BREXIT – WHAT NOW?
Collate Analyse Distil – a post-referendum toolkit

CAREER SUPPLEMENT
How to manage treasury teams that span the globe

FINANCE IN THE PUBLIC EYE
Corporates can ill afford to ignore reputational issues

The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ SEPTEMBER 2016

Treasurers reveal how they assess 21st-century risk

PLUS

WINNY LI
Senior director of treasury at PPD has her say on corporate finance strategy

ACT
LEADING TREASURY PROFESSIONALS

Editor's letter

There can be little argument that we have had to adjust the lens through which we view the world over the past few years.

The vote for the UK to leave the EU, the refugee crisis caused by the war in Syria, the upcoming presidential vote in the US – nations and intra-country groups cannot escape their political trends or events any more than they can escape their weather systems. These factors can and do contribute to a sense that the world is a riskier, more volatile place than before, and that sudden turnabouts can translate into market shocks.

How long a tail those events then turn out to have is a matter of speculation. There are already signs that markets are settling in the wake of the UK referendum, as even the gloomiest commentators understood they would. Whatever the geopolitical climate, markets, investors, corporates and their treasurers have to find a way through.

Our lead feature, by business journalist James Ashton, looks at recent events on the world stage, underlying fundamentals and their implications for corporate treasurers. The task for treasurers remains ensuring that their organisations are equipped for a predictable level of shock. Turn to page 18 for his findings.

The Brexit vote has washed in a tide of questions about the future, many of which were examined in the ACT webinar 'Brexit: what now?' Some of those broader questions will no doubt be subject to protracted debate. In the meantime, there is much that can be done in the way of assessing counterparty risk, covenants and banking arrangements. Our coverage of the webinar begins on page 48.

With this issue, you will have received *Ones to Watch 2016*, our showcase of high flyers in the treasury world. In a special section starting on page 27 of *The Treasurer*, we look more widely at career issues, including journalist Rebecca Brace's examination of the issues facing cross-border teams on page 28, and the ACT's Vanessa Harwood-Whitcher's explanation of how managers can address skills gaps, on page 32.

Elsewhere in this issue, we look at fundraising and the impact reputation and public sentiment can have on sourcing cash. Business risk analyst Nick Hood writes about the funding obstacle course on page 38, and treasurer Sam Story looks at a very specific financing task on page 46 – finding the backers for Africa's growing network of mobile towers.

I hope you enjoy the issue.

Liz Loxton

editor@treasurers.org
Follow us on Twitter @thetreasurermag

THIS MONTH'S CONTRIBUTORS

Michelle Perry is a freelance business and finance journalist. She is the former editor of *CFOWorld* magazine and a former features editor of *Accountancy Age*. She tweets @MichellePEditor and her profile of PPD director of treasury Winny Li is on page 22

Gillian Karran-Cumberlege leads Fidelio Partners Board Development and Executive Search Consultancy, helping corporates build effective leadership teams. Her feature on board aspirations is on page 34

Sam Story works as a treasurer at Eaton Towers where he manages lender relationships and optimises the capital structure of operating companies active in mobile communications in Africa. His feature on those funding activities is on page 46

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IGTA

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

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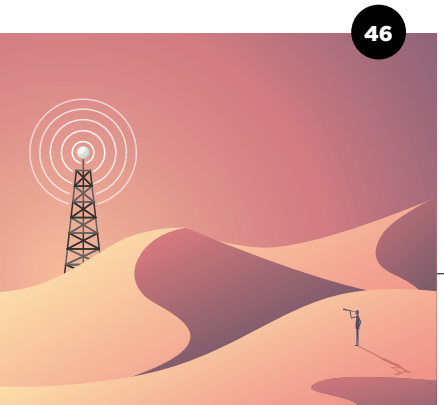
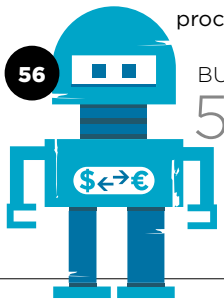


22 "My training has been very much finance focused from the start"

Winny Li, senior director of treasury at PPD



Agenda

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

{ CONTEXT OF TREASURY }

EU BANKS TEST POSITIVE FOR RESILIENCE, REGULATOR FINDS

The European Banking Authority (EBA) published the results of its EU-wide stress test of 51 banks last month. The results showed significant improvements in the collective capital base of major European banks. The sample demonstrated a 13.2% CET1 (common equity tier 1) ratio at the end of 2015, 200 bps higher than 2014's stress test results and 400 bps higher than those for 2011.

The stress test, which rests on a hypothetical adverse scenario applied by the EBA, modelled banks' resilience against a low growth period. The regulator assessed the banks against a three-year outlook with imagined real GDP growth rates of -1.2%, -1.3% and 0.7%.

Although some individual banks in the sample fared badly, the EBA found that Europe's banks overall would prove resilient in the face of a crisis of that magnitude.

Unlike previous iterations, the 2016 EU stress test does not include a pass or fail threshold, but the intention is to feed results into the supervisory process this year. "As the stress test has a range of constraints designed to ensure comparability and consistency, supervisors will assess mitigating management actions before deciding on the appropriate supervisory action," the regulator said.

Some commentators have suggested that the stress tests are not comprehensive. David Strachan, partner and head of Deloitte's EMEA Centre for Regulatory Strategy, said: "The headline results on capital ratios are better than what might have been expected, reinforcing greater steps towards bank resilience the sector as a whole has taken.

"The results on profitability are, though, notable," he continued. "The average return on regulatory capital was low, and might have been lower still if the stress scenario had reflected the low or negative interest rate environment some economists are now predicting."

Miles Kennedy, financial services partner at PwC, said: "These are tests of solvency, not of economic viability. The test of long-term viability is whether banks can generate sufficient returns to cover all their costs, including capital costs."

WORDS

"With treasury you can add significant value to an organisation. You can influence the board and help to make decisions on corporate M&A, and corporate structure and strategy."

Winny Li, senior director of treasury at PPD, talks about the standing and influence of treasurers in their organisations. See page 22 for more

{ CORPORATE FINANCIAL MANAGEMENT }

Regulator steps in to open up banking for SMEs

The UK's Competition and Markets Authority (CMA) has said that UK banks are providing insufficient information about their services to SMEs, denying them the ability to make informed decisions on whether or not to remain in current banking relationships. The regulator has unveiled a series of measures that it says it will impose on banks in order to open up the UK banking system for SMEs.

The report, *Making Banks Work Harder for You*, highlights limitations in the banking system's current customer service approach and outlines steps designed to address what it says is a lack of information and logistical help of the sort that would make it easier for firms to switch accounts.

It also points out, "many [firms] believe that staying loyal to their bank will be an advantage as and when they need lending. It can be time-consuming to open a bank account and small businesses are understandably concerned that by switching accounts, payments might go astray."

The CMA's main concerns focus upon a shortfall of unbiased material and helpful notifications that would help SMEs to shop around for better deals. In its assessment, current accounts have complex charging structures, and customers generally know very little about the charges and service quality provided by other banks. As such, it is hard for customers to know whether they could obtain better value and service from another bank, or a different product with the same bank.

Charging structures for overdrafts are particularly complex, making it even harder to compare providers. Customers fear that if they switch, they may not be able to get the same overdraft from their new bank.

Banks will be required to publish more objective and trustworthy details about their services, plus 'prompt' clients about critical changes, such as charge increases or branch closures. In parallel, the CMA is backing innovation charity NESTA's launch of a special challenge prize for the development and delivery of cutting-edge banking comparison tools for business clients.

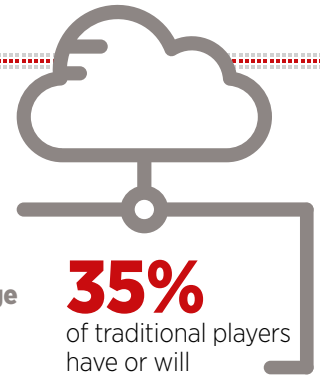
{ FINDINGS FROM *PAYMENTS IN THE WILD TECH WORLD*, PwC'S GLOBAL FINTECH SURVEY 2016 }

87%
of payments companies believe some part of their operation is at risk from fintech

84%
have fintech written into their strategy to some extent

28%
of incumbent operations could be lost by 2020

4%
of payments companies don't yet engage with fintech



35%
of traditional players have or will launch their own fintech subsidiaries

{ CONTEXT OF TREASURY }

Majority of payments firms fear fintech erosion

Fintechs have the capability to 'significantly disrupt' the payments industry, according to a report from PwC. Researchers found that 87% of the incumbent payments industry fear they will lose business to a wave of agile, new operators.

Published last month, *Payments in the Wild Tech World* states that, by 2020, non-cash transactions will have grown by 69% over 2013 levels, with the EU in particular stimulating that growth via the Payments Service Directive 2 legislation.

Fintech companies have already sprung up to leverage alternative business models that will complement existing payments practices – meanwhile, mobile wallets are proliferating as solutions for the unbanked. Those trends, says the report, are driving the growth of value-added offerings and new revenue streams that are beginning to differentiate payments-focused fintechs from traditional competitors.

Some payments players who responded to PwC's survey of payments players in 46 countries said that they could lose as much as 60% of their business by 2020.

As such, 35% of established providers are planning to launch their own fintech subsidiaries to embrace the disruption. One key area of push-pull tension that respondents flagged up is the need to provide frictionless transactions while preventing fraud and cybercrime – an area on which nimble fintechs are well placed to capitalise.

Reassuringly for payments firms, the figures show that they are meeting the fintech challenge with a high level of awareness. "Only 4% of payments companies do not engage with fintech at all," says the report.

GETTY

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"We have a huge amount of evidence on monetary easing and I can't think of one bit of it that shows it is bad for confidence."

Deputy governor of the Bank of England Ben Broadbent (pictured above) refutes the notion that interest rate cutting and quantitative easing send out messages of panic.

SOURCE: BLOOMBERG, 5 AUGUST 2016

"It is not certain that it would be a good idea to let a big country into this organisation. It would shift the balance, which is not necessarily in Norway's interests."

Norway's European affairs minister, Elisabeth Vik Aspaker, is lukewarm about a potential UK entry into the European Free Trade Association.

SOURCE: *THE INDEPENDENT*, 9 AUGUST 2016

{ AWARDS }

Deals of the Year

This year will be a notable one for the ACT's Deals of the Year Awards, marking 20 years of this celebration of treasury achievement.

Over the two decades that the ACT has run the awards, deal size and structure have evolved. Where equity was once a heavy component, debt and other structures have assumed more importance. For the past 10 years, the awards have also included opportunities to enter teams, giving the industry an opportunity to applaud whole teams and their treasury initiatives. What distinguishes Deals of the Year is its commitment to high standards.

As Colin Tyler, ACT CEO, says: "What sets these awards apart is the substantive evaluation and solid judging process."

Watch this space for more on how to enter.

85%
– the proportion of British pension funds covered by the Pension Protection Fund that are in deficit, a cumulative deficit of £408bn

18%
– the increase in foreign visitors to the UK in the month after the Brexit vote, prompted by the sharp fall in sterling, according to the UK Tourism Alliance

$50bn
– the amount investors have pumped into commodities this year, according to data compiled by Barclays

$77m
– the amount London's night-time tube service could add to the capital's economy, according to London First, a business membership organisation

25
– the amount of hours per week UK adults say they spend online, up from nine hours in 2005, according to data from Ofcom

4.9%
– the unemployment rate in the UK for the three months to June, according to the Office for National Statistics. The figure represents an 11-year low

{ AROUND THE WORLD IN 30 DAYS }

QE, ITALY, EMERGING MARKETS

Central bank's QE falters, then recovers

The Bank of England's latest quantitative easing (QE) programme hit difficulties last month when an attempt to buy more than £1bn in long-dated bonds fell short by £52m.

A second attempt fared better, when the bank received offers more than two and a half times the amount it sought.

The central bank's plan to address a weakening UK economy in the wake of the vote to leave the EU went awry on its second day, when the bank failed to find sufficient sellers of bonds in the first daily shortfall since QE began in 2009.

Along with the first cut to interest rates since 2009, the bank has said it intends to buy £60bn in government bonds and up to £10bn in corporate bonds over the next 18 months.

Italy's slowing economy hits eurozone

Figures showing flat GDP in Italy put paid to expectations of a continued growth streak for the eurozone's third largest economy.

Italy's statistical agency, Istat, released a flat reading for the second quarter of 2016, calling a halt on five quarters of growth and missing economic forecasts of a 0.2% gain. Italy's slowing growth also caused a drag on the eurozone's performance as a whole, which grew 0.3% for the quarter.

Lower domestic demand will put pressure on Italy's banking sector, making it more difficult for them to address the issue of non-performing loans (NPLs) accumulating on their balance sheets. Concerns remain that it will be left to Italy's government to inject funds into the country's financial institutions. Collectively, Italy's banks face €360bn in gross NPLs, according to the *Financial Times*, including around €200bn in bad debts.

Emerging markets rally

The tide of investor market sentiment towards emerging markets appears to be turning, with capital flows rising strongly over the past six months.

According to reports from Bloomberg, a record $18bn was added to emerging market bond funds in the six weeks to mid-August. Central banks are taking advantage of the rally, using stronger exchange rates to restock foreign reserves previously used to stem currency declines.

SHUTTERSTOCK

Shopping area in Italy's Milan

{ CONTEXT OF TREASURY }

MIXED PICTURE FOR INDIAN DEAL ACTIVITY

Dealmakers in India experienced fluctuating activity in the first half of 2016 in the face of continued uncertainty on the global economic stage.

According to analysis carried out by accountants Grant Thornton, domestic M&A activity in India saw a 12% year-on-year increase in the first half of 2016, with 259 deals at a combined value of $15.7bn.

The *India Watch* report cited a fall in the number of cross-border deals, however, with the first fall in the number of inbound deals for five years.

The first half of 2016 saw only 44 deals worth $3.9bn compared with 60 deals valued at $5.7bn for the same period last year.

While India's corporate sector felt the effects of diminished demand from global investors, the increase in outbound deals indicated strong sentiment on the part of Indian investors to benefit from wider opportunities. Outbound deals increased in value from $1.6bn to $3.1bn.

The findings suggest that optimism in India's economy may be well placed. In spite of challenges such as high inflation, a decline in capital expenditure and a delayed monsoon season that could inflict damage on the agricultural sector with strong knock-on effects, India looks set to meet its growth target of 7.4% this year, according to the report's authors.

"There are high expectations for strong business performance and investor interest," said Anuj Chande, head of South Asia group at Grant Thornton UK. "An uptick in private investments, deleveraging by indebted Indian corporates and consolidation resulting from the impending passage of the Goods and Services Tax Act should see an increase in the number of deals in the second half of the year."

MAKING THE NEWS

Japanese cabinet approves stimulus measures

Japan's prime minister, Shinzō Abe, unveiled a ¥28 trillion package designed to kick-start a recovery in the world's third largest economy. The measures, only a quarter of which represent new funding, include ¥7.5 trillion for national and local governments over the next two years for welfare and infrastructure. It also includes funds earmarked for the reconstruction of parts of northeastern Japan devastated by the 2011 earthquake and tsunami.

The stimulus package will be included in a supplementary budget, to be announced this month. The Bank of Japan has eased monetary policy and has said that it will also review its stimulus programme in September.

IMF warns on shadow banking in China

In its annual review of China's economy, the International Monetary Fund (IMF) has warned that almost half of banking products offered outside the formal banking sector carry an 'elevated' risk.

Shinzō Abe, prime minister of Japan

The combined total of products generated by the shadow-banking sector amounts to around 30% of GDP or RMB 19 trillion, according to the IMF's estimates.

By recording a range of products from interbank transactions to wealth-management products off-balance sheet or classifying them as investments, banks are able to make smaller provision against bad debt.

The IMF also issued a warning on corporate debt, now at 145% of GDP and growing fast. And it has warned that China needs to rein in budgets and revise unsustainable growth estimates. China's economy grew by 6.7% over the second quarter.

New chief economist at World Bank

The World Bank has a new chief economist, Paul Romer. Romer, who replaces Kaushik Basu, is currently a professor at New York University's business school, where he is head of an urbanisation institute.

He is best known for developing the idea of 'charter cities' – a means of encouraging developing countries to create urban centres as proving grounds, capable of introducing experimental economic and political reforms. He also holds that investing in human capital and ideas are key ways of driving economic growth. In addition to lecturing, Romer is an entrepreneur and website developer.

THE STATS

{ KEY FINDINGS OF AN AMERICAN EXPRESS TERMS OF TRADE SURVEY }

82% of UK companies expect to see an increase in trade with the US over the next five years

77% of European firms share that optimism

41% of companies globally cited FX volatility as the biggest barrier to trade with the US

30% of UK companies said lack of market knowledge was a significant obstacle to trade with the US

14% cited trade regulation as a pain point

{ TREASURY OPERATIONS }

NEW BLOCKCHAIN TOOL FOR TRADE FINANCE DEALS

A blockchain-based support tool for global trade finance deals has been created in a joint innovation project between HSBC, Bank of America Merrill Lynch and the Infocomm Development Authority (IDA) of Singapore.

Currently a prototype, the tool simulates a paper-intensive letter-of-credit (LC) transaction using distributed ledger technology to share data between exporters, importers and their respective banks.

The idea behind the concept is that the private, shared ledger enables all the parties to execute trade deals automatically through a series of digital contracts.

Importers create an LC application for the importer bank to review and store the application on the blockchain. The importer bank can then approve or reject it based on the data provided. Once that stage has been reached, the exporter bank can also access the letter and go through a review process. If approved, it can view the requirements and complete the shipment, as well as add invoice and export application data. It can also attach image files of supporting documentation.

Once validated, those documents are stored on the blockchain. The importer bank can review these and, once approved, the LC either goes straight to completed status, or is sent to the importer for settlement.

The consortium says its proof-of-concept tool has opened the way for security improvements, error reduction and increased convenience by making working capital more predictable for participating companies.

Vivek Ramachandran, global product head of HSBC's trade finance division, said: "It's really exciting to have a valid proof of concept. LCs are an important part of the trade system, but they are based on 20th-century technology – not 21st. Our challenge is to take this from concept to commercial use, making it quicker and easier for businesses to connect with new suppliers and customers."

Khoong Hock Yun, assistant CEO of IDA Singapore's Development Group, added: "An LC conducted on blockchain enables greater efficiencies and visibility in trade finance processes, benefiting multiple parties across the value chain."

BREXIT, MMFs AND BEPS

Brexit remains the cause of uncertainty, but the UK now has a new prime minister, and the mire of regulation is becoming clearer. Although seemingly counterproductive (see www.bbc.com/news/uk-politics-eu-referendum-36678222 as to how difficult the technicalities can become), EU politicians are beginning to understand what they need to address in order to enable an orderly exit. The ACT will be taking the lead to ensure that regulators and policymakers understand the real economy requirements so that growth can be delivered post-Brexit. Also, as part of our remit is to provide informed and unbiased technical advice, we will continue to produce resources and give support to our members and the wider financial community. (See www.treasurers.org/brexit)

We are also finalising our response on UK base erosion and profit shifting, and

{ IN DEPTH }

Work continues on EU regulations

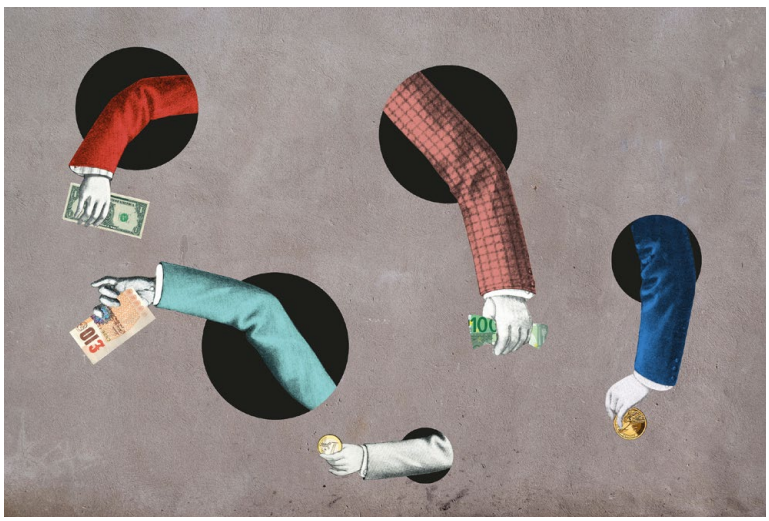
It is tempting to focus on the Brexit process, but there are other regulations that continue their progress through the EU institutions and require our attention.

Securitisation

This leg of the EU Capital Markets Union (CMU) will affect members engaged in arranging and packaging debt for sale. Long popular with credit cards and vehicle loans, the expectation was that the practice of securitisation would continue with one substantial change, which was that the selling promoter would be required to retain 10% of the debt in order to avoid the pre-2008 problem of risk being completely transferred to debt investors, who are too removed from the underlying trade that gives rise to the debt.

At the time of writing, we are monitoring the progress of regulations through a trialogue: the discussion between the Council of Ministers, the Commission and the Parliament to hammer out a final form of wording following each delivering its preferred form.

Any input from members on the effect these proposed securitisation changes would have on their business would be appreciated, and will be fed into the debate.



