its influence to facilitate the production of Libor has therefore been widely interpreted as raising serious questions about the sustainability of benchmark after the end of 2021, the FCA's chosen cut-off date.

The first question this brings up revolves around the alternatives to Libor currently being proposed and some of the challenges that those alternatives would need to overcome in order to be usable across the full range of products that reference Libor. Treasurers will also need to consider the practical steps they might take now to ease any transition to an alternative rate should that become necessary or desirable.

Why is Libor currently so reliant on FCA support?

Significant efforts have been made in recent years to transition Libor to a predominantly transaction-based rate, as recommended by the Financial Stability Board (FSB), which at the request of the G20 is driving the process of reforming major benchmarks. Libor submissions are now formulated using a 'waterfall' approach, to ensure submissions are corroborated by transaction data as far as possible. This essentially involves contributors looking first to transaction data in preparing their submissions. Expert judgement comes into play only if insufficient data is available.

It has not been possible, however, to eliminate expert judgement from the Libor process altogether, which appears to be the crux of the current problems in sustaining appropriate levels of rate submissions.

The implications behind Bailey's speech in July are that the sustainability of Libor comes down to the reluctance of banks to offer their expertise. Bailey cited an FCA survey, not yet entirely complete, which appears to confirm there to be insufficient liquidity in the interbank and other relevant markets to support the transition of Libor to a fully transaction-based rate. That being the case, contributors must exercise some level of judgement according to the current methodology. Judgements involve risk, in particular where there are very low levels of relevant borrowing activity. The prospect of incurring financial and (as a result of reforms to the regulatory regime) criminal sanctions and reputational damage in relation to benchmark submissions is a risk that many banks are unwilling to take.

What are the alternatives?

The process of identifying alternatives to Libor has been ongoing for a while. The FSB, as already noted, recommended in 2014 a number of measures to strengthen major benchmarks. At the same time, it recommended that stakeholders should seek to identify 'nearly risk-free' rates that might be used as alternatives. Working groups were set up around the world to that end, to look at potential alternatives for each major currency.

In the UK, the Working Group on Sterling Risk-Free Reference Rates (the Sterling Working Group) was tasked with identifying a preferred risk-free rate for the sterling markets. Having debated various options, the working group announced the Sterling Overnight Index Average (SONIA) as its recommended rate for the derivatives market in April. Similar exercises are under way for other currencies. In the US, the Alternative Reference Rates Committee announced a treasuries repo financing rate as an alternative to Libor for certain US dollar derivatives and other financial contracts. In Switzerland, secured benchmark rate Swiss Average Rate Overnight (SARON) is

Significant efforts have been made in recent years to transition Libor to a predominantly transaction-based rate, as recommended by the FSB

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proposed, while for Japanese yen, the uncollateralised overnight call rate, the Tokyo Overnight Average Rate (TONAR) has been suggested.

The question that immediately arises is what the cost and practical implications might be for treasury operations of different rates for different currencies. Moving from a single unsecured rate with a consistent methodology to a series of different rates originating from different administrators – some collateralised and some uncollateralised – might seem like a backwards step. However, while the Holy Grail – a rate that could seamlessly replace Libor across the myriad products and contracts in which it is currently referenced – remains beyond reach, a coordinated initiative to find appropriate rates across each relevant currency may be the only viable way forward.

The process is also in its initial stages. The endorsement of risk-free rates by each of the working groups is a significant step, but their work has so far focused primarily on the derivatives market. The next challenge, to which attention has only recently turned, and which is potentially of more interest to corporate treasurers, is to determine the appropriate scope of adoption of these risk-free rates (if any) as alternatives to Libor beyond the derivatives market.

Solutions are unlikely to be straightforward. For example, difficulties are immediately apparent if it is proposed that SONIA, or a rate referencing SONIA, should be applied to a corporate-facing sterling-denominated syndicated loan:

