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## Low-yield tactics

Interest rates remain low across the globe. For corporate treasurers, this presents both opportunities and challenges. So how are treasurers changing their liquidity strategies to make the most of the low-yield environment?



### The Corporate View

**John Chen**

Treasury Director  
**Honeywell**



### The Bank Interview

**Amol Gupte**

Region Head, Treasury and Trade Solutions,  
Asia Pacific  
**Citi**

### Corporate Finance

Successful supplier finance

### Technology

Big Data

### China Practice

Capital account deregulation

### Country Focus

Malaysia



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# Nurturing human capital

The job of the treasurer is never just about numbers. It's a multi-faceted role that, today more than ever, demands an increasing level of emotional intelligence. Not only must treasurers use their persuasive abilities to help secure budget for technology investment, but they are expected to interface with the C-suite on a regular basis and embrace the culture of the corporation in which they operate, whilst also selecting and retaining the best possible treasury team.

In the Asia Pacific (APAC) region, the war for treasury talent has always been fierce. But as some of the biggest APAC economies cool off – China being front of mind – and salaries in the region continue to rise, companies of all sizes are being put under increasing pressure to deliver strong revenue growth and profitability. With high staff turnover a well-recognised feature of the APAC recruitment market, and recent statistics indicating that the financial cost of replacing a key employee can be as much as twice their annual salary, it's little surprise that many companies in the region are therefore taking the time to redevelop their talent strategies.

More than attracting new talent, corporates are looking to identify innovative yet sustainable ways to both reward and retain skilled employees. Nowhere is this kind of initiative more important than the treasury department. Professionally qualified personnel are hard to come by – and a good team really can be a treasurer's best tool.

One interesting trend in this respect is the creation of training institutes or 'talent academies' by corporates and banks across the APAC region. Samsung Electronics and Unilever are two very recognisable names that have invested heavily in such initiatives. And in March 2014, BNP Paribas actually opened a talent hub on a large 'Campus' in Singapore. According to the bank, the centre "is a place for sharing, reflection and collective learning, fostering the growth and development of all group employees."

Naturally not every company will have this level of resources to invest in talent, but this certainly highlights the value that companies are placing on their human capital today. So, the next time you revisit your treasury function's KPIs, spare a thought for the contribution that people make to overall performance.



## Managing liquidity in a low-yield world

In a prolonged low-rate environment, treasurers are under pressure to find secure, liquid investments that offer a small return. Keeping up to date with the development of new liquidity products and solutions has never been so vital.



### WOMEN IN TREASURY 6

#### Latifah Mohamed Yusof Treasurer Astro Group

'To get to the top of the corporate ladder, requires hard work. But in working hard, do not neglect your health,' is the advice of Latifah Mohamed Yusof, Treasurer at Astro Group. In this interview, she explains the importance of a strong work ethic in treasury and the challenges still facing women in the profession.

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#### Malaysia

With its vibrant economy, strategic location, and solid financial sector, Malaysia is starting to be considered a portal to investment in the APAC region. As it pushes ahead towards its goal of becoming a developed nation by 2020, we look at where the country goes from here and the challenges it still faces.

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## Liquid funds in India

The liquid funds industry in India is well established and can be used as an 'access point' to other asset classes. Liquid funds can help corporate treasurers optimise their returns on cash, but there are regulatory and tax considerations to take into account.

### MALAYSIA INSIGHT 16

More than 200 of the world's leading multinationals have shared service centres in Malaysia. In this article, Wong Hooi Ching, Head of Treasury Services, Malaysia at J.P. Morgan, explains what makes the country such an appealing location for treasury operations.

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**CHINA PRACTICE****24****Capital account deregulation**

While China has become one of the leading economies in the world, its financial system has been constrained by its closed capital account. We look at how Beijing's steps to gradually liberalise the capital account could have profound implications, both for China and the global financial system.