IKON IMAGES

MMFs: EU and US

The EU money market fund (MMF) regulations are also entering into their trialogue.

We expect this process to continue into autumn 2016 under the Slovak Presidency, and indications are that we are heading for variable net asset value (VNAV) and low volatility net asset value (LVNAV) funds with redemption gates and fees, and external credit ratings.

Members using MMFs in the EU will need to consider that this formalises the possibility of redemption gates being used to stop runs on funds, and of redemption fees to repair fund losses, as well as variable fund values in the normal ebb and flow of markets. These events are less likely following the slew of regulation post-2008, but these controls on redemption will be there to be used in the event of material movements in the values of financial assets. Fund managers cannot rely on fund promoters to top up losses as occurred early in the global financial crisis before those promoters realised the depth of their own balance-sheet problems.

We have the recent temporary closing of open-ended property funds to illustrate the problem. There can be a point of liquidity collapse and uncertainty in any market, at which time fund managers need to react to consider the benefit of all investors.

Additionally, the proposed five-year sunset clause for LVNAV funds has been downgraded to 'review after five years'. The EU changes are expected to be phased in over two to three years. The US is implementing a similar VNAV/LVNAV structure and this becomes effective from 20 October 2016.

VNAVs are intrinsic to MMFs and whether documented or not, redeeming less than 100% was always a risk. Gates will make redemption uncertain as to timing as well as value.

Coming on the heels of the effect of CRD IV for the EU on bank deposits, members will need to think carefully as how best to manage surplus funds, and how to ensure that board-driven treasury policies recognise the risk of holding cash relative to the risk of being able to borrow when required.

This is, of course, of little comfort to members whose employers have a structural, or even a regulatory requirement, to hold cash imposed on them.

For the Brexiteers, consider that the UK is unlikely to stray too far from the EU and US models, as the UK endeavours to negotiate new treaties and retain equivalence with the major financial centres.

we monitor the development of EU money market funds (MMFs) legislation as we approach implementation of new US MMF rules on 20 October. Finally, we are following the regulatory developments in pooling and netting, particularly those emerging in the US.

If you have views you'd like to share with us in response to any of these subjects or have your own submission on these or other topics, please email us at technical@treasurers.org

Steve Baseby is ACT associate policy and technical director
@BasebyStephen

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

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

{ INTERNATIONAL }

FOREX VOLATILITY TO CONTINUE?

The Brexit vote was a shock for so many. The GBP movement was not as great as had been predicted by the gloomier pundits, but the changes have settled at just under 1.2 EUR:GBP, and around 1.30 US:GBP at time of writing. Now begins the hard work of understanding just where in your networks of suppliers and customers, and their suppliers and customers, the impact will be felt.

Perhaps now is the time to focus on the world beyond GBP. Attention is turning to the US election as the Republican delegates endorse Trump as their candidate, and Governor Yellen endeavours to manage rate-rise expectations. A surf of the internet shows calls for a stronger US dollar on the back of expected rate rises, but the effect of a Trump victory must remain a known unknown until 8 November, when the US votes and the winner starts the process of forming a government to take over in January.

In Europe we continue to have: an acting prime minister in Spain; Italian prime minister Matteo Renzi about to throw himself into the uncertainty of an Italian referendum on reform; and French politicians, and at least one non-politician in Emmanuel Macron, manoeuvring to run for president. Separatist movements abound, including Scotland, which may prefer to get into the EU as England, Wales and Northern Ireland depart.

SHUTTERSTOCK

Now is the time to get close to your business models to try and work out where that foreign exposure could emerge.

{ WATCH THIS SPACE }

Where does corporate tax go after BEPS?

Base erosion and profit shifting (BEPS) is beginning to be introduced among the G20 members.

The UK government is to adopt a cap on interest deductions at 30% of EBITDA and seeks responses on the post-2016 Budget drafting; the ACT responded by the 4 August deadline to the consultation paper circulated in May (see www.gov.uk/government/consultations/tax-deductibility-of-corporate-interest-expense), which foresees implementation in 2017.

The US is approaching BEPS through rules on the use of inversions: the ability of US multinationals to change their tax domicile by declaring it to be in another country where the business has activity.

Meanwhile, the thinkers behind the development of tax systems are considering the next step. Corporation tax is a small part of the government's tax take, often acknowledged as double taxation, but socially difficult to retreat from in Western societies, where individuals see corporates as separate 'things' in their society and not simply as the agent between employees and investors.

SHUTTERSTOCK

The next big idea being aired is an extension of tax based on sales. This is attractive to nations that have material external current account deficits: they are homes to sales unsupported by the taxing opportunities of production.

Perhaps we should not be surprised that EU governments are taking an interest in the extension of country-by-country reporting by business, which would lay the foundation for such a change.

{ TECHNICAL ROUND-UP }

Market Abuse Regulation (MAR)

The new regulations came into force on 3 July 2016 and extend to debt issued on multilateral trading facilities, as well as those listed on regulated markets. (See www.the-fca.org.uk/markets/market-abuse/regulation)

MAR impacts on corporate debt issuers, who are required to ensure that all inside information is disclosed to the public as soon as possible. Failure to comply exposes members to civil offences.

Correspondent banking

Through correspondent banking relationships, banks can access financial services in different jurisdictions and provide cross-border payment services, so supporting international trade. In view of the importance of correspondent banking, the Band for International Settlements Committee on Payments and Market Infrastructures has issued a report on correspondent banking. (See www.bis.org/cpmi/publ/d147.pdf)

The report provides some basic definitions, outlines the main types of correspondent banking arrangement and summarises recent developments. It then develops recommendations on measures including KYC; the use of the legal entity identifier in correspondent banking; and information-sharing initiatives.

GRAEME GILBERT,
DEPUTY GROUP TREASURER, MARKS AND SPENCER

How did you get into treasury?
I fell into it; I began my career training as an accountant. Once qualified, I moved to RBS as a relationship manager and completed my AMCT exams. After a couple of years on the banking side, I moved to the corporate side as a treasury analyst for Cable & Wireless.

What do you like about treasury?
Whether you are renewing facilities, debt financing, supporting the business locally or internationally, or just keeping up with regulatory change, there is always something new to get involved in.

What's the best thing about being a treasurer?
It gives you the opportunity to work for a variety of companies and challenge yourself. I continue to learn new things on the job.

What's the best thing about being a member of the ACT?
The close network of fellow professionals you meet and can reach out to.

Which ACT qualifications do you hold?
MCT.

How has your qualification benefited you in your career so far?
It has certainly provided the platform for me to progress to my current deputy treasurer role. But you can't beat the work experience gained in my various roles.

What's the most important lesson that you've learned during your career?
You never know what will happen in the next year, so you need to work hard and stay connected with other treasurers.

What would be your best piece of advice to someone else considering a career in treasury?
Do your exams early before kids come along. Enjoy and learn from the variety of work you get involved in.

What's your ultimate career goal?
Group treasurer!

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

ACT DIARY DATES

TRAINING, EVENTS & WEBINARS

TRAINING COURSE DATES

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

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

20-21 September, London
Treasury systems
Find out how to identify treasury technology needs, and select and implement the required treasury management system.

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

14-18 November, London
A-Z of corporate treasury
An intensive five-day overview of treasury management, perfect for new entrants to the profession, bankers and those working alongside treasury. Learn about corporate treasury within the context of international markets, and build a deep insight into the core areas and how they function as a whole through a mix of theory and practical application.

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ACT EVENTS

21 September, Hong Kong
Asia Treasury Leaders' Forum
Join more than 200 treasury and finance professionals from across Asia to discover the latest developments in treasury tools, tactics and strategy. As the only conference of its kind in the region to bring together working treasurers, experts from the financial services industry, policymakers and the Hong Kong Monetary Authority, it is the perfect meeting place to share knowledge and best practice, and build your professional network.
www.treasurers.org/asia2016

4 October, London
Technology Risk and Smart Treasury Forum
The ACT's launch event focused on the impact of new technology on treasury strategy and risk. An afternoon of strategic conversations about how changes in technology are driving changes in relationships with customers, supply chain, banks, treasury management system providers, C-suite, enterprise-wide link-up, teams and talent. Through a series of high-level roundtables, a group of senior finance professionals will meet to gain an overview of, and a voice in, the strategic risks and opportunities in an increasingly digitised business environment.
www.treasurers.org/technology

24-25 October, Dubai
ACT Middle East Annual Summit
Now in its seventh year, the ACT Middle East Annual Summit is the largest and most popular treasury event in the Gulf Cooperation Council. Uniting the region's leading corporates, you can expect to meet more than 450 treasury and finance professionals, hear from over 40 speakers, and talk business with more than 20 leading product and service providers.
www.treasurers.org/middleeastannualsummit

9 November, London
ACT Treasury Forum
In partnership with HSBC, through a combination of keynotes, panel discussions and roundtables, delegates will discuss the impacts of political risk and technological evolution to consider how the form and size of the treasurer's world is changing and what that means for business. This is an invitation-only event for senior corporate treasurers.
www.treasurers.org/treasuryforum

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

22 November, London
ACT Working Capital Conference
Efficient and careful management of working capital is crucial to the survival and growth of businesses, and this conference will delve into current trends, best practice and industry-specific case studies. Join us to get a broad and holistic view of managing your working capital.
www.treasurers.org/workingcapital

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{ TRADE NEGOTIATIONS }

JEREMY WARNER

The post-referendum British government is set on pursuing new bilateral agreements, but may not have enough trained go-betweens

"Brexit means Brexit", Theresa May, the new British Prime Minister, has repeatedly said in order to reassure Leave campaigners that she is not about to row back on the referendum decision. In itself, however, the new mantra is a fairly meaningless commitment, for Brexit could take many different forms.

Yet one thing seems fairly clear: whichever path Britain chooses – whether it is a hard exit with the UK leaving Europe's single market altogether, or a soft divorce by which Britain ends up much like Norway as a member of the European Economic Area (EEA), trade policy will once again become a matter for sovereign determination. Even as a member of the EEA, Britain would be free to negotiate its own trade deals with the rest of the world.

Brexiteers have promoted this freedom as one of the big benefits of leaving the EU, whose bureaucratic ways have so far secured relatively few trade deals.

Negotiating on behalf of 28 nations, each with its own specific economic interests, and then reconciling them into a single purpose that everyone is happy with, is a tough old, slow-moving business – one that frequently ends up satisfying no one.

In any case, most EU trade deals don't properly cover the sort of high value-added service industries that Britain is strong in – particularly financial, business and legal services.

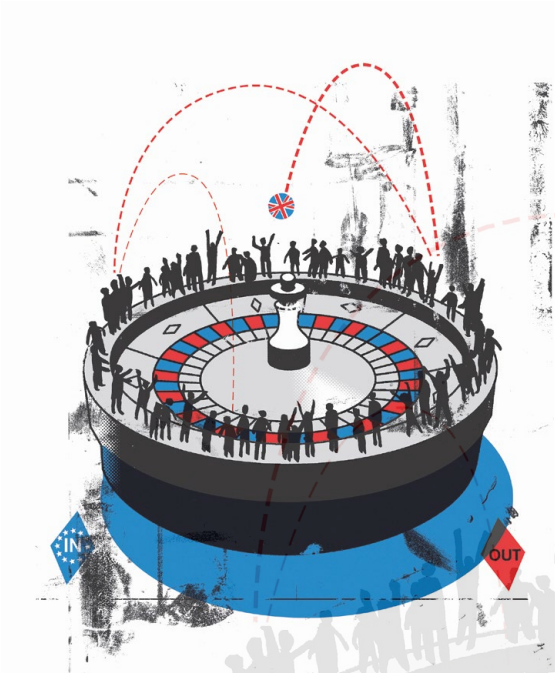
But what, realistically, are the chances of cutting better agreements once Britain is free to do it by itself?

After 43 years of contracting out trade policy to the EU, the UK has lost virtually all of its independent trade negotiating skills. The new trade department promises to recruit at least 300 negotiators in short order, but people with such specialist legal expertise don't come cheap, and most trade experts say it won't be nearly enough.

As a starting point, the UK would hope simply to transfer all the EU's current trading arrangements with the rest of the world to itself – a so-called 'delete and replace' process. Unfortunately, it is not as simple as that. All these agreements, including default position World Trade Organization trading arrangements with the EU, are agreed on the basis of access to a single market of more than 500 million citizens. In reaching new, bilateral arrangements with a smaller economy, many counterparties will want and expect a better deal. A simple delete and replace exercise is not going to be possible in some instances.

What's more, the number of countries interested in securing genuine free trade agreements (FTAs) with the UK are relatively few, and are in any case largely confined to the so-called 'Anglosphere': Australia, New Zealand, Canada and so on.

Donald Trump, the Republican nominee for US president, has said he is not interested in trade deals that don't put America first. Under his presidency, both the Trans-Pacific Partnership, which is meant to bring about free trade between the US and the Pacific Rim countries, and the Transatlantic Trade and Investment Partnership with the EU, would be ditched.



IKON IMAGES

It's not clear that Britain would be able to secure better treatment from the US, even under a Clinton presidency. We seem to be heading into a world of greater protectionism, not more trade liberalisation.

The brutal truth is that the FTAs that have most impact in terms of trade and investment flows are those between geographically proximate partners. The most important of these are the North American Free Trade Agreement and the EU. Those between distant countries tend to be far less effective. What is more, persuading the likes of India and China to open up their service industries to foreign competition is next to impossible. Hell would freeze over before they'd agree.

So good luck with those trade negotiations. Liam Fox, Britain's new trade secretary, is going to need it.

After 43 years of contracting out trade policy to the EU, the UK has lost virtually all of its independent trade negotiating skills

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

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Repairing the cracks

The rise of populist politics and isolationist trade policies should tell us that not everyone feels the benefits of globalisation

Populist opposition to globalisation is on the rise in the developed world. The UK's recent decision to leave the EU goes beyond British pessimism about the EU. In other large European nations, and indeed in the US, populist politics is tapping into a similar vein of frustration harboured by social classes that perceive they are being disenfranchised and left behind during the process of international integration.

Marine Le Pen of France's right-wing Front National Party promises a UK-style referendum for France. In the US, Donald Trump promises to erect trade barriers with Mexico and China, and to stop illegal immigrants, while Hillary Clinton has pushed back against every international trade agreement in recent history. From polar ends of the political spectrum, they represent groups of frustrated workers who have seen living standards stagnate or fall in recent decades as the global economy has become more integrated.

Globalisation has spawned winners and losers. The integration of the world's production processes, labour markets and capital markets has enhanced the wealthy and highly educated. But the internationalisation of labour markets and reduced border controls and trade barriers has left traditional working classes exposed to foreign competition. This revealed itself in the way different groups of Brits voted in the EU referendum. The likelihood of voting to stay in the EU increased with earnings and education.

Another illustration of the shifting sociopolitical climate is the switching of support from left-wing socialist to right-wing nationalist parties. In the UK, many northern industrial towns, traditionally centre-left Labour Party strongholds, have defected to the far-right Eurosceptic UKIP. Why? UKIP promises to reduce migration and protect domestic workers from foreign competition.

SCOTT OLSON/GETTY IMAGES

The world economy has seen huge economic gains from globalisation. But as nation after nation has joined various trade agreement blocs, the gaps between the winners and losers among individual citizens have widened and become more apparent. In the UK, the Gini coefficient – a common but imperfect measure of inequality – has increased to 0.34 from 0.24 during the past 40 years. Data from other G7 economies tell a similar story. Similarly, the costs and benefits of the financial crisis and policy responses have not been evenly shared.

Economic policies since the financial crisis have strengthened the case for populists. Whereas bank bailouts and quantitative easing have saved the too-big-to-fail financial institutions and mostly benefited highly paid financial sector workers, the average semi-skilled worker has endured painful structural reforms that have lowered wages to boost labour demand. Fiscal austerity disproportionately affects the low paid, too.

What stands out about the Brexit vote is that it happened in a country that has enjoyed one of the strongest recoveries of all major economies since the financial crisis. Yet it was not enough to persuade a majority of UK citizens to vote to remain in the EU. Clearly, the problem is not just the sluggishness of the recovery or the lopsided effects of economic policy. The slogan of the Brexit campaign – 'take back control' – provides a clue and guidance for future trade policy. If the process of international integration is to continue, then it must shift its focus towards supporting the standards of living of those citizens directly harmed by trade in addition to the focus on tearing down international barriers to enhance competition, investment and trade.

Trump's ascendance to the Republican Party's presidential candidate has been built on convincing a large number of Americans that their chance at the American Dream has been stolen by foreigners. Bernie Sanders' influential, but ultimately unsuccessful, candidacy was built on a coalition of people who railed against income and wealth inequality, and the perception of being harmed by government policies that were neglectful of their needs. The policies of the populists on both sides of the political aisle, nationalistic and inward-looking though they are, are unlikely to dissipate.

While the centrist leaders are still in control, they need to focus on compensating those who have not benefited from globalisation. Empowerment through better education and skills is the best solution. The appeal of nationalism and those who promise to deliver it will diminish if more people are able to enjoy the benefits of an increasingly interconnected global economy.

Donald Trump promises to erect trade barriers with Mexico and China, and to stop illegal immigrants

Kallum Pickering is senior UK economist at Berenberg Bank

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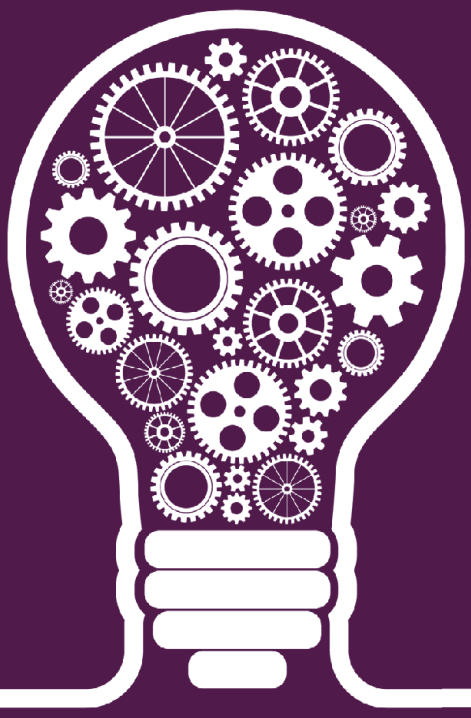

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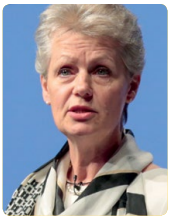
{ EDUCATION }

FIONA CRISP

The ACT's new Learning Academy is a flexible resource for students and employers



Fiona Crisp is president of the ACT and an independent treasury consultant

Those of you who attended the ACT Annual Conference 2016 in Liverpool will have seen a preview of the new ACT Learning Academy. Formally launched in early July, it has already received great acclaim from ACT members and other finance professionals. It is transforming careers in treasury and finance.

To put the ACT and its qualifications into context:

- 5,000 members and more than 2,500 students;
- 22% of members and 42% of students live and work outside the UK in 93 countries;
- 33,600 ACT exams have been passed;
- Nearly 1,500 online courses taken since they started last year; and
- 100% of students would recommend an ACT qualification.

Over the past two years the ACT has invested heavily to introduce major changes to our education offering, launching the new qualifications pathway in May 2015. Our innovative Learning Academy is the home of all things learning for the ACT. I would like to say a big thank you to all our members who helped in the design and testing – and I urge you all to view it at http://academy.treasurers.org

The ACT Learning Academy brings together the delivery of all ACT qualifications under one brand new online learning system with lots of fantastic resources, including e-books and podcasts for learning 'on the go'. It will help you advance your career from anywhere in the world, with learning programmes developed specifically for treasury and finance professionals.

Our commercially relevant treasury qualifications and training focus on making you more employable, giving you practical skills that you can apply immediately at work. Chosen by senior treasury professionals from some of the world's biggest companies, they are a win-win for both employees and employers.

Our qualifications are available online, take from three to 18 months and you can receive accreditation for learning you've already completed. We can provide online or in-person training to meet your CPD requirements with tailor-made courses lasting from a few hours to one week. Training can be delivered in-company, providing custom solutions to meet the needs of your team and business.

We've introduced a unique online assessment and invigilation system allowing students to sit exams at home or work at times suitable to them. With some exams you even get your result on the spot.

The ACT Learning Academy is also supporting employers with capability development of their teams. Working as partners we can identify talent requirements through our online analysis tool and build programmes to help meet business objectives.

The ACT Learning Academy is:

- Multi device – learning can be done across a variety of online platforms, meaning you can choose what's right for you;
- Personal – you can join our global community with excellent one-on-one support and expert trainers; and
- Flexible – you can also choose how you want to learn, and with flexible study you can easily fit around your busy schedule.

I am passionate about increasing diversity in the ACT, so what are our plans over the next year? We will:

- Produce targeted marketing campaigns to a wider financial, international audience;
- Encourage members and their colleagues to use the Learning Academy;
- Develop our welcome for international students;
- Provide bursaries for students in developing countries, through the ACT;
- Bring in new, younger members through outreach programmes with schools and colleges – with your help and through cooperation with universities; and
- Facilitate university student work placements in members' treasury teams.

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ON
HIGH
ALERT

With political unrest seemingly a given and former accords breaking down, for treasurers, rating agencies and corporates, it's very much business as usual. James Ashton reports

Words: **James Ashton** / Illustrations: **Nick Chaffe**

BREXIT might have been the straw that broke the camel's back. The shock vote to take the UK out of the EU spooked markets and business leaders, most of whom were rooting for the status quo.