- First, SONIA is an overnight and backwards-looking rate, published at 9am on the day after the date to which it relates. Most corporate loans are currently priced based on Libor as quoted at the beginning of each interest period. The application of a backwards-looking rate, or a rate derived from a backwards-looking rate, would mean that the borrower's cost of funds would only be apparent at the end of an interest period, which would affect treasurers' ability to manage cash flows and facility usage.
- Second, SONIA, as a risk-free rate, does not take into account bank funding costs and thus does not plug smoothly into the 'cost plus' model on which the loan market operates. Libor does not cover lenders' funding costs accurately due to the variety of ways in which banks fund themselves and the fact that many lenders are not banks. However, it does provide lenders with some protection against fluctuations in funding costs. If the removal of bank risk from reference rates led to a more conservative attitude to margins, this would be of concern to treasurers. Treasurers will be aware that factors other than funding costs have a significant influence on loan pricing, especially at the relationship-led end of the market, but the implications of a move away from a bank credit risk-based measure might become a more pressing consideration in market conditions where liquidity is less abundant than it has been in recent years.
- Third, there is the question of hedging. Cost-effective hedging must be available for any alternative rate. As different risk-free rates with varying characteristics are adopted for each Libor currency, this potentially adds

A LIBOR AUDIT: QUESTIONS TO CONSIDER NOW

- How is the business exposed to Libor?
- Does the maturity of any relevant products or contracts extend beyond 2021?
- Do existing contractual terms provide for what happens if Libor is unavailable?
- Could those fallback options be improved?
- What is the process for amending the terms of any relevant documentation to a) improve fallback options, and/or b) accommodate any replacement rate?

a further layer of complication to cross-currency hedging arrangements.

It may only be possible to start assessing the practical impact of a move from Libor to a basket of rates for different currencies and, potentially, different products, when the full range of proposals is available.

Libor revisited?

Whether revisiting Libor turns out to be the only practical option for some products remains to be seen. If that were the case, given banks' unwillingness to contribute voluntarily and the absence of regulatory support, it seems fairly certain that Libor+ (as the reformed rate has been termed) would need to evolve further.

One option that is apparently being explored is the possibility of transferring the exercise of expert judgement from submitters to a computer system. In 2016, ICE Benchmark Administration stated in its Roadmap for Libor study that it had embarked on a feasibility study on the design and implementation of an algorithm that would calculate Libor from banks' transactional data. The outcome of this study is not known. It would be interesting to understand whether this is still ongoing or considered a realistic possibility.

Action points for treasurers

As further proposals emerge with regard to alternative rates, feedback from the broadest possible range of rate users will be crucial. If not done already, treasury departments are urged to conduct an audit of Libor exposures, to ensure that they are in a position to evaluate the implications of any alternative rates across the full range of products, for example, loans, bonds, intragroup transactions, hedging products and potentially more.

Treasurers should also remind themselves of the implications under the terms of their current Libor-based products of Libor ceasing to be available. Do fallback rates apply? How robust are they?

For example, lending documentation from the Loan Market Association (LMA) contains an extensive fallback-rate regime, which operates if Libor is unavailable. There are multiple options, but most agreements cater first for the use of a reference bank rate, or if that is not available, for lenders to receive their self-certified cost of funds. Floating rate notes might also typically provide for the use of a reference bank rate (obliging the agent to obtain quotations from reference banks for rates for loans to other leading banks for the relevant interest period in the principal financial centre of the relevant currency).

If a reference bank rate is not available, the ultimate fallback is for the rate of interest at the last preceding interest-determination date to continue to be used. Relevant terms of intragroup loans and other Libor-based floating-rate products, as well as the operation of default interest clauses that reference Libor, are likely to vary and will need to be carefully assessed.

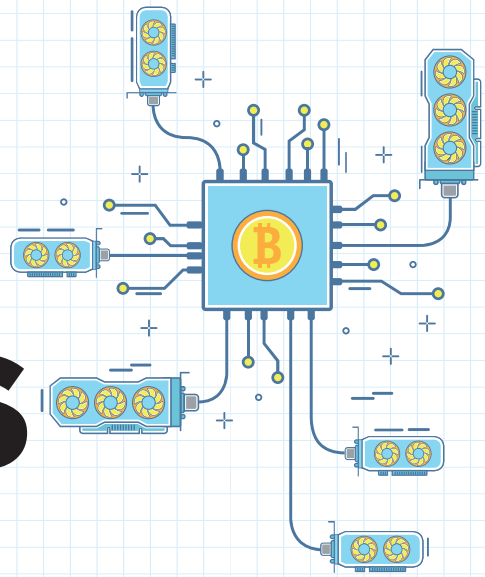
Most fallback options currently available, however, are unlikely to be workable on anything other than a short-term basis.

Contractual provisions that anticipate and effect a transition to a new rate can probably only be developed once the shape of the new rate is known. However, treasurers can prepare themselves by thinking about the process under current terms for agreeing any amendments necessary to accommodate a new rate and whether there is anything that can be done to make that process easier.