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Since the emergence of Big Data in the early 2000s, the concept has often been considered something of a problem for businesses. But handled in the right way, Big Data can be a great opportunity – particularly for treasurers, who can use the data sets at their disposal to help make better decisions.

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**John Chen**  
Treasury Director, Asia Pacific

**Honeywell**

John Chen has seen plenty of ups and downs in the financial world during his 20 years in treasury and finance positions in a variety of industries. He speaks to Treasury Today Asia about his relentless determination to improve and why it is important for corporate treasurers to stay alert to signs of market stress.

**THE BANK INTERVIEW****35****Amol Gupte**

Region Head, Treasury and Trade Solutions, Asia Pacific



Amol Gupte is well aware of the uncertain economic outlook in Asia, and it is his job to help deliver the solutions that can help corporates operate in this difficult environment. He speaks to Treasury Today Asia about the challenges facing treasurers in the region and the opportunity provided by capital account liberalisation in China.



These pages contain edited versions of a few of the Treasury Insight pieces written in the last month. The full versions are posted on [treasurytoday.com](http://treasurytoday.com) as they are ready. The Treasury Insights weekly email summarises the new pieces from that week plus other news relevant to treasury. You can register for this free service at [treasurytodayasia.com](http://treasurytodayasia.com)

## Shanghai Free Trade Zone: pilot to perfect

Since its launch in September last year, the Shanghai Free Trade Zone (SFTZ) has generated a good deal of interest amongst corporates, with more than 1,400 companies registering to join during the first two months. The SFTZ 'experiment' is not a standalone initiative, but rather a part of China's wider capital account liberalisation plans, which Beijing is implementing through this and a number of other trials – China's State Administration of Foreign Exchange's (SAFE) cross-border cash pooling pilot scheme, launched in 2012, is another example of this kind of initiative.

Tom Schickler, Global Head of Liquidity at HSBC, based in Singapore, calls this approach 'pilot to perfect.' The process begins with a dialogue between the regulators and market participants, through which the regulators explain what they intend to accomplish and then seek guidance about how they can best put their plan into action. They then draw up the initial regulations, based on this dialogue.

The SFTZ has a key role to play in the continued development of financial and business regulation in China. "The SFTZ is the first example of a free trade zone which should help to create a structured environment in which businesses can invest and develop. There will be much more clarity around what the conditions are to support that, not just from a capital account perspective," says Schickler.

It is anticipated that the SFTZ pilot will also allow the regulator to enhance its understanding of operational issues such as cross-border lending by observing the microcosm of the zone, before rolling out its changes across the rest of the country. "By narrowing the scope of change when measuring and calibrating, you can be much more sure about the implications when you broaden the applicability. Given China's size and its importance in the global economy, it's really critical that they get things right," says Schickler.

## Liquidity management

One of the key benefits of the SFTZ to corporates is that of improved liquidity management. Before the launch of the zone, companies operating in China were faced with a relatively constrained environment in which the account structures available to them often led to sub-optimal liquidity arrangements. Previous regulations entailed, for example, cumbersome inter-company lending structures using entrust loans, as well as the almost complete prohibition of cross-border liquidity structures.

"The SFTZ is a call to action in terms of leveraging the improved infrastructure from a liquidity management perspective. Corporates operating there can optimise their account structure, reduce domestic fragmentation of their liquidity and ultimately align their approach in China with their global liquidity management structures," explains Schickler. The importance of deriving these liquidity benefits is clear: "The opportunity to integrate and harmonise your liquidity management approach in China is very significant. Obviously for many companies around the world China is the single fastest growing element of their business," he adds.

## An alternative form of funding

This year will see more than \$125 billion in new Sukuk issuance according to figures released at the Amanie European Islamic Finance Forum held in Luxembourg at the end of March. This follows 2013's record total of just over \$110 billion. Sukuk, or Islamic Finance bonds, are slowly gaining ground on conventional bond offerings.

