# 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

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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.

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