To take loans as an example here, the LMA templates (see *The Treasurer*, May 2017, page 34) provide a framework for agreeing a replacement rate that attempts to make the process as smooth as possible. If interest is being paid on a cost-of-funds basis, either the agent or the borrower may instigate a 30-day negotiation period with a view to agreeing a substitute basis. The LMA forms also provide, optionally, for any amendments to the agreement required to implement a substitute rate to be made with consent of the borrower and the majority lenders, a provision that may prove particularly useful in facilities involving larger syndicates.

Whether or not Bailey's speech signals the end of Libor, treasurers will need to monitor the market's next steps both in relation to Libor and other ibors to which their business is exposed. The ACT plans to continue to engage with treasurers, trade associations and regulators on this important topic as it evolves.


Kathrine Meloni (left) is a special adviser; and **Stephen Powell** (right) is a partner at law firm Slaughter and May



OF BITS AND BLOCKS

PROPONENTS OF BLOCKCHAIN MAKE GREAT PROMISES FOR THIS STRAND OF FINTECH. CHARLIE BARLING CHALLENGES THE MYTHS

Were you to speak to any gathering of treasurers and ask them for their opinion as to what they would consider to be the most significant fintech development impacting the financial services industry over the past two years or so, there could be little doubt that blockchain would feature prominently among the responses.

Those who were thinking of themselves as a little more informed on the subject may just go on to suggest that blockchain is the transformative technology laying the foundations for a new generation of computing applications that will serve to improve the efficiency and interoperability of financial and financial services markets.

For any thinking even more deeply, they might even go so far as to point out a new world of opportunities for financial services and the possibility that blockchain technology will finally make it possible to provide banking services to the half of the world's population who, it is believed, are currently unbanked.

Likely to be of most interest to the treasurer will be those areas of financial services that will make a huge impact on their daily lives. On the wish list you would likely see cross-border payments and trade finance feature prominently, and then perhaps electronic bank account management (eBAM), an area of operations increasingly being highlighted as a source of frustration for the treasurer.

It shouldn't come as any surprise then that we continue to talk about the extraordinary level of excitement that persists around blockchain and the promises that it brings. We are now already looking forward to the next leg of the journey, or the 'Blockchain Revolution' as some have dubbed it, and those real-world use applications that are likely to make it beyond proof of concept and into the production environment.

Were we to look at payments as an example, SWIFT, through its global payments innovation (gpi), which leverages off its existing infrastructure, and Ripple, a Californian technology start-up, which utilises a new interledger messaging layer, are separately working in their own collaborations with the banks to modernise the mechanisms for making cross-border payments. Both have announced successful trials of real-time transactions, while another provider, R3, has itself just announced a prototype solution – built in its Corda platform – that should enable fast, efficient and effective cross-border payments.

PROSPECTS FOR CROSS-BORDER PAYMENTS

- Distributed networks to increase speed of peer-to-peer communication
- Introduction of new real-time messaging layers
- Correspondent bank engagement and integration
- Improved coordination of funds flow
- Improved straight-through processing rates – compliance, pre-validation, account screening
- Reduced settlement risk
- Traceability – end-to-end tracking
- Improved transparency – fees and total costs
- Quicker settlement
- Easier and cheaper payments

What of it?

Before we look too far ahead, though, it might just be a good time for treasurers to take a moment to step back and reassess what they think they know and understand about blockchain.

Our overall knowledge and understanding of the principles of blockchains has certainly increased. Were you to drill down into it, you will find that a blockchain is essentially just a register, or ledger, of assets or transactions that can be replicated across a network. Details of movements and transactions on the ledger are added in blocks to the end to form a chain and it is the blockchain protocols that govern the construction of the chain and ensure copies of the ledger are synchronised. These protocols safeguard the integrity of the ledger and provide the necessary assurance that the version on show is the single immutable version of the truth of the state of the ledger.

Nothing particularly exciting about this, you might argue. Why, then, is blockchain being credited as having moved the game of distributed ledgers on somewhat?

