The Treasurer
October 2015
The Magazine of The Association of Corporate Treasurers
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TAKING SOUNDINGS
The new EACT chairman on distilling member views

HOW TO HEDGE
Your approach to FX management should depend on your needs

WORKING ON HAPPINESS
Why ignoring wellbeing is a short-term plan

The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ OCTOBER 2015

Every one of us can be amazing at something

Ronan Dunne, CEO at Telefónica UK, on why he looks to create opportunities for people

PLUS

THE LOOK OUT
Corruption has many hiding places. Treasurers have to know where to search

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ACT

LEADING TREASURY PROFESSIONALS

Editor's letter

Large organisations have a lot to offer the people who work for them. First and foremost, of course, they take care of those all-important hygiene factors – enough money, hopefully, to live on, meaningful activity and recognition. At their best, they can do much more. They can shine a light on the flair and skill that exists within their employee base.

That is what happened to Ronan Dunne, a former director of treasury, now CEO at Telefónica UK. When Dunne was promoted from CFO to chief executive in 2007, it dawned on him that his previous boss had been grooming him for the top role for quite some time. Dunne's own leadership style is informed by that spirit of seeking out the best in people. One of his biggest lessons, he says, is that, as a leader, it's not what you do that counts, it's what you enable others to do. "The difference between a great team player and a great leader is recognising how you can relate to how others react and behave – and lead them to places where they might not otherwise have gone," he says.

Dunne's own journey took him through top treasury and finance roles to the C-suite. Other Telefónica employees and members of the treasury community stand a good chance of following that example given the right support. How many organisations genuinely provide it? It's hard to say, particularly when so few seem to put the basics in place for a healthy working environment. As Janice Haddon spells out on page 44, some businesses are clearly falling down on work-life balance issues, losing talented people to stress and illness, and greener fields at competitor companies.

Big businesses are, of course, subject to other kinds of scrutiny, and rightly so. On page 22, Ian Fraser sets out the international legislation designed to keep bribery and other corrupt practices in check. Companies need to be alive to the wrongdoing that might be masquerading as legitimate currency transactions, or hidden within third-party arrangements and charity payments – areas where treasurers are well-placed to exercise vigilance.

As a newcomer to the treasury community, I am in turn amazed by the breadth of the treasury roles, heartened by the skill with which treasurers carry them out, and fascinated by what there is to learn and observe from this very particular perspective on a world that can't keep still politically or economically. I'm conscious that I'm taking over from an expert editor, but very glad that Sally Percy hasn't entirely left us without her analytical skill. Her profile of Ronan Dunne starts on page 26.

I hope you enjoy the October issue.

Liz Loxton

editor@treasurers.org
Follow us on Twitter @thetreasurermag

THIS MONTH'S CONTRIBUTORS

Ian Fraser is an award-winning journalist, author and broadcaster. His work has appeared in the *Financial Times*, *The Sunday Times*, the *Daily Telegraph* and *Huffington Post*, and he has researched and helped to produce eight documentaries for the BBC. He gives a report of the effects of corruption, on **page 22**

Paolo Esposito is director of European corporate finance at Chatham Financial. Prior to that, he held roles in the automotive industry, working in financial analyst roles for General Motors and Nissan. He explores the practical strategies that UK companies are using to address financial risk management, on **page 36**

Janice Haddon runs consultancy Morgan Redwood and has worked in strategic and operational HR and management consultancy for 25 years. She is a qualified coach and a fellow of the Chartered Institute of Personnel and Development. She explores the benefits of achieving a healthy work-life balance, on **page 44**

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

EUROPEAN ASSOCIATION OF CORPORATE TREASURERS
IGTA

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

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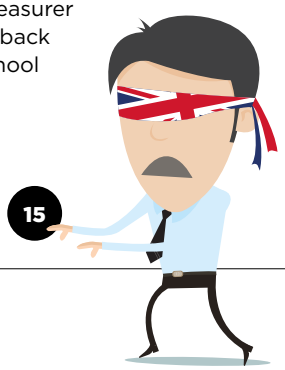

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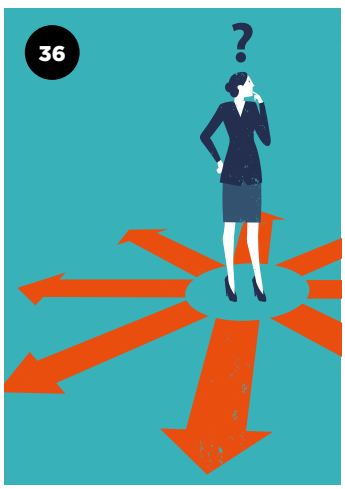
26 "Skills can be taught, but attitude is innate – it's either there or it's not"
Ronan Dunne, UK CEO of Telefónica

LOUISE HAYWOOD-SCHIEFER



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Agenda

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{ CONTEXT OF TREASURY }

WORKING CAPITAL ISSUES FIRE DEBATE AT ACT CONFERENCE

At the ACT's first Working Capital Management Conference (WCM), held in London during September, more than 250 delegates heard presentations on issues ranging from driving sustainable approaches to WCM to supply chain finance to gaining support and buy-in for working capital issues at board level.

Speakers and delegates discussed innovations in WCM, the role of cash forecasters in the business and the merits of making cash generation a bonus target for managers and executives.

The conference polled delegates on WCM's role in their businesses. While a number of speakers argued that cash management and generation was a team effort, results from delegate polls suggested that its profile and perceived purpose varied from one firm to another.

When delegates were asked what the highest priority for effective WCM was within their business: 31% said risk management; 30% said a cash generation capability that was better than their competitors; 20% said balance-sheet presentation; 10% said profit and loss benefit; while 9% said enhancing the strength of customer relations.

Some 59% of delegates said that a reduced funding availability was the factor most likely to increase their organisation's focus on working capital.

{ QUESTIONS YOUR FD IS LIKELY TO ASK THIS MONTH }

INTEREST RATES

So wasn't the US Federal Reserve due to increase interest rates last month?
It's certainly true that the Fed and plenty of commentators have been suggesting that an increase – driven by better employment figures and an associated pick-up in inflation – was firmly on the cards. At the same time, there have been others prepared to argue that, at best, the Fed had been over-optimistic about the prospects for improvements in economic conditions at home and globally and, at worst, it has been indulging in sending out mixed signals.

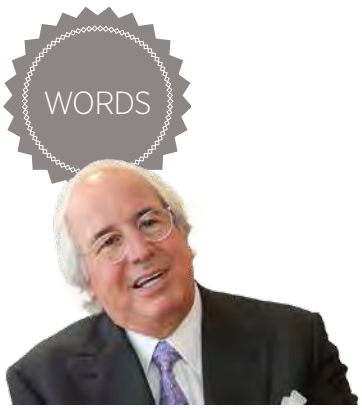
In a survey carried out by the *Wall Street Journal*, 54% of economists predicted that the Fed would wait before increasing rates, for instance.

In the event, figures for US employment were worse than expected for August, and the Fed held interest rates steady; outwardly, at least, because it has grown increasingly concerned that "global economic and financial developments may restrain economic activity somewhat".

So they're worried about China?
In a nutshell, yes. The slowdown in growth there has been a key consideration for the US economic policymakers. But it's not the only factor. The devaluation of the renminbi, volatility in other emerging economies, downturns in global stock markets and low oil prices have all played their part.

So how long will this go on?
That's a tough one to answer. Previous announcements from the Fed have suggested a series of rate hikes beginning this year and continuing over the course of the next three years. But in her press conference after last month's meeting, chair Janet Yellen seemed to suggest that, if necessary, the Fed would endorse negative interest rates.

The earliest date at which the Fed could increase interest rates is 16 December or 16 March next year. Those are the next scheduled dates for the press conferences that follow on from the two-day Federal Open Markets Committee meetings at which the policy group responsible for setting target rates in the US will make its move – or not. But it is hard to see how conditions might improve sufficiently for them to overcome their current cautious outlook.



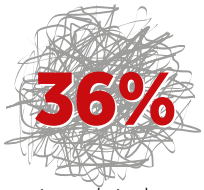
"If you make it easy for someone to steal from you, chances are they will. Fraud never really changes, just the means by which it is perpetrated."

Frank Abagnale Jr, former con artist and adviser to the FBI, and inspiration for the film *Catch Me If You Can*, talking to *CityAM*.

"Theoretically, we live in an era of globalisation, yet, ironically, we are not actually as global as we were at the start of the 20th century."

Jean-Marc Servat, chairman of EACT, on the lack of true free trade (see page 13).

{ HIGHLIGHTS FROM ECONOMIST INTELLIGENCE UNIT RESEARCH INTO *HOW TECHNOLOGY IS TRANSFORMING BUSINESS FUNCTIONS* }



36% expect work to become more complex over the next 18 months

32% said acquiring new skills through education and training was a key way to help them achieve their career goals

23% said leveraging new technology (mobile, social, cloud, big data) was one of the top three ways they could progress in their roles

35% said work will require greater collaboration across functions and between more people over the next 18 months

45% said time constraints are their business workplace challenge

{ CONTEXT OF TREASURY }

JOHN GROUT TO RETIRE FROM THE ACT

After 13 years as policy and technical director at the ACT and more than 30 years in corporate treasury, John Grout is to retire.

Grout has been at the forefront of ACT contributions to legislative and regulatory debate for over a decade, working with UK government officials and collaborating with the EACT on communicating corporate treasury perspective to the European Commission.

Prior to his work at the ACT, Grout worked in the corporate treasury department of British Leyland, which he joined from university, eventually becoming deputy treasurer. In 1982, he joined BICC, now Balfour Beatty. Between 1987 and 1994, he was director of treasury at Cadbury Schweppes and in 1994 he became finance director of global confectionery at Cadbury Schweppes.

The ACT's engagement director, Peter Matza, said: "John has been one of the most influential figures in corporate treasury for over 40 years. His influence at the ACT has been immense – as a counsellor to successive CEOs, ACT Council members and colleagues. Outside the ACT he has represented the organisation and the profession to UK and EU governments, regulators and policymakers – often unheralded, but hugely effective on behalf of all of us in the profession and the real economy. Quick wit, inexhaustible patience and a tremendous depth of knowledge and experience. And a member of the Twitterati to boot!"

What do you say?
Tweet us
@thetreasurermag

"There are a number of targets you could look at: jobs, prosperity overall, long-term investment policy and planning."

John McDonnell, new UK shadow chancellor, tells *The Observer* he will review Bank of England mandates and look into giving the bank new targets.

JUSTIN TALLIS/STRINGER/GETTY IMAGES

{ DEALS OF THE YEAR AWARDS 2015 }

Reminder

The Treasurer's annual Deals of the Year Awards are now open for nominations, and entries can be submitted up until 6 November.

The awards include nine categories, covering bonds, corporate finance, loans and treasury teams. They are open to individuals and teams across the EU, and past awards have attracted entrants from Finland, France, Germany, Ireland, Italy, Poland, Spain and the UK.

The winners will be announced at the Deals of the Year Awards dinner in February 2016. Treasurers, their banks and advisers are encouraged to nominate as many deals as they wish.

Find out more about the awards, plus get advice and information on how to enter, at www.treasurers.org/awards/2015. A podcast by ACT engagement director Peter Matza is available on this website.

One in five – the proportion of UK householders who stash cash at home. In spite of improved protection for bank deposits in the wake of the 2008 financial crisis, individuals in the UK hold on to cash worth an estimated £3bn, says the Bank of England

$30bn – the collective cash outflow from US shale producers over the first half of the year, reflecting the impact that the slump in oil prices has had on this sector

1,952 – the number of penny pieces that make up a new portrait of the Queen on show at the Royal Mint in an installation created by Quentin Devine to mark HRH Elizabeth II becoming Britain's longest-reigning monarch

$160 trillion – the amount that living in a digitally connected world could add to global GDP by 2030, according to Zurich Insurance and the Atlantic Council

15% – the increase in finance and accounting job vacancies in the UK. Professional recruitment firms now have 9% more vacancies on their books than this time last year, with finance and accounting showing the most growth, according to the Association of Professional Staffing Companies

£6.6bn – the offer made for UK payment services business Worldpay by France's Ingenico. Worldpay's owners, Bain Capital and Advent International, rejected the offer in favour of floating the company

{ KEY FINDINGS OF THE *IFAC GLOBAL REGULATORY SURVEY* }

79% of respondents said that regulation affecting their organisation is complex or very complex

85% said that, looking ahead five years, the impact of regulation on their organisation would be more or much more significant than it is now

66% said regulation has a significant or very significant impact on their organisation's opportunity to grow

36% said the approach to regulation between the regions in which their organisation operates is not consistent or not at all consistent

48% said different regulators collaborate with each other not effectively or not at all effectively

THE STATS

{ AROUND THE WORLD IN 30 DAYS }

TSIPRAS RETURNS AS GREECE'S PM

Alexis Tsipras defied local and international commentators who had widely predicted his defeat in the snap general election in Greece, returning his Syriza party to power in a reformed coalition with the Independent Greeks. The unexpected win was decisive. Syriza fell just short of an outright majority but secured 35.5% of the vote – enough to head off the challenge from the conservative New Democracy party.

Syriza pledged in its campaigning to hold Greece to the €86bn bailout agreed with the EU, although Tsipras has also promised to protect vulnerable groups from its harsher impacts. He will need to persuade Europe's leaders that Greece has taken steps to make the next payment viable.

The Greek leader's recent election win surprised many

GETTY/ARIS MESSINIS/STAFF

Germany to push for EU-wide trading tax

German finance minister Wolfgang Schäuble has said that Germany will support plans for a European tax on stock and bond trading, which would apply to all EU countries. Only 11 EU nations support the notion, which is strongly opposed by UK banks.

The tax was first proposed in 2011, to reflect public anger at bank bailouts in the wake of the Lehman Brothers collapse. It also addresses the fact that much banking activity is not subject to VAT and the perception therefore that banking is under-taxed.

Nobel economics laureate says US is heading for bear market

Yale University professor and Nobel economics laureate Robert Shiller says that the US faces a significant threat of a bear market, with more and more investor surveys suggesting that US stocks are overvalued to a greater extent than at any time since the dotcom bubble of 2000. Investors are increasingly losing confidence in stock valuations, according to Shiller's research. He has warned that the tripling of stock prices since 2009 looks increasingly like a market bubble and that the American market is heading towards a correction.

JMIKS/SHUTTERSTOCK.COM

{ CONTEXT OF TREASURY }

CONCERNS OVER CHINA DEBT SPARK MARKET FALL

Fears about the level of China's debt and slowing growth of the world's second-largest economy have led to bruising falls in the Beijing stock market.

Having leapt 150% in the year to mid-June, Beijing's shares have seen all their 2015 gains eradicated, sparking concern among the financial community.

In the country's domestic market, the sudden slips in Chinese shares have hit small investors hardest because many borrowed money to acquire stock, only to then discover that they had bought at the top of the market.

China's central bank lowered interest rates and devalued the renminbi in an effort to ease the crisis, while investors across the globe have sought out safe havens. The bank also cut the level of reserves that China's lenders need to hold to try to boost the amount of money available.

A key problem for China is its burgeoning debt pile. By some estimates this stands at $26 trillion, or a staggering 250% of GDP and growing.

Companies in mainland China are among the most indebted in the world, while state-owned enterprises are also saddled with huge amounts of borrowing.

Together, the cost of servicing the debts and the fact loaned money has been used to finance investments offering diminished returns means serious issues are building. Deflation only makes the debt burden heavier to bear, when allied to slowing economic growth.

There is currently an estimated $3.7 trillion in foreign reserves held in China. The market value of Chinese equities is 27 times enterprise value, compared with 12 times on average for US stocks.

Mobile bank growth accelerating, says KPMG

Mobile banking will grow 'exponentially' over the next five to 10 years, according to accountants KPMG.

Already the largest banking channel by volume of transactions for all the major banks, mobile banking is set to enter an exceptionally rapid phase, KPMG said in its July *Mobile Banking 2015* report, which drew on data from UBS Evidence Lab.

Banks are increasingly shifting to a mobile-first approach, with many designing new services that are taken up by other channels only after they have been rolled out to mobile customers.

Juniper Research says the number of mobile-banking users will grow from 0.8 billion in 2014 to 1.8 billion in 2019. Adoption rates are growing fastest in developing economies, says KPMG, reaching 60-70% in India and China. The key age demographic for uptake of mobile banking is mid- to late-30s, according to the research. India has the youngest population of mobile-banking customers (average 30 years), while Europe has a relatively higher average user age of 39 years.

Mobile capability is now a key determinant for customers choosing a new bank, and the findings showed a clear connection between a well-executed, sound mobile strategy and significant benefits for the banks that adopt them. For instance, JPMorgan, which offers image-based cheque deposits in the US, has seen lowered costs as a consequence. Depositing a cheque person-to-person in a bank branch costs $0.65 per transaction, but only $0.03 using mobile technology. In France, BNP Paribas has seen mobile banking increase by 230% between 2010 and 2013, along with improved customer satisfaction scores.

Mobile-banking adoption rates are soaring in India

BLOOMBERG/GETTY IMAGES

Conversely, given the huge growth in mobile-banking adoption, a lack of clear mobile strategy represents a threat to banks' ability to grow profitably.

Another cautionary note the research highlights is a new willingness among customers to change banks. This is in spite of higher advocacy scores among mobile-banking users.

MAKING THE NEWS

Ditch cash to help banks, says chief economist

Bank notes and coins should be abolished, according to the Bank of England's chief economist.

Speaking to the Chamber of Commerce and Industry in Northern Ireland, Andy Haldane argued that getting rid of cash in favour of a government-backed digital currency would give the Bank greater flexibility in the face of another downturn, as it would remove a key obstacle to introducing negative interest rates. Such rates, it is claimed, would cause people to convert their balances into cash, as they effectively represent a charge on holding money. Getting rid of cash, however, would stop this from happening.

Haldane reflected the concerns of economic policymakers that they lack tools to stimulate spending in a low-interest-rate environment, and that there might be a need to lower interest rates from their current 0.5%. Although the UK and the US could raise interest rates in the near future, it is also likely that they will need to lower them again later, Haldane argued.

Equity crowdfunding gets independent ratings agency

As of September, equity crowdfunders in the UK have their own regulated ratings agency, crowdrating.co.uk.

Equity crowdfunding grew by 420% over the course of 2014 in the UK, and its pace of growth is expected to increase.

Until now, the sector has lacked independent analyst comment, while the UK's Financial Conduct Authority is concerned about the availability of research for early-stage investors. There are an estimated 250,000 early-stage investors in the UK with more than 200,000 registered with online platforms. Many rely largely on social media and the questions and answers posted on bulletin boards attached to the fundraising campaigns themselves.