The Malaysian market has long accounted for the vast majority of all issuance globally, but a significant minority is now coming from the GCC countries. Indeed, there has been a notable effort in this field from Dubai (which has the stated aim of becoming the centre for the global Islamic economy (incorporating Islamic Finance) and Bahrain. And although a high proportion of GCC capital is still being deployed out of the Malaysian market, competition is increasing from countries such as Saudi Arabia, which has a very deep capital market and a huge amount of liquidity on tap.

For now, Malaysia remains the premiere market for primary Sukuk issuance, and for good reason. It has the strongest regulatory governance, legal framework and judiciary system, explains Noel Lourdes, Executive Director at independent global Islamic finance advisory firm, Amanie Advisors. The Malaysian government has invested heavily in Islamic finance since the first sukuk was issued there in 1990. The country's Securities Commission and Central Bank are geared to providing supervision, and its stock exchange (Bursa Malaysia) provides a well-managed platform for investors (of which more later).

The Malaysian Sukuk market is clearly a global attraction. For example, France's second largest bank, Société Générale, has talked of plans to issue a \$300m Sukuk programme, and Emirates Airline has also been considering issuance as part of a major funding drive. Singapore-based palm oil producer, Golden Agri-Resources, sold \$489m of Islamic five-year notes in 2012. German international financial firm, FWU Group unveiled a \$100m Islamic bond programme in 2013 and US industrial multinational, General Electric (GE), issued its first \$500m bond in 2009 (maturing in November this year). GE has talked of further Sukuk activity and French oil-giant, Total is rumoured by EuroWeek also to be seriously considering Sukuk issuance. Elsewhere in Asia, Hong Kong has already passed a law enabling Sukuk issuance.

## Heartbleed – what the treasurer needs to know

A critical defect has recently been discovered in the software which is used by an estimated two-thirds of internet servers to protect users' private information such as passwords and banking details. The defect, dubbed 'Heartbleed', was discovered by Google and Finnish software security firm Codenomicon in April 2014, and has since received a torrent of (often confusing) media coverage.

### What is Heartbleed?

Heartbleed is a bug which is found in some versions of OpenSSL, a piece of open-source software which encrypts a user's communications with web servers all around the world. The software – often represented by the URL beginning with [HTTPS://](https://) and a padlock symbol in a web browser – is designed to secure the line of communication so the user can input sensitive information, confidentially.

The bug creates a vulnerability gap in this encryption which can be exploited by hackers to allow them to read the memory of the server and see the information which has been passed through it. This includes, but is not limited to: user names, passwords, bank account details and internal and external emails. The vulnerability ultimately allows hackers to steal data and impersonate services and users.

### Mobile technology

With the increasing use of mobile technology in the treasury department, it is important to note that Android devices running version 4.1.1. or lower have also been vulnerable to Heartbleed. This has been fixed by Google in the last 18 months, in three new versions of the operating system, and in seven bug fixes. But these updates have not been pushed out to many devices and it is estimated that close to one billion devices worldwide still use the older version and remain exposed.

Some mobile applications which use the old version of OpenSSL also remain at risk, although there is no way for the user to tell they are still at risk just from using the app. The best practice recommended by security firms is to be vigilant and check on the app developer's website that they are secure, and to avoid using any apps which you cannot get confirmation on.

### Steps to mitigate the risk of Heartbleed:

1. Although some major websites such as Google have indicated that users do not need to take any action, it may be a useful exercise to change passwords for any vital services, including VPN. Cyber security experts advise that passwords be changed regularly anyway, so now is as good a time as any to begin.
2. Create a list of websites and services which the treasury uses and determine whether any of these have been affected. Mashable offers a list of the Heartbleed status of major websites including email services and banking websites. Password manager LastPass also offers a website vulnerability checker.
3. Be vigilant over all accounts – email, bank and so on – which the department has accessed online and monitor activity closely, as well as backing up data and securing offline.
4. Ensure that all Android mobile devices used by the treasury team are running version 4.1.2 or higher.
5. Speak to the IT department and ensure that, if a server is vulnerable, they replace the SSL certificate. Also, enquire about security testing for treasury going forward.
6. Continue to employ the basic cyber security measures as normal as these remain your key defence against cybercrime. ■

Longer versions of these articles are available at [treasurytoday.com/treasury-insights](http://treasurytoday.com/treasury-insights)

# This much I know

## Latifah Mohamed Yusof Treasurer



### What is the biggest challenge you are facing now, as a corporate treasurer, and as a woman in a male-dominated sector?