The advance stems from the notion that, while ledgers may be distributed across a network thereby reducing the risks of any single point of failure, it is the application of modern cryptographic protocols, ie ones originally applied to Bitcoin, that has

> The structure of the ledgers ensures users only see what they are entitled to see

been the key. Cryptography helps provide much greater assurance over the accuracy and state of the ledger, allowing it to operate freely and without the need for oversight or control by any centralised authority or trusted intermediary. This effectively facilitates the provision of access to a broader number of users who may not necessarily know or, perhaps more significantly, trust one another, and allows the ledger to be considered truly decentralised.

Distributed ledger technology vs blockchain

Notwithstanding this, it should be pointed out that there are actually marked differences between the blockchain protocols that underpin the operation of cryptocurrencies like Bitcoin and cryptographic protocols that are being considered for all those decentralised ledger applications being looked at through collaborations between the banks and major fintech providers, for example, SWIFT, Ripple and R3, to name but a few.

Bitcoin by design operates very publicly, albeit the actors themselves are, in fact, able to remain relatively anonymous. Bitcoin's open source code means anybody with access to the right tools may view ledger transactions and can contribute to the mechanism for adding the blocks that make up the ledger. This open structure is something that is hardly likely to be deemed appropriate in the regulated world of financial services. With legal obligations around anti-money laundering and KYC, as well as privacy and data-protection issues, those fintech companies working with banks are being required to adapt their approach and follow a much more tailored set of rules.

In the banking environment, the rules for the operation of the ledger are set by the organisation and while the ledger may be deemed distributed, it effectively remains under the guardianship of a number of trusted intermediaries. The structure of the ledgers ensures users only see what they are entitled to see and the validation and update of transactions is likely restricted to a limited number of accredited parties. These accredited parties perform a similar role to the one fulfilled by the miners of Bitcoin, although their incentive to undertake this role will be driven by a wholly different reward model. While we might refer to such ledgers as being enterprise blockchains, they are perhaps better referred to as permissioned ledgers. They are to be viewed as a collaboration between parties who are prepared to buy into a set of rules that establishes a level of trust as to the validity of a transaction. These rules may be updated at any time. This situation should be viewed as being very different to the fully decentralised consensus and trust environment that exists for Bitcoin.

For any application, there are certainly benefits to organising activities in a permissioned environment, not least the opportunity for quicker and more cost-effective deployment of code. Applying restrictions on who is authorised to see or validate transactions would certainly help to alleviate at least some of the likely concerns of regulators.

With such restrictions and tighter controls, many observers are just begging the question as to why you would choose to organise certain types of transactions into a lengthy chain at all? While a blockchain might be an appropriate mechanism for managing transactions involving ownership of certain types of assets, for example, long-life assets such as digital money, or even diamonds, it would perhaps seem questionable why you would seek to maintain a blockchain for transactions that are likely to be short-lived, for example, trade finance transactions.

Peter Smith, CEO and co-founder of Blockchain Ltd

GETTY

With all this in mind, shouldn't we seek to clarify what technology path it is that the fintech companies and banks are following? Is it really blockchain? There has been much argument and debate on the subject and we are finally starting to see fintech companies, R3 to cite an example (ie those who are serious about their positioning at least) distance themselves from references to what they are doing as being blockchain. They are again referring to it under the original and correct banner, ie distributed ledger technology (DLT), sadly a reference that serves up the prospect for much less excitement than an association with the Bitcoin blockchain.

The Bank of England has itself expressed a view on the matter and, while being upbeat on distributed ledger technology generally, in relation to the overhaul of its real-time gross settlement (RTGS) system and tests undertaken, it has concluded that the blockchain technology, of the type that underpins the operation of Bitcoin, is "not sufficiently" mature to support the core RTGS system.

So, when your banks next approach you with excitement about their fintech proposition and seek to promote it as blockchain, you may just want to quiz them a bit further. It might not be hugely relevant, but it could be that they haven't quite got it and you may just know a bit more than them.

Charlie Barling is an ACT member, consultant and director of Chisoli Treasury Solutions

IN THE KNOW

THE AML AND KYC EFFORTS OF FINANCIAL INSTITUTIONS ARE A GROWING BURDEN FOR CORPORATES AND THEIR TREASURERS, BUT SPECIALIST SOFTWARE AND SERVICES MAY LIGHTEN THE LOAD. LESLEY MEALL REPORTS

If you cast your mind back into the not so dim and distant past, you may be able to recall a time or a place when banks performed 'basic' KYC checks during the on-boarding for new clients and accounts, and ongoing monitoring was either light touch or non-existent. Today, things are different.