Crowdrating uses a systematic scoring system plus input from in-house and external sector experts and analysts.

Saudi banking sector opens for business

Saudi Arabia's banking sector is growing alongside its economy. The kingdom has seen 3.6% growth in GDP, strong state investment in infrastructure and a liberalisation of the banking industry. A study by fund house Invesco Middle East found that three-fifths of institutional investors expect net inflows of capital into Saudi Arabia – a big swing from the 17% who, a year ago, predicted outflows. Last year, the Saudi Arabia Capital Market Authority announced that Saudi Arabia would permit investments from non-Gulf Cooperation Council foreign institutional investors.

The liberalisation of the banking sector has been widely seen as part of an effort to diversify the economy. The country's central market – the Tadawul – is one of the largest stock exchanges in the Middle East North Africa region.

THIS MONTH

LIBOR, DERIVATIVES AND CMU

Elections in the UK and Greece defied expectations. Left-wing outsider Jeremy Corbyn is now leader of the UK's opposition party and the Syriza party returned to power in a renewed Greek coalition. We look at the evolution of Libor and how this is going to be formed and published in future. The EMIR review deadline arrived mid-month and we comment on the EU regulator's response, and there are some interesting observations on the push to Capital Markets Union.

Steve Baseby is ACT associate policy and technical director @BasebyStephen

{ IN DEPTH }

LIBOR EVOLUTION

In October 2014, ICE Benchmark Administration (IBA) published a position paper setting out proposed changes to ICE Libor. The ACT's response was broadly supportive (see www.treasurers.org/node/10783), noting that the continued publication of Libor rates was very important for non-financial companies. The ACT expressed concern about the use of rate reporting from funding centres other than London and the algorithmic inclusion of all eligible transactions since the previous submission rather than just taking prior-day rates into account.

IBA has now published a second position paper and seeks comment by 16 October 2015. The key aspects of the proposals haven't changed and aim to anchor Libor to the greatest extent possible in transactions.

Counterparty types is one of the proposed changes. Currently, Libor is calculated based on interbank activity. IBA is proposing to expand the range of counterparties to include, among others, corporate as counterparties to a bank's funding transactions. These transacted prices would not be adjusted with a premium or discount to reflect interbank levels.

Other proposed changes to the inputs into Libor include allowing transactions from overseas funding centres, where the funding centre is on an IBA-approved list; amending the period of time from which transactions are included; introducing additional transactions such as floating rate notes; proposing a volume-weighted average price of transactions be included; and introducing a minimum transaction size threshold for each Libor submitter. Where there is insufficient transactional data, IBA proposes historical transactions, interpolation, and extrapolation or parallel shifts are used as inputs. In specified circumstances the IBA has proposed allowing expert adjustments and judgement for a submitter to alter their calculated rate if they felt that it did not reflect the market. Each submitting bank would be required to devise an expert judgement formula and apply it to their expert judgement framework.

In addition to the inputs into Libor changing, the IBA also proposes changing the definition of Libor, the method of calculation and expanding the current panel of bank submitters. Currently, there is no single definition of Libor and it is often referred to in contracts by its acronym LIBOR (London Interbank Offered Rate) based on its location on a specific data distributor's screen, while others continue to refer to it as BBA Libor. Up until 1998, submissions were based on the question: "At what rate do you think interbank term deposits will be offered by one prime bank to another prime bank for a reasonable market size today at 11am?" In 1998 the question was changed from offered to transacted. The acronym was retained, although Libor was no longer an offered rate. IBA proposes having the following description of Libor for users of the benchmark: "ICE Libor is the benchmark calculated by IBA on London business days, based on the rate at which submitting banks could fund themselves using eligible unsecured wholesale transactions. The basis of the calculation is defined by IBA and is published at..."

Libor is currently calculated using a trimmed arithmetic mean, with the highest and lowest 25% of submissions excluded. The IBA is seeking input on whether the methodology should be amended and presents historical data comparing the current method (25% trimmed mean) with three alternative methods: 12.5% trimmed mean; untrimmed mean; and untrimmed median. Varying degrees of difference appear throughout the period (see page 44 of http://tinyurl.com/nan27yf).

The ACT intends to respond to the proposed Libor reforms. Please send your feedback to Michelle Price in the policy and technical team at mprice@treasurers.org

Counterparty types is one of the proposed changes

ESMA and other EU regulatory bodies are now looking at the financial stability of CCPs as broader clearing

{ INTERNATIONAL }

TRs AND RELOCATION

European Market Infrastructure Regulation (EMIR) responses: the final date for responses to the EU EMIR consultation was 13 August. The ACT responded (see www.treasurers.org/node/310079) to express its concerns over the workload and reconciliation inefficiency of dual trade reporting to trade repositories (TRs), the concentration of liquidity risk in central counterparties (CCPs) and the inconsistent processes among the G20 participants.

The European Securities and Markets Authority (ESMA) response (http://tinyurl.com/omr6mkg) shows a continued belief in the value of dual TR reporting to ensure all transactions captured; a concern to ensure margin where required would be sufficient to manage abnormal price movements; and that it wants to readdress the hedging exemption for non-financial counterparties.

ESMA and other EU regulatory bodies are now looking at the financial stability of CCPs as broader clearing, ie collateralisation comes into force with ESMA issuing its own review on margin periods (see http://tinyurl.com/nu382lz), which is available for comment until 30 September, while EU legislative proposals on resolution of CCPs in distress are expected to be published by the end of 2015.

Meanwhile, the UK Financial Markets Law Committee and the US Committee on Capital Markets Regulation have published a paper on the continuing inability of the US and the EU to harmonise their own rules to avoid the risk of markets polarising as participants move business to the location which best suits each participant's trade, referred to as 'regulatory arbitrage' by the paper's authors. The joint paper can be found at http://tinyurl.com/nrqadbr

NEW ON THE WEB

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

EACT Report: the latest EACT report as at 3 September can be found at www.treasurers.org/node/9894

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

{ TECHNICAL ROUND-UP }

FRAND AND MMFs

Fair, reasonable and non-discriminatory access to regulated benchmarks (FRAND): on 4 August the ACT responded to the Financial Conduct Authority's call for comments (see www.treasurers.org/node/309189) to note our agreement with the principle of non-discriminatory access to benchmark data. We noted that corporates use such benchmarks as Libor as reference rates and not as traders, and the requirement for fees for access to benchmarks should reflect this light use.

Money market funds (MMFs): International Organization of Securities Commissions has published a peer review of MMFs regulation, which gives insight into changing regulation across 31 jurisdictions, of which 24 are members of the Financial Stability Board (see www.iosco.org/library/pubdocs/pdf/IOSCOPD502.pdf).

This shows that:

- The market is dominated by five jurisdictions: China, France, Ireland, Luxembourg and the US.
- While concerns over net asset value (NAV) are shared, nine jurisdictions do not permit constant NAV funds, and have full implemented regulations to govern constant NAV, which, in the EU, is expected to be achieved with a 3% buffer.
- The EU changes are similar to the US, but their implementation lags behind the US.

The September EACT report (see www.treasurers.org/node/9894) provides an update on the EU legislative process.

{ WATCH THIS SPACE }

EU CAPITAL MARKETS UNION

Meanwhile, Bloomberg carries an article (see www.bloomberg.com/news/articles/2015-09-03/eu-s-disjointed-national-laws-may-undermine-capital-markets-push) that sets out some of the practical legal barriers to Lord Hill's push for Capital Markets Union (CMU). As the ACT had noted in its response on CMU (see www.treasurers.org/node/307325), the differing legal processes, some protected by the treaties the EU resists reopening, across the EU act as a barrier to the movement of capital across the economic zone. Lord Hill's office would need to broach treaty renegotiation with the EU member states to enable progress.

Lord Hill, European commissioner for financial stability, financial services and CMU

REX FEATURES (RIGHT)/SHUTTERSTOCK (TOP)

HYWEL THOMAS

HEAD OF RATING AGENCY RELATIONSHIP, AVIVA PLC

What does your role entail?
I work for an organisation that helps people save for the future and manage the risks of everyday life. Managing global relationships with rating agencies involves briefing them on matters from strategy and M&A to deep dives into the balance sheet. I'm also heavily involved in hybrid issuance, including liaising with fixed-income investors and M&A transactions.

How did you get into treasury?
Having completed the CIMA (accountancy) qualification while on Jaguar Land Rover's finance graduate scheme, I joined the organisation's treasury team in 2005, focusing on FX risk management.

What do you like about treasury?
The unique perspective gained from working closely with a range of internal colleagues as well as external stakeholders, such as rating agencies, investors, banks and lawyers.

What's the best thing about being a member of the ACT?
Being part of a community to share concerns, ideas and best practice relating to treasury. The Annual Conference is a great forum to find out about the variety of industries and jurisdictions in which fellow treasurers pursue a career.

Which ACT qualifications do you hold?
I started the AMCT course shortly after joining Aviva in 2008 and gained the qualification in 2009.

How has your qualification benefited you in your career so far?
Studying to become an AMCT gave me a greater appreciation of the wide scope of treasury activities, while the qualification itself is an important benchmark in the industry.

What's the most important lesson you've learned during your career?
Build allies. Delivering your own objectives will doubtless need help from others, so build goodwill in the organisation by helping others and delivering training sessions.

What would be your best piece of advice to someone considering a career in treasury?
A successful treasury function needs to anticipate and respond to the needs of the wider business, so spending time outside of treasury in a variety of roles gives a greater appreciation of business challenges and opportunities.

If you weren't a corporate treasurer, what would you be and why?
I would love to run a cycling tour company, taking keen tourists on cycling tours around the Welsh coast.

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

ACT TRAINING

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

14 October, London
Foreign exchange
Learn about the different types of FX risk. You will gain the ability to advise both commercial operations and senior management about FX risks and on the responses available to meet those risks.

21 October, London
Nuts and bolts of cash management
Walk away with 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.

22-23 October, London
Advanced cash management
If you're a corporate treasurer or finance professional responsible for payments, bank relationships or cash management processes, this session will give you an understanding of the challenges and potential solutions to cash management in a multi-currency environment.

16-20 November, London
The A-Z of corporate treasury
An interactive course providing a comprehensive overview of treasury operations, this is the perfect forum for new entrants to the profession, bankers and those working alongside the treasury function. Learn about corporate treasury within the context of international markets, and build a deep insight into the core areas and how they function as a whole.

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

ACT EVENTS

28 October, London
ACT Corporate Funding Conference
Capital gains
This one-day conference will be packed full of corporate case studies, panel discussions and round tables on how to manage your funding requirements in an uncertain market, and provide you with insight into all aspects of corporate funding.

Whether you're interested in the bigger picture and what this might mean for you and your business, revisiting traditional methods of funding or finding out more about alternative sources you might be considering, but haven't tapped, then this conference is the place to be.
www.treasurers.org/corporatefunding

11 November, London
ACT Annual Dinner
Taking place in the sumptuous surroundings of the Great Room at the Grosvenor House Hotel, the Annual Dinner is a unique opportunity to network with your peers, while enjoying a three-course meal and fine wine in one of the most prestigious venues in London. Last few tables remaining!
www.treasurers.org/annualdinner

23-24 November, Dubai
ACT Middle East Annual Conference 2015
Strategy, agility, prosperity
Bringing together more than 400 industry professionals each year, the ACT Middle East Annual Conference is the pre-eminent corporate treasury conference and networking event for the Gulf Cooperation Council region.
www.treasurers.org/actmiddleeast/annualconference

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

ACT WEBINARS

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

For details of our 2015 webinar programme, visit www.treasurers.org/webinars

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

{ VIEW FROM EUROPE }

JEAN-MARC SERVAT

The EACT's new chairman outlines the challenges facing today's treasurers

SHUTTERSTOCK/RETROROCKET

In July, I had the great privilege of taking over from Richard Raeburn as chairman of the European Association of Corporate Treasurers (EACT). I was attracted to the role because of my passion for the treasury profession, my long-standing involvement with the EACT and the considerable diversity that exists within the association.

The EACT represents 21 European treasury associations from 20 different countries, 18 of which are member states of the EU. Some of these national treasury associations are large and well organised, with their own permanent staff – for example, the ACT and the Association Française des Trésoriers d'Entreprise – while others are smaller and organised on a more informal basis.

Invariably, these different associations represent a wide diversity of views – which can be difficult to manage at times, but are enormously valuable nevertheless. It is this diversity that enables the EACT to respond with confidence and authority to the many challenges that face the European treasury profession today.

Regulation is, of course, one of our most pressing challenges. The EU and the European Commission are trying to draw up regulation as quickly as possible, but we need to ensure that we get better regulation, rather than just more regulation, and that is what our lobbying work is focused on.

We must also react to the rapidly changing financial landscape – for example, the rise of the fintech businesses that are increasingly taking transaction infrastructure management away from the banks, and the growing popularity of Bitcoin and other cryptocurrencies. Meanwhile, the banks have a lower appetite for risk as a result of regulation and they are facing greater competition from alternative lenders.

Then there is the question of trade protectionism. Theoretically, we live in an era of globalisation, yet, ironically, we are not actually as global as we were at the start of the 20th century. When it comes to the financial markets, I am a great believer in Darwinism – in other words, if we just try to protect ourselves, we will not evolve and improve. Yet today, there is a growing risk that people are not being sufficiently open to the rest of the world – the possibility of the UK leaving the EU is an example of this.

> We need to ensure that we get better regulation, rather than just more

As an association of associations, the EACT should focus its resources on doing things that it can do better than its individual members – for instance, lobbying at European level. There are certain things that we do not need to do, however, because these are already done well by our members. For example, although we have a role to play in helping the professional development of treasurers and being the professional voice of treasurers, we acknowledge that this is also very much the domain of the national associations.

Our priority at the EACT is to bring together the diverse range of opinions that our members have through working groups where we can openly exchange views and expertise. Also, when we respond to a consultation at European level, we liaise with the national treasury associations and the treasury functions of individual organisations in order to learn their opinions. We ensure that this is a democratic process and we value the process because it means that we understand our members' concerns at grass-roots level.

The ACT is one of the largest members of the EACT, and also one of the most active. Over the years, the partnership between the EACT and the ACT has worked very well and benefited from the fact that my predecessor was chief executive of the ACT before becoming chairman of the EACT. I am delighted to succeed him and I hope to continue all the good work that he has done by working closely with the ACT and all the other national treasury associations.

Jean-Marc Servat is chairman of the EACT

{ BREXIT }

JEREMY WARNER

An effective case for a UK exit from Europe has yet to be made

The EU has made a terrible mess of its affairs in recent years; both economically and politically, it has created a crisis of epic proportions.

A fragmented, and in many cases inappropriate, response to the mass movement of migrants from the Middle East and Africa gives little reason to believe things are about to get better.

Whether any of this is good cause for Britain to leave the EU, as it threatens to with a referendum pending within the next two years, is another matter. And yet, recent polls have suggested a closer race than previously thought. The 'remain in' campaign may have a tougher fight on its hands than anticipated.

Much of the debate is going to revolve around immigration, control of borders, laws, relations with foreign powers and other matters affecting national sovereignty. These are issues to do with political sentiment, and there is no predicting how voters will respond to them. The danger for the 'in' campaigners is that the relatively strong economic and geopolitical arguments for staying in will be drowned out by these more emotive arguments.

To the extent that it exists at all, the economic case for leaving is based around three interlinked arguments: that it would free the UK economy from the burden of European regulation; that it would yield big savings in budgetary contributions; and that it would allow trade arrangements outside the EU on terms that would be more favourable to British interests than the ones collectively negotiated by Europe as a whole.

SHUTTERSTOCK

The last of these assertions is pretty much fantasy. Most modern trade theory revolves around the idea of 'gravity', or that countries are more likely to trade the closer they are to one another and the more similar they are economically. Admittedly, this may not have been the case when European countries still had empires, but times have changed; underdeveloped nations in faraway places can no longer be prevailed upon to take the mother ship's goods and services.

In any case, it is a matter of fact that trade is at its most intense within sovereign nations, where common laws, language and proximity support interaction. The idea of Europe's 'internal market' is to recreate this level of intensity at an international level. The consequent degree of economic integration requires some ceding of national sovereignty. The UK Treasury estimates that the single market has boosted trade between EU member states by 38% of GDP, though its impact on Britain is estimated to be a much smaller 7%. This, nonetheless, would be a big chunk of output to see go up in flames, and could not easily be replaced by expanding trade with more remote others.

As for release from European regulation, this, too, is a far from compelling argument. Already one of the least-regulated economies in the Organisation for Economic Co-operation and Development, the UK would still need some regulation, and in any case would have to comply with most EU standards in order to keep trading with its neighbours. The same argument holds true on budgetary contributions. Much of what goes to the EU would have to be replicated in domestic spending, though obviously not all, because Britain is a big net contributor. The EU would, all the same, likely demand a tariff for continued participation in the single market, much as it does with Norway.

The British economy wouldn't collapse outside the EU, but it would certainly face multiple new challenges on numerous fronts. It would also struggle to sustain its financial services industry, which dominates European finance, on anything like the scale that currently exists.

A British exit would be an enormously destabilising event for Europe at a time when the EU can ill afford further turmoil. The economic arguments against such an event have to be heard more loudly.

The British economy wouldn't collapse outside the EU, but it would face multiple challenges

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

{ TREASURY INSIDER }

Mission critical

In his final article, the Treasury Insider finds plenty of evidence of the meaningful contribution that treasurers make to corporate life

A year in treasury, on a single page? Twelve months on from picking up my virtual pen for *The Treasurer* for the first time, a look back over my articles provides a cheerful reminder of just how interesting life as a treasurer can be.

Plenty of strategising and working with colleagues across the business, all within a very challenging macro environment. On a personal level, I've also thrown a change of company into the mix. But even without that, the past year has provided a compelling argument for the attractiveness of corporate treasury as a career choice.

Before I'm accused of exchanging my summer shades for some rose-tinted specs, yes, we all have dross to contend with, but that's surely the same in any field? So let's put to one side those occasional parts of our work that don't enthral us. And please humour my efforts to strike a positive tone for my farewell article.

Treasurers' involvement across corporate life has always been a big attraction for me. Small teams with broad remits inevitably bring variety, both in the nature of the work and the colleagues you work alongside. M&A transactions, commercial initiatives such as growth into new markets, even core operational activities like cash management and currency exposure forecasting – they all provide great opportunities to engage right across the business.