Of course there are challenges in the economy, and the day-to-day work of the treasurer, but one factor that I'm really working hard to achieve right now is enhanced visibility in the boardroom and in meetings between business units. This is not a result of being a female treasurer, but more that treasury is still seen as a mere support unit and not part of the core business.

That said, I do believe that female treasurers need to work harder to stand out and be acknowledged by our superiors – not necessarily through any fault of our own, but because of legacy approaches to business.

### Do you feel that women respond to the needs of treasury in the same way that men do – or do they bring something different?

Personally, I believe that women bring passion and empathy into the profession. We are perhaps more likely to guide our team members in mastering treasury skills than our male counterparts – in the same manner that we nurture our children. Also, women often seem to believe more strongly than men in the power of collaboration, not least when it comes to achieving the company's goals – be it working in partnership with our internal or even external stakeholders, such as bankers and shareholders.

### How much opportunity is there for career progression within your current role?

With sound experience and understanding in the treasury space, as well as a positive attitude and commitment towards taking on more challenges, I believe opportunities for career progression abound. When I joined Astro, I was just an associate with barely any specific experience in treasury – I've now been heading up the company's treasury department for 12 years.

### Balancing professional and family life is tricky – is the business world progressing in the right direction?

I absolutely agree that getting the right mix of personal and professional time is difficult. The good news is that awareness of this tricky balancing act is definitely more apparent among employers now than it used to be. As such, I believe the business world is progressing in the right direction in providing the relevant support systems for parents in the workplace. For example, the ability to continue to work from home and also to have flexi-hours has become more common in companies of all sizes. In bigger organisations, play schools and day-care centres are also made available.

### Who or what is your greatest inspiration?

Without doubt, my family is my greatest inspiration. But I aspire to be a role model for successful career women and mothers – excellent at work and at home!

“Women often seem to believe more strongly than men in the power of collaboration, not least when it comes to achieving the company's goals.”

### ON THE WEB

To read all the interviews in this series go to [treasurytoday.com/women-in-treasury](http://treasurytoday.com/women-in-treasury)



Driven by a desire to leverage her university studies and the experience she had gained during her formative working years as an audit assistant, in 1997 Latifah embarked upon a career in corporate treasury at Astro, a leading integrated consumer media entertainment group in Malaysia. Describing the attraction of the treasury function, she says: "I see it as a stepping stone towards gaining a deeper appreciation of an organisation's financial position as well as the financial markets."

Working her way up through the treasury department at Astro, within just four years, Latifah was put in charge of the function. In her role as Treasurer, Latifah has an extremely varied remit, driven in large part by the dynamism of the business. Domestically, Astro has operations in four key areas of business, namely: pay-TV, radio, publications and digital media. Regionally, Astro Overseas Limited (AOL) is an investment holding company with investment portfolios mainly in India, China, the Middle East, Australia and South East Asia.

Latifah plays "an instrumental role in managing the group's financing requirements, which includes participation in the key working groups for corporate exercises such as the company's listing, credit ratings and privatisation." Of course, cash management operations and the oversight of foreign exchange and interest rate exposures also fall under Latifah's watchful eye.

**"True equality is too idealistic, but it is not impossible to narrow gaps within a corporate organisation through structured functional and behavioural training programmes and job rotations."**

## **Pushing boundaries**

Never one to shy away from a challenge, in 2010, Latifah championed the implementation of SAP's Treasury software in order to automate manual processes within the department. "During my time at Astro, I have also developed appropriate treasury policies, as well as surplus cash investments and a treasury risk management framework for the group," she adds.