Banks face increasingly stringent national and global initiatives, laws and regulations around anti-money laundering (AML), combatting the financing of terrorism and monitoring financial sanctions. If they fail to comply, they face a growing risk of reputational damage and regulatory enforcements, which may range from massive fines to the withdrawal of their banking licence.

This makes banks understandably cautious around KYC. However, their strengthening of the associated frameworks and processes seems to be making KYC compliance more complex, more onerous and more expensive for their clients, too. "The whole area around KYC is becoming a real and significant burden for some corporates," says Sarah Boyce, assistant policy and technical director at the ACT.

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TREASURY BURDEN

Even small UK-based brewer Adnams Southwold with no overseas operations (beyond exports) has felt the impact. "We use one bank, and when the KYC regulations took effect, it seemed very onerous to satisfy it about our ownership and – in particular – to ask large individual shareholders to send [the bank] personal details," says Stephen Pugh, FD at Adnams Southwold.

Banks often require legal and personal (original and notarised) documents with names, addresses and dates of birth; passports; documentation on European Market Infrastructure Regulation status, tax status – and more. Needs must, however. Identify theft is a growing concern.

Some treasurers are also concerned about the repetitive, never-ending nature of KYC compliance. However, after 'going through the mill' once, Adnams has not experienced any subsequent issues or additional demands. "This may just be because we have not changed banks and have had no major changes in our

shareholder base – or it may be that the bank's next letter is in the post," says Pugh.

Corporates with complex structures, overseas branches and subsidiaries, multiple banking relationships, and accounts in and across multiple jurisdictions are, understandably, feeling the most pain. "We notice that KYC processes with banks are becoming more onerous. They are increasingly complex, difficult and time-consuming," says Christof Nelischer, global group treasurer at Willis Towers Watson, an advisory, broking and solutions company.

OPENING GAMBITS

Just opening a bank account can prove anything but straightforward.

Robert Scriven, group treasurer and planning manager at Cairn Energy plc, an upstream oil and gas exploration and production company, describes account opening as "very slow and painful", taking weeks in the UK and months overseas. In a global Thomson Reuters' survey in 2016, 27% of corporates reported waits of more than three months and 9% reported waits of four months or longer.

Corporates also reported being contacted an average of eight times during each on-boarding process. "Banks often use low-grade resources, hence the service is poor," says Scriven. Among survey respondents, 89% of corporates described their experiences as 'not good', and 13% changed banks as a result. Lack of common standards at financial institutions also consumes time.

There are variations in how banks interpret KYC across organisations, regions, departments and products. For each bank account, a corporate may need to supply similar KYC information, but to varying levels of detail, according to the individual procedures of the financial institution with which they are doing business and in which region. There are also variations in interpretation and enforcement across regulators.

All of this leaves treasurers to collect and collate data, carry out repetitive activities and worrying about the security of the sensitive information they are sending to banks – and what they are going to do with it. As Boyce observes: "Not only is it time-consuming, it may also impact on investment decisions as it becomes 'just too difficult' to do things."

SOFTWARE SUPPORT

So, what can treasurers do to make their bank KYC-compliance efforts less onerous? Many use spreadsheets to collect and store KYC-related information and documentation locally and/or centrally, and keep this up to date – to reflect relevant changes affecting corporate ownership, directors, account signatories and so on – and make information requests from banks easier to deal with.

Nelischer is unconvinced: "Using spreadsheets to collect the information and then asking half a dozen people to sign them off every quarter does not work." Both he and Scriven see benefits in electronic bank account management (eBAM). Citi introduced paperless processing for account opening and maintenance for its treasury and trade solutions, and its eBAM platform, for North America in 2015.

> "There should be industry acceptance of standard repositories"

Some aspects of the problem can be alleviated by using the secure, web-based portals of repositories, such as kyc.com. This service enables corporates to securely store the required documents and permit relevant banks to view them, rather than repeatedly going through the process of sending variations on the same documents or information multiple times to multiple parties.

In 2016, when Michael Sack was head of treasury and financing at Sivantos Group, a manufacturer of hearing aids, he opted for kyc.com, in part, because the repository also offers due diligence and other services. He saw these services ease internal approvals and relay trust to Sivantos's financial partners, while alerts about outdated documents meant Sivantos did not need to resource this manual task alone.