Active engagement

One of my first articles described the benefit to a business disposal of the treasury team being actively involved in the transaction from the outset. Efficient use of funds, timely hedging, a smooth banking transition, financial analysis and advice had all been delivered ahead of the mechanical settlements process that some thought would be the limit of the team's input.

IMAGE SOURCE

Treasurers' involvement across corporate life has always been a big attraction

We've also had banking tenders that relied on a thorough understanding of the local banking requirements to frame both the tender document and the assessment framework. Try doing this from an ivory tower and there will be a huge slice of luck needed for the selection decision to turn out to be the right one.

Even the more inwardly focused treasury activities are enhanced by strong engagement with business partners. The article on implementing SWIFT connectivity highlighted the many internal stakeholders who need to be kept on track. And last month's look at allocating ancillary activity relied on business units to quantify the fees available.

And then there's all the uncertainty that our colleagues look to treasury to mitigate. Event risk was demonstrated in the context of the Scottish referendum. We've also had to deal with the impact of China's slowdown, the oil price fall and Greece – each of these could make a fascinating case study. The latter, more than four years after we started contingency planning, has finally come within touching distance of exiting the euro.

Being prepared

Treasurers' preparations for the worst – all part of our job, but rarely required to be put into practice – demonstrate our value on those rare occasions when events do turn out as badly as feared.

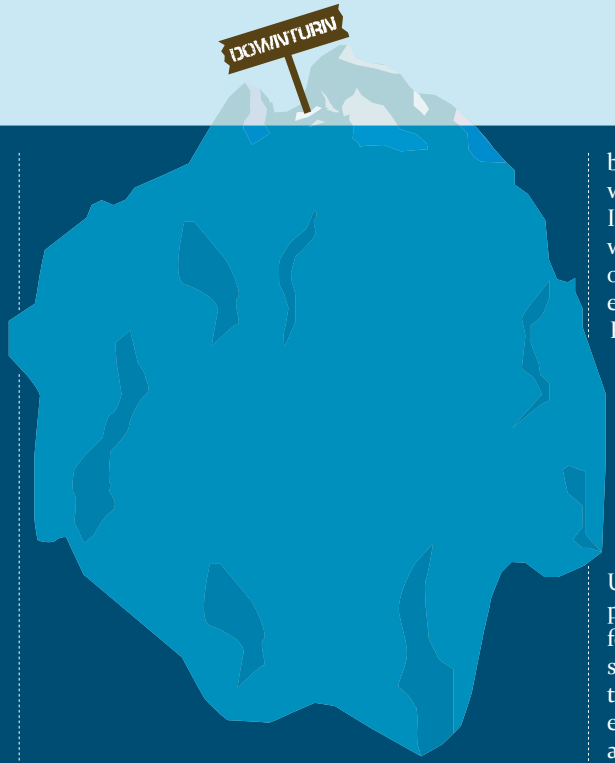
Much for us to do then and mostly high-stakes work, given the scale and visibility of our realms. The quantifiable nature of our roles means recognition for a job well done, at the same time as adding pressure with nowhere to hide if things go wrong. Fast-paced, too, with an ongoing challenge to proactively address demands – from both inside the business as well as from external stakeholders – rather than constantly trying to catch up.

And in this regard, treasury is remarkably similar to when I set out many years ago. The topics of the day may change, but the nature of treasury endures. Your Treasury Insider wishes you well in meeting its challenges.

The Treasury Insider works in corporate treasury at a well-known institution in the UK

Is the UK short on lifeboats?

In the event of a downturn, policymakers may find they lack the means to stage a rescue, argues Kallum Pickering



SHUTTERSTOCK

If the UK economy was heading for a downturn, is there the policy firepower to prevent it? If one thing keeps the chancellor of the exchequer and the Governor of the Bank of England awake at night, this is surely it.

There is little doubt that Chinese affairs are the foremost concern for the global economy currently – how quickly is the world's second-largest economy slowing and what can its authorities do about it? Well, almost whatever they want. China has a central bank rate of 4.6%, over $3.5 trillion in foreign reserves, a $40bn per month trade surplus and a high savings rate, to name but a few of its possible policy options. However, run the same exercise in the UK and far less comfort can be taken.

Both the UK Treasury and the Bank of England expended vast amounts of resources arresting the fallout from the 2008 financial crisis. This was a sensible thing to do; conditions would have been far worse had the UK endured the fiscal cuts Mr Osborne first pledged, or if the Bank of England, paralysed by fear of the unknown, had hesitated with quantitative easing (QE). The trouble is, in the sixth year of an expansion that has averaged 2% per annum, far from being prepared for the next market downturn, the fiscal deficit is 4.5%, government debt to GDP is 90% and rising, and the base rate is at 0.5%. The lack of policy headroom is a serious vulnerability for the UK.

Say what you want about substandard growth rates and risks abroad, the fact of the matter is that the UK economy is at a fairly mature stage in its expansion and yet it is not in a strong position to respond to the downturn that will become increasingly likely as time goes on.

Regarding monetary policy, there is far more headroom despite the policy rate currently being at a historical low of 0.5%. The base rate is not the only policy tool available. There are a number of things the Bank of England could do if necessary.

Firstly, because expectations play such a large role for monetary policy and the Bank of England is expected to raise rates in early 2016, the Bank of England could use language to push back expectations for the first hike; this would have the effect of policy easing. Indeed, this has been done twice in 2015, with good effect. Furthermore, the Bank of England could employ unorthodox easing measures to boost credit. Funding for Lending, which is in place to raise lending to the real economy, could be expanded or other similar programmes initiated. Finally, QE, an asset purchase programme that targets money supply growth rather than interest rates, could be expanded from its current stock of £375bn.

Despite the numerous risks, the UK economy does look set for a decent period of around 2.6% growth annually for the next couple of years at least. This should be sufficient to allow Treasury to get the deficit to a safe level so as to expand policy if necessary, albeit not aggressively, since the overall debt will probably still be large. Similarly, with the Bank of England on track to begin raising rates in February, interest rates are likely to be 2% in late 2017, so there should be room enough to cut if needed. Major unforeseen shocks aside, the UK should be OK. But this strategy is an unnecessary gamble and could largely have been avoided, if not materially minimised, with better policy coordination and fiscal discipline. Usually, when governments play a game of risk with history, they sometimes win, but occasionally, a book is written about it.

The UK economy is at a fairly mature stage in its expansion and yet it is not in a strong position to respond to the downturn

Kallum Pickering is senior UK economist at Berenberg

Looking East

Broader acceptance of the renminbi, financial liberalisation, demonstrating the value of treasury professionals – these were all debated in Hong Kong at the ACT Asia Conference, as Peter Matza reports

ACT ASIA CONFERENCE **2015**

This year's ACT Asia Conference, held again in Hong Kong, has been so well received and supported by its community.

Since last year's successful first full-day conference, the ACT has been working partly with the two local Hong Kong associations (Hong Kong Association of Corporate Treasurers and HKIACCT) and the Central Bank (Hong Kong Monetary Authority, or HKMA) on local initiatives that could see Hong Kong develop as a regional treasury centre; in addition, we have been busy with our partners in mainland China, including the Beijing National Accounting Institute (www.nai.edu.cn/english) to launch ACT qualifications in Chinese to a nascent mainland treasury community. Bringing those two ideas together gives the essence of this year's conference. There's no doubt that China is serious in raising the skill and status levels of its professional managers and we are delighted to be a part of that process through these initiatives.

On the one hand, we have a sophisticated, highly internationalised financial marketplace in Hong Kong. That's not to say even Hong Kong's largest businesses can't work smarter. On the other hand, we have an economy in China that, as one of our speakers pointed out, "has managed to lift 700 million people from poverty and yet is criticised for being neither international nor sophisticated".

Having said that, there is still a long road for mainland companies to travel in terms of their individual management talent and professionalism. Our keynote speaker, Howard Lee, executive director, monetary management department at HKMA, made it clear that he expected mainland companies to become increasingly efficient as they expanded their business horizons beyond the domestic economy and simple agent-based foreign trade.

Much of that development will, of course, be driven by the pace of change in the way the Chinese currency, the renminbi, becomes an increasingly common part of international finance and especially trade finance. Entry into the International Monetary Fund's special drawing rights pool will hasten the currency's arrival as an international reserve currency and provide liquidity for financial markets.

Some uncertainty remains as to whether domestic Chinese companies are as committed to using their own currency as believed and there is a delicate balance to be struck for inbound and outbound renminbi cash movements.

However, using the renminbi is not straightforward for treasury activities, either domestically or cross-border, whether intercompany or between companies globally. We benefited here from the experience of Dr Zengye Wang, leader, China National Petroleum Corporation Treasury Steering Group, in his presentation on building and running treasury activities at China's largest oil and gas producer and supplier.

Several speakers and delegates were keen to share their knowledge in this area and warn less-experienced users that paying close attention to Chinese financial authorities, especially the Chinese forex regulator, State Administration of Foreign Exchange, is key to getting this right. Unless, or perhaps until, full financial liberalisation, playing by the rules is critical for companies who lack experience of doing business in and with China.

One aspect where Asia generally isn't as structured as Europe or the US is in the area of cross-border financial regulations. That's not to say individual jurisdictions don't have their rules in place and that

Some uncertainty remains as to whether domestic Chinese companies are as committed to using their own currency as believed

global regulation in the form of Basel III will not be all pervasive. Apart from these, what Asia doesn't have – yet – are financial regulations that are snapping at the heels of the real economy. So, no regional Dodd-Frank or bank resolution schemes, yet.

Ginny Wu, CFO APAC, Delmar Group – a Canadian-based international logistics manager and freight forwarder – told us that her issues still have that individual character that treasurers have always dealt with. Ginny is increasingly dealing with know-your-customer issues from banks that have local demands, but are driven by regional, if not global, trends. We also heard that efforts to increase the efficiency and capacity of regional capital markets are being pushed by the banks' trade body, Asia Securities Industry & Financial Markets Association. Much remains to be done before non-financial corporates will find those markets fungible. Many commentators have argued that until they are, the real economy and foreign direct investment flows will remain uneven, especially for dividend repatriation.

The capital markets theme and professional treasury development was echoed elsewhere during a debate on how treasurers should impact corporate finance strategy in M&A transactions and, with it, major funding transactions. Experienced former investment banker and corporate finance adviser Daniel de Blocq van Scheltinga of boutique Polarwide was clear that in his experience in Asia, treasurers were often sidelined in major deals until 'just' being asked to 'find the money'.

In his view, this is: a) likely to have a negative impact on the actual M&A transaction; b) clearly not conducive to bringing business and financial strategy together, but, most importantly; c) a failing on the part of treasurers to demonstrate their value and worth as strategic business managers rather than niche executors of tactical funding. ACT research in *The Contemporary Treasurer* (www.treasurers.org/contemporarytreasurer/2015) tends to support this view, but less so for treasurers in the UK and continental Europe.

In a panel session on the broader themes of treasurer competency, Adrian Teng, group treasurer at Jardine Matheson, talked about the need for aspiring treasurers to have intellectual curiosity as well as technical capability. Appropriate cultural understanding as well as communication skills were also cited – in English and Chinese – as being crucial to foster business relationships.

As with any treasury conference we run, the network sessions become mini-conferences with huddles of delegates discussing all manner of related issues, with technology a consistent subject. A key issue for Asia is not being burdened with legacy systems in banking or government, but concerns were expressed about avoiding competing technologies that don't add to real economy transactions.

As always, it was a pleasure meeting old friends and making new ones in this widening professional treasury community. See you next year.

Peter Matza is engagement director at the ACT

ARE SPOT TRADES ENOUGH?

Vaughan Atton wonders if simplicity and cost-effectiveness really outweigh a properly protected position

Over the past few months, we have spoken to many organisations that are using spot-only trades for their FX transactions, despite the fact that more strategic tools are available to help mitigate against the risks associated with international trade.

For corporations who use only near-term cash-flow predictions, operating on a 'just in time' basis means using only spot transactions to manage currency exposure. For other companies, it's interesting to ask why they rely on spot transactions, and whether it's the best approach.

The growth of user-friendly, single-dealer platforms (from both banks and FX specialists) has encouraged mid-market corporates to choose operational convenience over complexity.

Clients often say they want the best execution rates and price transparency, so they concentrate on online platforms in the spot market. This approach has its merits, but it's useful to consider whether saving two pips on execution is always better than ignoring possible adverse price movements, which can have bigger impacts on open positions.

An alternative is to use a portfolio approach to hedging: a strip of varying trades (including spots) is created, and the treasurer may choose to leave some risk uncovered (either to take advantage of upside movements or because there's some doubt as to the accuracy of cash-flow assumptions). Either way, spot trades are used in a multi-instrument hedging strategy offering bespoke market coverage. This can offer a useful asymmetry, depending on the market conditions – allowing for greater upside gain than downside risk.

Overall, there's no right or wrong answer. There seem to be occasions when a spot-only strategy is the right one, but using this strategy only to get the best price transparency or greatest convenience can leave many other risks uncovered.

For companies that don't have either unpredictable cash flows or volatile operating conditions, better results could be achieved with more complex, tailored strategies.

Vaughan Atton is corporate hedging strategist at Currencies Direct
www.currenciesdirect.com/business-insight

CLEANING UP

Corruption, scandal and bribery are commonplace in the world, but what action is being taken to eradicate these crimes? And what can treasurers do to avoid them? Ian Fraser reports

In September 1977, Sir Richard Dobson made some off-the-cuff remarks he would come to regret. In an after-dinner speech, the British Leyland chairman dismissed allegations that the state-owned car manufacturer was running a slush fund to bribe overseas officials as a case of accusing the company of a perfectly reasonable and even 'respectable' practice. It later transpired the allegations were true. British Leyland was handing £4.2m a year – the equivalent of £20m in today's money – in kickbacks to officials to secure sales of buses and Land Rovers in the Gulf States, Iran, Libya, Nigeria, Sudan and Turkey. But in 1970s Britain, the scandal benefited from a full-establishment cover-up and was never investigated. Dobson, however, fell on his sword the following month.

The story illustrates the extent to which attitudes to bribery and corruption have changed. "In the 1970s, bribery wasn't really seen as problematic – it just wasn't the sort of thing that decent chaps talked about," says John Grout, policy and technical director at the ACT, who started his career at the car giant seven years earlier. "The world has moved on enormously."

The US was quicker to turn the tables. In the year of Dobson's unspeakable remarks, President Jimmy Carter signed the Foreign Corrupt Practices Act into law. This was America's response to major bribery scandals involving the US firms Lockheed – which was paying $20m a year in bribes to governments around the world to secure defence contracts – and the banana importer United Brands – which, in a scandal that led to the suicide of its chairman in New York and a coup in Tegucigalpa, had handed Honduras's military ruler, Oswaldo López Arellano, $2.5m in bribes to get taxes lowered.

Crackdown on corruption

In Europe, change took longer. A blind eye was for many years turned to graft by 'strategic' players such as defence manufacturers, including BAE Systems. In parts of Europe, bribes were even tax deductible. It wasn't until the late 2000s that Britain got its anti-bribery act together. Following international pressure from the Organisation for Economic Co-operation and Development (OECD) and others, the country's previous anti-corruption legislation, a mishmash of dusty statutes and common law, was replaced with the Bribery Act in July 2011.

The Act – wider ranging and more draconian than the Foreign Corrupt Practices Act (FCPA) – served as a massive wake-up call for businesses operating internationally and spawned an industry of consultancy and compliance, which, arguably, has a vested interest in hyping its dangers. But Jake Storey, vice chairman of the Maritime Anti-Corruption Network (MACN), says "the act has focused people's minds like they were never focused before".

Rather than focus solely on bribes paid to foreign officials and state-owned enterprises, the Act encompasses all types of business transaction. It makes UK-based firms liable to prosecution no matter where offences occur. And, unlike the FCPA, the Act treats 'facilitation payments' as an offence. Smaller than bribes, these are often made to ease and accelerate public-sector procedures that would have happened anyway.

However, the Bribery Act's most disconcerting aspect for UK firms is that it leaves them open to prosecution for acts of bribery they do not commit, but which are committed on their behalf by

"In the 1970s, bribery wasn't really seen as problematic – it just wasn't the sort of thing that decent chaps talked about"

IKON IMAGES/OTTO DETTMER

intermediaries. The firms' sole defence in such a scenario is to prove that they have adequate anti-bribery procedures in place. Nick Burkill, a partner in law firm Dorsey & Whitney, says: "That aspect of the Act is designed to change corporate behaviour – and it's working."

Initially, a lack of convictions raised doubts over the Act and whether the Serious Fraud Office (SFO) was fit to police it. The perception gained ground in 2013 when the SFO saw its case against Jordanian-born metals magnate Victor Dahdaleh, who was charged with bribing Bahraini officials on behalf of US-based aluminium giant Alcoa, collapse. Then, in December 2014, the Act and the SFO were partially vindicated when they secured the first convictions under the Act.

Gary West, a director of bio-energy firm Sustainable Growth Group (SGG), was jailed 13 years after being found guilty of accepting bribes from a third party in exchange for issuing fake invoices that entitled the agent to commissions. The agent, Stuart Stone, was convicted of giving, and West of accepting, the bribes under the Bribery Act, with Stone receiving a six-year prison sentence. SGG's former boss, James Whale, convicted of fraud, was jailed for nine years. It has been reported that the SFO is also poised to enter into deferred prosecution agreements (which were introduced to the UK last year) with a further two small UK-based exporters over bribery allegations before the year is out.

According to an OECD review of bribery cases between 1999 and 2014, more than half were in the construction sector, the extractive industries, transportation and IT/communication. Most involved large companies, with only 4% of cases involving SMEs. Facilitation payments to customs officials accounted for 12% of cases. And bribery was shown to be almost as widespread in developed economies as in developing ones, a finding that may require some companies to rethink how they assess risk. Transparency International's annual Corruption Perceptions Index provides a widely used guide to the prevalence of corruption in different parts of the world (see www.transparency.org/cpi2014).

What is corruption?

According to the UN, corruption is "the misuse of a public or private position for direct or indirect personal gain". It can include acts of bribery, extortion, bid-rigging, embezzlement, price-fixing and multiple varieties of fraud. The corrosive effects of bribery in eroding trust in governments, distorting competition and inhibiting innovation have been well-documented.

How can treasurers protect their organisations?

What should corporate treasurers do to ensure their firms don't fall foul of anti-corruption legislation? MACN's Storey says they need to be careful not to miss the wood for the trees. "A lot of corporate treasurers are so focused on the obvious, first-tier risks, they're blind to the long tail of corruption risks that exist in the supply chain." He advocates regular interaction with intermediaries as essential, including "regular risk assessment". He says compliance checks can be pooled via new services such as Trace International, which Storey calls "the TripAdvisor of the seas" and shines a light on the ownership of each vessel.