In many senses, Latifah's career embodies what she believes is the best piece of professional advice that she's ever been given: "To get to the top of the corporate ladder requires hard work. But in working hard, your health must not be neglected."

Obviously progression in the treasury profession, just as in many other fields, requires a certain work ethic. But getting the right balance between handling the rigours of a career in corporate treasury and maintaining a healthy lifestyle can be a challenge, with the former often favoured at the expense of the latter. This is not the only difficult balance to strike in the corporate world. Inequalities in the workplace can be a significant barrier to certain groups, and Latifah believes there is still progress to be made here. "I believe true equality is too idealistic, but it is not impossible to narrow gaps within a corporate organisation through structured functional and behavioural training programmes and job rotations," she says.

In many senses, equality is not the biggest challenge facing treasurers today. Many still struggle to even make themselves heard amid the cacophony of voices within the corporate environment. Latifah has a three-step plan to help enhance the treasurer's visibility in the organisation. The first is setting up a treasury committee, comprising relevant members of the senior management, to oversee treasury activities. Ideally this committee would sit at least quarterly. "This way the treasurer has the platform to recommend ways to narrow gaps in the organisation that can affect treasury areas such as cash and foreign exchange management," explains Latifah. She also recommends making components of the finance costs and income part of treasury's KPIs, and finally, with endorsement from the management, that the treasurer supports or participates in treasury events and forums.

Latifah is by nature a forward-thinking person and she always has an eye on how she can improve the way she operates as a treasurer. The one tool she covets more than any other would be a mobile application that can store treasury-related positions and exposures and simulate upside or downside scenarios, "so that I don't have to lug my laptop around everywhere," she says. ■

Latifah Yusof is Group Treasurer at Astro Group. Based in Kuala Lumpur, she is responsible for the group's cash management operations and foreign exchange and interest rate exposures. She has played an instrumental role in managing the group's financing requirements and was part of the key working groups for corporate exercises such as the company's listing, credit ratings and privatisation.

She started her career at accountancy firm Coopers & Lybrand, located in Johor Bahru, Malaysia, before moving to Malaysian-based UMW Group, where she championed the set-up of an investment unit. She joined Astro Group in 1997, and has led its treasury group for 12 years.

Latifah holds a BSc (Hons) in Economics from the University of Bath, UK and a CIMA Business Accounting Certificate. She is a member of the Harvard Business School Alumni Club of Malaysia and she recently became the Secretary for the Malaysian Association of Corporate Treasurers.

# Company Law in China

“ China’s updated Company Law came into effect on 1<sup>st</sup> March 2014. What are the main changes that have been made and what do treasurers need to know about these amendments? ”

**David Ling, Tax Partner, KPMG China:**



In China there are two main forms of company, domestic companies and Foreign Investment Enterprises (FIEs). Historically, Chinese Company Law has only covered domestic companies. In recent years however, amendments have been made allowing FIE regulations to mirror those of domestic companies, but these changes are often introduced some time after the domestic regulations and are often watered down. Although the 1<sup>st</sup> March 2014 Company Law revisions have been introduced for FIEs, the full nature of these has yet to be disclosed. The Ministry of Commerce will shortly issue circulars to incorporate the revisions to current rules governing FIEs.

The first major change which the revised Company Law has introduced is the removal of minimum registered capital requirements. Companies are no longer required to submit government specified capital when registering a business. Instead, they can decide internally how much capital they wish to register.

There are certain industries, however, such as banks and insurance companies, which still have to comply with the legacy minimum registered capital requirements.

A second key change is that the capital contribution period has been removed. Companies therefore no longer have to comply with strict timeframes to supply their registered capital and this again can now be a decision made internally.