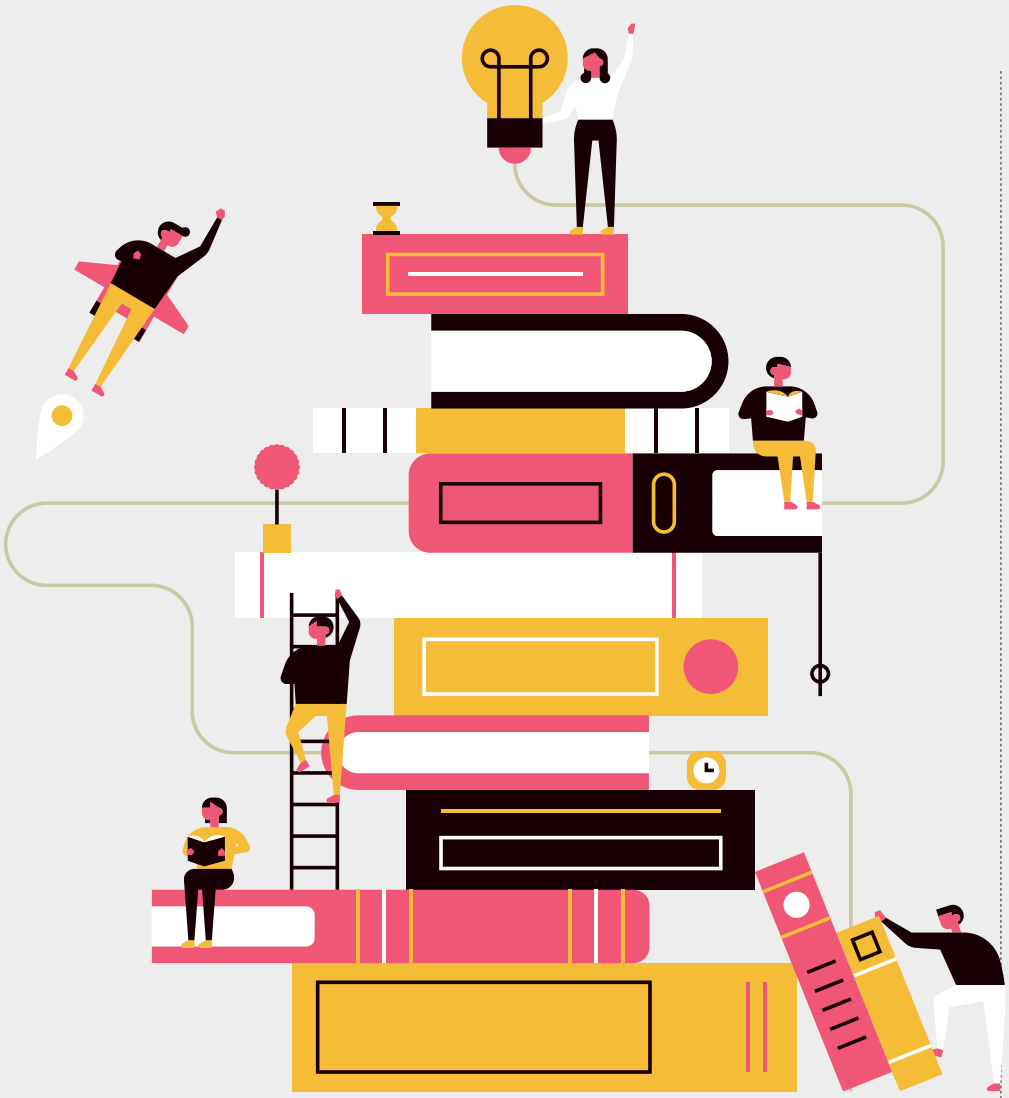
There are now numerous repositories/managed services/utilities devoted to meeting bank, interbank (and incidental corporate) needs to manage KYC compliance and client-reference data. They include: SWIFT's KYC Registry, Thomson Reuters Org ID and Equiniti KYC Solutions. They are growing in number and becoming more widely accessible – but proliferation does not necessarily help treasurers.

Taken in their entirety, these services are progressively increasing the amount of digital KYC data and documentation. As each individual service increases its member and subscriber numbers, it becomes easier for them to access and exchange KYC data between themselves. But this still creates islands of disparate and (often) incompatible data that cannot easily be shared across services and providers.

"Clearly, there is massive duplication," says Scriven, who wants to see standardisation around KYC within and across financial institutions and the wider banking industry. "There should be industry acceptance of standard repositories where we can authorise standard documents," he says. Then treasurers could more easily manage their KYC-related admin and control access to the associated information.