Nick Kochan, co-author of *Corruption: The New Corporate Challenge*, says treasurers need to be particularly careful when dealing with intermediaries to ensure that payments are not made to fake companies whose beneficial owners are, in fact, 'politically exposed persons'. "If that politician is overthrown, his successor may well let it be known," says Kochan.

Burkill says: "Red flags include the use of cash, the use of special-purpose vehicles and offshore companies, the use of consultants and agents, and payments to charities; and areas to check include travel agents, promotional events and also, funnily enough, exchange rates." He said an internal auditor told him of a case where a payment request and invoice seemed legitimate, but it turned out exchange rates were being manipulated to build up a cash fund.

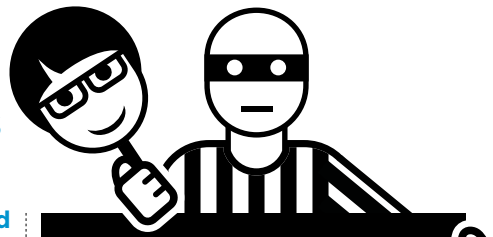
A business strategy can, in and of itself, be a red flag of future corruption risk, warns Richard Bistrong, an anti-bribery consultant, who formerly cooperated with the FBI and City of London Police. "You need to think broadly about the strategy, not just individual risks. If the firm is entering a low-integrity frontier market, with ambitious growth targets, the corporate treasurer ought to be asking their operational colleagues how that growth is going to be achieved."

If corruption is found internally, or at an intermediary, the worst a firm can do is seek to bury it. Prosecutors are generally tougher on companies that fail to self-report or cooperate, but reward those that do. "Regular monitoring, reporting to the board and example-setting are an absolute must if any defence of 'adequate procedures' is to succeed," says Angela Pearson, a partner at law firm Ashurst.

Staff training is essential. Seth Berman, MD of consultants Stroz Friedberg, says managers in high-risk areas ought to be given "entertaining and informative live training sessions" at least once every three years. He also recommends annual online training. And intermediaries should not be neglected. In its annual benchmarking

"A lot of corporate treasurers are so focused on the obvious, first-tier risks, they're blind to the long tail of corruption risks in the supply chain"

Corruption will always be a mercurial thing. When one door is closed – through a legislative crackdown – people with malign intent open others



report, risk mitigation and response company Kroll recently found that only 27% of firms were training third parties at least once a year, with half giving third parties no anti-bribery training at all. The figures were "alarmingly high", said Kroll.

SMEs are more likely to struggle with anti-bribery requirements than their larger peers, and some are preferring to give certain high-risk territories a wide berth rather than risk a probe. Recent research from the Ministry of Justice and the Department for Business found a third of UK SMEs were unaware of the Act. Storey says: "SMEs often don't know where to start." He recommends smaller firms tap into collective action networks, such as the MACN, the World Economic Forum's Partnering against Corruption Initiative or the Extractive Industries Transparency Initiative.

Targeting foreigners

Of the 10 biggest settlements reached by the US Department of Justice (DOJ) under the Foreign Corrupt Practices Act, only two were with US firms – Halliburton and Alcoa. The rest were with British, French, German, Italian and Japanese multinationals. The financial settlements, always involving deferred- or non-prosecution agreements, ranged from $93m to $800m. Suggestions the DOJ is targeting non-US firms are dismissed by anti-bribery experts. Burkill says: "What non-US firms often don't grasp is the importance of cooperation with the US authorities."

Corruption cases around the world

The enforcement of bribery legislation remains patchy. Only half of the 41 signatories of the OECD's anti-bribery convention are bothering to investigate or pursue foreign bribery cases. Only four – Britain, Germany, Switzerland and the US – are actively prosecuting alleged breaches, according to Transparency International. However, a few emerging markets are taking a surprisingly tough line.

The former South Korean prime minister Han Myung-sook was jailed for two years in August after being found to have accepted $758,850 in bribes from the boss of a local construction firm. In China, president Xi Jinping's anti-corruption drive has seen the country's 'gift' culture go underground, dented sales of Scotch whisky, and seen GlaxoSmithKline fined $490m for bribing doctors and hospitals to get its products promoted. Thailand last year joined China, Iran and Vietnam in introducing the death penalty for corruption cases, and, in Indonesia, Muslim clerics are pushing for its introduction.

But corruption will always be a mercurial thing. When one door is closed – for example, through a legislative crackdown – people with malign intent open others. Technology, including cryptocurrencies and the dark web, are opening new off-piste routes. In a recent interview with Bistrong, Tom Burgis, a *Financial Times* journalist and author of *The Looting Machine*, said: "History suggests that corruption evolves in response to threats. Just look at how cash bribes have given way to the use of offshore front companies and concealed equity stakes in projects granted to officials."

Rahul Magan, manager in corporate treasury at New York-headquartered outsourcing firm EXL, warns that lawmakers are constantly fighting the last war. He says: "Laws like FCPA and the UK Bribery Act are a bit of a joke when you consider the current scandals. They are like anti-virus software that only addresses the last-known virus in the system. They're incapable of eradicating the many new viruses that have plagued the system since they were drafted."

Western hypocrisy

Oxford University academic Paul Collier says there is a degree of hypocrisy about corruption in the developed world. He has said: "In corruption it takes three to tango – the bribed official, the bribing company and the lawyers who provide the getaway car for that corrupt bribe, so it can be parked in an anonymous bank account somewhere in a secrecy haven." London's property market was recently identified as a low-tax 'laundromat', where corrupt foreigners can safely park their ill-gotten gains without scrutiny. Storey says: "If the UK is serious about addressing corruption and illicit financial flows, it cannot allow the open sore to exist."

Ian Fraser is a freelance financial journalist and author

MAKING AN IMPACT

Treasurer-turned-Telefónica UK CEO Ronan Dunne reveals the secrets of his extraordinarily successful career

Words: **Sally Percy** / Photography: **Louise Haywood-Schiefer**

When Telefónica UK CEO Ronan Dunne held his first town hall meeting back in 2007, he told his assembled staff: "I see my job to be chief cheerleader and chief storyteller on behalf of the organisation and to make each one of you the success you deserve to be."

It is this fierce commitment to helping others to fulfil their potential that has underpinned Dunne's own spectacular career to date. A clearly inspirational leader, who has managed to hold down the top job in one of the UK's best-known companies for eight years, he makes it his business to match people to potential. "I have a personal view that all of us can be good at many things," he says. "Every one of us can be amazing at something. So what we have to do is make sure that we create the opportunity for as many people as possible to discover what they can be amazing at."

He continues: "That's why I ended up being a CEO. I could have been good as a finance director, but actually others saw that I had the potential to be a CEO. And I realised that I wanted to see if I could be amazing, potentially as a CEO. Because the responsibility that a CEO has affords the opportunity to be even more influential and more impactful than even the best CFO."

When he embarked on his career, however, Dunne didn't have his sights on becoming a CEO. Instead, the CFO role seemed like the "natural progression" to the Irish-born chartered accountant. He qualified with Touche Ross in Dublin, before moving to the City of London where he joined Banque Nationale de Paris, initially in finance and later in a banking position. It was through working with the bank's clients that he got his first taste of treasury and decided to study for the MCT.

"I knew a lot about how treasury products worked from a banking point of view, but I did not always understand what the business application was," he explains. With the MCT under his belt, he was able to appreciate "both sides", as he puts it. "I understood how banks used the products and accounted for them, and I understood how corporates used the products and accounted for them."

In 1994, Dunne decided that he wanted more than just experience of financing projects; he wanted to be able to see projects through to completion. So he moved to landfill operator Waste Management International as deputy treasurer and then on to logistics company NFC (now DHL) as head of strategic finance, reporting in to CFO David Finch. It was during his time at Exel that Dunne saw how treasury could become a true business partner. He went on sales pitches and out to visit client sites, which led to him re-engineering the financing around some of the company's contracts to help it win more business. "In Exel, people thought the treasury was part of business development and delivering revenue growth, not just a specialist function that reported to the CFO," he explains.

The opportunity that was to determine the course of Dunne's future career came along in 2001. Finch was approached to become CFO of communication giant British Telecom's mobile division, BT Mobile, which was about to be spun off as O2 in an initial public offering (IPO). He asked Dunne to join him as his deputy and the pair was an integral part of the leadership team that helped to shape the new business.

"When a new business is born, it's generally born as a very small business," says Dunne. "But this was born as a FTSE 30 company, one of the 30 biggest companies in the stock market. So it was an opportunity to do everything from scratch. We didn't have any accounting or treasury policies; we didn't have any business policies. What was really exciting was that, rather than taking a manual that someone had written 10 years ago, we started with a blank sheet of paper and created the financing structure and the operating model for a FTSE 30 company from scratch. It was an almost unique experience."

During the early days, there was some scepticism of O2 in the market. "At the time, although mobile was seen as having an exciting future, the O2 Group wasn't necessarily seen as being one of the strongest operators," says Dunne. "There was lots of talk about 'Would we survive? Would we get bought?'" But O2's leadership team built on the "relatively poor-performing portfolio of assets that BT had" and transformed the group into the fastest-growing mobile group in Europe. By the time O2 was acquired by Telefónica in January 2006, its share price had reached £2 – three times the amount that it was at the time of the IPO.

Dunne had been appointed CFO of O2's UK business in 2005 and it was from this role that he transitioned to become CEO of Telefónica UK in 2007. Looking back, he realises that he was being groomed for the CEO position while acting as CFO, even though that wasn't obvious to him then. "My CEO at the time

realised that I was getting up to speed quickly with the job, so he gave me extra responsibilities. Very rapidly I realised that I was demonstrating that I didn't just have a finance capability, I also had a managerial capability and a breadth of understanding of the business that meant I could do other things."

He was also learning the importance of helping others to succeed. "Great managers want the people in their team to succeed because the best way for a manager or leader to succeed is if his team succeeds," he explains. "One of the biggest learnings in my career is this: it's not what you do; it's what you enable to happen. Your output is finite, but your impact and influence are infinite. The difference between a great team player and a great leader is recognising how you can relate to how others react and behave, and lead them to places where they might not otherwise have gone."

Being CEO of Telefónica UK, which has 25 million customers in the UK, is a great job, according to Dunne. While he concedes that it can be lonely at times – "When you become CEO, you discover whether or not you enjoy your own company" – he believes the pros far outweigh the cons. "It's the most privileged thing in the world to be the boss and to be the boss of a company that has the opportunity to influence every household in the country."

Apparently, the job is not that stressful either. He explains why: "Everybody below the CEO is asked questions where there is assumed to be a yes or no answer. The reality of being the CEO is that the only questions you ever get asked are the ones where there isn't a black and white answer – otherwise someone in the organisation would have answered it already. Realising that is incredibly liberating."

Five years ago, Dunne decided that he would start allocating 20% of his time to doing community work, particularly with young people, and his focus is on "matching talent to opportunity". With this in mind, he launched O2's Think Big programme, which helps young people with good ideas to have a positive impact on society while developing vital experience and skills. He is also a trustee of Step Up To Serve, a not-for-profit organisation that supports youth social action.

> "The responsibility that a CEO has affords the opportunity to be even more influential and more impactful than the best CFO"

Even the uncertainty surrounding the future of Telefónica UK does not seem to trouble Dunne. The company is due to merge with Hutchison Whampoa, the owner of rival operator Three, next year. He says the £10.25bn deal will give the enlarged entity the scale to operate in a world where geographic boundaries are being beaten down by the internet. It's too early, he says, to know where the merger will leave him personally, but he is philosophical about the inevitable precariousness that comes with being a CEO.

"I don't worry for a second that some day somebody will tap me on the shoulder and say, 'Your time is up'," he explains. "The only question I will ask myself is, 'Did I make enough use of the time I had while I was here?'"

Treasury and the top

So is the CEO role a job that treasurers are suited to in Dunne's opinion? "Definitely," he says. "Because you get to understand the business. At the heart of great treasury management is understanding and managing the risks that naturally occur in business. A successful CEO is doing exactly the same job."

He does, however, believe that treasurers need to take the risk of moving from a 'trusted adviser' role to an 'operator' role if they want to advance in this way. "A lot of senior people in the treasury and finance profession are relatively young," he points out. "So they secure themselves a position of security and responsibility – and, I imagine – the reward that goes with that. Then, the question is, are they prepared to go into another channel, where they don't have as much experience, and take the risk of not succeeding? People with a finance or legal background are great

RONAN'S TOP TIPS FOR SUCCESS

1. **"It's not what you do; it's what you make happen. Your input is finite, but your impact and influence can be infinite."**
2. **"My MCT qualification helped me by giving me credibility as well as an understanding of risk and how to exploit it."**
3. **"My favourite gadget is my Mu folding plug. You can stick it in your jeans pocket, your jacket or your briefcase. It's genius, but so simple."**
4. **"Stay curious, build teams and focus on those things that only you can do."**
5. **"What's the most difficult question that the group CEO is most likely to ask? It has to be this: 'What is it that I can't afford to do, but I can't afford *not* to do?'"**
6. **"The best way to unwind after a stressful day is by watching Arsenal or Leinster Rugby with a glass of Malbec."**

RONAN'S CV

2007-present
CEO, Telefónica UK

2005-2007
CFO, O2 UK

2001-2005
Head of finance, O2 plc

2000-2001
Head of strategic finance, Exel

1996-2000
Director of treasury, NFC

1994-1996
Deputy treasurer, Waste Management International

1987-1994
Manager – international desk, Banque Nationale de Paris

QUALIFICATIONS

ACA (1986); MCT (1991)

at assessing risk. But this isn't a reason to say 'No' – it's actually a way to find out how to say 'Yes'."

The reality is that treasurers often find it difficult to make CFO, let alone CEO, however. Dunne says this is the result of people tending to recruit to type. "As a business, we don't recruit for skill set – we recruit for attitude," he explains. "Skills can invariably be taught, but attitude is innate – it's either there or it's not. I think sometimes in professions the assumption is that you're only recruiting for skill sets. Therefore, you look at a candidate for CFO and say: 'Does he or she have a recognised accountancy qualification? Has he or she been a finance director or a finance manager or a financial controller before?' If yes, put him or her on the list. If not, don't."

Hopefully, I – and lots of others – have demonstrated that, actually, if you bring acumen to a situation, and you bring attitude, then you can develop all of the other skills *in situ*."

As you would expect of someone who lives and breathes the technology business, Dunne is excited by what the digital future holds. He points out that both the agricultural and industrial revolutions were followed by enormous societal change (people abandoning the nomadic lifestyle and the onset of urbanisation respectively). We haven't yet seen the full societal impact of the digital revolution, though.

"I think what we will see is that the way technology is harnessed will bring the individual back into the centre," he comments. "Your access to technology, and to information, will allow you to determine who has access to you and on your terms. It's actually an incredibly enabling force."

Dunne is also very positive about the potential impact of the digitally literate millennial generation (those born between 1980 and 2000), which believes that doing well and doing good are not mutually exclusive. He says: "The powerful force of this new generation of digitally literate people, with a much better sense of responsibility to society, harnessing this massive potential that technology has could be the most amazing thing that has ever happened and actually outshine the agricultural revolution and the Industrial Revolution. So if we want to be ambitious for the next 10 or 20 years, that's what we should be hoping for – not just the iPhone 17."

What is evident from talking to Dunne is that he's not just interested in his own business, he's interested in other people and the wider world around him. In fact, he's just interested – full stop.

This, it seems, is the cornerstone of his impressive career. "How I describe myself is that I'm a 15-year-old curious kid," he says. "And, probably, the secret to my success is that I've maintained being a 15-year-old curious kid for 36 years."

VITAL STATISTICS

€7bn
Telefónica UK's revenue in 2014

€755m
the amount that Telefónica invested in the UK in 2014

€10.25bn
the amount Hutchison Whampoa bid for O2 UK in January 2015

7,400
the number of Telefónica UK employees

28,600
the number of followers that Ronan Dunne has on Twitter

Sally Percy is a business and finance journalist

Optimal capital structures

FOR ANY COMPANY, THE OPTIMAL CAPITAL STRUCTURE IS A MOVING TARGET, SO REGULAR REVIEWS OF THE CAPITAL STRUCTURE ARE VITAL TO ENSURE THAT BUSINESSES ARE ABLE TO EFFICIENTLY DEPLOY THEIR STRATEGY AND GROW SUSTAINABLY, AS CHRISTIAN LEIBL AND YURI POLYAKOV EXPLAIN

Much has been written about the abundance of cash sitting on corporate balance sheets in recent years. But as the global economy continues to recover, the pressure on corporates to maintain precautionary liquidity is decreasing. In fact, with activist shareholders demanding that accumulated cash be put to use, the new challenge for treasurers is to ensure that the company's capital structure ensures sufficient flexibility for current (and expected future) economic conditions – rather than focusing on those experienced during previous financial crises.

Against this backdrop, now is an opportune time to reconsider what the optimal capital structure should be. Finding the right balance between cash, debt and equity funding is both an art and a science, since an optimal capital structure is a dynamic concept that shifts as the economic environment changes. Moreover, it is unique to each company – optimal means different things to different issuers, varying in line with specific operational or strategic contexts, as well as industry sector characteristics and management objectives.

As such, while textbooks might, from the outset, suggest defining a company's optimal capital structure in terms of the lowest weighted average cost of capital, it is actually far more practical to start by asking a simple question around objectives: what is it that you want to solve? Being realistic and open in answering this question – regardless of whether the company is looking to reduce its cost of capital or simply to maintain a conservative financial profile – is the only way to achieve a capital structure that is fit for purpose at that time.

IMAGE SOURCE

It is worth taking the time to consider what needs to be optimised in the company's existing capital structure, and what is sustainable about it

With the objectives identified, it is worth taking the time to carefully consider what needs to be optimised in the company's existing capital structure, and what is sustainable about it. During this process, it can be useful to keep in mind some guiding principles around what an optimal capital structure should deliver:

Optimal capital structure: guiding principles

1. **Efficiency.** Debt is always cheaper than equity and the capital structure should therefore include as much debt as the company is willing to afford, based on future cash flows. It is important to recognise here that affordability may be limited by industry sector. Companies in industries with stable cash flows, where the predictability of their cash generation is high, will inevitably be able to afford more than those in volatile industry sectors.
2. **Flexibility.** When thinking about the optimal

capital structure and affordability levels, it is vital to leave headroom to absorb the impact of any unwanted internal or external events – such as operational challenges or changes in interest rates – on cash flows and profit margins. This provides a safety barrier that is more efficient than holding a stockpile of cash.