The removal of the contribution ratio when a new company is established is another change introduced with the revised Company Law. This revision now permits companies to decide themselves what ratio of intangible and tangible items they wish to use, as contributions for their registered capital allowing for greater flexibility.

Another change sees the removal of the capital verification requirements. In the past, verification was required by regulatory bodies for any capital being contributed. While contributions such as cash have often been easy to verify, items such as machinery have not. This often complicates and slows down the registration process.

To provide an example of this, if a company is required to contribute \$1m upon registration, half cash and half machinery, the cash could be simply verified, however the machinery will need to be imported and processed through a number of authorities who may value the machinery less than the company. If this happens there can be a shortfall in the registered capital, requiring more cash or machinery to be introduced. The company will also be required to renew their previous approval documents which can be a long and arduous process. Thanks to the removal of these procedures the registration process is now greatly simplified and the workload for treasurers is reduced.

Overall, the revisions to the Chinese Company Law have simplified the company registration period in China. In doing so the role of the corporate treasurer has also been made easier. In the past they would be required to calculate the registered capital, the capital contribution period and also manage the verification process. Now, thanks to the revisions, these requirements have been removed and transformed into internal company decisions rather than government requirements. Looking to the future I think there will be further improvement. The government ultimately wishes to move towards a market-oriented economy and already a large amount of government approval procedures have been either simplified or renewed. This is a trend which the Company Law fits and one which we can expect to continue in the future.

**Sun Hong, Partner and Tony Zhong, Associate, Norton Rose Fulbright:**



The Company Law amendments are one of the reforming initiatives taken by the new leadership of China to stimulate non-governmental capital investment and economic activities. The ultimate aim of all these reforms is to further develop China's corporate system as well as the overall economic system more broadly, on a free market basis with less intervention from the government.

The key changes under the new laws will see the abolition of minimal capital requirements, for companies of all types, unless there are any special requirements under the laws, administrative regulations or decisions made by the State Council. Paid-in capital will also no longer be one of the registration items required on the

business licence of a company, which will now only display the capital subscribed by the shareholders. Furthermore, the legacy timeframes which dictate when registered capital will need to be paid in will cease to apply, unless otherwise falling within the exceptions. Finally, capital verification reports evidencing shareholders' actual capital contribution will also no longer be required by the State Administration for Industry or Commerce or its local counterparts.

The key theme of the Company Law amendments is to change the capital registration system from the legacy system to a subscribed capital registration system. This batch of amendments however only reflects part of the registered capital reform which is being rolled out across China. Other elements of the reform include the government changing its annual inspection system to an annual reporting system. The establishment of a credible system is another reform which will be accomplished through making registration records, annual reports, and qualification documents of all enterprises publicly available on electronic platforms. Finally the legacy residency requirements for enterprises in China will also be relaxed under the proposed reforms.

In the coming months we can also expect to see other regulatory changes including allowing listed companies determined by the China Security Regulatory Commission to be able to issue preferred shares publicly. Furthermore, we can expect to see both listed and non-listed public companies able to issue non-public preferred shares once the draft regulations have been finalised.

The amendment of laws concerning foreign invested enterprises (FIE laws) has also been put on the agenda of the National People's Congress. The market expects that the new FIE laws will resolve existing inconsistencies with the Company Law and a more flexible legal regime for foreign investment in China. Finally, various other administrative regulations and provisions will be amended by the State Council in the next few months, to correspond with and supplement the Company Law amendments.

In light of the recent capital registration system reforms, corporate treasurers may enjoy more flexibility in structuring capital payment arrangements while making new investments into China. Existing operations in China will also benefit from a (generally speaking) more relaxed regulatory environment going forward. However, the fundamental regulatory regime governing foreign-invested enterprises (including the foreign exchange control over cross-border flow of funds under capital items) still remains in place. The Chinese government has determined to introduce further reforms to the administrative and economic systems and there are more expected. It is worthwhile for corporate treasurers to keep a close eye on the further evolution of China's regulatory landscape so as to take advantage of the further opening-up of the world's second-largest economy.