Yet for much of the past decade, a string of events has created a heightened environment for risk. And since the credit crunch and banking crisis – problems manufactured in the corporate world and exported across the globe – most problems have been geopolitical. Corporate treasurers have learnt to cope by not being surprised by anything.

"The risk cycle seems to be quicker than it was a few years ago – it feels like a riskier place," says Neil Wadey, group treasurer at British American Tobacco (BAT). "All of these things are somewhat interconnected. The geopolitical situation is obviously something that provides a backdrop and generates instability, but it is commodities, oil and their effects on the FX market that are very real for the treasurer."

In a report last year, entitled *Why Politics Matters To Sovereign Ratings*, Standard & Poor's credit analyst, Moritz Kraemer, explained the reasons why an understanding of politics and geopolitics has become crucial in assessing sovereign credit risk.

The vast majority of ratings actions, positive or negative, are still based on factors such as economic and financial changes, and institutional and governance assessment is only one of five key ratings factors for S&P. However: "it is one factor that can change the underlying sovereign credit story faster and more fundamentally than the economic factors typically do. Sharpening our understanding of political and geopolitical tendencies, therefore, remains an indispensable task of sovereign credit analysts and investors alike," he says.

'Institutional assessment' analyses the effectiveness, stability and predictability of a country's policymaking and political institutions, debt payment culture and the transparency of its institutions. Domestic politics can be a drag on sovereign ratings in both advanced and emerging markets. Arab countries such as Egypt and Bahrain were downgraded because of the Arab Spring. The US's rating has suffered on the back of twice coming close to government shutdowns because of crises in debt management.

Situation under review

Geopolitical risk is harder to predict, such as taking an investment view on South Korea guided by the activities of its nearest neighbour, North Korea. The clearest recent example has been the Syrian war that has created a refugee crisis in Europe and could yet impact credit ratings unless the region collaborates to find a solution.

Kraemer adds: "S&P, therefore, monitors political strife at the national level and regional turmoils, and strives to understand and evaluate the implications for what superficially appear innocent bystanders."

For treasurers, dealing with higher risk has become part of life. The current environment – even without Brexit – is risky, but sadly familiar. "I think that financial markets and global economies are still in disequilibrium," says John Jackson, group treasurer at FTSE 100 water company Severn Trent. "You have low growth, interest rates are in many cases negative – certainly in terms of sovereigns – and a debt overhang that is not reducing. Collectively, the world has kicked the can down the road and not really addressed the fundamental issues,

"Collectively, the world has kicked the can down the road and not really addressed the fundamental issues, just hoping it will go away"

> "In terms of what would happen from Brexit, the forecasting was all over the place. Would it be recession, would interest rates rise, would they fall?"

just basically hoping it will go away."

From a geopolitical point of view, there is nothing on the horizon that suggests the economic situation will improve any time soon. The upcoming US presidential elections, domestic tensions in Venezuela, the coup attempt in Turkey and ongoing conflict in Syria: all of these point to major political upheaval. But optimists, including Ana Boata, the European economist at trade credit insurer Euler Hermes, while not denying the risk these situations represent, suggests it is manageable. They point to a distinction between political instability and systemic risk.

In the case of Brexit, corporate treasurers must deal with specific issues it has thrown up. For instance, UK-focused companies must think about the impact that low rates for longer will have on pension liabilities. Healthy company profits appear to show that firms can cope.

"Underneath that, there are many zombie companies that are only alive because of the extremely low cost of finance," adds Jackson. "There has been little growth and that has been a problem for the UK, as well as low productivity. We weren't in a great place, but UK corporate profitability has held up pretty well."

Opportunities as well as knocks

So if treasurers are attuned to geopolitical risk, does that mean they plan more carefully for every eventuality? Jackson and his team could only do so much ahead of the Brexit vote: "Quite frankly, in terms of what would happen from the Brexit outcome, the forecasting was all over the place. Would it be recession, would interest rates rise, would they fall?"

"I certainly think it means we turn our attention to those types of risks as they come on," says Wadey. "I wouldn't necessarily say we hedge more, but we are more focused on hedging opportunities to reduce risk, to match our trade flows better.

"If we can hedge in countries where there is significant FX volatility, for instance, then we will, but we have had recent examples

Voting in the UK's EU referendum

Shifting insurance ratings

Within days of the UK voting for Brexit, trade credit insurer Euler Hermes declared that the country would keep its AA1 rating for trade risk, despite the impending withdrawal from the EU, its largest trading partner, and the rocky two-year road to divorce. In looking on the bright side, Euler flagged the UK's supportive economic, fiscal and monetary policies, a healthy banking sector and a diversified export structure.

"Increased financial market volatility and economic uncertainty were the immediate global fallouts of the UK's decision to leave the EU," says Ana Boata, Euler Hermes' European economist. "The political vacuum created in its immediate aftermath makes political risks appear heightened globally, but [these factors] do not indicate systemic global political failures will ensue."

These days, it seems that political risk can bubble up anywhere on the planet. But, with little evidence that the UK had suddenly plunged down the risk charts, much of it gets taken in someone's stride. If anything, attitude to trade risk has flattened the Earth. For example, in its country risk assessment map, credit insurer Coface has assigned Indonesia and India the same 'acceptable' score as Portugal and Spain, illustrating the gap between emerging and emerged markets has narrowed considerably.

In its latest country risk barometer, Coface found that Europe was a source of good news for a change. Before the Brexit vote, its country assessments of France and Italy were revised upwards because of falling insolvencies, earnings that had stopped declining and more favourable lending conditions. Central and Eastern Europe have been benefiting from the eurozone recovery, too. That contrasts with the US and China, whose country ratings were both downgraded. While Chinese growth is stabilising, company insolvencies are sharply rising. In the US, corporate profitability is suffering even though the unemployment rate is still on the slide.

Post-Brexit, Coface is still enthused by the uptick in household consumption in Western Europe and improvement in construction activity in Spain, Germany and France, but thinks UK construction will be weighed down by rising import prices. Heavily exported UK pharmaceutical and automotive goods may be hit by new entry barriers, although in the short term, they will benefit from the weak pound. Europe compares favourably with Latin America, which is still associated with the highest risk in the world.

"Our understanding of current events also needs a historic perspective," adds Boata. "When compared with the three periods that developed into two world wars and the Cold War in the 20th century, we are not in a riskier place now. For Europe, history suggests that the continent is less prone to systemic political risk than in earlier times, and its political systems appear more developed and capable of meeting current challenges than in previous epochs."


War-torn Aleppo, in Syria


Turkey's coup attempt in July

REUTERS PICTURES

like Ukraine or Nigeria where you would like to be able to do more from the financial markets, but it is more about making sure your business is business ready to take the volatility."

BAT saw FX swings go against it in the past few years. The company reports in sterling, but only a tiny slice of its revenue comes from the UK. The weak pound means that international revenues will be worth more when converted. Wadey says, in that case, attention shifts from the translation of results to what is happening market by market on input costs.

Explosive growth rates in emerging markets persuaded some that investment in one-time, no-go areas was worth the risk. But the tapering of the US Federal Reserve's monetary stimulus saw many of these local currencies slump. Whereas some companies, selling packaged goods or services, can choose the markets in which they operate, explorations firms must go where the resources are.

Tim Lane, group treasurer at Premier Oil, an exploration and production company with oil and gas interests in the North Sea, Southeast Asia, Pakistan, the Falkland Islands and Latin America, explains how he looks to mitigate risk wherever possible. "The nature of our business means that we are predominantly US dollar-based and our functional and reporting currency is US dollars, so apart from the dollar-sterling exchange rate, the Brexit impact is not too significant for Premier; on a macroeconomic level, the effect on the oil price is more relevant.

"For Indonesia, Pakistan and Vietnam, the funding is in US dollars, so there is no real local currency risk. There are some local currency payments, but the majority of the capex and opex is in dollars. All the revenue is paid directly into London bank accounts; it is not paid locally.

"The recent move in the dollar-sterling exchange rate has meant we have been able to lock in approximately £110m of our GBP forecast expenditures for the rest of 2016. Furthermore, weaker sterling will help those projects in the North Sea that have a significant sterling cost element. We also hedge a portion of our forecast oil production in order to protect against potential future falls in oil price."

So although it may feel sometimes as though the world has been turned on its head, treasurers must put geopolitical risk in context and see through current crises to the market fundamentals.

Wadey concludes: "I think you have to take the long view on these types of opportunities or risks. At the end of the day, environments that are moving also create opportunities, so I wouldn't necessarily say Europe becomes less attractive versus emerging markets. They still have the same demographic characteristics. We are yet to see what happens with Brexit. I don't sit here with huge trepidation for Europe."

James Ashton
is a freelance business journalist

HAVE LANGUAGES, WILL TRAVEL

Winny Li, senior director of treasury at US pharmaceutical firm PPD, is an accomplished linguist, finance careerist and passer of exams – and it is the world of treasury that has provided her with her strongest professional vantage point

Words: Michelle Perry / **Photos:** Rob Whitrow

With a role covering the cash, funding and banking needs of 46 countries, a willingness to up sticks and move to where the action is, plus a strong commitment to the treasury discipline, Winny Li's career has all the hallmarks of an exemplary 21st-century treasurer. And while she has come to treasury relatively late in her career, on joining US global contract research organisation PPD in 2006, she has fully embraced the corporate and organisational insight it brings.

When Li, senior director of treasury at PPD, was young, she wanted to be a journalist. But moving to Britain from China as a teenager to finish her studies – which included an MPhil in Management Studies at the University of Cambridge – she quickly realised a career as a chartered accountant could be a great fit with her natural strength in numbers and passion for global business.

By the late 1990s, she was on her way to achieving that goal when she joined the much sought-after (and now defunct) Arthur Andersen. In 2001, she became a fully fledged chartered accountant. At the then Big Five firm, the experience of working across industries and companies of all sizes in a fast-paced learning environment set the scene for the next few years of her career.

"I was at Arthur Andersen and later Deloitte, and that was great for getting to know different industries. You often had two to three weeks with clients, so it was intense, but interesting. I was travelling around the UK looking at different businesses and industries, and that was very useful for when I then went to work at Viacom, where there were lots of media businesses working at an international level," Li says.

At US global mass media company Viacom, Li further grew her burgeoning business acumen that forged a path to her current position at PPD. As a manager in the European finance and international internal audit team at Viacom, Li was responsible for auditing controls and processes at the company's different businesses, including MTV, Paramount, Nickelodeon and CBS, around the world. "I travelled a lot with Viacom – to 30 countries in three years. That gave me great international business experience – working in different cultures and with different people," she says.

Her expertise at Viacom did not just stop at internal audit, however. She was once asked to make a recommendation on how to improve MTV's Asia show. "I was in my 20s and my job included watching MTV shows! I suggested they make the show more vibrant, and they took my recommendation on board."

Media skills aside, Li's language and communication skills – she is a native Cantonese and Mandarin speaker – quickly came in handy very early on in her career at Viacom when she also had to deal with a major fraud and criminal matter. "I recall there was an issue in which I had to use my language skills to help solve the case," she explains.

A return to study

Li has been with PPD (which won best contract research organisation at the Vaccine Industry Excellence Awards at the World Vaccine Congress 2016) for almost 11 years, experiencing its business journey first-hand, from Nasdaq-listed company to private ownership by US private equity (PE) firms the Carlyle Group and Hellman & Friedman (H&F). In 2011, the Carlyle Group and H&F bought PPD for $3.9bn, making it the third-largest PE-backed buyout deal that year.

In the time Li has been with PPD, the company has grown significantly, which has provided her with a variety of career possibilities. Shortly after the PE buyout, Li realised the opportunities available to her to move into other areas of finance within the company were broad and she quickly signed up to study for her CertITM with the ACT.

"My training has been very much finance focused from the start – BA in Accounting Financial Management, MPhil in Management Studies and then formally ACA training with Arthur Andersen. ACT training has reinforced this training and provided the focus I required for setting up the treasury team and working with the team to design the company's global treasury operations and formulate its global treasury strategies," Li says.

PPD's board recognised the company needed a treasury function prior to the buyout and enlisted Li to help and set up the company's treasury department. At first she was spending just half her time dealing with the treasury requirements of the new corporate structure and half her time as FD. But as the company continued to grow through M&As as well as organic growth, Li took over treasury duties full time.

Li helped to create the treasury function from the grass roots up. At the outset, she talked to lots of other treasurers and finance experts to see if there was a 'right' way to develop PPD's treasury function, but quickly found there was no one-size-fits-all route to success. Instead of seeing that as an obstacle, Li found it refreshing because

"ACT training has provided the focus I required for setting up the treasury team and working to design the company's global treasury operations"

VITAL STATISTICS

31
the number of years PPD has been operating, dating back to its beginnings in 1985 as a one-man consulting firm

100+
the number of countries in which PPD has conducted clinical trials to advance therapies that lead to improved lives for patients

2,800+
the number of clinical studies the company has conducted over the past five years

16,000+
the number of staff in PPD's 81 offices across 46 countries

66,000+
the number of patients who have participated in 550+ haematology and oncology studies at more than 17,000 sites around the world over the past five years

"you can make a difference. You have to make things logical for your organisation".

"As finance people, we have to think about our area of speciality because of the changes in the markets and finance world. My choice of treasury is at the front end of that change. With treasury you can add significant value to an organisation. You can influence the board and help to make decisions on corporate M&A, and corporate structure and strategy. I find it fascinating. I'm passionate about team building and the structure of treasury," she says.

Li actively encourages her own staff in their pursuit of ACT treasury qualifications, as well as advising former staff seeking career advice. "If you want to specialise, the ACT qualification is excellent, particularly if you're working in M&A or debt restructuring. The ACT qualification gives you the solid focus you need," she says.

To ensure she keeps up to date on all aspects of treasury, she reads *The Treasurer* and regularly attends ACT conferences and seminars, and tunes in to webinars, too. This, she says, is not just for her own knowledge, but also because she is responsible for finance training for all finance and treasury staff in Europe, the Middle East and Africa (EMEA). "We do quarterly training for our finance staff. We're accredited by ACCA and CIMA. I also recommend that the institutes send representatives to attend ACT conferences, which are excellent and always looking ahead to what they expect to happen next," she says.

Country to country

Since Li joined in 2006, as part of the company's new country set-up team, PPD has seen significant growth, which is not an issue for Li, who enjoys a fast-moving environment. She helped set up offices in Vietnam and China, to name but two, tackling a host of complex regulations in those countries, as well as the challenges of establishing different business structures for each office. Her other main responsibilities at the time were establishing finance policy and procedures complying with Sarbanes-Oxley rules and remote-managing Asia-Pacific finance teams.

In 2008, Li switched to focus on the finances for EMEA. By 2009, PPD was expanding in China, a move she was heavily involved in, particularly the due-diligence process and post-acquisition integration. "I was travelling to China all the time. If I was in the UK, then I was getting up at 3am to deal with China-related issues. It wasn't working. So I moved to Beijing with my family for a year and helped with the integration of the legal entities there," she says.

Li says she experienced a kind of reverse culture shock, despite having spent her childhood in China. "It's a different culture in terms of how to conduct business. The most striking difference

is that when deals and transactions are concluded in China, it's mostly done at the dinner table. Networking with people and making connections are even more important in China than here, because there are so many regulations and government bodies," Li says.

Her current role is very broad, encompassing the treasury needs for 46 countries, including Latin America and North America, as well as. Sitting in the UK allows her to liaise with relative ease between continents. In fact, it is a little too easy. She says she could easily work 24 hours a day instead of her usual 14-hour days because of the UK's geographic position in the middle of the world's time zones and the global spread of PPD's offices.

In 2011, when Li established the treasury function, PPD had around 500 bank accounts and myriad banking relationships that affected the company's ability to perform smooth treasury negotiations. Since the company formalised treasury, Li and her team have consolidated banking relationships and accounts, reducing the number of bank accounts to 260 and banking relationships to 40 instead of the previous 100+.

"Networking with people and making connections are even more important in China, because there are so many regulations and government bodies"

"Even the biggest banks do not have truly global coverage; they tend to provide strong business support in specific geographical areas, which place emphasis on certain function lines. We have established great regional and global relationships, negotiated better pricing and are able to leverage each bank's strengths to cover a specific country's needs. For example, if we have a problem in the Philippines, we can also contact our regional and global director of the bank to resolve the specific issue," Li says.

Her day-to-day duties keep her busy with: liquidity management; bank account structure set-up and maintenance; intercompany funding and intercompany loan arrangements; FX hedging; spot deals and managing the credit control/cash collection function; and process improvements. But her main focus currently is on treasury integration and automation. One of the first things Li's team did was set up host-to-host banking between the company and its banks, which was "very valuable" for PPD, as it made processes much more streamlined, while improving compliance and controls.

Streamlining systems

Li is currently working with treasury management systems to improve cash forecasting, which is semi-automated at the moment. "We've got a skeleton system. I want to automate more processes, and reduce the use of Excel spreadsheets. I want to generate automatic reports for better reporting, and have a dashboard to share key information with the board."

Treasury systems aside, what has kept the organisation busy recently was the result of the UK's referendum on an exit from the EU. "It was a surprising result. As an organisation we established a Brexit committee overnight. I woke up early to watch the news, and PPD issued corporate communications to assure all our employees, many of whom are European nationals."

From a treasury perspective, Li and her team had analysed their FX exposures and put in place the necessary measures to protect the company. They had anticipated (correctly) that if there was an exit, sterling would fall, for which they had an FX strategy and spot deals. The company generally trades in US dollars, so costs, in fact, fell slightly and sterling revenue fell only a little. The issue around Brexit for PPD is more about its employees. As a global organisation with more than 16,000 professionals across 46 countries, PPD is a truly multinational, multicultural business where many people do not work in their country of origin.

"Many of our staff here in the UK are not British citizens. We have employees from Bulgaria, France, Greece, Italy, Poland, Romania and Spain – lots of Europeans are currently working here in the UK. Many are scientists and doctors (PhDs). PPD values every single employee working for the organisation, so we're eager to see what plans new British Prime Minister Theresa May has in store for the country."

Michelle Perry is a freelance business journalist

WINNY'S TOP TIPS FOR TREASURY SUCCESS

1. Understand the business and strategic direction of the company. Working in treasury provides great opportunities to provide significant value.
2. Know the company's internal processes and establish great working relationships with key team members. Treasury needs to work with others to make a difference.
3. Network with other treasury professionals, discuss topical issues, share knowledge and experiences.
4. Maintain excellent working relationships with key partners; try to stay ahead of the game.
5. Keep abreast of world affairs, politics and the economy by reading the news, professional magazines, such as *The Treasurer*, and attending professional events, including conferences, seminars and webinars.
6. Keep things simple and logical, especially when transactions or projects are on the verge of becoming complicated.

WINNY'S CV

2006-present
Senior director, treasury, head of global treasury operations, PPD

2003-2006
Manager, European finance and internal audit, Viacom

1998-2003
Senior assurance and business advisory, Arthur Andersen and Deloitte

QUALIFICATIONS

BA in Accounting Financial Management (University of Essex);
MPhil in Management Studies (University of Cambridge);
ACA and FCA (2001); CertITM (2012)

THE TREASURY PROFESSIONAL

WHERE IN THE WORLD...

Managing treasury professionals is increasingly a cross-border task. Rebecca Brace talks to treasurers about how they avoid their meaning getting lost in translation

Managing a team of treasury staff successfully can be challenging – but those challenges are likely to be even greater when some members of the team are located in different countries. From overcoming time zone differences to resolving cultural obstacles, treasurers with geographically dispersed members of staff may find that they need to come up with creative solutions to keep their teams motivated and productive.

The challenges

One of the most obvious challenges is that of managing teams in significantly different time zones. UK treasurers may only share a couple of hours of the working day with colleagues in Asia, meaning that any interaction with those colleagues has to be compressed into a relatively short space of time. Meanwhile, language differences can restrict communication in both directions: the overseas treasury team may not have a clear understanding of what they have been asked to do – while the treasurer may not fully grasp their team members' ideas, goals and concerns.

Cultural issues can also prove problematic. Treasury teams in far-flung locations may feel peripheral, leading to the development of an 'us and them' mentality. Misunderstandings may also arise if different communication styles are not properly understood. For example, a treasurer may finish a conversation feeling that staff members have agreed to a particular strategy, only to find later that the measures that have been put in place are not really suitable for the overseas team.

Samantha Allen, treasury manager at security company G4S, covers Asia-Pacific and the Middle East. "Our treasury function is head-office-based, although some of the countries have their own local treasury managers as well," she says. "From head office we manage the bank relationships and negotiate facility documents for the regional teams, as well as organise funding, risk management strategies, dividends, cash repatriation, and look at any recapitalisations, reorganisations, disposals and acquisitions."

The company has been consolidating its banking arrangements in a number of countries, most recently undertaking rationalisation of bank accounts in Indonesia. Allen says that the company's group banks have been an invaluable source of local expertise and knowledge, and have also been instrumental in facilitating communication with the local finance teams.

"This has been quite a learning experience in light of the language difference," says Allen. "I have found that I have had to step back and let the bank's implementation team hold meetings locally where they can have discussions in Indonesian – otherwise so much critical information gets missed. I can then separately have update calls

with the bank on the progress and pick up where necessary with the local team."