In a perfect world, treasurers would be able to capture KYC data once and upload it to a single utility, that will flag KYC-related risks and send update reminders, no matter how many accounts they have (or wish to open) with various financial institutions. But this would need global regulatory agreement on KYC requirements and a global standard for bank-to-corporate KYC. Meanwhile, treasurers struggle on.

Lesley Meall is a freelance journalist specialising in technology and finance



COMING TO TERMS

TO ADVANCE OUR TREASURY AND FINANCE CAREERS, WE NEED TO LEARN NEW CONCEPTS AND COMMUNICATE ABOUT THEM IN JARGON-FREE LANGUAGE. DOUG WILLIAMSON SHARES HIS TOP TIPS FOR CLARITY AND MUTUAL UNDERSTANDING

Excellent communication is a core skill for almost all treasury positions. As treasurers, we build relationships with a wide range of people, including lenders, credit-rating agencies, regulators, financial and non-financial colleagues, and many other stakeholders. Not all of them appreciate the meaning or importance of the technical terms, which are part of a treasurer's everyday understanding. Agreeing what the important words mean up front is an essential investment in our relationships.

Our first steps in treasury and finance can feel like learning a whole new language. Our new treasury language includes both unfamiliar new terms and new specialised meanings for familiar words in common usage, sometimes known as 'terms of art'.

New technical terms

Fundamental treasury concepts include 'EAR' and 'EBITDA'. The first time we see or hear them, it's clear that they are new technical terms.

When studying or revising, I repeatedly ask myself 'Describe the meaning and importance of...' both to refresh knowledge and deepen it. For example, let's describe the meaning and importance of EAR in about 40 words.

Importance of EAR

(1) EAR is short for 'effective annual rate'.
(2) It measures investment returns and borrowing costs on a fully comparable basis.
(3) EAR takes account of compounding, fees and other relevant costs.
(4) It is important because so many opportunities are not directly comparable.

Good question

This simple question-and-answer structure, 'Describe the meaning and importance of...' lets us evolve better and applied answers over time. The 'importance' part of the question is open-ended, and expands to address the range of practical cases it's applied to.

EBITDA

Concepts like 'EBITDA' are clearly technical terms, too. If we don't know what

they mean, it's evident we need to find out quickly, before we get lost in subsequent discussions.

(1) EBITDA is short for 'earnings before interest, tax, depreciation and amortisation'.
(2) It measures operating profitability.
(3) EBITDA measures operating profits before certain excluded items, such as depreciation charges. The excluded items can potentially distort the underlying operating performance.
(4) This is why EBITDA can be a better comparator than other measures of operating profit.

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We're not always right

Sometimes treasurers disagree with each other about definitions. *The Treasurer's Wiki* can help resolve some of these potential arguments within the treasury community.

Non-treasury colleagues, naturally, have different professional experience and perspectives than ours. We are all looking at the same problems from different, and entirely legitimate, points of view. We can't assume we're right and they're wrong.

Listening challenge

I try not to have a fixed mindset. I want to learn and understand different points of view. This can be a challenge. In many areas I am quite opinionated, so sometimes it can be difficult to detach my opinion and hear someone else's point of view, but it is definitely something that I always strive to do.

Rahul Daswani, senior manager, structured finance, Worldwide Payment Solutions, Microsoft, Dubai

Assess the level

At the start of any communication, we need to:

(1) Assess the level of our audience.
(2) Introduce and define any important terms we intend to use, with which the audience may not be familiar.

With some groups, consider combining these two steps. The group's initial understanding of key treasury terms, such as 'capital', may be surprisingly diverse.

Terms of art

Many important financial words have multiple meanings in different contexts. This won't always be obvious, especially if our own professional background has made us very confident about exactly what a particular familiar word means.

Legal and regulatory 'terms of art' always need particular care. Indeed, many legal cases have turned on the precise interpretation of the wording of a legal document. Take specialist advice before you sign.

'Capital' is an important example of a term of art. Capital has at least five different meanings in finance[1], ranging through financial accounting, corporate finance, company law and regulation to economics. Capital also has non-financial meanings. This makes it a particularly tricky term to recognise as a potential problem, and to address.