3. **Liquidity.** Given the uncertain world in which treasurers operate, it is important to ensure that the company can tap different markets for liquidity as and when required. Having access to a broad funding toolkit will assist greatly in achieving the optimal capital structure and, indeed, for adjusting it over time. In addition, the broader the access to liquidity, the more routes that are available in the event a stress closes some routes to market.

Conducting a thorough review of the company's existing capital structure with a view to optimising it also means questioning the status quo. Is a large cash buffer really required any more? Is it in fact causing a drag on the efficiency of the capital structure?

Another area where corporates may want to do some soul-searching is credit ratings. For some companies, one of the main objectives of an optimal capital structure is to maintain a target credit rating, which grants them access to their optimal level of capital market liquidity. For other companies, though, the credit-rating target is more of a cultural or philosophical level that the company likes to maintain, rather than a funding strategy-driven necessity. While that is absolutely the company's prerogative, it is important to formally recognise this when setting the parameters of the optimal capital structure.

After all, credit ratings can open doors to investors' money. While investment-grade companies generally find good market access through the cycle, being sub-investment grade does not preclude an issuer from finding liquidity. The size of the debt financing that the company needs to raise and the market conditions at the time of issuance also play an important role. Over time, many companies have successfully tapped alternative funding sources, such as private placements, unrated bonds and loans, as well as hybrid instruments. Moreover, it is not only the financial profile or balance sheet structure of a particular company that determines the quality of its credit profile; it is the interplay between the industry dynamics, business model and balance sheet. So while credit ratings are important, they should not necessarily be perceived as the be-all and end-all.

A forward-looking approach

With so many considerations to take into account, how then can a company put all of this into practice to implement an optimal capital structure?

The answer: by taking a forward-looking view. The first step here is to build a base case for affordability, which means determining the expected future cash flows of the company. This should reflect the operating environment and business risks (including industry-specific characteristics, for example, change in competitive dynamics), as well as the macroeconomic environment. The treasurer's strategic business partners, such as relationship banks, will be able to assist in building this out.

From those future cash flows, it is then possible to determine how much debt the company could, in theory, afford and, in turn, how much equity should be in place.

Once the base case is determined, it is advisable to test its resilience using scenario analyses. This means stress-testing key cash-flow drivers, such as operating profits, interest rates, FX rates, working capital, capital investments and other growth initiatives – which can be impacted by business or financial market conditions. The key is to stress-test for both in a way that is consistent with the specific challenges faced by the business. Take a Europe-based airline business as an example. If there is a significant move in the £/$ exchange rate, then not only will the jet fuel price change, since commodities are priced in dollars, but customer demand characteristics are likely to change accordingly. This means that a single event in the FX market could have a double impact on the business.

Taking into account all the different risk factors that could affect the company's profit margins and cash flows in this way helps determine whether the proposed capital structure (resulting from the 'affordability test') is still functional and affordable. In other words, does the debt/equity mix need to provide adequate headroom – or to maximise efficiency?

Stress-testing also provides an opportunity to consider how the optimal capital structure will tally with the company's risk management strategy, and vice versa. How can the treasurer better manage any of the scenario stresses in order to increase cash-flow visibility and reduce cash-flow volatility, for example? Treasurers should also take into account how risk management techniques may impact the optimal capital structure.

Time to review

Once all of these considerations have been factored in, the treasurer can set about implementing the capital structure that has been determined as optimal. But part of taking a forward-looking view also means recognising that this is a moving concept – and, as such, it needs to be monitored, reviewed and adjusted from time to time. A simple rule of thumb here is that if the company's cash flows change by more than 10% from one year to the next, then it is time to revisit your capital structure and risk management strategy.

And whenever you undertake this review, regardless of the company's credit rating or industry sector, the guiding principles should always be: efficiency, flexibility and liquidity.

With so many considerations to take into account, how then can a company put all of this into practice to implement an optimal capital structure?


Christian Leibl (left) is head of capital structure advisory; and **Yuri Polyakov** (right) is head of financial risk advisory at Lloyds Banking Group

IMAGE SOURCE

Investing a surplus

CORPORATE TREASURERS ARE DISCOVERING THE BENEFITS OF REPOS FOR INVESTING THEIR CASH, WRITES OLIVIER DE SCHAETZEN

Repos are an increasingly popular choice for corporate investors looking for a safe, liquid and relatively high-yield haven for their surplus cash. The repo market is particularly well developed in Europe and the US, and in recent years corporate treasurers have taken a keener interest in it.

Typically, companies have parked their short-term cash with banks or money market funds (MMFs). But we now live in atypical times. Banks have become a higher credit risk, and money deposited with them is paying very low rates of interest. As for MMFs, new regulations have made them less attractive than they used to be.

Consequently, repos, in particular tri-party repos, have become more in vogue for corporate treasurers. Even so, they are still used far less by corporates than bank deposits and MMFs.

Repos defined

A repo is an agreement for the sale and repurchase (repo) of securities. The seller of the securities (the collateral giver) agrees to repurchase them from the buyer (the collateral taker) at a later date for a set price. The repurchase price is higher than the original sale price, and the difference is known as the repo rate.

Sellers are usually investment banks, broker-dealers and prime brokers looking for funding. Buyers are usually cash-rich, risk-averse investors – such as commercial banks, central banks, MMFs, insurance companies and, to a small, but growing extent, corporate treasuries – looking for short- to medium-term, highly liquid investments.

The securities are often high-quality government bonds, but they can be lower-rated corporate bonds, equities or other securities. If the seller defaults, the buyer can sell the securities to recoup the cash invested.

Striking a balance between risk and return

The main objective of corporate treasurers when investing surplus cash is to strike the right balance between investment risk (credit, liquidity and market risk) on the one hand, and the investment yield on the other. Several years ago, before the global financial crisis, the

balance was generally skewed more towards yield. Today, the balance is more in favour of risk mitigation, with yield taking second seat.

In other words, the priority for corporate treasurers has generally become 'return *of* capital' rather than 'return *on* capital', and they are looking for new ways to protect their capital. Repo is one of these ways.

The main benefit of repo is that it provides double indemnity for the cash invested, reducing the risk: first, there is the indemnity provided by the credit quality of the bank borrowing the cash; and second, there is the indemnity provided by the name and standing of the securities used as collateral. The treasurer, therefore, mitigates the company's exposure to the credit quality of the bank by holding the securities as collateral, as they will be able to sell the collateral received in the event of default of its counterparty to recoup their investment.

Another benefit of repo is that the treasurer can design a collateral basket to meet the company's yield and risk objectives. The yield from a repo can be higher, and the risk lower, than that provided by short-term, unsecured bank deposits.

Before the financial crisis, unsecured bank deposits based on the Euro Interbank Offered Rate, for example, paid reasonable interest rates that increased the longer they were held, and the credit risk profile of banks was generally high. However, in today's low-interest-rate environment, returns on deposits are much lower, even when held for one, two or three months, and banks are perceived to be riskier places to put cash. Corporate treasurers are therefore reluctant to leave money on deposit with banks for more than a week because of the lower yield and higher risk.

A repo, however, allows the corporate treasurer to make an investment that is backed by the securities held as collateral, *and* which generates a yield based on the creditworthiness of its counterparty and the underlying performance of those securities.

Tri-party repo

Despite their attractions, repos are still relatively underused by company treasurers. This is because some feel that the documentation is complicated, managing the collateral can be arduous and time-consuming, and repo transactions are often too large for corporates to contemplate. There is, however, a solution to these obstacles – tri-party repo.

Most repos are transactions with only two parties – the collateral giver on one side, and the collateral taker on the other. A tri-party repo involves a third party – a tri-party agent (TPA), such as a central securities depositary like Euroclear – to stand in the middle.

With tri-party repos, the corporate treasurer, as the collateral taker, outsources the administrative and operational burden to the TPA, thus reducing the work involved, as well as a large amount of the operational risk.

For example, Euroclear has recently launched its RepoAccess service, designed to alleviate the administrative burden and risk associated with completing the required legal documentation. Removing these tasks from the equation means that the treasurer can focus on the economics of the trade, while the TPA handles the collateral and other functions throughout the life of the transaction. The icing on the cake is that the TPA's fees are paid by the collateral giver, not the corporate treasurer.

Advice from the ACT

A few months ago, the ACT ran a webinar on repos, entitled 'Repos – too good to be true?', which can still be viewed on the association's website (see www.treasurers.org/repos2014). "When we published our first briefing note on investing in repos, back in November 2012, very few corporates used repos to invest their excess cash," said Michelle Price, the ACT's associate policy and technical director, on the webinar.

Interest in the original briefing note was high, so a revised version was published last year, and nearly 400 people registered for the webinar. "However, while repos are popular, the take-up among corporates is still slow," said Price.

The revised briefing note, *Practical Steps to Investing in Repos*, states that bank deposits and MMFs continue to be the favoured vehicles for investing surplus cash. But "the focus on banks' credit risk, together with the proposed regulatory changes of MMFs, has caused many treasurers to look further afield", and that includes examining the potential of repos.

"While the majority of short-term investment products used by corporates are unsecured, a repo is a secured money market instrument where the investor receives extra protection through the ownership of collateral," states the note.

> "The repo market isn't as broadly used in the corporate world as much as it might be, predominantly because corporates are wary of the counterparty risk"

Reality check

There are plenty of corporate treasurers who still have unanswered questions related to repos. "The repo market, generally speaking, isn't as broadly used in the corporate world as much as it might be, predominantly because, traditionally, banks have done them on a bilateral basis and corporates are wary of the counterparty risk," says one treasurer.

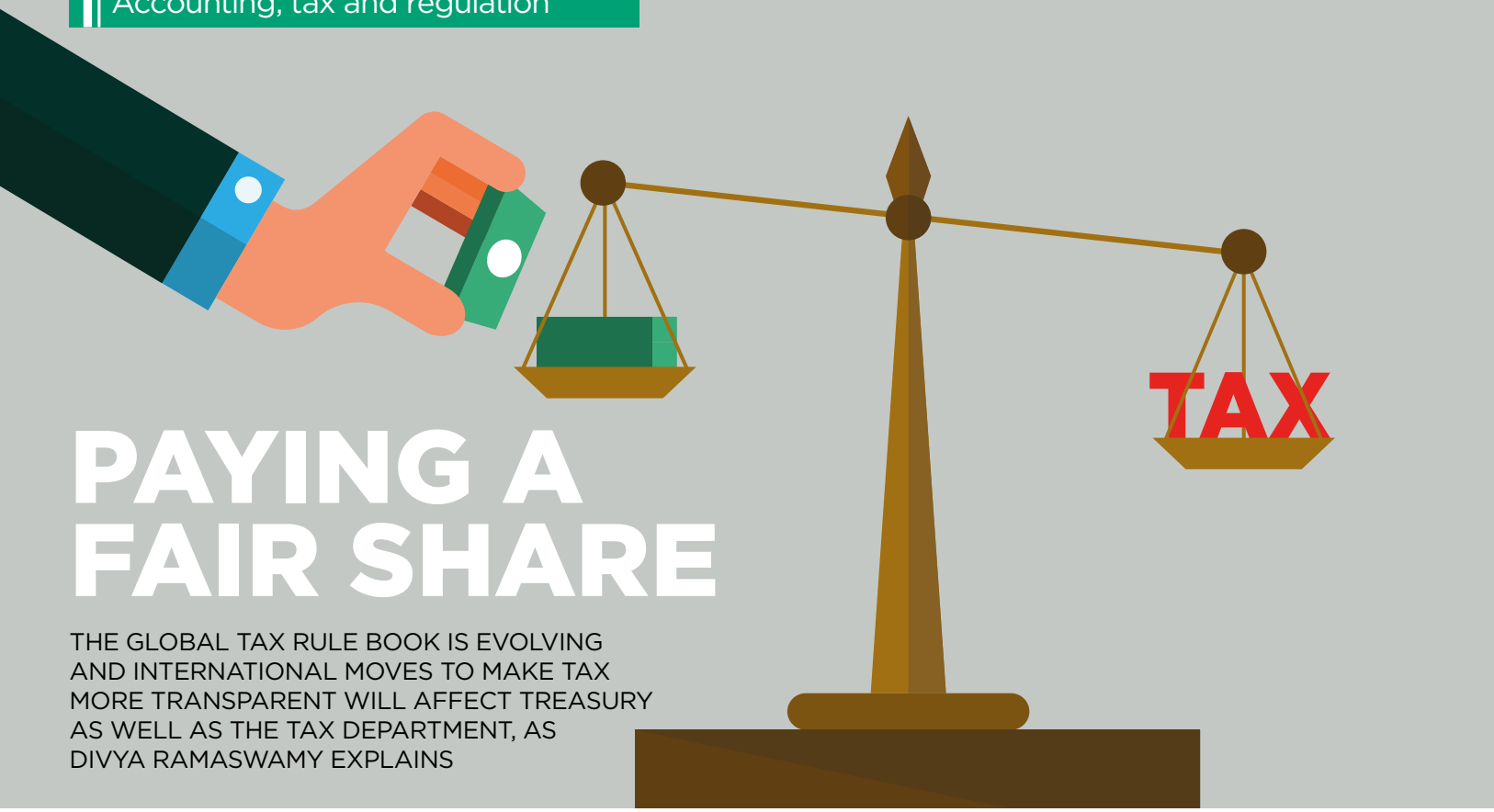
"The tri-party route can be document-heavy and not always easy to use," he adds. "Pricing is still rather difficult for us. When treasurers talk to their boards about repos, the boards still have some suspicions of any product coming from the financial services industry, which isn't relatively straightforward and easy to manage."

Popular appeal

Nevertheless, there is no denying that the repo markets in Europe and the US are large and liquid. The latest survey of the European repo market carried out by the International Capital Market Association in December 2014, and published in February 2015, showed that the institutions in the survey had a total repo value on their books of €5,500bn and €5,499bn the previous year, which represents a huge sum.

Repos are, slowly, but surely, becoming a more popular way of investing short-term cash. And for corporate treasurers who have neither the time nor the expertise to negotiate bilateral repo agreements with prospective counterparties, tri-party repos are a way forward.

Olivier de Schaetzen
is director, head of product solutions global markets, Euroclear



PAYING A FAIR SHARE

THE GLOBAL TAX RULE BOOK IS EVOLVING AND INTERNATIONAL MOVES TO MAKE TAX MORE TRANSPARENT WILL AFFECT TREASURY AS WELL AS THE TAX DEPARTMENT, AS DIVYA RAMASWAMY EXPLAINS

SHUTTERSTOCK

As the economic slowdown that followed the global financial crisis reduced taxable earnings around the world, governments took a variety of actions to increase tax take and extend the scope of their domestic tax legislation. A reduction in tax receipts has also meant that tax has become a matter of public debate, increasing pressure on governments to ensure that multinationals pay their fair share.

According to Peter Mason, group tax director at IMI, "Seldom does a day pass when a tax story is not in the press. It's the newspapers that are starting to be a major force in changing the tax landscape, and that's because in times of austerity, the public needs to know whether big business is paying its fair share."

The tax shield

From a treasury or funding perspective, legislation has progressively limited tax relief for interest on corporate debt. The amount of relief and what qualifies for relief have become increasingly restricted:

- Whether funding is characterised as debt or equity is often quite complicated to determine, but fundamental for tax purposes. Also, there is a risk of using just one interpretation for larger debt bundles.
- Intercompany lending is an essential tool for all treasurers to pool cash and move money quickly between countries and companies, but most countries have now introduced rules legislating arm's-length tax treatment for transactions. Thin capitalisation rules and transfer pricing are commonly applied by tax authorities to restrict tax relief for intercompany interest charges.
- The purpose of the transaction is paramount, and if the transaction is done for tax purposes, it is unlikely to qualify for tax relief.
- Earnings stripping is quite a common practice. Rules are being introduced globally to limit interest deductibility paid to related parties where interest is disproportionate to income.
- Withholding taxes are also a common way for governments to recoup taxes early and an instant way to impact tax cash flows, but the rules surrounding this are becoming increasingly stringent.
- For FX there are typically complex tax rules in most countries, for example, to assess whether financial instruments should be marked-to-market or taxed on a cash realisation basis.

The BEPS initiative

The BEPS initiative is the latest development in the tax arena and is set to change the tax landscape for many years to come.

International tax rules are generally efficient in ensuring that companies are not subject to double taxation. However, in an increasingly interconnected world, where tax laws have not always kept pace with global corporations, and the fluid movement of capital, there are gaps where tax-planning strategies can be used to artificially move profits to low- or no-tax locations. This undermines the fairness and integrity of tax systems.

The BEPS initiative aims to ensure that businesses that operate internationally align the tax paid with their economic activities and value creation. The initiative has the backing of the G20, and a set of 15 Actions has been produced by the Organisation for Economic Co-operation and Development (OECD). Each OECD country is expected to adopt some form of those Actions and it is anticipated that countries around the world will follow suit.

For the treasurer, three of those Actions are key:

- **Action 2** – Neutralise the effects of hybrid mismatch arrangements.

- **Action 4** – Interest deductions and other financial payments.
- **Action 13** – Guidance on transfer pricing and country-by-country reporting.

The BEPS initiative's overall impact on treasury functions is that it will restrict a group's ability to deduct interest expenses, potentially increasing the group's effective tax rate. But perhaps its greatest impact will be an increased focus on risk management rather than tax efficiency.

James Lockyer, development director at the ACT, regards the BEPS initiative as significantly increasing risk. "For those of us who put something in place, something that's reasonably efficient without being too aggressive, there are now risks attached to that," he says. "Even though you're currently complying, that environment is likely to change substantially over the next year or so."

Implementation

Another challenge lies in implementation. For a treasurer, additional analysis and reporting may be required. For example:

- Potential for additional reporting for the enactment of linking rules to match the tax treatment in two countries.
- Additional analysis for group-wide or fixed-ratio interest limitation rules; and
- Greater scrutiny on transfer pricing, with a focus on substance and prescriptive documentation.

Another significant concern is the potential for inconsistent application of OECD guidance. Mason says: "The OECD has made these recommendations, which have to be brought into national laws and enacted by countries around the world. And the key questions are: When are they going to do this? Are they going to be doing it consistently? And what impact does it have on their competitive position in global trading? The jury is out at the moment as to when all these rules will be implemented."

We are already seeing some actions assigned timescales, like country-by-country reporting, which is required by the end of 2017. But BEPS adoption is likely to take several years and local nuances will need to be managed.