### **Wei Liu, Corporate Partner, Pinsent Masons:**



China's refreshed company law represents a steep change for the country's economy as the authorities seek to nurture new businesses and entrepreneurial flair in mainland China. Promoting the domestic private sector on a global scale is at the heart of the simplified rules as China now reflects the company law structure of buoyant economies such as Hong Kong and the UK.

A number of onerous rules have been abolished to pave the way for a surge in new Chinese businesses, particularly fledgling start-ups with relatively minimal cash flow. These companies will now no longer be constrained by the 30% required cash contribution. For lucrative businesses, unlocking these funds boosts liquidity, providing cash flow to invest in growth and development.

Statutory minimum thresholds for registered capital, capital contributions and documentation to verify paid-in capital all acted as a deterrent to new business ventures in China. These obstacles have now been stripped out, reducing barriers to entry for domestic companies.

Is there a global impact? Absolutely. Domestic Chinese companies will now have more 'pulling power' when looking to attract overseas joint venture partners. Increased liquidity leads to more investment and drives opportunities to operate on a global scale.

Transparency of finances is of paramount importance as companies are now required to file annual reports, prompting a fresh approach to ethical and responsible business practices. In time, this will be a selling point to international entities looking to establish tie-ups with lucrative and successful Chinese businesses.

The new flexible laws are a turning point for China's economy but benefits will not be instantaneous. There will be a gradual process requiring education and support as businesses transition from the old system to the new. But with flexibility comes opportunity to expand and promote Chinese businesses on a global scale. ■

### **The next question:**

"What benefits – both financial and non-financial – can establishing an in-house bank in the Asia Pacific region offer to the treasury function? Also, what advice can readers share on best practice for setting up an in-house bank within APAC?"

Please send your comments and responses to [qa@treasurytoday.com](mailto:qa@treasurytoday.com)



# Managing liquidity in a low-yield world

*How are treasurers adapting in the era of low interest rates? In this article we speak to banks and asset managers to find out how the low-rate environment is changing treasury practices. We also source their tips for securing better returns on short-term investments.*

It seems that low interest rates are here to stay. In the wake of the global financial crisis, the central banks in a number of western economies – most notably in the US and Europe – cut short-term rates in tandem with a range of other unconventional monetary policies designed to restore liquidity to glacial credit markets by driving yields down at both the long and short ends of the curve.

Rates are at rock bottom across the board. In the US, the Federal Funds Rate has remained at 0.25% since the onset of the crisis, as has the benchmark interest rate in the euro, while the Bank of Japan, under the 'Abenomics' doctrine, have gone one step further by bringing their benchmark rate down to 0%. Even as the recessionary gloom finally begins to lift in some countries, central bankers seem in no rush to change course.

Indeed, a number of economists believe that the 'new normal' on interest rates in the US, UK and Eurozone will not be nearly as high as it was in the decades prior to the crisis.

A low rate environment is very much a double-edged sword for the corporate treasurer. On the one hand, it is a great opportunity to refinance and lock in lower priced debt; we have seen no shortage of corporates taking advantage of that in the past several years. However, in the context of liquidity management, a prolonged period of low rates is less of a cause for celebration. "If you are a corporate with a lot of cash on the balance sheet then these are clearly very challenging times," says David Morton, Asia Head of Corporate Banking at HSBC. This is because investing in such conditions is difficult for the corporate treasurer – and not only because of the increasingly

elusiveness of yield. It also poses great challenges in the context of risk management.