Case study: defining capital

As an advisory director with Deloitte, I was working with a highly capable, but diverse team of specialists from a wide range of banking, insurance and corporate treasury backgrounds. We were struggling to deliver a coherent capital management plan for an investment management client.

We were under severe time pressure and operating out of separate geographic locations. At a certain point I realised that the main barriers to achieving coherence were our significantly divergent understandings of what capital actually was. No wonder we'd been struggling.

It's no good having fantastic skills in the team if everyone is pulling in different directions. The output of the discussion was to make sure that the first paragraph of our paper said, 'For the purposes of this document, "capital" is defined as XYZ.'

Once we had agreement on the definition, it made everything else a lot easier. But it took a great deal of strength, patience and skill to get everyone on to the same page part way through the project. It was tricky as I wasn't leading the project, but my role was to write a treasury policy, and I couldn't until agreement on the definition had been reached. Following this experience, I always invest in clarifying key definitions at the start of any project.

James Leather FCT, project finance manager, Sydney Motorway Corporation

1 Find definitions of 'capital' in *The Treasurer's Wiki* at https://wiki.treasurers.org/wiki/capital

SEARCH *THE TREASURER'S WIKI*

Check out definitions and their context by searching this extensive online resource. Visit http://wiki.treasurers.org/wiki

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CABARET, COPERNICUS AND COINS

Do round pounds make the world go round?

'Money makes the world go round', says the song in *Cabaret*. It's a great song. It's questionable economics. And it's terrible astronomy. But let's start with the song.

One rhyming line is 'that clinking, clanking sound' – which brings me to the pound coin. Readers in Britain will know that the 'round pound' – first minted in 1983 to replace paper pound notes – has now been replaced by a bi-metal 12-sided coin that is so high-tech, it's virtually counterfeit-proof. All well and good, apart from the fact that there are still around 450 million of the old, non-legal tender coins still in circulation.

'In circulation'? Truth is, the vast majority of those pensioned-off pounds aren't circulating at all. They're buried in the pockets of winter coats that haven't been seen since last April, jammed down the centre compartment in the car where you keep change for the parking meter and the supermarket trolleys, filling up the piggy bank you empty every time the kids' charity appeal telethon comes on – and very possibly there's even a few stuck down the back of the proverbial sofa. So they aren't exactly in circulation and, therefore, they are hardly doing their bit to make the world go round.

As for the economics of the song, in some sense money does indeed make the world go round. Probably in a very neo-Keynesian sense. Monetarist economists might argue that it's the world that makes money go round. The speed at which it does that – the so-called velocity of circulation – is (arguably) a measure of the health of the economy and whether there's rampant inflation or not. If prices are changing so quickly that they update the menus while you're still eating your lunch, then you're more likely to try to pay up front rather than dawdle over the brandy and espresso before asking for the bill. If, however, money is performing well its role as a store of value, then punters won't be so desperate to treat pounds as perishable.

As for *Cabaret*'s interpretation of astronomy, not a single astrophysicist that I know of has claimed that money is responsible for the rotation of the planets and their orbits around the sun. Nicolaus Copernicus (1473-1543) more or less created the solar system – he was the first person to argue compellingly that everything revolves around the sun and not around the Earth, as had been believed for millennia. So he certainly would not have subscribed to *Cabaret*'s idea that money makes the world go round.

But Copernicus is also the man who dreamed up the quantity theory of money in 1517, having noticed that prices tended to go up when there was an influx of gold and silver from the New World. And he devised an early version of Gresham's law, which says that bad money drives good money out of circulation.

So maybe that's what's happening here: these new pound coins – as high-tech as they are – surely have metal scrappage value that's less than that of the old pound coins. Perhaps Copernicus, the man who had a better idea than most about money and the world, and things that go round, could have told us that people are simply hoarding their old coins. But I fear the world will go round and round quite a lot before their round pound money is worth more than £1.

Andrew Sawers is a freelance business and financial journalist, and a Fellow of the Royal Astronomical Society. He is a former award-winning editor of *Financial Director* and tweets as @Mr_Numbers

IN THIS ISSUE:

The highlights of the November/December 2017 issue of *The Treasurer* include: UBM head of treasury George Sawtell discusses repatriating cash, streamlining bank relationships and fundraising, on page 20. China's Belt and Road Initiative – what it means for the Middle East and North Africa, is on page 32. Is this the end of Libor? Find out on page 40. How specialist software and services could aid treasurers with anti-money laundering and KYC, on page 46

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