The risk of an increase in double taxation is a significant concern for multinational companies, one that many corporates have voiced. However, the OECD understands the complexity of this and has made the shoring up of mutual agreement procedures an action point for BEPS.

What else you need to know

The BEPS initiative will lead to a better understanding of supply chains, as corporates focus on where profits are made and where they are taxed. Where are your remittances, your royalties, your dividends, and what does your cash management structure look like at the moment?

Project evaluation will also be affected, as sensitivities will need to include the changing tax treatment of cash flows. Any acquisition or investment will require extreme care.

Some treasuries may need to consider changing their operational structures to align better under BEPS. And, of course, the changing tax landscape is not confined to BEPS. Corporates will still need to devote resources to manage the impact of the Foreign Account Tax Compliance Act, Financial Transaction Tax, Diverted Profits Tax and an increasing number of General Anti-Abuse Rules.

Actions for the treasurer

The changes to tax are designed to increase transparency, scrutiny and information sharing on a global scale, but it may require changes to treasury functions at a practical level, including:

- A significant amount of information gathering, as tax teams will require more granularity of information than before. Interactions with tax departments will most probably require multiple iterations of discussions.
- Increased time pressure for the gathering and production of required information.

This is an area where tax technology can really help, assisting tax to align with all stakeholders and information providers, including treasury, which is highly likely to be crucial as tax becomes more complicated and the global tax authorities move to an 'on-demand model' for requests for information, including, but not limited to, the new country-by-country rules due in 2017. Tax and treasury departments will certainly need to work more closely to react to ongoing tax changes.

At the highest level there are three recommended actions for the treasurer:

- Treasurers will need to have a granular understanding of their funding transactions. Treasury teams will need to have better control on their data.
- Changes in tax legislation will result in financial uncertainty and the treasury will need to put in place a pragmatic and practical process to manage these risks.
- Suitable technology should be identified to help ensure compliance and increase efficiency.

For many large corporates, this may be the first time that there is such a level of scrutiny on funding transactions, and will result in increased insight, not only for the treasury department, but for the company as a whole, enabling more informed strategic decisions.

Start your planning now

While there are still many unknowns surrounding BEPS, what is clear is that it will be implemented around the world and that corporates must comply. The end result will be an increase in reporting and analysis, and an increase in risk. If a corporate is to successfully limit its administrative burden and manage financial risk, it must start planning now; after all, BEPS doesn't just impact the tax department.

While there are still many unknowns surrounding BEPS, what is clear is that it will be implemented around the world and corporates must comply

- For more information, view the ACT webinar, 'The impact of tax and regulatory changes on the treasury function', sponsored by Thomson Reuters, at www.treasurers.org/events/webinars
- To learn more about Thomson Reuters corporate treasury solutions, visit financial.thomsonreuters.com/corporate-treasury
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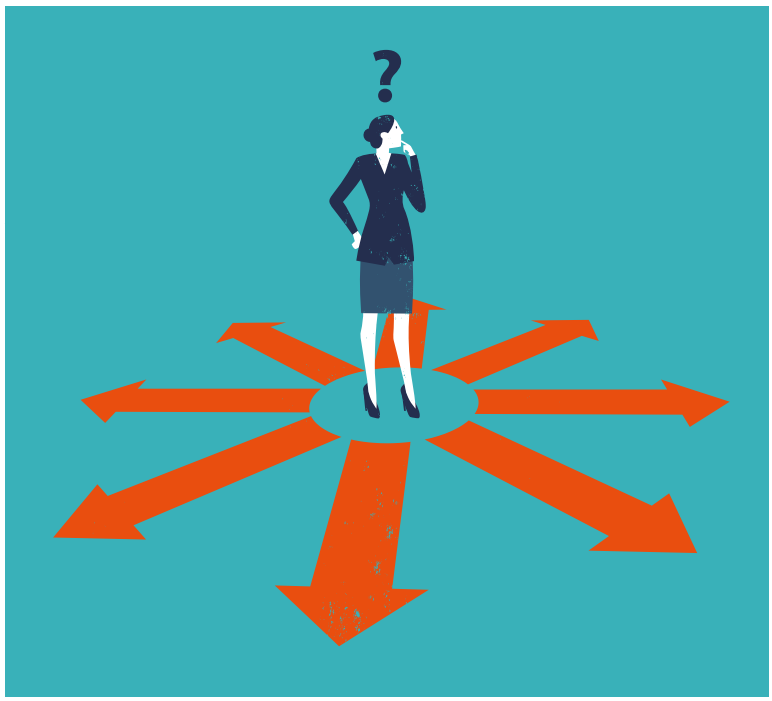
Divya Ramaswamy is senior solutions consultant at Thomson Reuters

Choosing the right path

FX HEDGING PROGRAMMES VARY WIDELY DEPENDING ON OBJECTIVES AND SPECIFIC COMPANY SITUATIONS, SAYS PAOLO ESPOSITO

Currency risk has been in the news all year as more and more companies report negative impacts from volatile FX movements. Earlier this year, the Swiss National Bank removed its floor on EUR-CHF, the European Central Bank introduced negative interest rates and China weakened its currency in response to economic deceleration. Some companies were prepared for such events having implemented currency hedging programmes, while others have been caught in the rapid return to volatility.

Our analysis of the FTSE 350 listed companies (*The Treasurer*, April 2015, page 32) indicated that 88% of those with currency exposure were in fact hedging it. Such a high-level statistic can be misleading, though, as myriad types of currency hedging programmes exist in practice. Here, we will describe five common approaches that are used by corporates globally.



SHUTTERSTOCK

Programme #1: Balance-sheet hedging

Any entity with monetary assets or liabilities (cash, receivables, payables, debt, etc) in currencies other than its functional currency experiences FX remeasurement risk. Revaluing the non-functional currency monetary assets and liabilities back to the functional currency can be done relatively easily by converting the item at the prevailing spot rate, and typically such changes in the rate (between booking date and valuation date) are captured in FX gains and losses in the income statement.

Balance-sheet hedging programmes aim at reducing the volatility introduced by FX remeasurement. In essence, this programme focuses only on the exposures that have been booked, rather than those forecasted for the future. While the balance-sheet hedging programme cannot easily reduce remeasurement to zero, they can reduce the associated 'volatility' in the income statement.

Many companies with currency exposure apply a balance-sheet hedging programme as they are typically easiest to implement. Once exposures are known and gathered within enterprise resource planning systems, the hedges typically consist of short-term forward contracts. Furthermore, no special hedge accounting treatment is required as the profit and loss impacts from the derivative and the underlying item(s) are already recognised at the same time.

Programme #2: Cash-flow hedging (local entity)

Many companies will extend their hedging programmes beyond booked monetary assets and liabilities into forecasted revenues and expenses. Often, this is done by taking all foreign currency exposures of the entity and hedging the largest ones that can be reasonably forecasted. The objective of such programmes is to remove the risk from operational flows, with the ultimate goal of protecting the entity's operating margin.

The major benefit of this type is the ability to reduce the exposure at subsidiary entities over longer periods of time. For example, many firms will use their cash-flow hedging programme to inform their budget rate for the upcoming year to ensure that earnings forecasts are linked to their hedge programme.

Unfortunately, these types of programmes may not perfectly hedge the parent company, since, in some cases, the exposures are hedged back to the functional currency of the subsidiary rather than to the parent company's functional currency. Managing the volatility at group level is the

responsibility of the central treasury: it should oversee the programmes implemented by the subsidiaries and provide guidance and coordination.

Additionally, running such a programme requires the application of specific accounting treatments to align the derivative's gains and losses to the appropriate income statement line item.

Programme #3: Translation (or EBITDA) hedging (parent)

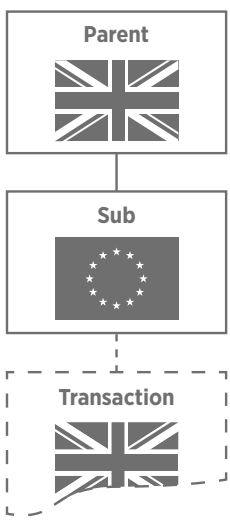
Whereas the cash-flow hedging programme reduces the currency risk at a specific subsidiary, some companies may be more focused on hedging translation risk on earnings, or EBITDA, at group level. Such an approach can lead to very different choices of the exposures to hedge, in particular when considering the aggregated risk profile of the group and with respect to 'phantom' risk. Aggregating the exposures from all subsidiaries allows the group treasury to assess whether cash flows in one entity are offset by opposite, or correlated, cash flows in another entity of the group – such an analysis allows to hedge only the net, residual risk and generates savings by reducing the number of transactions and the hedged notional. Phantom risk, instead, arises when a subsidiary has: (1) a functional currency different than the parent company; and (2) an exposure currency that is the same as the parent company, as per the chart, right.

Most headlines regarding the FX role on weakened revenue or earnings are driven by the translation impact. While many private companies tend to hedge translation risk, relatively few public companies choose to do so. This divergence may seem surprising, but often has to do with covenant calculations embedded within most private company credit agreements, as movements in FX rates could cause a breach on debt to EBITDA ratio or affect a firm's credit rating.

A reason for companies not to hedge might be the misconception that translation does not affect the cash position of the group; in reality, it does have an impact when the subsidiary's cash is repatriated, ie to pay dividends or service debt, as the foreign earnings transferred within the group vary with FX rates. Irrespective of the effect on cash, it is important to highlight that translation does impact the consolidated company's earnings.

Another traditional belief is that exposures to various currencies usually offset each other and remove the translation risk. In reality, if exposures are in the same direction and to currencies that are correlated (ie revenue concentration in NOK, SEK and DKK), or in opposite directions to currencies that are negatively correlated, the risks from translation are compounded.

PHANTOM RISK



Programme #4: Enterprise value hedging

Another approach common in privately held firms is to hedge the risk of changes in enterprise value due to FX movements. Such an approach is also commonly used by public companies applying net investment hedging, particularly in advance of divestures of foreign business units.

One of the most popular methods of hedging enterprise value currency risk is through the development of a debt capital structure that mimics its currency exposure profile. When this is not possible to do 'naturally' due to debt capital market restrictions, companies can use cross-currency swaps to 'synthetically' create the targeted debt capital structure. One of the additional benefits of enterprise value hedging is creating a short currency position with foreign debt (either natural or synthetic) to offset the long EBITDA being generated in the foreign currency.

Programme #5: Monte Carlo multi-asset hedging

The most sophisticated firms tend to utilise an approach that may be unfamiliar to most. Firms such as Procter & Gamble and Royal Caribbean use models to understand the link between their individual currency exposures and even their commodity exposures. In some cases, significant offset between the two allows the firms to streamline the hedging programme, and reduce the number of transactions and the cost of hedging significantly.

In order to pursue such a strategy, a company needs to have buy-in from senior management and the ability to model, monitor and analyse changes on a regular basis in the currency and commodity markets – an exposure management system can manage the whole process. But even more critical is the ability to communicate clearly to investors – many more private companies utilise this sophisticated approach, as their investor base is more concentrated and allows for deeper discussion of the risk management approach at the Board or investor level.

> The critical step for any firm looking to establish or revamp currency hedging programmes is to clarify what the organisation is trying to achieve

Conclusion

No single approach for currency risk management is definitively better than another. As evidenced by the many companies using each different type of programme, there is no right or wrong in currency risk management. The critical step for any firm looking to establish or revamp currency hedging programmes is to clarify what the organisation is trying to achieve. Once this is determined, the efficiency of the programmes listed above (or perhaps even others) may be assessed against the objectives.

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Chatham Financial

Money market funds in China

REGULATORY CHANGE AND THE QUICKENING PACE OF INTEREST-RATE LIBERALISATION ARE SIGNIFICANT FORCES IN THE CHINESE MARKET, AS KHENG LEONG CHEAH EXPLAINS

SHUTTERSTOCK

Since renminbi money market funds (MMFs) were first introduced in China in 2004, the sector has been transformed, growing in both size and significance. As of June 2015, there were 190 registered MMFs in China, with RMB 2.4 trillion in assets under management.[1] Serving as an intermediary between borrowers seeking short-term funding and investors searching for a low-risk cash management solution, MMFs perform a vital role in short-term, fixed-income capital markets. The sector's growth largely reflects investors' desire for daily liquidity, credit-risk management and competitive returns. A niche AAA-rated MMF sector addresses the needs of more risk-averse investors who want market-driven yields without compromising liquidity and security.

Although there is a large number of MMFs in China, the industry is highly concentrated, with the top 15 funds accounting for over 65% of assets.[2] In the past, retail investors invested in wealth-management products and bank deposits, whereas institutional investors were limited to products offered by banks. Retail investors have a growing interest in non-rated MMFs, such as Tianhong's Cash Income Fund. At the same time, AAA-rated MMFs are increasingly popular with institutional investors for their preservation of security, as well as their liquidity and market-yield characteristics. In addition, institutional investors also enjoy beneficial tax savings, as mutual funds are exempt from the local corporate income tax.

MMF investors

The differences between retail and institutional MMFs fall into two categories: investor behaviour and product characteristics. Retail investors tend to be attracted by higher yields, whereas institutional investors are likely to be more conservative, prioritising liquidity and capital preservation. In addition, institutional investors are usually bound by their company's investment policies to invest in AAA-rated funds. On the product side, institutional MMFs typically have AAA ratings that set the investment parameters of the fund (for example, credit quality, average maturity and liquidity). Retail MMFs must conform to China Securities Regulatory Commission (CSRC) requirements, but they do not need to meet the requirements of international rating agencies.

Ratings are an important consideration for an MMF

investor. They allow for an independent evaluation of an MMF's parameters for liquidity and capital preservation. The global investment policies of many corporations limit MMF investment to funds with AAA ratings from international rating agencies. It's also interesting to note that because China currently only acknowledges fund ratings provided by domestic rating agencies, certain international rating agencies have collaborated in joint ventures with domestic rating agencies. For example, Moody's has a 49% stake in China Chengxin International Credit Rating Company Ltd.[3]

In May 2015, the CSRC published proposed new guidelines for MMFs, seen as the most significant and comprehensive since MMFs were first introduced in 2004. The guidelines are still a work-in-progress, but here's the big picture: they bring Chinese MMFs more in line with their Western counterparts. The guidelines focus on tighter duration limits, better liquidity management, improved diversification of assets and a broader range of issuers and instruments. The proposed rules also improve MMF standardisation and disclosure. Overall, the guidelines encourage fund managers to innovate and exercise more proactive credit control while maintaining effective risk and liquidity management.

More frequent and extensive disclosure

In all global markets, JPMorgan supports regulatory reforms that address structural vulnerabilities and decrease systemic risk in MMFs. Among our specific recommendations to the CSRC, we called for more frequent and extensive disclosure. All MMFs should be required to disclose assets under management, yield, average residual maturity and average residual duration on a daily basis. Furthermore, all MMFs should be required to disclose detailed portfolio constituents and the maturity profile of the portfolio on at least a monthly basis. We also think same-day settlement should be an explicit right of MMFs and should be permitted at the discretion of the fund manager.

Other regulatory changes on the international stage are set to have an impact on the MMF industry. In the US, two key regulatory changes will take effect in October 2016, following a two-year transition period. Institutional prime and municipal MMFs must float their market-based net asset value. And an MMF board may impose a liquidity fee or redemption gate if the fund's weekly liquidity assets fall below 30% of total assets (government MMFs are not required to be subject to the fee and gate provisions). Basel III regulations, which redefine global standards for bank capital, liquidity and leverage, are changing how banks manage their balance sheets. The new rules will have a significant impact on the relative attractiveness of MMFs as compared with bank deposits.

Meanwhile, interest-rate liberalisation, a long time coming, has finally begun. When a deposit-protection insurance scheme was introduced in May 2015, it was a critical step on the path to interest-rate liberalisation. It transforms the unlimited, implicit guarantee that all Chinese bank products had enjoyed into a limited, explicit guarantee on deposits only.

So what are the implications for investors? Interest-rate liberalisation will spur a move from government-regulated rates to risk-adjusted market yields. This means that investors need a keener focus on credit and risk analysis. We recommend that investors promptly establish and/or review all their counterparty and credit-risk procedures. Without question, it's a more challenging environment for Chinese cash investment.

> Critical to the success of the renminbi MMF has been its ability to invest in repo. As the largest, most liquid money market instrument in Chinese markets, repo is a major holding for renminbi MMFs

Investment in repo

Critical to the success of the renminbi MMF has been its ability to invest in repo. As the largest, most liquid money market instrument in Chinese markets, repo is a major holding for renminbi MMFs. Repo offers good liquidity and timely settlement of short-term cash balances. These are valuable benefits.

We favour stock exchange repo. Its yields are more volatile than interbank repo, but stock exchange repo offers quasi-sovereign counterparty risk, which is very important. Another critical consideration is liquidity; stock exchange cash is returned to the buyer at the start of the day, whereas interbank cash can be returned at any time prior to market close. Regulations prohibit intraday and overnight overdrafts, so this is a big distinction.

In a AAA-rated MMF, stock exchange repo typically constitutes 20% to 60% of the holdings of a AAA-rated MMF.[4]

Of course, market volatility has been a concern for some MMF investors. China is in the early stages of its financial sector reform and volatility is always a concern when a market is opening up. As a market matures, volatility should decrease. We'd note that this applies to the equities market as well as MMFs.

1 Source: WIND; as of 30 June 2015
2 Source: WIND; as of 30 June 2015
3 Source: *China Chengxin (Asia Pacific) Credit Ratings Company Limited* – About us, www.ccxap.com/About.aspx#; as of 4 August 2015
4 Source: WIND; as of 31 May 2015

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Asset Management

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Testing times for treasurers

FACING MULTIPLE CHALLENGES IN A SHIFTING ECONOMIC LANDSCAPE, TREASURERS FROM ALL SECTORS ATTENDED THE ACT WORKING CAPITAL CONFERENCE IN LONDON RECENTLY. HOW ARE THEY ADAPTING TO THEIR CHANGING ROLE? CHRISTIAN DOHERTY REPORTS

The importance of working capital to any company, big or small, can't be overstated. It's the lifeblood of the business. A good working-capital strategy can allow management to make more considered decisions, work with its supply chain more closely and survive whatever headwinds may arise.

So it's not surprising that the ACT chose this vital topic to focus on in its most recent one-day conference in London on 15 September. Bringing together senior treasury figures from across all sectors and industries, the conference aimed to illustrate the latest thinking on working-capital management across a series of sessions.

From the challenges of getting buy-in from senior management on the importance of working capital to working with suppliers to ensure harmonious and sustainable payment arrangements, the day was filled with the sort of insight vital to a treasury professional at every level.