Even when language differences are not an issue, overseas staff members may have priorities and goals that are different to those of the group treasury. "I have had to learn to accept that our group treasury priorities and the timing of their implementation have to fit in with those of the local, regional and other group function teams," says Allen. "The finance teams have a lot of work on with monthly reporting and have businesses to help run, so I have to be persistent in clearly setting out what I need them to do and why it supports the group objectives – such as reducing risk, improving corporate governance and the benefits of efficient cash management."

Leaning on technology

Wherever team members are based, clear communication is key to an effective management strategy. Sharon Rolston, group treasurer at consumer goods firm Diageo, says that the company's treasury team is predominantly based between London and Budapest. "We also interact a lot with the in-market resources teams and finance teams," she says.

As Rolston observes, "Whether you are managing a team in the same location or in different ones, you have to start by setting out a clear direction for what the team needs to achieve – both from a business deliverable perspective and from a personal development perspective. You have to be able to communicate that clearly, so the teams are clear on the priorities and deliverables, no matter where they sit."

When it comes to communicating effectively with overseas team members, treasurers may find that video calls are more effective than phone calls. Although Allen initially visited the office in Indonesia, technology has been an important tool for communicating remotely on an ongoing basis. "Recently, the whole company has 'gone Google', so globally we all have the same platform for email, messenger and video calls," she says. "That has been helpful in improving day-to-day contact with our teams, because no matter where they are based, you can connect easily. Having readily available videoconferencing has also helped, as it is easier to avoid misunderstandings when you can see people's body language, and it helps to put a face to the name."

Technology has also proved invaluable for Bente Salt, head of treasury at business services company Rentokil Initial, who has two direct reports in the UK, one in the Netherlands and one in Malaysia. In addition to keeping in daily contact via email, Salt also uses Google Hangouts to run face-to-face meetings with her overseas team members, individually and together.

"As a team, we have monthly treasury meetings where each team member on a rotational basis does a presentation on what's going on," she says. "Then we talk about the projects that the team is working on and any specific issues that each team member has – so we're working relatively closely as a team, despite the geographical spread." While time zone differences make communication more challenging with the team member in Malaysia, the company has an FD in Asia who acts as a local point of contact, as well as support.

Other treasurers, including Rolston, choose to take advantage of videoconference facilities. "That's a very effective way for us to be able to hold meetings without having to travel and be in that particular location," she says. "While you can't replace being there in person, it definitely supplements it by being able to communicate with people via videoconference, both individually and as a team."

Beyond screen time

While technology can make a big difference to communication, it is not without its limitations. As Salt notes, "It doesn't work as well as sitting opposite someone on a day-to-day basis, just because you hear what people are doing – you hear the phone calls and the general conversation. But you can certainly use technology to your advantage if you have people overseas."

In order to make effective use of video meetings, treasurers should do more than simply ensure that all the relevant people are in attendance. According to Rolston, one key consideration is to make sure that people in remote locations feel they are part of the team, rather than on the periphery. "This means being very cognisant of involving them in meetings and team sessions, calling out their names and asking for their contributions."

When feasible, treasurers may still supplement video meetings with in-person visits in order to cement relationships. Rolston says that senior leaders in the team rotate their visits to the Budapest team, so that one of them visits for a few days every month. Other treasurers may only be able to justify occasional visits – but such opportunities can still make a big difference when it

TOP TIPS

- **Make yourself available to overseas team members and keep them up to date on all developments so they don't feel isolated from the rest of the team.**
- **Engage with overseas treasury professionals as often as possible – both as a team and individually.**
- **Be prepared to change your style of communication depending on the country – and, indeed, person – you are dealing with.**
- **Be flexible in order to overcome time zone differences – even if that means checking in for key meetings in the middle of the night.**
- **Make the most of videoconferencing or video-messaging technology.**
- **Take time to visit overseas offices in person when possible.**

"Whether you are managing a team in the same location or in different ones, you have to start by setting out a clear direction for what the team needs to achieve"

KEEPING IT SIMPLE

Treasurers may face different challenges when communicating with parts of the business that may not have a clear understanding of treasury.

When it comes to dealing with the regional teams, Allen has been trying to get them to have a deeper understanding of the role of treasury. "Sometimes we are not engaged early enough in a process or where there is a problem to resolve – which is not always ideal given the regulatory restrictions we have to deal with," she explains. "But it's all about building trust – now that I've worked on a couple of issues with them I think they understand that we are there as a value-add and we want to help."

"That's my job every day," comments the UK-based treasurer of a retail company. "I think it's about keeping it simple, using analogies and talking about treasury in terms that people understand. So if you're talking about foreign exchange you can use the example that if someone is going on holiday, it's going to cost you more – and then take it a few steps further to explain the issue. Mostly I try to steer clear of using too many acronyms."

comes to building a closer dialogue and gaining a greater understanding of the overseas team's culture and priorities.

Meanwhile, it is more important than ever for treasurers to have strong interpersonal skills when their teams are geographically dispersed. Being able to listen effectively to others, understand the key messages and report accurately on what has been heard is an essential skill. Treasurers should also be prepared to adjust their communication styles when dealing with people in different countries.

In addition, treasurers should be conscious that individuals may require varying levels of management, motivation and guidance. "In my experience, one size doesn't fit all – some people are very good at being able to take your lead and input and run with it, while others need more frequent interaction," says Rolston. "I think knowing your people and what works for them is even more important when you are trying to manage remote locations."

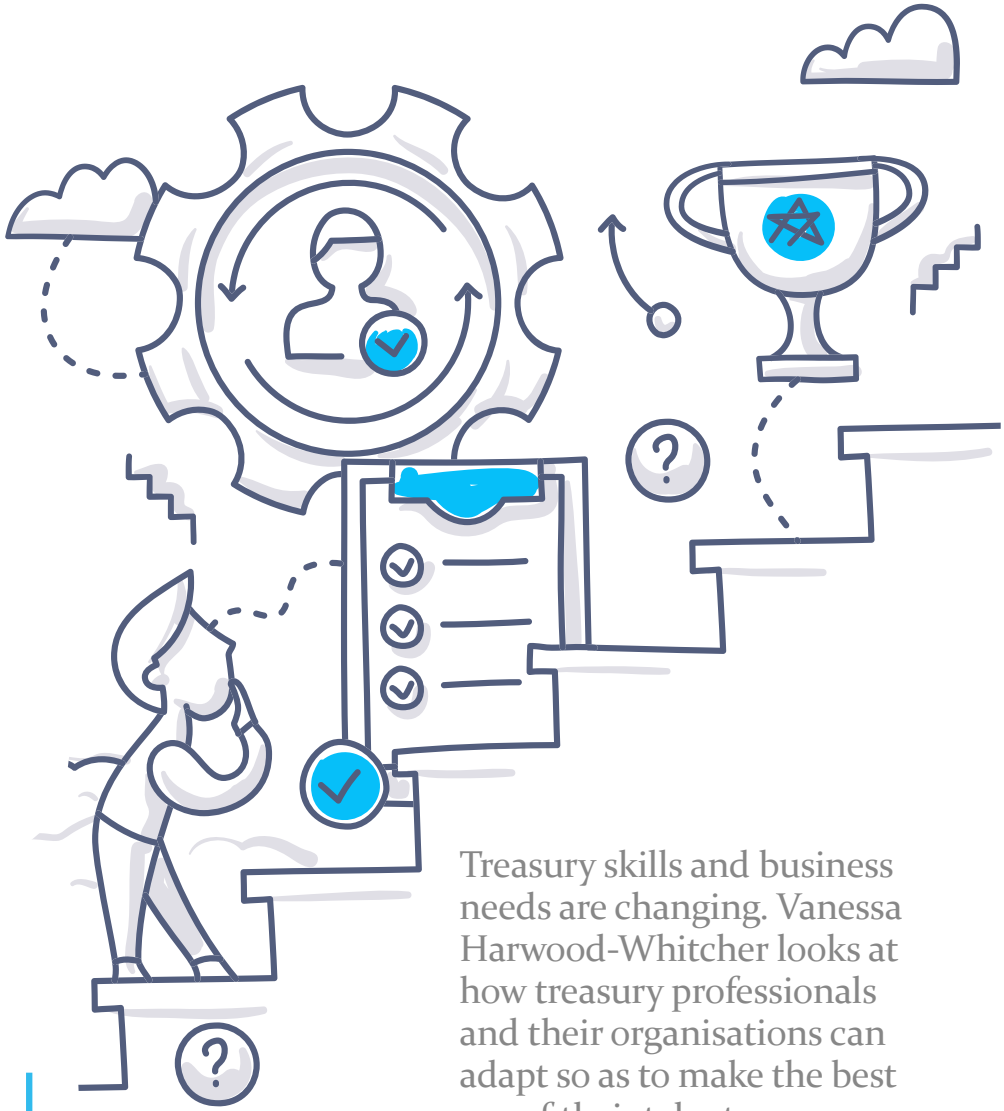
Treasurers should also be conscious that overseas team members may be missing out on the ongoing coaching and direction that will be available to people based in the same office. "When someone is sitting beside you it's very easy to give immediate feedback to people on things they've done well or things they need to work on," Rolston adds. "You have to be more focused on trying to do that so that you are still providing that coaching."

Team building

Finally, treasurers should understand that there is more to management than simply giving and understanding instructions. Overseas team members will inevitably miss out on the informal interactions that can play a big part in team building and simply understanding the roles played by everyone in the team – such as a quick chat in the hallway or catching up over lunch in the cafeteria.

As Salt concludes, "Make sure that you are inclusive of your people who are overseas, and make sure you engage with them on a regular basis – both as a team, so that everyone knows what's going on, and on a one-to-one basis. And every now and then, just phone up for a chat – not necessarily a work chat, just a personal chat about how things are going and what you're doing at the weekend."

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



IN DEVELOPMENT

Treasury skills and business needs are changing. Vanessa Harwood-Whitcher looks at how treasury professionals and their organisations can adapt so as to make the best use of their talent

In a popular internet meme, a CFO asks a CEO, "what happens if we invest in developing our people and then they leave us?", with the CEO replying "and what happens if we don't and they stay?"

The meme prompts us to think about how and when we invest in our professional capability, especially during this time of economic uncertainty. In uncertain times, focus often turns to cutting spending, and it is easy to dismiss the importance of people and the impact their capabilities have on an organisation's ability to find its way out of a downturn or crisis.

Skills evolution

The *Kyriba/ACT 2016 Treasury Survey* (see www.treasurers.org/kyriba/2016) explores concerns and priorities within the treasury community. The research shows a trend to the increasingly strategic role treasurers have. They:

- Manage group cash and liquidity – essential during tough times;
- Are strategic financial analysts, looking forward and steering the organisation through uncertainty;
- Provide counsel to the board and executive team on key decisions;
- Deal with changing markets and regulatory environments, and organisational compliance; and
- Play a growing role in the management of working capital with other departments.

Earlier this year, the ACT's *Contemporary Treasurer 2016* research (see www.treasurers.org/contemporarytreasurer/2016) looked at how equal treasurers are to these changing demands. It found greater pressure on cash and liquidity management skills at all levels, and that treasurers at the start of their careers have skills gaps around business management, effective working skills, risk management and governance. Treasurers in more senior roles, meanwhile, need to focus on their strategic and influencing skills.

The treasury skills squeeze is on

Recruiter Robert Walters, recently polling 425 UK hiring managers, found that 38% think they will be facing treasury skills shortages when looking to recruit professionals in the second half of 2016. It also found that 24% of survey respondents believed that Brexit would make these shortages worse.

A perfect storm is growing when considering the increasing business pressures on treasurers, and skills requirements are becoming greater in these key areas. Add to this the fact that many treasury teams are not increasing in size and much recruitment is for replacement, not growth. So where do the skills come from to meet the business needs and deal with all this change? The answer is that, much of the time, skills have to be developed from within the team.

Knowing where to start

Often managers, when faced with team skills gaps, jump to the training solution before identifying what the gap is and pinning down how filling it will benefit their organisation. Managers should:

Step one: make sure they know what their organisational objectives are, focusing development activities on the areas of the business where they know they need to deliver results.

Step two: ensure they really know what talents and development areas exist in the team. Sometimes star team members or the ones who need help can lay hidden. A good way to check skills levels is by benchmarking the team against competency frameworks or using capability analysis tools that offer an independent view.

Step three: move towards planning people development and creating an action plan once they know where people are against their organisational needs.

Step four: decide on the most appropriate training solution. The temptation is to send people on a course.

This may be the right solution, but there are other development tools that may give more flexibility and make the most out of constrained learning and development budgets. These include on-the-job training, such as coaching by line managers/peers, work shadowing, internal knowledge-sharing events, job rotation or secondments. This is assisted by knowing where the team's talent is and encouraging them to support colleagues. E-learning, classroom-based group training, webinars and virtual classrooms are also helpful, as are open programmes, such as conferences and events.

Step five: Measure what has changed.

A common pitfall is to think that once a team has attended training, the job is done and the skills shortfall is fixed. In reality, it takes time for new skills to bed down, and managers have to support their teams' new skills. This includes:

- Giving constructive feedback – help where the skill is not quite there and praise when something has changed;
- Revisiting the organisational objectives set in step one and evaluating whether the skills changes are impacting these objectives – managers and treasury professionals should ensure they communicate any positive changes and learn from what you would have done differently; and
- Re-running the benchmarking activities in step two. This gives a real 'before and after' picture of the changes, which is quantifiable and can help demonstrate a return on investment for any development undertaken.

Supporting skills challenges

Over the past three years, the ACT has undertaken its own skills and education journey involving a wide-ranging consultation with treasurers, colleagues from service providers and financial institutions, as well as academics and learning and development teams.

Building on consultation findings, the ACT developed a competency framework that aims to express the skills, knowledge and behaviours people should demonstrate at all levels of their career. This information is freely available and many employers are already using it to set the standards with their treasury teams.

All this has further led the ACT to introduce a range of new qualifications that offer progressive pathways for the treasury professional, enabling them to jump on and off, depending on what stage of their career they are at. At a glance these are listed in the table (see below, left).

These new qualifications, as well as face-to-face and new short e-learning skills-based courses, are now available in one place through the ACT's online Learning Academy (see page 17). All courses have been designed to offer maximum flexibility in terms of time and budget.

For those not sure where to start, the ACT offers an online diagnostic tool and has supported organisations in identifying both their high performers, which helps with talent and succession planning, as well as looking at where colleagues need new or deeper skills. Recently, a FTSE Top 20 corporate that wanted to gain greater visibility on the capability of its team to harness talent used the ACT tool to arrive at capability reports for all team members showing strengths and development areas. For the group treasurer, a helicopter view for the whole team was provided, which enabled pockets of expertise, such as cash management, to be leveraged.

Treasury skills are in your hands

With around £39bn spent each year by UK businesses on formal training, according to a CBI study (*Business Investment in Skills: the road to growth*), it is critical that the ACT plays its part in ensuring this investment is made to best effect for our own organisations, and also for our society and wider economy.

Evidence suggests that employers who invest in the training of their people see a return on their bottom line. *HR Magazine* cites a 24% increase in profits among US companies that invest more than $1,500 per employee. So why not get started today and see what the ACT can do to boost your professional skills?

PATHWAY QUALIFICATIONS

Progression	Qualification	Level	Comparison to previous ACT qualifications	Membership grade/ designatory letters
	Certificate in Treasury Fundamentals	Introductory, tactical	Replaces CertFin	E-Affiliate/ CertTF
	Certificate in Treasury	Operational	Replaces ITM	Affiliate/CertT
	Diploma in Treasury Management	Managerial	Replaces AMCT Certificates	Associate/AMCT
	MCT Advanced Diploma	Strategic	No change	Fellow/FCT

STAND-ALONE QUALIFICATIONS

Award in Cash Management Fundamentals	Introductory/ operational	New	
Certificate in International Cash Management	Operational/ managerial	No change	Affiliate/CertICM

Vanessa Harwood-Whitcher is director of professional standards and learning at the ACT

ROOM AT THE TOP

Carving out a career in treasury and beyond is easy when you know how. Gillian Karran-Cumberlege elaborates

Treasury professionals will have many different ambitions, all equally valid. One definition of a successful professional is one who continues to develop and learn in the role and, if so inclined, is well positioned and suitably qualified to continue to the most senior levels of the organisation at executive or non-executive level.

First choices

Solid career progression starts with an individual's choice of company. A treasury professional looking for maximum development in any early role is right to seek out complexity and exposure to a wide range of challenges. As Charlotte Morgan, non-executive director at Ford Credit Europe, says: "I think it is important, in order to develop your career, to be prepared to move between companies and choose companies with a complex structure."

The challenges within those early roles can take various forms: international and managerial scope, as well as technical complexity. Financial services as a sector obviously offers substantial technical and regulatory complexity; multinationals can provide demanding cross-border and hedging challenge; but smaller companies may also represent significant development opportunity, particularly if the treasury function is core to the business model.

Keep on learning

Once in a role, there are a number of tools at the treasurer's disposal to ensure progression, and the first is to continue learning. It is incumbent on the individual to keep their technical skills fresh, but equally, given the highly specialised nature of the profession, it is very much up to the treasury function to define what development is needed and to ensure it takes place. The impetus is unlikely to come from elsewhere. As Lars Schnidrig, treasurer at German residential real estate company Vonovia, puts it: "It is both the responsibility of the company to invest and the individual to push for further development."

But for those treasurers pursuing senior leadership roles either within a large treasury function or at executive or non-executive director level, developing leadership skills is critically important. An executive programme at a reputable business school is worth consideration, as well as taking advantage of internal management programmes, even if not immediately relevant to treasury.

Keep on stretching

Individuals who aspire to reach top roles need to continue to stretch

themselves. Regular rotation through a number of treasury roles is more demanding in the short term, but unquestionably opens doors. And, with increased emphasis on governance and regulation, accountability matters. The treasurer's proximity to cash flow and liquidity gives them great exposure to the executive committee and board. Gaining experience of presenting at these levels is a key management skill that will stand the treasurer in good stead for senior managerial roles. It's also a very important mechanism for getting on the radar screen – essential for future career development. "Good treasurers demystify things and lay out the risks simply," says Ian Firth, treasurer at TSB.

The commercial imperative

Being a strong and effective business partner is critical for successful career development for two reasons: firstly, good working relationships with colleagues throughout the organisation can only be supportive; secondly, career progression is frequently driven by breadth of experience. For a treasurer, coming from what is perceived to be a specialist technical function, it is all the more important to demonstrate business acumen beyond the treasury remit.

The role of business partner begins within the finance function. For example, we frequently see excellent collaboration between treasury and the equity investment relations team, which enables the treasurer to gain exposure to a different and important constituent of the capital markets and to demonstrate a clear grasp of valuation and expectation management. Equally, treasurers frequently play an active and meaningful role in insurance, pensions and M&A work.

Regardless of seniority, treasurers who reach beyond their current function and take on commitments and responsibilities outside their immediate remit open doors in terms of career development. These opportunities do not typically come on a plate; treasurers need to be proactive and, if need be, assertive. But those who take on broader responsibilities develop stakeholder relationship skills vital to senior roles.

Looking outside

"There is no single route to the top table," says Firth. Career development has many routes. For some, it will be assuming increasingly senior roles within a large, frequently international, organisation. For others, it will involve changing employer in order to secure larger roles. Either way, treasurers benefit from exposure and networks outside their own company.

Firth says he encourages team members to engage in externally focused projects that can bring value to the business, such as reviewing start-up fintech companies to understand the potential impact on the sector. Industry bodies are an opportunity for external engagement. Morgan suggests engaging with the ACT, for example, as a way of experiencing and contributing to governance issues. And this leads us to a point that is much discussed: is treasury a route to the boardroom?

> "I think it is important, in order to develop your career, to be prepared to move between companies and choose companies with a complex structure"

A seat at the table

A strong operational and profit and loss track record has long been considered a solid background for individuals aspiring to reach board-level roles. Some treasurers have sought out the CFO role as one where they can acquire that breadth of experience – a role that is often a board position in its own right. Treasurers like Firth serve in their own professional capacity on the executive committee; and this is most common in highly regulated companies with complex treasury functions, such as banks.

Increasing focus on governance has led to greater interest in non-executive director roles. At the same time, the professionalisation of boards has created demand for strong financial skills – clearly a discipline treasurers bring to the table. But a director has responsibility and accountability for the business as a whole, so treasurers who can demonstrate experience beyond the treasury function and strong commercial awareness are well placed to pursue the very top roles. "It's difficult to imagine a senior finance professional moving to the boardroom with no background in treasury," says Dan Maraggelis, deputy treasurer at Royal Mail.

Not every treasurer shares this goal, but the growing number of former treasurers in non-executive posts can only be good for the profession. Morgan, previously head of corporate treasury for Standard Chartered, now sits on the Ford Credit Europe board. George Stinnes, former group treasurer and head of investor relations at BA, now has a portfolio of board roles, including non-executive director roles with Bank of Nova Scotia International and Scotiabank Ireland.

The treasury function has a pivotal role to play in business, not least in the wake of the UK vote to leave the EU, where treasurers can make a critical contribution, not only securing funding and liquidity, but also reassuring their board and colleagues that tools and policies exist to handle risk.

The senior and former treasurers who contributed to this article were confident that treasurers have the potential to sit at the top table and contribute to the oversight and strategy of the business as a whole. If that is their goal, it is paramount for the individual to remain proactive in his or her approach to career development. Ongoing technical development, developing leadership capabilities, seeking out challenges and new skills within the role, demonstrating commercial relevance and gaining external experience are all important. Talented treasurers, and ones who are willing to take the initiative in developing their career, will find there can seldom have been a more opportune time to map the path to the top table.

SHUTTERSTOCK

Gillian Karran-Cumberlege is founding partner at Fidelio Partners Board Development and Executive Search Consultancy

THE FUNDING OBSTACLE COURSE

FUNDRAISING AND REFINANCING WERE ONCE ALL ABOUT RESOURCES. TODAY, REPUTATIONAL ISSUES WEIGH HEAVILY ON THESE TASKS. NICK HOOD LOOKS AT THE INTERNAL AND EXTERNAL POLITICS AT PLAY

Treasurers the world over talk about raising funds for their companies, often in the same breath as refinancing existing debt. They know the hurdles they and their colleagues have to get over in order to find new resources or reshape current facilities to reduce finance costs, change cash-flow profiles or free up assets to be used in other ways or be sold. They will also be aware of the internal political issues they may face as they take part in these often complex exercises. Only in exceptional circumstances or MBA case studies will the agendas of the CEO, CFO and treasurer be perfectly aligned.

Treasurers will also have some sort of view of the attitude of funding sources, their likely requirements in terms of financial and commercial criteria, as well as supporting data such as past, present and future accounting and forecast data.

But, almost a decade on from the global financial crisis, far from recovering, the world economy is stuck in low gear with its wheels spinning; beset by major geopolitical shocks such as Brexit and seismic changes in certain industries, especially those impacted by the collapse in energy and other commodity prices. These events have fundamentally changed the way that debt and leverage are perceived by many stakeholders. The damage to financial systems has also revolutionised the market for business funding, reducing the lending capacity of traditional banks and unleashing a torrent of new options from the alternative funding market.

Media panic

It seems that everywhere we turn, risk is perceived to be heightened and, crucially, what is perceived as financial engineering has never been under greater scrutiny. The UK residential care home sector is a case in point. Five years on from the collapse of its largest single player, Southern Cross, the media is suddenly full of warnings about debt levels as highly leveraged private equity-style structures are seen to be inappropriately risky for such a high-profile sector on which the elderly and vulnerable depend. Equally, the carnage in the energy sector since the oil price shock is raising awkward questions about the industry's business model and dependence on debt.

The key point is that long-accepted norms such as ratios, sensitivities, contingencies and risk assessment assumptions are being challenged. The overall shape of corporate balance sheets and the transparency of corporate accounting are everything now, not individual covenant calculations. Financial structures that seek to magnify equity return by maximising debt are being questioned. Previously unremarkable corporate family trees that disappear into the mists of opaque offshore jurisdictions now cause suspicion, as do tax-efficient, cross-border commercial arrangements. Equally, growth for its own sake or which is seen to be about more than management ego and bonus deals has become a potential negative rather than the key driver for successful businesses.

It would be easy for all of this to be dismissed as paranoia at a time when the world seems to be spinning out of control, but for the rise of social media as a commercial influencer. No longer the stuff of kids' chat rooms, this phenomenon can now influence the outcome of financial restructuring and even the ownership of a business. In 2013, a campaign on Facebook changed and ultimately determined the future of Niemetz, the maker of Austria's iconic Sweden bomb chocolate sweet, despite the contrary wishes of its owners and managers. Social media platforms play an increasing role in influencing how business is conducted and what is, or is not, finally acceptable ethical behaviour.

Outsider influence

So how does all this affect how treasurers go about one of their core activities: financing and refinancing their companies? Most obviously, they need to be mindful that their suggested solutions for funding requirements must not only address the financial needs of the business, which is a given, but also take into account reputational issues. They need to ask themselves

> Treasurers need to ask: what will outsiders think about the shape of our future profitability after this transaction?

IKON IMAGES

a simple question: what will outsiders think about the shape of our balance sheet and our future profitability after this transaction?

Here, too, the UK healthcare sector has a very recent example to offer. One of its leading players recently announced a sale and leaseback deal aimed at reducing its debt burden, which under normal circumstances would have been a routine piece of refinancing. Unfortunately, it had been a similar (in headline terms) arrangement that had brought down Southern Cross in 2011. The outcome was a slew of critical articles in the *Financial Times*, a leading healthcare magazine and elsewhere, questioning both the deal and the future prospects of the company concerned. Almost any other refinancing option might have been preferable, assuming there were alternatives.

Treasurers need to consider not just the impact of any proposed transaction on their company, but analyse carefully how it compares with the financing arrangements of other players in their sector and the reaction of their market to them, so that this information can be shared with their colleagues as part of the case for, and the debate about, proceeding.

This is because stakeholders are far more sophisticated about the interconnectivity of a business with its trading partners than just a few years ago. Nowadays, no business is an island. Suppliers and trade insurers quite rightly think not just about customer credit risk, but also about supply-chain integrity and the risk that other suppliers may damage a company's cash flow by tightening terms or withholding credit altogether because of their doubts about its financial strength.

The collapse of UK retail chain BHS is a prime example, brought down ultimately by its inability to secure credit from suppliers, which stretched its cash resources in difficult trading conditions beyond breaking point. Trade insurers had judged that once BHS had lost the support and covenant of its previous owner, Arcadia, its balance sheet was woefully inadequate. Of course, had they known what was really going on with its finances, the sale to Retail Acquisitions may never have happened and its collapse might have taken place even sooner. This may have been an extreme case, but the downside of either fundraising or refinancing is that not only can it weaken an entity's finances, but even where it doesn't, it draws attention to them and invites greater scrutiny.

In the voluntary sector, charity treasurers are increasingly finding that institutional sources of grants and funding are looking much more closely at the overall financial position before committing to what would otherwise be routine applications for support. Even the most worthwhile projects providing the best outcomes and deliverables are being declined because of doubts about financial viability caused by weak balance sheets.

Florid debt burdens and high leverage can also adversely impact the valuation of a business; whether it is through its share price in the quoted company arena, as a target for a trade acquirer or in an exit sale by the owners of private companies.

Ultimately, treasurers need to be the voice of reason about all financing issues, highlighting not just the mechanics and purely financial implications, but also the broader considerations in this changed commercial world. Others in their management team may have different drivers and incentives, which can cloud their judgement. A healthy dose of common sense from its treasury department can be a great antidote to excessive commercial exuberance.

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

UP FOR THE CHALLENGE

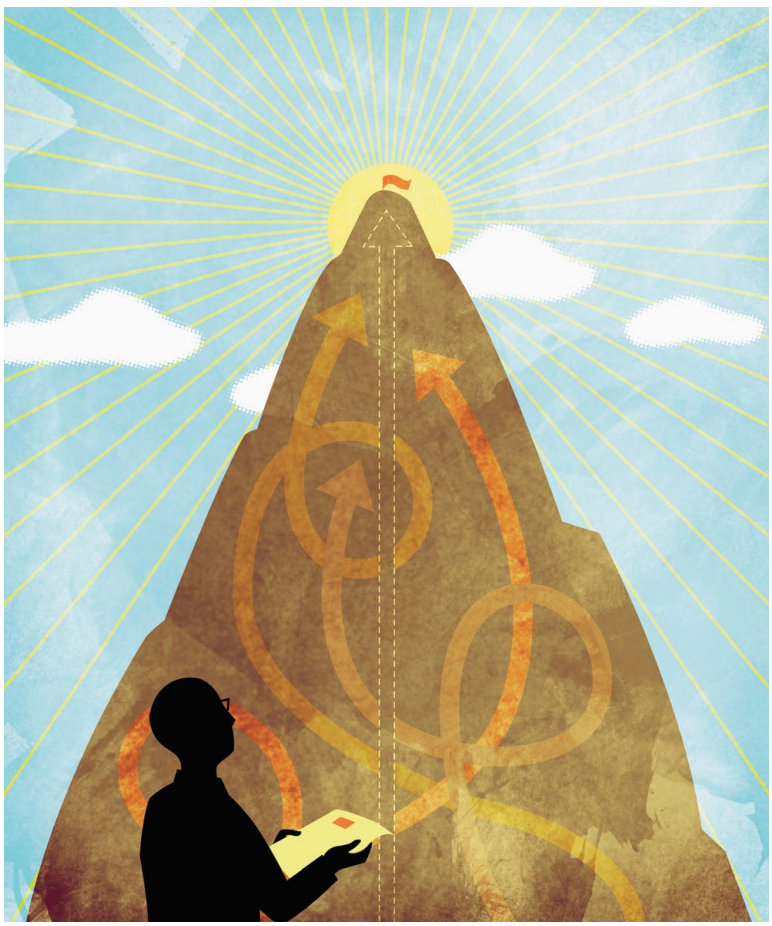
AN EFFECTIVE FX STRATEGY DEPENDS ON AN ACCURATE ASSESSMENT OF EXPOSURE LEVELS, WHICH IN TURN RELIES ON RELIABLE DATA AND FORECASTING. PAOLO ESPOSITO AND SVENJA SCHUMACHER EXPLORE THE ISSUES

In May's issue of *The Treasurer*, *The Contemporary Treasurer 2016* 'Trends in Treasury' survey found that 40% of treasury leaders are spending more time on day-to-day risk management activities compared with the previous year.

With volatile markets being further fuelled by major events like the UK's vote to leave the EU, these tasks seem to be more important than ever for corporate treasurers. There is much literature and debate about what the right risk management strategy is. However, what all these discussions have in common is that the output is only as good as the input.

When speaking to treasurers, the biggest pain points mentioned are usually the outset of the FX risk management process, which includes the capturing and validating of exposure, and the final review of the efficiency of the hedging programme, which includes explaining the FX results to management. Any outcome of this review should feed back into the forecast for the next period and should ultimately be reflected in the FX risk policy.

With this in mind, treasuries can face challenges in all the activities related to FX risk management.



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Challenge #1: Gathering correct data

In order to come up with the right strategy to protect the business from currency volatility, it is important that the treasury has confidence in the input data often provided by the operational businesses. According to Deloitte's *2016 Global Foreign Exchange Survey*[1], 56% of corporates say, however, that "lack of visibility of FX exposures and reliability of forecasts" is their top challenge, with 48% stating that "manual exposure identification and capture processes" make their lives more difficult. One of the reasons could be that forecasted exposures are often not entered in one single exposure management system and are only available offline in the form of signed contracts, tenders or other sources.

In many organisations, there is also a bigger awareness of currency risk on the sales side as opposed to the procurement side. It is normally a conscious decision to sell goods or services in foreign currency or include price-adjustment clauses into the offer. On the procurement side, however, price-adjustment clauses (which allow the seller to adjust the price in case of unfavourable rate movements) often represent a hidden risk to the business if the price on the surface seems to be in local currency. It can be beneficial to educate the supply chain organisation on these risks and to check existing frame agreements.

If there is no appropriate IT solution that is integrated or runs in parallel to the enterprise resource planning system, treasury should try to support the operating business units in extracting the relevant information and set up a workflow to establish how this data gets reported.

Also, many accounting systems are set up in the functional currency of the entity and therefore disguise the actual currency denomination of the cash flow. Not only does this make the extraction of the raw data more difficult, it is sometimes also a challenge to train controllers or anyone working with this data in such a way that they think in foreign currency terms and communicate the exposure to treasury.

When performing a strategic review of their FX hedging programme, many businesses struggle to extract the desired cash-flow data from their systems. In some cases, underlying exposures are captured when foreign

payables and receivables arise on the balance sheet, while in other cases they are captured when revenue and cost are incurred on the profit and loss. Sometimes there can be a significant difference in timing between recognition on the balance sheet and cash receipt or payment, which increases the risk. Besides that, transactions that have not yet been entered into the books (since they have not yet been billed) are often overlooked even though they already represent an economic risk to the entity. In complex organisational structures, the origin of the cash flows (parent versus subsidiary) is sometimes not so easy to reconstruct, which makes a holistic risk assessment of both transactional and translational risk quite challenging.

When helping companies with the assessment of cash-flow data, one of the usual challenges concerns the approach to intercompany flows. While these might be neutral positions when consolidated to the parent, individual entities that are concerned with hedging their local exposures should consider these positions in a similar way to third-party business. It is also vital that treasury communicates in an unambiguous way whether or how to include these flows in the forecast.

TOP 10 JOBS FOR THE FX RISK MANAGER

Front office	
1	Capture exposures
2	Validate exposures and hedge ratios
3	Make hedging decisions
4	Create and capture hedge requests
5	Execute trades
Mid/back office	
6	Trade capture and post trade
7	Trade life cycle
Accounting and reporting	
8	Hedge accounting
9	Reporting
Stakeholder/management	
10	Explain FX results

When performing a strategic review of their FX hedging programme, many businesses struggle to extract the desired cash-flow data from their systems

Challenge #2: Budgeting

In many companies, the budgeting process is scheduled to take place once a year, with the agreed conversion rates for the budget and targets being valid for the remainder of the year. The hedging percentage and horizon depends vastly on the business, but is often scaled with the hedged amount being topped up over time. It is very unusual for a business to get the opportunity to achieve the budgeted rate in the market for 100% of the exposure and for the full year. Hence, if the market does not move in favour of the business, there is often enormous pressure on companies to 'beat the market'. Also, the methodology to determine a yearly budget rate can range from using simple spot or forward rates, to using an average forecast from banks, or determining a rate based on historical or fundamental analysis.

One approach, which works well for some companies, is to put hedging in place for the upcoming fiscal year, with a decreasing hedge percentage over time ie 90-100% in the first quarter, 75% in the second quarter, 50% in the third quarter and 25% in the last quarter. The four forward rates will be weighted by the amount hedged and the calculated rate represents a very good reference as a budget rate since more than half of the potential yearly exposure will already be in line with the budget. Other possible approaches include having several budget rates for different quarters or updating the budgeted rate throughout the year in the event significant changes in the exchange rate take place. Whichever the chosen method, it is important to align the budgeting process with performance metrics in order to discourage speculative behaviour.

Challenge #3: Explain FX results

One of the biggest struggles reported by treasurers is to explain FX results to management. In the event of perfect forecasting, if 100% of balance-sheet exposures were hedged, the FX hedges put in place perfectly match the underlying and should bring down the foreign currency bank account close to zero. However, this is seldom the case and, due to over or under hedging, bank accounts are often left with balances of foreign currency exposure, which have not been forecasted and which result in FX gains or losses. Another major source of FX gain or loss is a mismatch in timing, ie between when the hedge is executed and when the balance-sheet items are recorded or remeasured. A third factor creating FX gains or losses are mismatches in rates, due to differences in the rates being used to revalue different items (for example, market rate versus balance-sheet rate).

It is important to regularly check the efficiency of the hedging programme and identify mismatches between the forecast and the hedging put in place. With regards to notional and timing mismatches, one methodology for improving forecasting abilities is to regularly track the sources of the in- and outflows on the bank accounts per currency on a business level and compare the result with the data that was forecasted by the business and which represented the basis for the hedging. The mismatches between the forecast and the transactions that actually hit the bank account can build the basis for more detailed discussions with the business units as to why those were not forecasted. By having this regular exchange between treasury and the operating business units, the awareness for the importance of detailed and accurate forecasts should improve over time.

1 www2.deloitte.com/uk/en/pages/risk/articles/2016-global-foreign-exchange-survey


Paolo Esposito is director of European corporate advisory; and **Svenja Schumacher** is manager of risk management advisory at Chatham Financial

ROOM TO MANOEUVRE

WHEN MARKET INDICATORS ARE UNCLEAR, DECISIONS ON HEDGING DURATION CAN OFFER TREASURERS SOME FLEXIBILITY. RON LEVEN PhD EXPLAINS

In the wake of the UK referendum on EU membership, GBP volatility hit levels last seen in the financial crisis, sending ripples across the FX landscape. Although such moves are rare, the fact that they can happen means that corporate treasuries typically have limited discretion in hedging and must routinely hedge FX exposure; the hedge is implemented as soon as an FX exposure is identified. While there may be little discretion on when or whether to hedge, there still remains potential discretion on how to hedge. And because choosing the right hedge can have a significant impact on a firm's bottom line, it's a good idea to analyse market pricing to uncover the most cost-effective hedge structure.

The right duration for hedges

Duration is one vector where there is often some discretion. Having shorter duration than the benchmark creates an opportunity to benefit from a favourable move in interest rates. Contrarily, the impact of an adverse rate move can be avoided by holding relatively long duration. An anticipation of a particular rate move would determine the duration bias. But what if there is no clear view?

Relative value can be a helpful tool for directing a hedging duration bias in the absence of a view. Specifically, avoid durations where rates are unattractive from both a relative and historic perspective. And in addition to actual rates, relative value on a volatility (or risk) adjusted basis should also be assessed. As an example, let's take USD/COP and USD/MXN. If rates for both COP and MXN outright and volatility-adjusted one-year rates are high versus other USD pair currency yields (for example, USD/EUR and USD/PHP) and they are also high versus their own three-year history, and if hedging requires buying these currencies, take advantage of this by going long duration, but keep duration short if selling. Similarly, if we look at the EUR as another example and the EUR carry is low across all metrics, then buyers of EUR should stay short duration and sellers should bias long. Exposure for rates that are not clearly extreme would best be left close to the benchmark.

Finding a hedging structure

Beyond duration, hedgers commonly have discretion on the structure of the hedge. In addition to forward outrights, at-the-money and low-delta options are common alternatives, as well as risk reversals (RRs). A strong directional bias can provide a clear guide to an appropriate structure – for example, if you are bullish, buy a call. In the absence of a view, here, too, relative value can help guide the choice of how to best take advantage of market pricing. Implied volatility drives the pricing of options and should be considered both outright and versus realised volatility and across currencies and time. As shown on page 43, implied volatility is not cheap for any of the currencies shown other than PHP, so options are generally not an attractive way to hedge.

Expensive implied volatility makes the decision on low-delta strikes moot, but in principle, risk-reversal skew would help drive this bias. For example, there is extreme USD/JPY downside skew making low-delta USD puts versus the JPY expensive and low-delta calls cheap, so USD call buyers should consider low-delta options. IDR is a currency with strong skew for USD upside so, while rare, USD sellers would get good value from low-delta puts.

Extreme skew can also highlight when RRs represent relatively good value *vis-à-vis* outright forwards. The

FX RELATIVE VALUE VOLATILITY METRICS (RED IS TOP/BLUE IS BOTTOM QUARTILE)

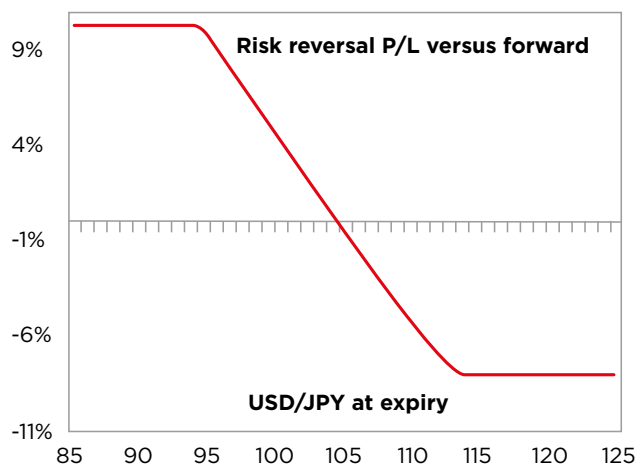
Currency	3M Implied Vol Value	3M Implied Vol Percentile	3M Implied Vol / Realized Vol Value	3M Implied Vol / Realized Vol Percentile	3M Risk Reversal skew	3M Risk Reversal skew / Implied Vol (%) Value	3M Risk Reversal skew / Implied Vol (%) Percentile
USDPHP	5.55	33.55	1.00	13.57	1.15	20.72	60.66
USDSGD	6.83	71.03	0.96	22.86	1.10	16.12	25.67
USDINR	7.20	35.45	1.71	94.13	1.50	20.83	43.93
USDIDR	10.38	18.93	1.57	27.66	2.15	20.72	80.16
USDJPY	12.65	95.66	0.99	31.16	-2.58	-20.36	2.81

SOURCE: THOMSON REUTERS EIKON CURRENCY VALUE TRACKER (SHOWING LOWEST VALUES AS RANKED BY OUTRIGHT THREE-MONTH IMPLIED VOLATILITY)

downside skew for USD/JPY suggests there is good potential return in using an RR instead of a forward. The RR would be applicable for an investor with short USD versus long JPY exposure. It is constructed by selling an out-of-the money USD put and using the premium to buy a USD call. The downward skew means that the call will be closer to the money than the put. While there is exposure to a USD rally to the value of the call strike, there will be more potential gain from a USD decline to the put strike. The chart shows the trade-off of the net profit and loss of the RR compared with what would be earned being long USD via a forward contract. Gains are made as the USD declines, which are capped at 9.5% when spot goes through the put strike. The RR does have exposure to USD strength, but the loss is capped when spot reaches the call strike at roughly two percentage points less than the potential gain.