In his keynote speech, Rowan Austin, head of trade and supply chain finance product at the Royal Bank of Scotland, set the tone for the day when he told delegates that not only is treasury a mainstay of risk management, but it is increasingly a driver of value creation.

"I think we should celebrate the fact that in recent years treasury has become the mainstream part of the finance function, breaking out of the image of being a dusty back-office function away from the world of the 'real' business, with little differentiation from accounting and finance," he said.

Driving innovation

"Treasury is now seen as a value-adding function, with responsibility for managing critical resources," said Austin. "Growth capital is one of the most fundamental elements of any successful business.

"As part of that, we're now seeing treasury evolve as a distinct business function, away from the accounting operations, and, because of this, the function itself is one of the driving forces in innovation.

"There are other challenges, though. The rise of China, followed by the current slowdown in its economy and the exposure of the world's banks to the Chinese bubble, is bound to test treasurers in businesses with cross-border operations. The eurozone's recent travails also demand a clear and considered response."

Given the volatile nature of the economic landscape, it's hardly surprising that treasurers find themselves pulled in a number of directions: generating cash to keep the board and shareholders happy; managing risk in the markets; working with suppliers and customers to ensure working capital is managed at an optimal level – there's never been a trickier time to manage the treasury function.

The highest priority when it comes to managing working capital, at least according to a straw poll of the audience, was risk management and beating the competition at cash generation.

The challenges of globalisation

Austin went on to discuss how globalisation was creating a number of opportunities for corporates, which, in turn, places the importance of the treasurer even further up the agenda.

"Globalisation brings new markets and opportunities and, equally, corporates trading overseas are much more diversified in their risk and better able to withstand pressures. It's proven that they're less likely to default in times of stress. And, as they spread their operations across borders, treasurers will know how difficult it can be to manage global liquidity in an efficient cash management structure.

"So some businesses can end up with less-than-optimal arrangements for managing cash. Corporates and banks need to work together to minimise these fragmented positions and maintain efficiency."

Austin also outlined a number of trends, including the rise of open-account trading, albeit with regional variations: "That, in turn, has led to a decrease in the use of traditional trade tools, like letters of credit," he explained.

The growth of supply chain finance

So what are those alternative techniques now being employed in the working-capital space? One of the solutions that came up during a number of presentations was supply chain finance (SCF). The growth of SCF has been a notable feature of the treasury landscape in recent years.

Hailed by many as a solution that offers both liquidity and flexibility for suppliers, while helping large corporates manage their supplier base to avoid unwanted insolvency and uncertainty, SCF is now an integral part of many large corporates' working-capital strategy.

"It was both a profit-and-loss and balance-sheet issue for us," explained a former treasurer of a major corporate, who led the efforts to set up an SCF scheme a few years ago. "The idea took hold because it was a way to maximise balance sheet and profit and loss. We were a seasonal business that had days between the end of November and mid-December with hundreds of millions of pounds' worth of orders and a lot of suppliers involved."

Under that particular SCF programme, suppliers are able to access a working-capital marketplace. When a buyer uploads its suppliers' approved invoices to the platform, the connection is complete. Early-payment collaboration can begin immediately, with buyers setting their optimal rate of return and suppliers setting their desired rate of early payment.

The treasurer was also keen to point out that a good SCF model has at its heart the maintenance of good supplier relationships. "There's a very important qualitative element here," he said. "We had tens of thousands of suppliers and they need to be taken care of."

Indeed, looking after suppliers was a recurrent theme throughout the day. "We're interested in our supplier relationship and it's very important to us that we treat suppliers ethically and work with them to make sure they get paid on time and we get a good service," said one treasurer from a high-profile retailer.

However, it's fair to say that the vexed issue of payments, particularly to smaller suppliers, is still a recurring theme.

As one treasurer put it: "We're very focused on giving the best possible deal we can to suppliers, but we ourselves are under pressure, which means we've given more thought to alternative solutions that might help our supply chain get paid on time."

All important issues, to be sure. But for the treasurer at one large retailer, the main focus falls on finding the right balance between investment in stock and keeping cash flows healthy: "The engine room of any retailer is stock and how it's managed. Get that wrong and you're always running to catch up."

> "I think we should celebrate the fact that in recent years treasury has become the mainstream part of the finance function"

Establishing good practice

Even the biggest companies have to stay nimble and make sure their working-capital strategies are fit for purpose. Key to that is establishing the importance of good working-capital management throughout the business.

Describing the evolution of his company's working-capital management strategy, the treasurer of a large pharmaceutical described it in the past as being seen as "largely a finance issue, managed locally, with poor visibility, few shared service centres and little vision for 'value add'."

So what are the building blocks of a successful working-capital strategy? "It has to have broad board support, and when it comes to embedding the right attitude, working-capital improvements should be seen as a business project, not just a finance one," he said.

"Incentives are also important – for instance, you should notice a greater awareness of cash when you target salespeople, not on the orders they take, but on the cash they bring in," he explained. "You'll see they improve their processes and it helps the business as a whole."

Taking a long-term view helps build a healthy way of working, and this also applies to targets for senior management. Indeed, at the pharma mentioned above, 50% of the top managers are incentivised on cash generation.

However, it's fair to say that to solve a big problem you need to apply a big solution, and for the treasurer, there is no substitute for adequately resourcing the treasury team.

"It's a common gripe for treasurers, and I think most will recognise the challenge of getting the business as a whole to buy into the concept of cash and how it's managed, including putting adequate resources in place," said one delegate. "There needs to be an element of trust built up between treasury and the commercial side of the business to ensure that the two sides can work together."

Rowan Austin is head of trade and working capital at the Royal Bank of Scotland

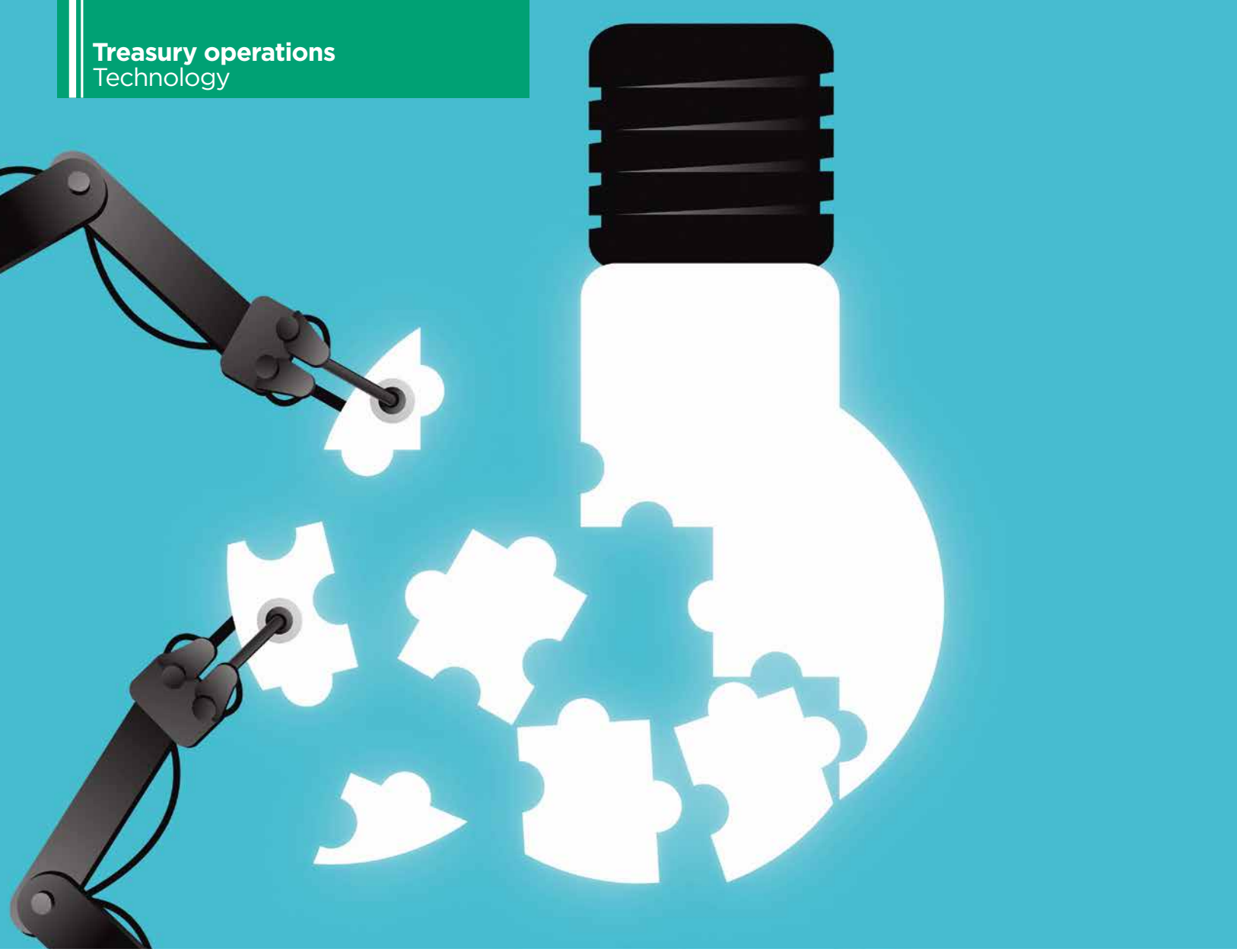


IMAGE SOURCE

KILLER APPS

TIME SHORTAGES, BUDGETARY PRESSURES, HEADSPACE – A NEW GENERATION OF AUTOMATION APPS MAY HELP TREASURERS ADDRESS THEIR ORGANISATIONAL ILLS. FARAH KHALIQUE REPORTS

Corporate treasurers play an increasingly important role in the corporate hierarchy, as the cost of funding remains under the spotlight and companies seek new, innovative ways to raise money. 'Killer apps' can save treasurers time, money and brainpower by automating their day-to-day activities, allowing them to spend more time shaping the future of the company in the boardroom and less time bogged down in Excel spreadsheets.

The rise of killer apps

Treasurers can choose from a wide array of cutting-edge tools to automate their activities, from bank portals to applications offered by software providers, such as SAP and Reval. These applications, commonly referred to as apps, have been around in one guise or another for decades, but are rising in popularity as they become cheaper and easier to access. A new breed of killer apps are targeting time-poor treasurers that want to reduce inefficiencies, at an affordable cost.

Companies typically want to first automate basic functions like cash

management and forecasting, says Bob Stark, vice president of strategy at cloud-based treasury management firm Kyriba.

Once the preserve of large corporates, cloud-based technology has opened up these apps to companies of all sizes in the past five years.

"Cloud has reduced price points and complexity, and allowed the mid-market in. It is no longer cost- or IT-prohibitive to move forward," says Stark.

Jacob Nygren, principal at independent treasury management consulting firm Treasury Strategies, agrees that cloud-based treasury apps has made them much more "economically feasible" and easier to access.

"We are reaching a realm where an application on its own can be accessible via mobile, and the prevalence of these apps is becoming far more broad. Numerous corporates are able to adopt these types of systems."

Currency markets have become rapidly volatile in 2015, following a number of unexpected decisions from central banks around the world. In January, the Swiss National Bank decided to abandon its 1.20 EUR/CHF floor, despite declaring it a "cornerstone" of its monetary policy just days earlier. The euro has weakened significantly against major currencies since a year ago, falling 17% against the dollar and 13% against the UK pound, as of mid-August. In a further twist, the People's Bank of China suddenly devalued its pegged currency, the yuan (CNY), raising the USD-CNY fixing from 6.1162 to 6.2298.

Dow Corning is an American multinational corporation that has exposure to the yuan, in addition to other major currencies such as the euro, yen and UK pound. The company sells silicon-based products, with more than half its annual sales outside the US.

It typically puts on about 2,000 currency hedges a year – a mix of simple forward transactions and more complex derivatives – and made around $17bn of currency trades last year, according to its head of treasury front office, Srikanth Dasari.

The company has always had a large currency hedging programme, but decided to radically overhaul it a few years ago. Though effective, it constrained the treasurer's ability to make strategic financial decisions.

"Pretty much all of it was run manually. Information I needed to trade wasn't available in a timely fashion; it used to take a few days as opposed to a few minutes and was all generated using home-grown Excel spreadsheets and models," says Dasari.

This resulted in manual errors and, at times, unreliable data. Furthermore, only about 30% of its trades were executed on a trading platform, as it was not possible to trade certain derivatives, including options and non-deliverable forwards. These were traded over the phone or via email, and many trades were confirmed by old-fashioned fax.

"We made the decision that we really needed actionable information [and to be] able to not worry about data integrity any more, but [rather] improve streamlining process and better utilise human capital," says Dasari.

Corporates are also keen to use apps for currency hedging to understand their exposures and analyse the efficacy of their hedging programme

Treasury management systems (TMSs) are on the rise, according to a joint survey conducted by Treasury Strategies and Reval, published in August. It found that 30% of treasurers updated technology in 2014, compared with just 5% in 2010. Almost half (49%) of those surveyed said they use TMSs, with just 27% relying on traditional spreadsheets.

Stay calm in volatile weather

In addition to automating the basics, corporates are also keen to use apps for currency hedging to understand their exposures and analyse the efficacy of their hedging programme.

Fire up with FiREapps

As part of its overhaul, Dow Corning signed up to cloud-based FX solution provider FiREapps, which helps companies figure out what their exposure is to moving currencies.

By implementing FiREapps' automated 'exposure extraction process', the company whittled down a two-day gap between closing its books and calculating its exposures to less than an hour.

This has saved it around $750,000 a year by reducing its market risk, and eliminated hours of number-crunching. In addition, the company joined FX trading platform 360T to execute its trades, IT2 Treasury Solutions for treasury management and Misys for trade confirmation.

The decision to embrace automation has saved Dow Corning about $5m and 600 hours of human capital per year. "My team is now able to spend more time on counterparty risk, regulatory matters, investments, corporate cash, managing bank relationships... we are able to create a lot of value-added processes with the time we now have on our hands," says Dasari.

FiREapps can be viewed on a mobile or a tablet like an iPad, according to its vice president of strategic market development and global head of research, Andrew Gage. This is helpful for treasurers that want to pull up a quick chart in a meeting, when discussing their hedging programme.

Mobile apps exist, but are still in their infancy. Mobile functionality is useful for treasurers who frequently travel on business or want to make the most of their morning commute, but the more a treasurer can do on their mobile, the greater the risk of compromising security.

"There's a smattering of mobile apps. Most relate to reporting and approval of transactions; we have not really got too far into more intensive activities like system administration," says Nygren.

Cybersecurity is more critical than ever. Big names, such as Sony, Carphone Warehouse and the US Postal Service, have been hacked in recent years. Treasury management solution provider Kyriba even hires professional hackers to try and infiltrate its systems daily.

"We rely on that feedback to make sure we are impenetrable," says Stark.

Farah Khalique
is a freelance business and financial journalist

Escaping the sound and the fury

INDIVIDUALS, CORPORATES AND POLICYMAKERS MAY PAY LIP SERVICE TO IT, BUT HOW MANY ORGANISATIONS REALLY PROMOTE WELLBEING AMONG STAFF AND HOW CAN INDIVIDUALS ENSURE THEIR ESSENTIAL NEEDS ARE MET? JANICE HADDON SUGGESTS SOME STARTING POINTS

Work-life balance seems to be a hot topic at the moment and something many regard as an unobtainable goal in the 24/7 culture most of us now live in.

In recent research conducted by Morgan Redwood, helping employees achieve a good work-life balance is seen as low down on the list of priorities for UK HR departments, as the focus is now on recruiting top talent for the business, a view that's supported by the Chartered Institute of Personnel and Development's *Labour Market Outlook: Spring 2015*. However, the same Morgan Redwood research revealed that the majority of businesses regard a good work-life balance as the top morale influencer for employees. Why is there such a mismatch between what organisations focus on compared to what employees are asking for?

Research and management reports produced since time immemorial show that motivated employees maximise their performance and therefore bring benefits to the bottom line. The Morgan Redwood 2015 research underlines this, with organisations that do pay attention to work-life balance and the wellbeing of their staff gaining 27% higher net earnings per employee than those organisations that do not. So why is it that a lot of organisations don't seem to be getting it right? Is it a lack of focus and care or is it that we're not sure how to get it right so it becomes easier to ignore the problem and focus on what we do know how to fix?

The cost of sickness absence through lost productivity, replacing staff and pressure on those covering for absent colleagues is a continuing concern. In many countries, a lack of work-life balance combined with pressure and stress is having a major impact and is responsible for high rates of sickness absence and poor mental health. In the UK, four in 10 employees are estimated to suffer from some form of mental ill health in any one year, with the forecast set to rise. Dame Sally Davies, the chief medical officer for England, states that there's been a 24% rise in the number of days lost to stress, depression and anxiety since 2009.[1] Estimates suggest that this equates to 70 million working days lost to mental illness, which is a staggering £100bn loss to the UK economy.

IKON IMAGES

Daily pressures

For us to attain a positive work-life balance, we need to personally have the right energy and resilience. That means not only keeping the areas of our work and life in balance, but also keeping ourselves in positive health. Taking the World Health Organization's definition, health is not just the absence of disease or infirmity, but a positive state of complete physical, mental and social wellbeing. A healthy working environment, therefore, is one where there is not only an absence of harmful conditions, but also where there is an abundance of health-promoting ones.

It is also important to not confuse pressure and stress. We all have daily pressures in our lives and working under pressure is an unavoidable occurrence for many of us. Pressure can be what keeps us going and motivates us to do things. It is when we exceed our personal capacity to cope that those pressures can become stressful. The physical impact of stress has proven links to lack of

concentration, low tolerance levels, irritation and poor communication, as well as many other things, including bad decision-making – none of which are good for individuals or conducive for a positive, productive working environment.

The contradiction that organisations need to negotiate is that you can recruit all the top talent in the world, but if you don't have the right policies in place with ways to keep staff happy and support them with their personal wellbeing and life balance, then you are unlikely to hang on to them. When pressure turns into stress, people leave – especially in a more buoyant economy.

So how do we attain such an illusive balance?

As an organisation, you need to get the basics right with your policies and culture. That means clear job roles, defined targets, methods of performance management, review mechanisms, development, reward and recognition, family-friendly policies, teamwork, great communication mechanisms, control on working hours and leaders who genuinely understand and inspire others to perform at the top of their game rather than leaving them in stunned silence or afraid of putting their head above the parapet.