Even hedgers with little discretion on timing have some ability to decide at what point of the day to execute the trades needed to establish the hedge. Executing a large trade during periods of poor liquidity can have a significant adverse effect on the transaction price. Thomson Reuters is able to provide an FX volume heat map, which portrays relative trading volume and liquidity during the day in half-hour segments. Using FX trading data from the Thomson Reuters matching platform, the map compares how the average volume in a particular segment compares with average daily half-hour volume. It is apparent that liquidity varies substantially and that pockets of liquidity for different currencies do not occur in unison. So when transacting large orders, it makes sense to ensure trades are executed in periods of relatively strong liquidity.

PROFIT/LOSS FOR A USD/JPY RISK REVERSAL



SOURCE: THOMSON REUTERS EIKON

Know risk, know reward

The importance of assessing the market pricing surface when developing hedge strategies for the risk of Brexit was highlighted in the Thomson Reuters April FX Market Voice[1]. By April, three-month implied GBP/USD – which extended past the June referendum – was trading at around 12.5%, so it was already pricing in significant risk. Buying three-month volatility had substantial exposure to loss if the referendum proved to be a non event and volatility sank back towards the 8% level of last December. By contrast, forward implied volatility for the month of July was trading at roughly two percentage points lower than three-month implied volatility and at the same levels as in December. Forward July volatility exposure was cheaper than outright volatility with less downside risk than if the referendum vote had been a non-market event. As was widely covered in the press, the vote was in fact a major market-moving event and July volatility surged to a maximum of five percentage points higher than it was in April.

Conclusion

Even when there is no discretion on whether to hedge, it has been shown here that there is still substantial discretion on how to hedge. Decisions on the duration, structure and intraday timing of the hedge can all have a material impact on the cost and effectiveness of the hedge. In the absence of a market view, relative value can provide a guide to cost-effective hedging. This means that it is worth investigating the pricing surface of the yield and volatility surface to find relative value opportunities that can be incorporated into the chosen hedging structure.

> Relative value can be a helpful tool for directing a hedging duration bias in the absence of a view

1 https://smartsales.thomsonreuters.com/exLink.asp?99896706OQ92A11I393435549

The content of this article should not be considered as investment advice

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SHUTTERSTOCK

EASTERLY DIRECTION

A PARTNERSHIP APPROACH IS KEY FOR CORPORATES EXPANDING INTO ASIA, SAYS SÉBASTIEN ROZÈS

Expanding into a new territory in Asia can be daunting, even if you have experience of operating in other countries in the region. Like Europe, it is a heterogeneous continent and many important nuances need to be considered by corporate treasurers seeking to manage the practical aspects of an expansion plan, be that organic or an upshot of M&A activity.

The first task in this process is to grasp the basic financial needs arising from your entry into a particular market. These can be understood through regular active dialogue between HQ, local subsidiaries and, when appropriate, local partners. This allows the treasurer to quickly build up an understanding of a business's typical banking needs on the ground, and where it is likely to encounter problems.

Apart from opening a physical bank account, the typical list of initial day-to-day requirements will include determining whether local working capital support or performance guarantees are needed, arranging letters of credit and payment services, as well as selecting a local electronic banking service. More strategic aspects to consider include staff pensions, staff benefits and what premises you might require; banks can usually help with all of these.

Documentation, both in terms of language and applicable law, is another area to consider; most major banks will not usually have an issue with English, but one challenge may be providing the required level of KYC documentation: different banks may ask for different information, and sometimes may appear to have differing levels of flexibility.

In order to get the basics right, and minimise the likelihood of encountering unnecessary hindrances, in

certain areas, it is important to have a local agent on the ground – someone who is experienced in handling country-specific tax and customs forms, for example, and is able to deal with officials face to face.

Once you have taken these initial steps, it is important to develop metrics and systems that allow you to monitor and control the process effectively. For example, harmonising IT and enterprise resource planning systems with those in use at HQ at the outset, and taking into account any planned future upgrades, will make the process indeterminately smoother in the long run. Similarly, it's worth bearing in mind the cash management and pooling services at local banks and whether the level of security available is acceptable.

Requirements here typically involve two aspects: firstly, what monitoring and control is required from headquarters; and secondly, what local services are required of banks.

Taking the first point, if the new venture is expected to remain quite small for some time, basic balance and transaction information may suffice, such as an MT940 SWIFT message. A local bank can send this to your main bank. For more geographically widespread organisations that prefer to incorporate a new country into a pre-existing regional or global cash pool, it is important to bear in mind any currency transfer restrictions that might prevent this.

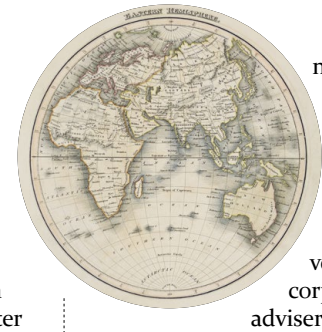
For some companies, OTC services using local branch networks to exchange documentation, collect or deposit cash (or allow their customers or staff to do the same) take priority. Here, simply getting balance and transaction information through an electronic banking service is enough. Many companies are able to simply plug in the local e-banking portal into their own software.

Interestingly, and dependent on the commercial priorities of your business, your new subsidiary might afford an unexpected cash management bonus. If your HQ is operating in a negative interest-rate environment – for example, if you're a euro- or Scandinavian-denominated company – then rather than upstreaming cash from a subsidiary in Asia and having to pay to deposit it on home soil, you can simply leave the money out in the network. The surplus cash of a parent company can even be deployed in place of a bank loan facility within this network, where permitted.

Asian regulation

There is a wide variety of regulatory regimes across Asia that must be navigated, particularly for corporates with ambitions to be active throughout the region. One example would be cash pooling. In China, there are a number of restrictions, with cross-currency netting, for example, not permitted, meaning that corporates with a deficit in one currency and a surplus in another have to sell renminbi and buy, say, US dollars at the site that has the deficit, and vice versa. Other restrictions can limit the amount of foreign currency a company can borrow – determined by the initial capital injected – as well as the ability to re-borrow any amounts previously repaid.

This underlines the importance of not only considering one's position within a specific local market, but also within the wider region's regulatory landscape. Suffice to say, links and regular dialogue with key government, central bank and regulatory bodies can be vital on a wide range of areas, from how local tax affects loan and deposit interest to the optimal ownership structure chain of a subsidiary. Restrictions can vary between different regional authorities, and so it is important – if, for example, operating in China – to maintain strong relationships with bodies such as the central bank (People's Bank of China) and the State Administration of Foreign Exchange, which administer China's FX reserves, to keep abreast of developments and their thinking.



It is important to have a local agent on the ground – someone who is able to deal with officials face to face

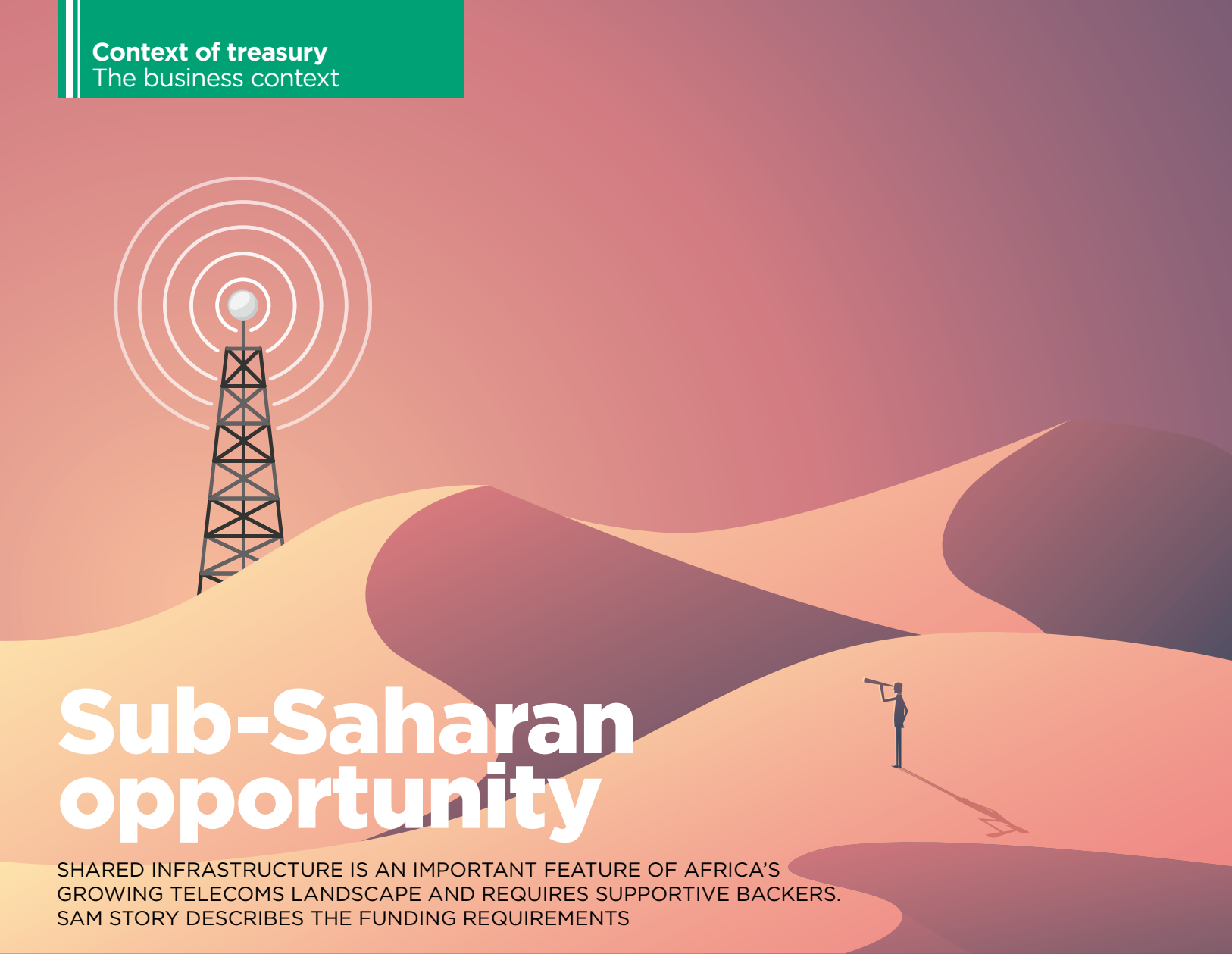
It's always imperative to nurture strong, reciprocal business relationships when seeking to develop or acquire a business in another region. In Asia, culture and customs are critical elements in this, particularly when one bears in mind the huge differences between – and sometimes within – individual Asian countries. While there is no particular shortcut to acquiring knowledge and experience of operating in these countries, one common method is to enter a new country through a joint venture with an established local company. Some joint ventures last for many years, while others involve mechanisms for one partner to assume majority or full control over time.

Global banks maintain a network of alliances with leading local banks, either by way of minority shareholdings, memorandums of understanding or simple commercial agreements that help us and our customers to access particular services where a particular strength exists. A form of matchmaking, linking up a foreign and a local manufacturer of a particular product, for example, can be arranged. For a fully fledged joint venture, however, corporates and their advisers should work closely with any potential partner to ensure full and frank discussions are held as to how both sides see the mutual venture developing over time. Often, by this stage, you will have an existing business relationship with the partner, which may have begun as a simple trading arrangement.

An important common cultural theme across the world is the emphasis on working together in partnership over the long term. For example, General Motors is a business that has fared well in Asia through its joint venture with SAIC, the Chinese state-owned automobile company, which was initially signed in 1997. Last year, the joint venture sold nearly two million vehicles in China alone.

Of course, not every experience has been as successful as that of General Motors, and many US and European companies find tapping into Asia to be a challenging process. Yet despite recent volatility in China, the region's growth is expected to create an abundant terrain of opportunities that would be considered outstanding by Western standards. We envisage that more companies will be looking east in the coming years. This will require them to take a systematic approach that is founded, above all, on the principle of partnership.

Sébastien Rozès is head of corporate banking for EMEA at MUFG



Sub-Saharan opportunity

SHARED INFRASTRUCTURE IS AN IMPORTANT FEATURE OF AFRICA'S GROWING TELECOMS LANDSCAPE AND REQUIRES SUPPORTIVE BACKERS. SAM STORY DESCRIBES THE FUNDING REQUIREMENTS

Four and a half years ago, I would not have been able to describe what a telecom tower was; nor would I have been able to locate Ghana, Uganda or Burkina Faso on a map. Early in 2012, after five years in transaction services at KPMG, I was hired by the newly appointed CFO of Eaton Towers. Still far from being an industry expert, in my time at the private equity-(PE) backed, African start-up, I have gained some invaluable telecoms industry and African experience, namely in raising finance.

During my time at Eaton we have grown the business from around 800 towers in Ghana to more than 4,500 towers across five countries. This growth has been funded by raising more than $750m of equity and more than $465m of local debt (much of this committed funding is yet to be utilised) over the past four to five years.

Tower sharing in Africa

While passive infrastructure sharing in the telecoms industry (sharing of the site, the tower structure and power supply, not the 'active' dishes and antennae installed on the tower) is commonplace in the developed world, it is a relatively new concept in many African countries. It provides a highly attractive, asset-backed, growth opportunity for both PE investors and for the more established international towercos looking to expand their global footprint, such as NYSE-listed American Tower Corporation (ATC).

The underlying growth in mobile penetration and internet access (data provision) to many millions of Africans, is driving increased coverage and capacity requirements for the mobile network operators (MNOs). Put simply, this means more points of service are required: more equipment on more towers. Passive infrastructure sharing (or co-location on towers) allows MNOs and data service providers to meet these roll-out demands rapidly and with much lower up-front and ongoing capital expenditure, with the towercos taking on the associated capex and being responsible for power provision.

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MNOs across Africa are increasingly looking to monetise their tower assets by sale and leaseback to independent towercos. This operator-led strategy, which typically results in a much higher quality of service to the end customer, is driven by one of two key objectives:

- To raise cash (usually to fund further network expansion; to deleverage their capital structure; or to maximise value as part of a market exit); or

While passive infrastructure sharing in the telecoms industry is commonplace in the developed world, it is a relatively new concept in many African countries

- To improve profitability and free cash flow by reducing the ongoing opex and removing any passive infrastructure capex obligations (towers require significant investment in power provision, security and general maintenance).

Improved quality of service tends to be more of a by-product than a driver of a deal. Towercos are set very strict service uptime targets by the operators, meaning that a high level of investment in efficient power provision to the towers is vital. This is especially important where many towers are not connected to the electricity grid or where the grid is poor and unreliable, such as in Uganda, where the grid can be down for more than 12 hours per day.

The other by-product is increased competition in the market since infrastructure sharing means that the other MNOs as well as data providers, TV and radio stations can install their active equipment on the sites. This is a key driver of EBITDA growth for the towerco because the incremental opex cost of adding a tenant to a site is the relatively small extra power usage, so the co-location revenue is mostly carried down to EBITDA.

To date there has been a huge range of prices paid by towercos for portfolios of sites in Africa (from $50k per tower, right up to $250k). The most significant driver of the valuation is the leaseback fee that the operator is prepared to pay in return, over the life of the contract, which is typically 10 to 15 years.

When the towerco pays a very high upfront purchase price in exchange for high leaseback fees from the anchor tenant, counterparty risk is key. Can the operator afford the high leaseback fees over the life of the contract, or will the towerco be facing contract renegotiations because the operator simply does not have the cash? It is surprising how quickly an operator can forget the many millions of dollars it received for its towers and start complaining about the high leaseback fees.

Financing

Each of the big four towercos on the African continent – Eaton Towers, Helios Towers Africa, IHS and ATC, have taken contrasting approaches to financing their acquisitions. As a US-listed company, with funding from the Holdco, ATC has a lower cost of capital and longer time horizon than the three PE-backed competitors, who need to achieve shorter-term target internal rates of return in the region of 25% to 35%.

Eaton Towers injects equity (in US dollars) via our UK Holdco and raises debt at the local country level for each of our operations, rather than having debt facilities on the UK Balance Sheet. Typically, we achieve gearing of 40% to 55% from a mixture of local currency and US dollar-debt facilities (or euros in our French-speaking markets) as a way of mitigating currency risk. While dollar debt is often far cheaper (margins in the region of 5% to 9% depending on the tenor), the local currency debt, which costs as much as 28% per annum in some of our markets, can be seen as an effective hedge against potentially volatile currency devaluation (Ghana being the prime example). An acceptable balance between the interest expense and FX losses must be found. Dollar debt tends to give the lower interest, but incurs potentially high FX losses, while local currency debt removes the FX risk (where revenues are received in local currency), but usually comes at a much higher cost.

A limiting factor in the currency mix is often the lack of availability of longer tenor local currency debt, forcing us to raise more in US dollars. On the other hand, a lack of availability of US dollars in the market can lead to a higher local debt quantum than may otherwise be desired. In countries such as the Democratic Republic of Congo, most goods and services are paid for in US dollars, so availability is no issue; whereas in countries like Egypt, US dollars are scarce (and expensive), which reduces the attraction of raising large quantities of dollar debt. In some markets, the availability of dollars can be seasonal (such as Malawi: resulting from the tobacco trade), which needs to be considered in the repayment profile of any dollar facilities.

Alongside local commercial facilities, which typically have tenors of five to six years, we arrange development finance institution facilities, which can provide tenors as long as eight to nine years with back-ended repayment profiles to match EBITDA growth. Margins on these facilities correlate with the length of the tenor.

Covenants have evolved since 2012 as lenders' understanding of our business has developed – as an example, the lease-up rate (LUR), which is a measure of the average tenancy ratio across the portfolio (one and a half times, meaning that 50% of the portfolio has a second tenant installed), was initially used as a financial covenant to reflect the growth of the business. It became clear, however, that it is possible to have *reduced* LUR with *increased* revenue and EBITDA when operators merge and consolidate two installations into one by installing additional equipment (for which they pay higher rates) to serve the growth in data services, such as mobile money transfers. This covenant has now been scrapped, with key covenants now being leveraged and the debt service coverage ratio (DSCR). Leverage can start at around five to six times, but by years two to three, is often down to below two and a half times and DSCRs start at 1.20 times and increase over time.

Security for a highly leveraged start-up is unsurprisingly comprehensive and typically comprises parental guarantees, share pledges, assignment of shareholder loans, material contracts and local assets.

Once the debt facilities are in place and the initial acquisition in a market closed, the challenge of managing cash flows, meeting financial covenants and servicing the debt begins. In some markets this can be threatened by financially weakening counterparties; in others it is challenged by in-market mobile operator consolidations; and in some it is currency volatility, which can give us headaches. In all cases, however, the key is to have credible, supportive lenders, who we keep well informed of key developments in our businesses and the likely impacts of frequently changing market dynamics on our cash-flow forecasts.

Sam Story, treasurer, Eaton Towers

In search of firm ground

BREXIT, NOW A REALITY, CONSTITUTES A POLITICAL SHOCK, BUT THE REPERCUSSIONS HAVE YET TO PLAY OUT. NARESH AGGARWAL AND STEPHEN POWELL DISCUSS THE IMPLICATIONS

We've seen an immediate impact following the UK popular vote to leave the EU in the form of a flight from riskier assets like sterling and equity to safer asset classes such as government bonds, gold and even US bonds. But greater certainty is some way off and dependent on the withdrawal negotiations and eventual agreement.

Questions around the volatility businesses already face and the regulatory issues that the UK government will need to address were the focus of a well-attended ACT webinar, 'Brexit: what now?'

The first discussion point was the legal process for an exit. The UK government will serve a notice under Article 50 of the Lisbon Treaty on the European Commission. Then there is a negotiation and waiting period while a withdrawal agreement is drawn up. That period will last either until the agreement is concluded or for a period of two years or, if everyone agrees, for some stipulated time beyond two years.

From a technical point of view, once the waiting period is over, EU law is effectively dead for UK banks and corporates. "Any direct effect EU law has on the UK will cease," said Stephen Powell, partner at Slaughter and May, and member of the ACT's policy and technical team. "However, there will be many, many cases relevant to corporate treasurers where the UK will want to adopt something similar to EU law."

Deregulation

The big questions around deregulation are: when and in what respects will UK-based treasurers start to see deregulation in terms of their EU-generated obligations? And the picture is a mixed one.

"Coming back to areas corporate treasurers are focused on, so many of the decisions we see coming from the EU were actually taken at G20 level and so the UK government will want to comply with those. An example is European Market Infrastructure Regulation [EMIR]. The ability to have a derivative transacted through a third party on an exchange would be something that the UK government will likely continue. Indeed, if you want to operate across borders you will need EMIR, because other people want equivalence with their regime," said Powell.

A recent ACT poll found the number one concern for treasurers to be FX volatility and the weakness in exchange rates. Naresh Aggarwal, senior manager at PwC and a member of the firm's Brexit consultancy team, pointed out that in the immediate aftermath of the vote, spreads widened in some instances to 10 times their typical size. And while that volatility has abated to around two

"This is a good time for an issue providing that it is part of a regular programme"

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to three times (at the time of publication), the market is not as liquid as formerly. "You also get a sense that some of the smaller banking players are withdrawing from the market and not providing as much pricing. You're seeing more activity concentrated around larger global banks and banks not domiciled in the UK," he said.

From a funding perspective, Aggarwal sketched out two sets of issues. "For regular issuers, we've seen good response. One issuer was three times oversubscribed," he said. "You get the sense that with interest rates and long-term rates lower than they have been for a very long time, this is a good time for an issue providing that it is part of a regular programme," he said. Irregular issuers may struggle from a reputation and perception point of view, however, as an issue may be considered a genuine need for additional funding.

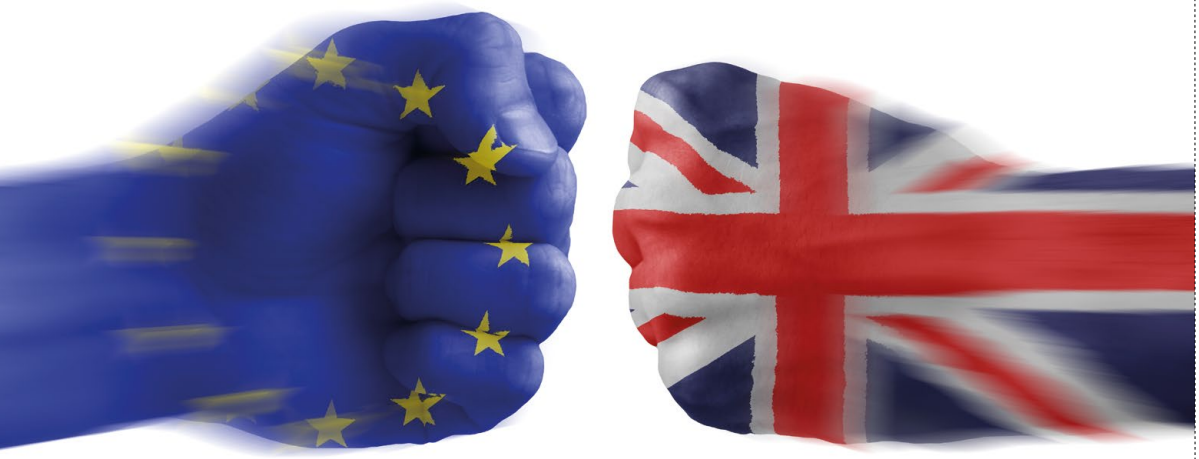
From an FX perspective, the issue becomes how robust their planning has been. Well-organised corporates that had run aggressive stress tests and one in 200 event planning will have found 24 June to be business as usual, Aggarwal said. "However, there were certainly a lot of challenges for those who weren't properly prepared."

Many are looking at hedging strategies to see if they are still appropriate, he continued. "Some smaller risks are becoming more prevalent and regulators are already asking how well businesses could support another 15% movement in sterling based on today's exchange rate," he went on.

The cash and liquidity issue is a little harder to read at this early stage, Aggarwal

WHAT SHOULD TREASURERS DO NOW?

- Keep a close eye on counterparties, not just in terms of their credit ratings, but across a wider set of measures.
- Keep a close eye on your documentation.
- Do the things treasurers do so well, which is providing that bedrock of confidence for your colleagues across your business.
- Support the business to take advantage of new levels of exchange rates and explore new markets.
- Take time to ensure your governance is still fit for purpose; that your risk appetite is still relevant and appropriate; and that contingency plans are robust.
- Demonstrate your unique skills and expertise to aggregate new risks from across the organisation, and provide it in a clear and coherent way to senior management.



> "A lot of organisations will want to ensure the risk framework remains robust and coherent. Again, it comes down to planning"

argued. "We know a lot of organisations have hoarded cash. It may be that over the coming months that starts to leak out," he said. "We're seeing a renewed focus on cash forecasting and we're back to producing a lot of daily information to senior management. Medium term it will definitely be prudent to review assumptions around cash forecasting and working capital, and ask what stress you could withstand if suppliers start asking for payment upfront or customers start to delay payments."

Counterparty risk

With the UK's recent downgrades and some banks on negative outlook, counterparty risk will be front of mind for many. Aggarwal suggested treasurers are looking at counterparties more closely. "There is greater interest in looking at a variety of measures such as banks' size, where they are located, share price volatility. Organisations are building more complex models to get a better understanding of their key banking partners."

In the lead-up to the UK referendum, treasurers will have done a great deal of work scrutinising their funding documentation. Powell advised that they continue to do so. "The key is to look for anything you might trip over. If you have a covenant with a balance-sheet item measured against a profit and loss item, check whether FX volatility has an impact," he said. "There are things people have written into the documentation that overcome that. Check whether your covenants going forward are affected by Brexit. Look at flexibility: might your business want to make some disposals going forward? Does your banking documentation allow you to do that? The same point applies to acquisitions," he said.

"On default events, check your documents," Powell advised. "The vote itself is unlikely to prompt a material adverse change [MAC] clause. Going forward, assess the impact Brexit has on your business – might that be a MAC? In debt capital markets, corporates are already focusing on risk factors – again watch continuously."

Aggarwal also reinforced the need for continuous review. "A lot of organisations will want to ensure the risk framework remains robust and coherent. Again, it comes down to planning. Do you have the right people on your task force, asking the right questions, identifying the right management information?"

Continuing to provide sound evidence-based advice is key: "Making sure that boards have the right information to make the right judgements is really important. The markets have moved, but fundamentally, the legislative framework hasn't changed. But make sure the risk framework around fraud risk, dealer risk, dealer controls and cyber risk is just as robust today as it was before the vote," he said.

PASSPORTING AND EQUIVALENCE

Passporting

Under existing regulations a bank authorised to carry out a particular line of business, for example, corporate lending, in one member state can carry that authorisation to another. However, not all bank activities require a passport, and banks are looking at what they offer across the EU. UK corporate treasurers will need to keep this under review. "Look closely at your bank and understand what it is doing against that background. Make sure you have clear communication channels so that it doesn't come as a surprise if they say 'we're withdrawing or changing'," Powell advised.

Equivalence

The equivalence concept is an important one, because the UK, post-Brexit, will be a different jurisdiction from the rest of the EU for many purposes. Often banks may operate and serve customers based in a different jurisdiction, providing the two jurisdictions have regulatory regimes that are equivalent. That ability to operate across broadly similar regulatory regimes is the reason the UK is likely to maintain similar regulatory provisions after the two-year negotiation period.

This article is based on the ACT webinar – 'Brexit: what now?' (See www.treasurers.org/webinars/brexit)

Naresh Aggarwal is a senior manager at PwC and a member of the firm's Brexit consultancy team

Stephen Powell is a partner at Slaughter and May, and a member of the ACT's policy and technical team

Staying ahead of change

BANKS AND THEIR CORPORATE CUSTOMERS FACE CHALLENGES FROM REGULATION. SURAJ KALATI SAYS STRONG RELATIONSHIPS WILL AID BOTH

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Recent regulatory changes are aimed at helping banks protect their customers by improving their ability to weather financial stresses, such as those we saw following the 2008 credit crisis. Basel III, for example, regulates how much capital and liquidity banks need to have on their balance sheets compared with the obligations they have to customers. While on the surface this initiative appears to impact banks primarily, it does pose a number of challenges to corporate treasuries in terms of effective liquidity management as well.

These challenges involve corporate treasuries across the spectrum. This includes those faced with solving the 'problem of plenty', looking for effective distribution options to make the most of significant cash surpluses, as well as those with the 'problem of scarcity', who need to optimise fragmented pools of cash in an environment where the cost of external credit is increasing.

With this, there are two areas of particular concern. The first relates to credit, which has not only become more expensive, but also less accessible with the pressures put on banks by Basel III and other regulations. This has also had a negative impact on the efficiency of some widely adopted self-funding strategies used by corporate treasuries to maximise internal liquidity. The second, and one that has compounded these existing challenges since the financial crisis, is the ever-changing landscape for deposits and deploying excess cash reserves.

Self-funding strategies

The accelerated review of self-funding opportunities was driven first by corporate treasurers' concerns about market volatility in the wake of the credit crisis. As the regulatory environment continued to evolve after 2008, however, the self-funding strategy became an essential alternative to more costly external sources of credit. However, as a consequence of capital rules introduced under Basel III, certain self-funding solutions, such as notional pooling, are seeing a broader review across the market as both banks and companies look to ensure that the overall size, operational management and commercial terms of these pools are reflective of the higher costs related to the service.

Although the regulatory landscape continues to shift, corporates still have the same end goal in sight when it comes to liquidity management. They want the ability to:

- Access liquidity quickly and easily;
- Mobilise it across geographies; and
- Maximise its value.

As a result, treasuries are turning to their banking partners to consult on how best to navigate through the complexities that transpire from the regulatory developments, while still allowing the business to meet its strategic objectives. These developments also have increased focus and demand for alternative self-funding solutions, such as efficient ways of achieving physical consolidation, while still addressing the challenges created by direct intercompany lending.

Optimising investable cash

HSBC has long had an eye on this evolving regulatory environment and the potential effects of Basel III. From our viewpoint, innovation from banking partners will be key to overcoming the challenges. For instance, finding new and better ways to further automate investment processes will go a long way in helping corporates make the most of their investable cash. This includes enabling treasurers to define investment rules upfront – allowing them to get the appropriate level of return at their acceptable risk level, while also systematically controlling compliance and reporting.

To this end, we have been working with companies to organise their liquidity management structures in a way that gives them the flexibility to respond to the market dynamics more effectively, while also putting them in a better position to cope with future impacts.

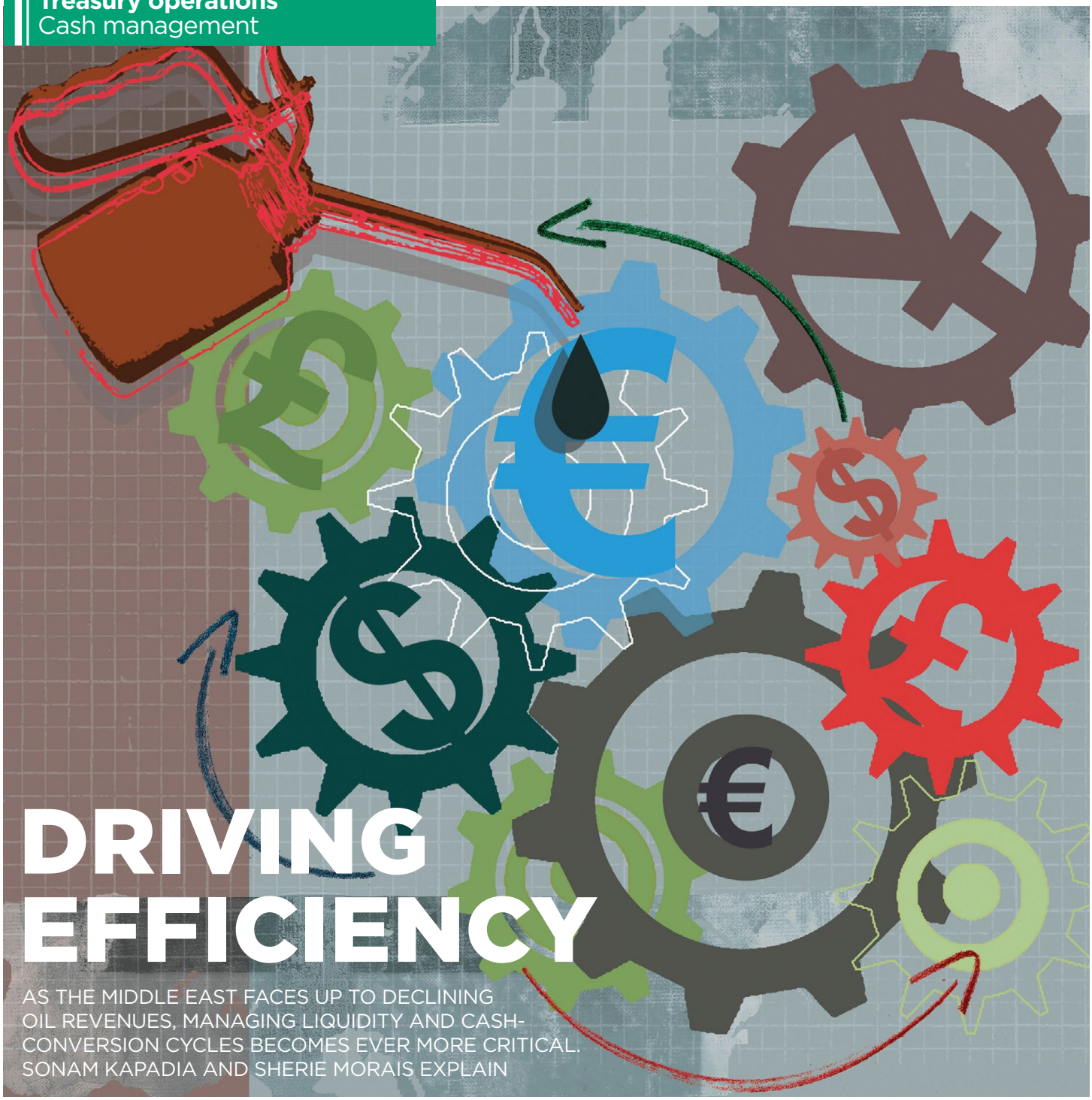
Strong partnerships

Although Basel III and other regulations have been at the forefront of conversation for years now, there is still more to be done. That's why, as regulators continue to address the range of questions that result from the implementation, it is critical for corporate treasurers to stay close to these developments in order to fully understand the specific consequences they may have for meeting their company's strategic goals.

One of the best ways to do this is by looking to your banking partners for guidance, moving beyond a primarily service provider relationship to one based on solutions and insight.

Suraj Kalati is global head of liquidity and investments product management at HSBC

HSBC



DRIVING EFFICIENCY

AS THE MIDDLE EAST FACES UP TO DECLINING OIL REVENUES, MANAGING LIQUIDITY AND CASH-CONVERSION CYCLES BECOMES EVER MORE CRITICAL. SONAM KAPADIA AND SHERIE MORAIS EXPLAIN

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The cash-conversion cycle is one of the key indicators of the liquidity required by a company to manage its day-to-day business. It starts at the time the payment for raw materials is made and ends when the proceeds of the sales are received.

Along the way, there are a number of variables that come into play, including the payment period offered by the company's supplier, the transit period, the inventory holding period for raw materials and finished goods, the time taken for the conversion of the goods, any credit period offered to the end buyers and the efficiency with which the collections are implemented.

While a number of these items are not directly within the control of the treasurer in organisations, and are often impacted by systems and policies deeply embedded within the operating environment of the corporates, treasurers can still explore and look to work with financial institutions to identify options that are mostly financial by nature, to reduce the company's cash-conversion cycle.

Receivables financing

The receivables from a balance-sheet perspective are a dual concern for the treasurer. They not only present a delay in cash, but also expose the corporate to credit risk.

Some companies have a risk management function working in partnership with the treasury team and the sales

department to ensure that the company assumes reasonable credit risk, establishes suitable policies and also works with key partners, ie banks and insurance companies, to develop risk-mitigation solutions.

For the cash that is trapped in the receivables, the obvious solution would be to sell everything on a cash basis. However, this would be contrary to market practice. Instead, financial institutions, such as the National Bank of Abu Dhabi (NBAD) for instance, work with treasurers to look at options that allow companies to offer reasonable credit terms, while also releasing the cash blocked and mitigating the credit risk.

Setting up a receivables financing programme helps companies meet these objectives. The type of receivables financing programme would be determined by the terms of the underlying sales documentation.

The ability of the company to assign the receivable as evidenced by the underlying contract is of critical importance to the structure of the receivables financing. Many of the underlying sales agreements have specific conditions relative to the ability of the company to assign its receivables. The location of the buyer and seller, and performance of the contract also impact the structure of the assignment, since they determine the appropriate governing laws and jurisdiction of the assignment.

All in all, a detailed legal review of the underlying sales documentation is required. It is always helpful if the potential requirements for receivables financing are kept in mind when the commercial contracts are being discussed.

Consideration should be given to some of the variables in play when setting up the programmes. They include the value of each transaction. If each transaction is of the size and nature that each can be purchased separately by a bank, this would entail a credit assessment on the buyer by the bank. Typically, 80-90% of the receivables' value is purchased by the bank to keep the supplier engaged in the transaction. These sales can be done on a disclosed or undisclosed basis to the buyer.

The financing agreement also contains limited terms on which the bank has recourse to the corporate seller. Those are usually limited to breach of representations and warranties, commercial disputes and chargebacks, and failure of the assignment for undisclosed programmes.

Visibility is key

As treasurers focus on improving their companies' cash-conversion cycles, it is critical that they also have complete visibility over their cash positions and control over cash balances with accurate and timely information provided by their banks. An understanding of where cash is, is vital to enable it to be deployed effectively. Cash-flow forecasting is a key component, with treasurers aiming at accurate forecasting of future demands on corporate funds, managing receivables and having greater control of the payments process. All these are essential tools as they will predict if the business will have enough cash to support the operations or other planned activities, such as business expansion, for instance. Banks are in a position to offer multiple collection methods to suit business requirements; however, the requirement for quick and immediate use of these funds is increasingly becoming the treasurers' top priority with supporting tools to provide visibility and access to the funds.

Supply chain financing: a growing liquidity tool in the Middle East

In addition to receivables financing, companies can also consider supply chain finance (SCF). SCF deals with the purchase side of the cash-conversion cycle of the company. The company looks to increase the supplier credit period. An SCF arrangement provides a solution where the payables can be extended by the company. However, the supplier would receive the cash upfront rather than having to wait until the end of the credit period. Typically, these arrangements are most beneficial to large buyers, who have a substantially stronger credit profile compared with their suppliers. This has the added benefit of credit assessment and the pricing being driven by the larger buyer's standing in the market. The buyer benefits from a healthier and more solid supplier community, thereby securing and strengthening its whole supply chain.

SCF programmes are typically structured to minimise the disruptions to the physical supply chain. These programmes are highly automated and provide straight-through processing to drive operational efficiencies.

SCF is well established globally, but remains relatively new in the MENA region, with only a few of the international banks offering fully automated SCF programmes. NBAD has recently launched and become the first UAE bank to offer SCF. With its additional advantage of having a platform based in the region, NBAD can customise SCF to the specific commercial conditions of the Middle East.

Banks continuously see a strong push towards the automation of payments and payment standardisation, both from a corporate and a regulator's perspective. They need to constantly invest in systems to keep up with the ever-changing demands from clients and the market. These investments are now targeted at fully linking the supply chain ecosystem by ensuring the entire process is fully automated end to end.

This helps drive greater efficiencies by reducing manual intervention/processes, thus reducing errors, and saves direct and indirect costs. Whether processing payments through different banks' platforms, there are many benefits to be achieved.

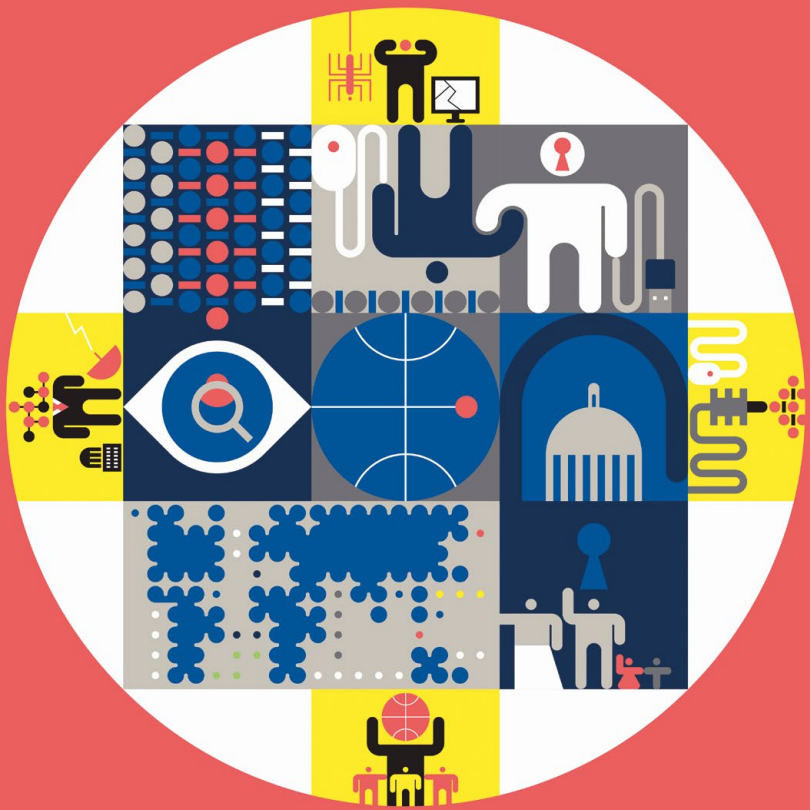
In summary, receivables financing and SCF offer good alternatives to meet the objectives of managing a tight cash-conversion cycle. Both solutions continue to evolve and are becoming more and more mainstream in the market.

Treasurers can explore and look to work with financial institutions to identify options that are mostly financial by nature, to reduce the company's cash-conversion

Sonam Kapadia is head of corporate trade sales and advisory for MENA at NBAD

Sherie Morais is head of cash management sales and advisory at NBAD

NBAD



Focus your resources

DAY-TO-DAY PRESSURES ARE OFTEN AT ODDS WITH WIDER STRATEGIC AMBITIONS. LESLEY MEALL LOOKS AT THE TECHNOLOGY CHOICES TREASURERS FACE

Nothing is perfect. There is always room for improvement. All treasury functions and teams are a work in progress in one way or another. So if you ask a group of treasury professionals what they would do if they could make one change for the better, the responses (perhaps unsurprisingly) can range from the sublime ("Travel back in time and tell everyone I have ever met to vote against Brexit") to the ridiculous ("Eat more chocolate").