It doesn't end there, as when you have the basics right you need to get your employee engagement and wellbeing strategy right to get you ahead of the game. When you do that, you will be working alongside your employees and supporting them to find their own personal life balance. In return, you will be tapping into the unspoken psychological contract and providing a great place for them to work and perform at their best.

> If you don't have the right policies in place with ways to support staff with personal wellbeing and life balance, you are unlikely to hang on to them

TOP TIPS FOR EMPLOYERS

In the workplace, ensure the demands and pressures are matched to an individual's knowledge and abilities.

Pay attention to working hours and the demands placed on employees.

Have the right policies and culture in place to set the foundation stones.

Develop your leaders with effective skills to support and inspire others.

Support employees with ways for them to be consciously aware of their own balance and wellbeing needs.

A successful balance

With such a list of things to get right, maybe it isn't surprising that a lot of organisations seem to be avoiding the subject. The truth is, when you consider the statistics on ill health and the negative impact it has on individuals and the organisation alike, you can't afford to ignore the topic any longer. Now is the time to assess where you are, establish your organisational baseline and then plan your route map through to a successful balance.

The fundamentals here are what any organisation can consider for employees, but it is also the foundation for each of us to take personal responsibility for our own wellbeing and balance. So whether you are heading up an organisation, a department or looking out for yourself, consider the following:

The foundation for mental wellbeing is to get your essential needs met across all areas of your life. Your essential needs are:

- Being in personal control;
- Feeling safe in your environment and interactions;
- Having good communications and connection to others;
- Being appreciated for your contribution;
- Feeling competent in what you do;
- Having mental stretch and creativity; and
- Having personal space and downtime.

When more than two or three of those essential 'emotional' needs are in levels of dissatisfaction, we start feeling stressed and ultimately depressed, so find your satisfaction levels.

To continue boosting your mental resilience, give your thinking brain a rest and make time for creativity, hobbies, rest and relaxation. Get plenty of sleep as that is when your body and brain regenerate. If you cut back on your sleep you are cutting back on your resilience.

The final pieces in the personal jigsaw are healthy diet and exercise. Keep a focus on the fuel you put into your body to boost your energy. This means a balanced diet; healthy snacks of things such as nuts and protein rather than sugar and biscuits. Cut back on alcohol and caffeine, and drink plenty of water to help flush out the toxins.

Exercise is the best thing for boosting your endorphin levels – your body's natural happy hormone. Find what works for you. It doesn't have to mean an hour in the gym; a good brisk walk will provide many benefits. Do what you can within the boundaries of your current health and plan your way into a resilient future.

Be the best you can be and make the most of every day – you never get it back. Whatever job you do, find ways to support and have a positive impact on others. The benefits are numerous.

TOP TIPS FOR INDIVIDUALS

Find your own balance of time you spend on each area of your life.

Make sure you find time for relaxation and pursuing hobbies.

Get plenty of sleep – it supports your body and mind in rest and recharge.

Switch off from your to-do list and allow yourself to recharge.

Be mindful and fully present in whatever you are doing.

Hone your communication skills and actively listen to others.

Get some exercise, drink plenty of water and make sure you put the right fuel into your body to boost your energy levels.

1 www.gov.uk/government/publications/chief-medical-officer-cmo-annual-report-public-mental-health

Janice Haddon has more than 25 years' experience in strategic and operational human resources and management consultancy. She is a qualified coach and runs a number of businesses, including Morgan Redwood

WALK THE LINE

Tax planning is undoubtedly a treasury issue. Taxes can have a significant impact on cash flow, firm value and reputation. For this reason, tax is an essential part of the ACT's qualifications and assessments. Doug Williamson explains

In a global business it can be easy to pay full tax to several governments on the same income. In order to maximise shareholder wealth, companies, and particularly groups of companies, need to use legitimate tax-planning strategies to avoid paying more tax than they need to pay, or than anyone would expect them to pay.

However, increased criticism of some tax-planning practices underscores the importance of all treasurers knowing enough about tax, in order to find balanced solutions and safeguard the company's reputation.

Reputation is part of value

Commercial firms have a duty to maximise firm value. The firm's reputation contributes to the value. Today, corporate social responsibility (CSR), including paying what is seen to be a fair share of taxes in relevant jurisdictions, is part of that.

Balancing act

In the short term, there may be a perceived divergence of value and CSR considerations. This can lead to conflict between a business and government. There may be a tax reputational risk that ultimately translates into a loss of value for the shareholders.

Come and work here

At the same time, host governments compete with each other to attract inward investment through their national tax policies.

Fair play

It is a well-established principle in tax law that taxpayers are not required to pay the maximum amount of tax possible, and indeed they may legitimately organise their affairs to reduce tax leakage. However, the techniques employed to achieve such tax mitigation are being increasingly closely scrutinised and, particularly if too complex, criticised.

> The hearings we held showed that international companies are able to exploit national and international tax structures to minimise corporation tax on the economic activity they conduct in the UK. The outcome is that they do not pay their fair share.
>
> *UK Public Accounts Committee 2012*

The treasurer must be familiar with the developing concepts and arguments around tax planning, and needs technical knowledge, integrity and business acumen to identify an appropriately balanced response.

IKON IMAGES

Commercial rationale

Good tax planning at its basic level means ensuring that all tax reliefs and claims to which an organisation is entitled are properly made. It can also include structuring commercial transactions so that the tax burden is minimised.

Financially sustainable businesses aim to manage their tax affairs legitimately, with appropriate commercial substance and alignment with their operational objectives. In all cases, the treasurer must be fully aware of the underlying commercial rationale.

Tax residence in the spotlight

Tax is an important part of the ACT's qualifications. For example, a recent assessment question asked about tax residence and tax-planning strategies.

Double fault?

A number of international companies have come under the public spotlight for their taxation strategies that exploit gaps between the tax rules in the different countries in which they operate. These strategies in part focus on the residency rules set out in double tax treaties.

Required:

Briefly state the tax residency rules set out by the OECD and explain how some companies have used these rules to reduce their overall tax liabilities.

CertFin, Corporate Tax, October 2014, Q6 (extracts)

The Examiner reported that this topical tax question was poorly answered: "The results from this question suggest that the majority of candidates chose not to study this part of the course."

The rest of this article sets out a framework for answering these elements of the question. The detail of the response you need to write will of course vary, depending on the level of the qualification you're studying for.

Answer framework

Tax residence

Residence (or non-residence) in a country is important, because local tax authorities typically levy much heavier tax burdens on taxpayers resident within their own jurisdiction.

Multinational businesses can often take advantage of variations in the tax rules in the different countries in which they operate. Companies with operations in a number of countries may therefore be resident in more than one tax jurisdiction, under the respective laws of each country.

OECD tie-breaker

The Organisation for Economic Co-operation and Development (OECD) Model Tax Convention contains a 'tie-breaker' clause that determines a company's residence for tax purposes. This is where effective management and control of the company takes place.

Encouraging trade

Many countries have entered into international tax agreements, based on the OECD Convention, known as 'double tax treaties'. These treaties aim to eliminate double taxation and thereby help to encourage cross-border trade.

Over the line?

International companies have been criticised for exploiting tax residency rules to reduce their overall tax bills, by following the double tax treaty rules to become resident in low-tax countries, and then artificially shifting profits to these low-tax jurisdictions. The Group of Twenty (G20) countries have proposed international action to eliminate this practice.

Intervention

International proposals to eliminate artificial profit shifting are set out in the *Action Plan on Base Erosion and Profit Shifting* 2013, published by the OECD and endorsed by the G20.

The OECD reported:

(1) Fundamental changes are needed to effectively prevent double non-taxation, as well as cases of no or low taxation, associated with practices that artificially segregate taxable income from the activities that generate it.

(2) A realignment of taxation and relevant substance is needed to restore the intended effects and benefits of international standards, which may not have kept pace with changing business models and technological developments.

(3) Multinational enterprises may face significant reputational risk if their effective tax rate is viewed as being too low.

In simple terms, the OECD and the G20 are seeking to neutralise the perceived adverse effects of over-aggressive tax planning.

A game of doubles

Tax and treasury professionals share the challenges and opportunities resulting from very rapid changes in technology, regulation and markets and, in the case of tax, political pressures and related legislation.

...it seems likely that many countries will continue to pursue a domestic agenda of increasing tax revenues from the financial transactions of multinational companies. Treasurers should monitor developments, and be prepared to restructure their operations, in a way that can still support the business, where this is made necessary by the changes afoot.

The Treasurer, *October 2014, page 33*

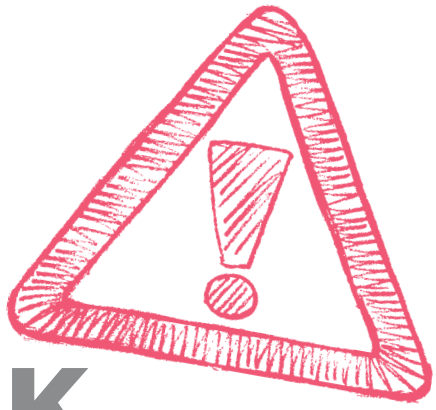
As you step up to senior treasury roles, you will have tax responsibilities and tax specialists reporting to you. Excellent tax awareness is essential for you to serve in these high-level roles.

With many thanks to John Grout for his valued input and advice on this article.

HELP FOR ACT STUDENTS

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

Doug Williamson is a treasury tutor and coach



SOURCES OF RISK

EVALUATING AND MANAGING RISK REQUIRES A SYSTEMATIC APPROACH AND AN ENTERPRISE-WIDE PERSPECTIVE, SAYS SARAH BOYCE

Being in business means taking risks and, while investors accept certain types of risk in order to achieve an appropriate level of return, any organisation will be expected to operate within self-imposed risk-appetite levels. To do this, a company must be able to identify and measure risks, and manage them in a consistent manner.

Identifying and managing financial risks is a core task in treasury, but the treasurer needs to understand how financial risks might arise as a result of the other risks that the organisation faces. This interconnectedness is fundamental and the reason why a treasurer needs a thorough understanding of the organisation in which they operate.

The purpose of any risk classification is to help identify risks. Unidentified risks are inevitably unmanaged and can pose a significant threat. Classifying risk also facilitates consistent treatment of similar risks.

Business risk

While investors expect a company to take business risks, it is the board's role to decide which risks will be accepted in the context of associated returns.

Examples include:

- The introduction of new products or the scrapping of old ones;
- Entry into new, or withdrawal from old, markets;
- Expenditure on R&D;
- Exposure to competition in pricing and products; and
- Acquisitions and divestments.

The impact of business risks on the organisation can be complex and far reaching. A fall in profitability (irrespective of how it arises) may affect whether the company can service debt or make planned investments. The treasurer must understand the factors that drive the company's performance and must assess risk in that context.

SHUTTERSTOCK

Financial risks

Financial risk is the area most familiar to treasury, as this is the 'day job'.

- Financial market risk covers interest rate, FX and commodity risk, and may result in a profit or loss.
- Liquidity risk revolves around the ability to access cash as needed – key to the success of any organisation.
- Credit and counterparty risk is the risk that a counterparty will fail to honour a contract. The deterioration of a company's credit quality is also a form of credit risk as it reduces the organisation's ability to issue debt.
- Leverage is a fundamental financial risk and is driven by corporate strategy; the greater the leverage in an organisation beyond a certain point, the greater the financial risk.

Boundaries between categories can be blurred. For example, liquidity risk can occur if income is not converted to cash, or liquidity needs are greater than anticipated. This suggests that liquidity risk may result from any or all of the other categories of risk and therefore must always be considered alongside these other risks. It is vital that the organisation addresses financial risk in the context of the corporate strategy.

> The treasurer needs to understand how financial risks might arise as a result of the other risks that the organisation faces

OTHER WAYS OF VIEWING RISK

- **Internal versus external risks** – for example, new product development versus legislative change.
- **Committed versus uncommitted risks** – such as contracts or pension payments compared to renegotiation of raw material purchases.
- **Group versus subsidiary risks** – exposures such as FX can be considered at group level, whereas others need to be managed at subsidiary level. In all cases, risks should be identified at the more detailed level of the organisation.
- **Short- versus long-term risks** – so, if cost changes can be passed on to the customer, then input price risk may only require management over a short time. By contrast, companies in a highly competitive environment may find input price increases cannot be passed on and fundamentally erode margins.

Operational risk

Operational risk exists wherever there is a chance that a process, person or system will not produce the expected result. Such risks may be described as 'unrewarded' as there is no upside. Sources include: individual error or fraud; political or regulatory events; and processing and system failures, and treasurers will need contingency plans to manage them.

Treasurers need to identify, measure and manage risk on an enterprise-wide basis and it is always wise to adopt a combination of approaches to minimise the risk of overlooking something.

Sarah Boyce is associate director, policy and technical, at the ACT

ACT

LEADING TREASURY PROFESSIONALS

JOIN US IN LEADING THE FUTURE OF TREASURY PROFESSIONALS

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As the chartered body for treasury, the ACT sets the benchmark for international treasury excellence. Having updated our qualification portfolio, we need new associates for the development and marking of related assessments.

SENIOR ASSESOR

If you have experience of treasury, accounting, tax and regulation and/or have academic experience of writing assessment at different levels, then this opportunity might be for you and we would be delighted to hear from you.

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Knowledge and experience in one or more of the following areas might make you suitable as a Marker:

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- Treasury policy and reporting
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- Corporate Finance
- Cash Management
- Risk Management

Deadline for applications - 23 October 2015

Interviews take place - October and November 2015

Full briefing and training day for appointed persons - 10 March 2016

We look forward to hearing fom you

For more information and to apply please visit

treasurers.org/jointheteam

THE BODY CORPORATE

Mr Treasurer learns a lesson at the local school's careers day

Mr Treasurer was feeling extremely proud. He had been invited to talk at St Fagan's Comprehensive School careers day, addressing Year 11 students about the ways of treasury and its appeal as a profession for bright young people.

To get into the spirit of it all, he put on his old school tie – Adam Smith Grammar – and strode off.

When he arrived at St Fagan's, he was directed to the biology room where his audience awaited. Three pupils sat slouching in the front row of desks, while a Mr Grimsby slouched at the back.

"Shall we, um, wait a moment for the others?" Mr Treasurer gently enquired.

"I think, perhaps, we ought to just get on with it," said Mr Grimsby. "Any others –" (did he say that word sarcastically?) "– can slip in quietly, I'm sure."

"Right, then. The world of corporate treasury..." began Mr Treasurer. But he was immediately interrupted by one of the slouching youths.

"Sir, is that an Adam Smith Grammar School tie you're wearing?" he asked.

"Why, yes. Yes it is!" said Mr Treasurer.

"We hate Adam Smith Grammar around here," said the youth. "All posh and no spice." And the other two boys howled with glee.

"Spitalfield!" admonished Mr Grimsby. "Do not be rude to our guest. He's doing his best."

"Um, yes, well, as I was saying..." and at this point Mr Treasurer spotted a skeleton at the back of the biology room. And he did what he knew he must never, ever do: he went off script.

"Treasury is like a skeleton," he began afresh. "It holds the whole of the human body together. Without it, all the skin and organs would collapse in a useless heap. And so, too, would any business without its treasury."

Spitalfield raised his hand. "What's the circulation system, then, Sir?" he asked.

"Yes, well, treasury is like the circulation system, too: pumping cash to and from all the parts of the business. The lifeblood of the organisation is cash." Mr Treasurer was starting to enjoy this.

"And the central nervous system?" asked Spitalfield.

"Absolutely!" Spitalfield's attempts to be impertinent were actually doing nothing but helping Mr Treasurer embellish his speech. "Treasury has to communicate with the whole business and has a hotline to the corporate 'command and control' centre," he said, tapping the side of his head. "So..."

"So treasury is like a skeleton *and* the circulation system *and* the central nervous system," said Spitalfield, who had obviously learned his talent for sarcasm from Mr Grimsby.

Suddenly, Mr Treasurer could sense a trap coming. "What about the spleen, Sir?" asked Spitalfield, and his two young henchmen were beside themselves with joy. "Is the spleen like treasury?"

"I, uh, well, that is to say..." stammered Mr Treasurer. "I'm not entirely sure I know what the spleen actually does," though he felt like venting his right now.

"Ah, then it must be like treasury, too," said Spitalfield. "'Cos *no one* knows what the flippin' spleen does, either!"

"Thank you, Mr Treasurer, for a most enlightening talk," said Mr Grimsby, suddenly standing up and bringing the whole mortifying shambles to a premature close.

Mr Treasurer had taken a thorough dislike to young Spitalfield, but he had learned a lesson on careers day. The inner workings of treasury are probably not readily explained by off-the-cuff analogies.

ILLUSTRATION: IAN DICKS

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

IN THIS ISSUE:

The highlights of the October 2015 issue of *The Treasurer* include: Discover how corruption affects the treasury profession, and what you can do to avoid it, on page 22. Telefónica's Ronan Dunne tells us about his career progression from treasurer to CEO, on page 26. Gain insight into how repo markets can provide a safe, liquid haven for companies' surplus cash, on page 32. A new generation of automation apps is available to help treasurers work more efficiently. See page 42. Find out how to create the ideal work-life balance, on page 44

GRADUATE DEMAND IS HIGHER THAN EVER.

Over the last few months, MP Treasury has seen a drastic demand for graduates with roles opening up in a number of companies, including your FTSE 100, 250 & Fortune 500 organisations. Why is this? In this article we explore the impact a graduate can have on your business, along with an overview of what we do to bring you the very best graduates.

Since 2000, Michael Page Treasury has been at the forefront of treasury recruitment, building strong working relationships with clients globally. We have achieved this through an understanding of our clients' needs and using that knowledge to find the perfect candidate.

What impact can a graduate have on your Treasury team?

We spent some time speaking with our clients with the aim to understand what values a graduate brought to their teams, below is what we found to be the most common;

- Loyalty
- Eagerness to learn
- A positive and open minded approach to their role
- Developing a team for the future
- Affordability

How do we do find the right graduate for you?

Using a plethora of online advertising platforms, tailored to graduate recruitment, we use our brand name to attract the top talent. We then filter this candidate pool based on;

- Strong GCSE / A level academics
- Finance & Accounting, Economics or Maths related degrees
- Minimum of a 2:1 Bachelors Degree at top 50 ranked University
- Completion of Masters Degree desirable
- Work experience throughout University in Finance related role is a plus

Having compiled the top graduates, a formatted CV would be constructed for each individual and sent to the client with academic references.

If you are interested in adding a recent graduate to your team, or you have any other hiring needs, please contact Jessica Timelin at Michael Page Treasury at jessicatimelin@michaelpage.com or call 020 7269 2474.

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