We may learn more about the professional concerns, challenges and priorities of treasurers from more mundane responses. These include: "Convince my team that treasury workflow will help them to be more strategic"; "Collaborate with financial planning and analysis"; "Drop IFRS before IFRS 9 becomes mandatory"; and "Automate the reconciliation of bank statements against the general ledger".

Some of these suggestions echo findings in the *Kyriba/ACT 2016 Treasury Survey* (www.treasurers.org/kyriba/2016). Earlier this year, when members of the corporate treasury community were asked about their concerns, challenges and priorities, their responses painted a picture of a resource-strapped profession facing the concurrent issues of growing operational complexity, more onerous compliance requirements and an expanding role.

New roles and responsibilities

As well as managing traditional liquidity and risk issues, increasingly treasurers are being asked for strategic advice. "In many organisations the CFO's role is becoming akin to that of deputy CEO," says Colin Tyler, CEO at the ACT. "As the CFO steps up to the plate, I expect the treasurer's responsibilities will broaden and help fill the gap," he adds. (You can read his blog, exploring some of the implications, at https://blogs.treasurers.org/whats-on-the-horizon-for-treasurers)

It may be getting more difficult for treasurers to expand their role, to offer strategic financial analysis and counsel to the board and executive team. Half the Kyriba/ACT survey respondents were unhappy with the amount of time available to address matters of strategy. In 2016, treasurers seem to be spending less time on strategic planning than in 2015 and more time on cash-flow forecasting and management, and compliance-driven bank account management.

If Brexit makes liquidity management and compliance more important and onerous in coming years, more treasurers may need to find ways of automating and streamlining these resource-heavy activities, if they are to manage the growing burdens and free up time for activities that can add strategic value to the business. But what are the options for treasurers, who need to optimise use of available resources or achieve more despite having fewer resources?

More questions than answers

IT may seem like the solution, but is it? Perhaps you should focus your resources on process standardisation before automation, or combine them? How critical to success is integration: across data, functional and divisional silos, treasury management systems (TMSs) and the wider IT landscape? Would your problems be best solved by addressing pain points in and around treasury or by taking a broader 'big picture' perspective?

These questions are the tip of an iceberg and, to a large extent, the right answers to these and to many other related questions will depend on each unique organisation, treasury function, finance function, IT infrastructure and the associated aims, objectives, strategies and budgets. However, research and some of the practical experiences of CFOs and treasurers may point

towards some answers and approaches being more effective than others.

When the FSN Modern Finance Forum for CFOs recently surveyed 760 members, it found that they, like many treasurers in the ACT survey, were struggling to find an equilibrium between their traditional role and the new demands of business partnering and strategic adviser – with lack of time the main barrier. The research also delved into experiences of possible solutions and the relative significance and merits of automation, process standardisation and integration.

The power of process standardisation

"When we analysed their impact on corporate performance, we found that standardising your processes is most important, because doing this acts as a springboard to do other things," says Gary Simon, leader of the Modern Finance Forum. As well as confirming the value of standardisation, the research highlighted that it is the automation that follows this standardisation and the associated integration that enables you to make faster and smarter decisions.

At Schüco International, a global supplier of window, door and façade systems, the road to standardised and optimised treasury processes has been paved with increased automation and system connectivity. "We have been able to implement an integration solution that provides efficient and professional support for Schüco's treasury processes and conserves the limited resources of a medium-sized firm," says Thomas Schlesing, Schüco group treasury manager.

Previously, its 40 subsidiaries used numerous e-banking solutions, including manual working procedures.

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> If you get it right, the rewards can be significant and extend beyond complete transparency around all of the financial flows in your organisation

Now, an automated integration solution from Deutsche Bank helps Schüco to harmonise its cash management processes; it automatically exchanges information with one central TMS from Bellin; this receives data from Schüco subsidiaries and exchanges (XML and MT940 format messages) with Schüco's enterprise resource planning (ERP) system.

Other approaches are also available

The Modern Finance Forum survey identified cloud as an enabler of standardisation, which is reflected in experiences at eBay. Standardising treasury processes at its many global entities might have been impossible without the intrinsic uniformity of a single cloud-based solution. "We couldn't have actually created the reports we needed that many times across the world," says Debdatta Banerjee, senior treasury manager, eBay.

Fashion brand Chanel is also benefiting from the combination of standardisation and automation that can be delivered by an integrated cloud-based treasury solution. "We had been using different systems depending on the process area," recalls Kimberly Karg, assistant treasurer. France was the only country with a system for cash management with various systems in use for cash-flow planning, FX, intercompany loan management and netting.

An integrated system from Reval has improved decision-making and data quality by eliminating the need to move data between systems. "For the first time ever, we now have a single view of all our cash worldwide, in the bank and in country," says Karg.

The uniformity of the cloud system has other benefits, too. "It helps, having a single platform for all our users worldwide, as we continue to look to have standardisation in terms of processes and controls," she adds.

Make the best of IT

Most treasury functions have no option but to make the most of what they have. This may mean rationalising existing systems, whether they include spreadsheets, some manual processes or multiple systems for ERP and/or treasury and risk management. As *The Treasurer* previously outlined (see www.treasurers.org/ACTmedia/Feb16TTfutureperfect48-49.pdf), just getting all parts of an organisation onto a single instance can do wonders for process standardisation.

However, the scale of such standardisation and rationalisation efforts can vary significantly. For the independent oil and gas producer Santos, rationalising systems for cash and liquidity management, risk management plus hedge accounting and reporting was a hop, skip and a jump away from the data duplication and relatively high cost of their predecessors. "We had a mix of multiple systems and spreadsheets," says Simon Hillier, senior treasury analyst at Santos.

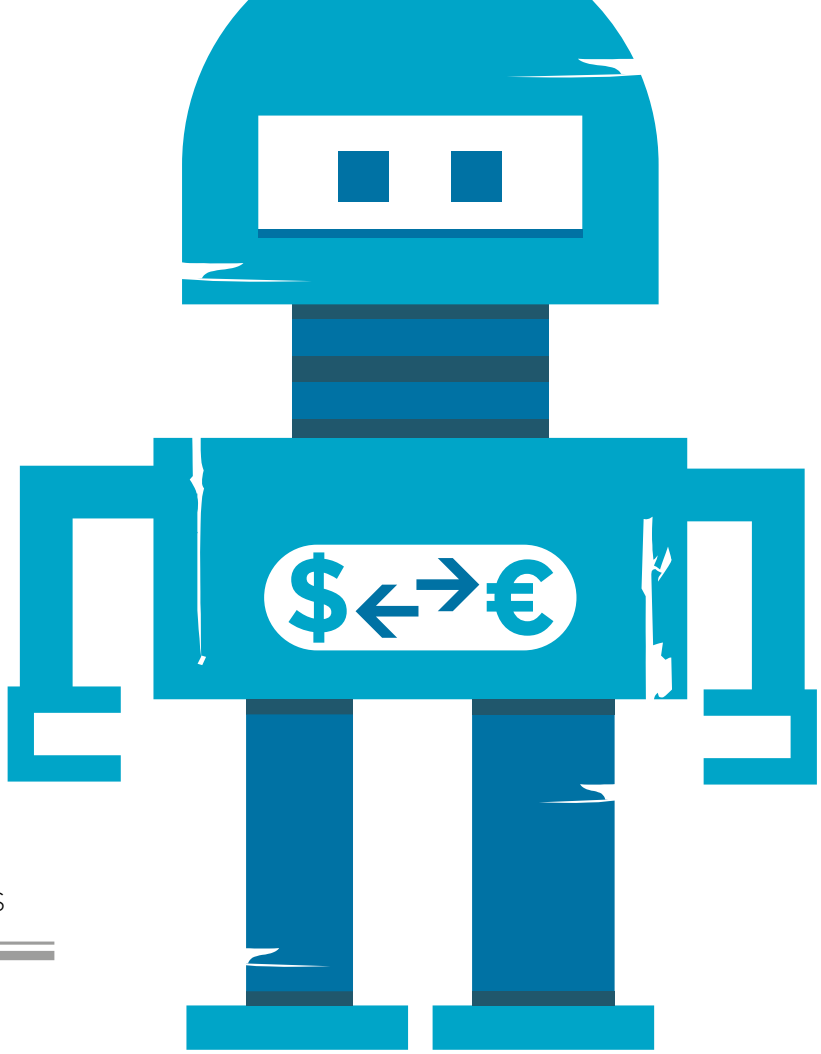
Things are less simple for fellow oil and gas producer Shell. Its journey towards process standardisation, simplification, automation and operational efficiency (with straight-through processing through better systems integration) spans every element in its finance organisation – and many years. Shell treasury operations has been rolling out its 'standard model' since 2001, to thousands of users in dozens of countries using no fewer than 40 ERP systems.

The scale of the challenge

The larger and more complex the organisation, the more difficult and time-consuming it can be to standardise treasury processes, automate treasury processes or integrate the associated data, ERP and TMS, and the wider IT landscape, and so much more. But if you get it right, the rewards can be significant and extend beyond complete transparency around all of the financial flows in your organisation and the capacity to make faster and smarter decisions.

You may find you have the time (and other resources) to provide all business units with excellent services and professional assistance, manage all of your company's financial risks, take on a more strategic role today and be prepared to meet future treasury challenges. Just don't expect all of this to happen any time soon. After all, nothing is perfect. There is always room for improvement. All treasury functions and teams are a work in progress – in one way or another.

Lesley Meall is a freelance journalist specialising in technology and finance



SHUTTERSTOCK

TWO LEGS

FX SWAPS ARE VERY IMPORTANT FOR TREASURERS TO UNDERSTAND, AND REMEMBERING THEIR TWO LEGS IS A GREAT PLACE TO START. DOUG WILLIAMSON EXPLAINS

FX swaps are a powerful short-term currency management tool. FX swaps can sometimes achieve better results than two simpler short-term instruments that treasurers use, namely spot and forward FX contracts.

For this reason, FX swaps are frequently examined in the ACT's qualifications.

In principle

Explain the principle of a foreign exchange swap.

CertT April 2016, Q5

Two exchanges

An FX swap is a composite short-dated contract, consisting of two exchanges, sometimes known as legs.

(1) An initial exchange of two currencies on a near leg date, commonly spot.
(2) A later reverse-direction exchange of the same two currencies, on a far leg date.

For example, euro might be paid and dollars received in the near leg, with *euro received* and *dollars paid* in the far leg.

Draw them

A drawing (see the robot picture, above right) might help us remember that FX swaps have two legs. Sketch your own memory-jogging legs, or anything else that makes your memory joggers personal, or fun. They will help recall key technical points, and enliven discussions with colleagues and others.

Near leg exchange	Far leg re-exchange[1]
€ paid $ received	€ received $ paid
€ → ← $	← € $ →

What's the difference?

FX swaps involve two exchanges, at different times. Spot and forward deals are for a single exchange only.

	Number of exchanges	When
Spot	1	Spot date
Forward	1	Forward date
FX swap	2	Near leg date and far leg date

Uses

FX swaps have three main uses for corporate treasurers:

(1) Offset temporary deficits and surpluses in different currencies.
(2) Combine temporary surpluses in different currencies, to improve short-term investment income.
(3) Roll forward FX contracts on to a later forward date, for example, when a hedged currency receipt is delayed.

Why not use two simpler deals?

Isn't an FX swap exactly the same as selling a currency at spot, then buying it back again later, with a forward contract?

Well, that would be almost the same, but not exactly. The potential difference, and potential benefit, is the pricing of the composite FX swap.

However, not all banks will necessarily give us this favourable pricing, so in practice we may need to shop around, or negotiate.

What's the price?

Let's look more closely at pricing. The initial (near leg) exchange and the later (far leg) re-exchange are at two different exchange rates.

The difference between the near and far leg exchange rates reflects:

- Any difference in interbank interest rates between the two currencies; and
- The bank's profit for providing the service.

Bank's profit

The bank doesn't need so much profit on the composite FX swap, because technically the FX swap is only an interest rate position, with no FX risk for the bank.

Misconceptions to avoid

Two things to notice:
(1) The two-way nature of the FX swap exchanges; and
(2) The different amounts of currency in the re-exchange.

(1) Not just a transfer

> Weaknesses included not realising that an FX swap is a buy and sell of a currency, rather than a one-way flow. Candidates should be careful to use the term only when it fits the question.
>
> *CertICM Examiner's Report*

Both of the exchanges in the FX swap are the payment of one currency, and the receipt of another. The currency received may then be transferred, for example, within a group of companies. But the FX swap itself is not a simple transfer of funds.

(2) Re-exchanged amounts are slightly different

The amounts of currency in the far leg are normally slightly different from those in the near leg exchange, reflecting both:

- The difference between the near and far leg exchange rates, in all cases; and
- Currency interest earnings, in some cases.

Net benefit

Say a group has a temporary euro surplus, and it can earn significantly higher rates of interest in US dollars than in euro. This group could improve its net interest earnings by €8,000, by switching the euro surplus into dollars for a temporary period, using an FX swap.

However, using this FX swap would also result in an exchange loss of €6,000.

The net benefit of using the FX swap would be:

€8,000 – €6,000
= **€2,000**

Overall, it's worth using the FX swap in these circumstances.

How does that work?

Efficient market pricing says the interest benefit should be exactly matched and eliminated by the exchange loss. So, how did we achieve a net benefit of €2,000?

It's essentially a cost-saving exercise. Whenever a customer deals in the market, they get the worse side of a two-way rate, incurring costs. By using an FX swap, we can sometimes save part of these costs to achieve a better net result.

Capital market swaps

Some people confuse FX swaps with longer-dated swaps. We need to understand the differences between FX swaps and two other important kinds of swap.

	Full name
FX swap	Foreign exchange swap
IRS	Interest rate swap
CCIRS	Cross-currency interest rate swap

IRSs and CCIRSs are longer-term risk management tools, sometimes known collectively as 'capital market swaps'. CCIRSs are also sometimes known as 'currency swaps'.

Differences between swaps

	Deals with	Maturities	Exchanges or settlements
FX swap	FX	Short term	Exactly 2
IRS	Interest rates	Longer term	Multiple, usually more than 2
CCIRS	FX and interest rates		

Mind your language

Talking too simply about 'a swap' can be ambiguous. It's better to use different names for the different kinds of swap, like 'FX swap', 'IRS', 'CCIRS', or their full names. This makes it easier to discuss different kinds of swap with other people, without mixing them up.

> **Learn to interact**
>
> Nothing beats robust fundamental knowledge and first principle thinking. There are tons of more qualified people, but I don't think they can explain complicated finance concepts as well as I can. The key to being successful in finance is to be seen as someone who can be interacted with.
>
> *Jiameng Teah, assistant treasurer, Vodafone*

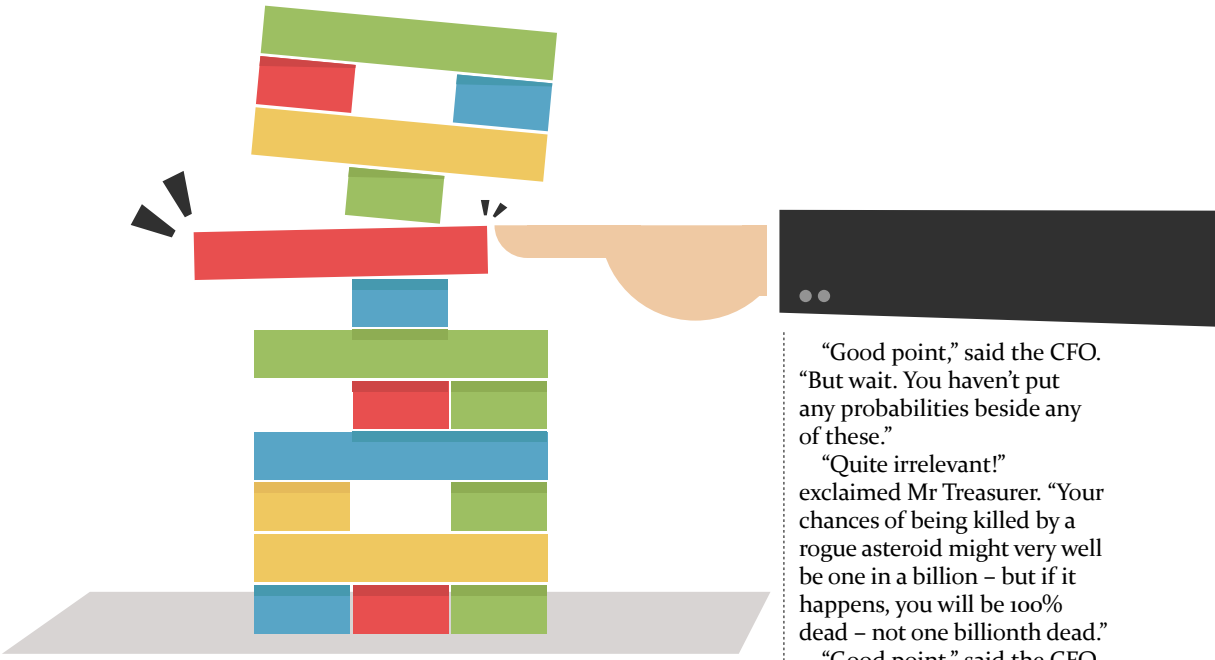
1 Amounts in the re-exchange may be slightly greater, so our far leg is drawn larger.

With many thanks to Paul Cowdell for his valued suggestions.

Doug Williamson is a treasury and finance coach

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



RISK IS EVERYWHERE

In the face of countless potential threats, Mr Treasurer keeps a steady nerve

Post-Brexit, the markets were in a flap. Money markets were twitchy, equity markets punted on winners and losers, FX markets behaved like a San Andreas seismograph.

Mr Treasurer suddenly realised he was humming to himself. To him, market volatility was simply bullet point number two in his job description. Training, experience and preparation all meant that, really, there just wasn't a great deal to be fussing about. It was all under control.

But despite his essentially good demeanour, he was feeling bothered – not because the markets were in a flap, but because the CFO was. "This is madness! Unprecedented! Uncharted territory!" exclaimed the CFO. "The chances of any of this were one in 10^9!"

The CFO's propensity to combine numeracy and exaggeration gave Mr Treasurer the sort of headache you get when you eat ice cream too quickly. He winced.

"Who knew any of this could happen?" said the CFO.

"Well, um, actually..." said Mr Treasurer – but the CFO was in full flow and could not be interrupted.

"We must prepare for every eventuality! Every risk!" Mr Treasurer winced again, because he knew what was coming. "No matter how improbable, I want to know what it is, what the chances are and what we're going to do about it! Mr Treasurer, get your entire team on to this and let me have a report for the board by 8am tomorrow."

He glanced over at his treasury dealer, the person who single-handedly comprised Mr Treasurer's "entire team". Tearing up his diary for the day, Mr Treasurer set to work. The next morning, he walked into the CFO's office with his report. It contained some of the most dire scenarios the CFO had ever laid eyes on. "Oh, my God," said the CFO. "You're serious about all this?"

"'Fraid so," said Mr Treasurer, as he silently congratulated himself for remaining completely deadpan.

The CFO read aloud from Mr Treasurer's report: "'Risk that the only trade deal the UK can negotiate in the next five years is with Greenland'; 'risk that London declares independence and builds border crossings at every junction of the M25 motorway'; 'risk that Scotland declares independence and asks Donald Trump to rebuild Hadrian's Wall'; and 'risk that nuclear war breaks out in Antarctica, melting the polar ice caps overnight'."

The CFO slumped. "This is all quite awful. Unbelievable, in fact."

"Any more unbelievable than what we've just been through, the past three weeks?" asked Mr Treasurer.

SHUTTERSTOCK

"Good point," said the CFO. "But wait. You haven't put any probabilities beside any of these."

"Quite irrelevant!" exclaimed Mr Treasurer. "Your chances of being killed by a rogue asteroid might very well be one in a billion – but if it happens, you will be 100% dead – not one billionth dead."

"Good point," said the CFO again. "We must prepare for every eventuality, Mr Treasurer! Every one! And this very minute! Um, what do you suggest, exactly?"

"A twin-track strategy," said Mr Treasurer.

"I like that! I can take that to the board. What is it?"

"Track one," said Mr Treasurer. "Prepare for the possibility that things get worse than we expect. And track two, prepare for the possibility that things get better than we expect."

And with that succinct boiling down of countless, improbable random events to just a manageable handful of possible outcomes, Mr Treasurer left the CFO's office – humming to himself again.

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 September 2016 issue of *The Treasurer* include: Winny Li, senior director of treasury at PPD, talks about her treasury role, on page 22. Our careers special section starts on page 27. Learn how reputational issues are affecting fundraising and refinancing, on page 38. Read about the challenges treasurers face when dealing with FX strategy, on page 40. What effects will Brexit have on the financial world? Find out on page 48.

LOOKING FOR YOUR NEXT MOVE?

IT'S NOT ALL ABOUT LONDON...

If you are currently thinking about a move out of the big smoke, then it is an exciting time in the Treasury world. Michael Page Treasury are currently working exclusively with a number of reputable brands outside of London. From Newcastle to Newport and everything in between, we have got you covered.

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