## Time to prepare

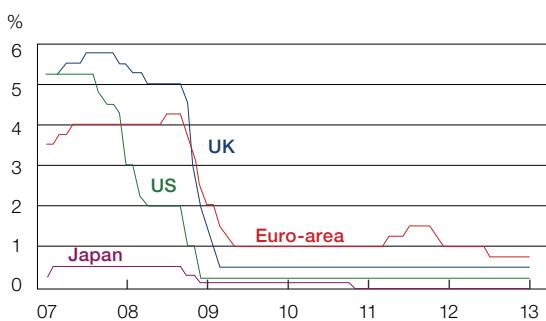
One danger that might stem from talk of a 'new normal' in interest rates is the complacency it could foster amongst corporate treasurers. If central banks do indeed decide to hold rates below historical averages in the years to come, corporates will be assured that any inefficiencies in their management of the working capital cycle can be papered over by their continuing access to cheap funding. But to rely on that would be a momentous mistake says Sandip Patil, Asia Head of Liquidity Management at Citi. Superimpose that with Basel III implementation in the banking industry and its impact upon credit availability, and this requires serious consideration.

The more sophisticated of Patil's corporate clients recognise that now is the right time to prepare for the future, to establish good liquidity risk and control policies, to determine long-term funding needs, and to improve cash flow forecasting and working capital management. "Treasurers now have more time to plan and focus on core treasury infrastructure," says Patil. "Given that a couple of years down the road we might be in a higher rate environment, I think this is an essential step at this juncture."

For many, the low rate problem is compounded by the growing pool of cash sitting on the balance sheets of corporates across the globe. According to the estimates of the Economist Intelligence Unit (EIU), total cash positions held by non-financial companies range as high as \$18.5 trillion globally, of which 41% is held in the Asia Pacific region. The initial focus then should be on making better use of the capital across the group, rather than on looking for higher yield. In most cases, a typical corporate with several hundred entities will have cash surpluses in some areas and deficits in others. "This is the time," says Patil, "for them to try and figure out whether they can introduce a more centralised structure, such as a regional pooling solution, that will give them the ability to use their surpluses to fund shortages in a structured and sustainable manner."

On this point, transaction banks are at least singing from the same hymn sheet. Liquidity pools are a tool that corporates should be seeing a lot of value in at the moment, Mireille Cuny, Global Head of Liquidity and Investment Solutions, Société Générale. "A global approach is increasingly important," maintains Cuny. "That is something we are continuing to work on here at SocGen, to provide our clients with a global view of what is happening in their subsidiaries across different geographies."

**Chart 1: Euro-area, US, Japan and UK official interest rates**



Source: Stanlib

## Synthetic repatriation

Using cash surpluses to balance shortages across the group could also have the benefit of reducing reliance on debt. After all, if companies are holding more cash on the balance sheet, why borrow to raise funds? However, a recent report by Standard & Poor's appears to indicate that the very opposite is happening at large US companies. The report quantifies that since 2010, for every \$1 of cash growth among issuers that S&P rates, debt increased by \$3.67.

That may seem paradoxical at first glance, but there are two apparent reasons. Firstly, and most obviously, rates are so low right now that it is both easy and cheap to take on debt. The second reason is that most of this cash is being generated offshore. As it is often difficult to repatriate these balances, due to a combination of local regulation and domestic tax considerations, companies are instead choosing to supplement their domestic cash deficits with debt with debt issuances. It is a trend the report refers to as "synthetic repatriation"; a means for companies to deliver shareholder returns while avoiding the tax penalties for repatriating foreign earnings.

## Help from your banks

The "synthetic repatriation" phenomenon is, of course, mainly a product of US tax law. A corporate headquartered in Europe or Asia should enjoy more flexibility in the way it manages cash across the group, particularly now that China is beginning to relax its foreign exchange restrictions. Assuming that it is possible to release cash, and that there is still some liquidity left after entities have been funded, treasurers must then figure out what to do with it. At this stage, taking a more proactive approach by speaking to banking partners and finding out about products that offer better returns often pays off. Such is the current environment that any additional return may not be that substantial, but the treasurer's prerogative, of course, is to preserve the principle, not to make a profit.

"There are a few basis points available for those treasurers who are a little more proactive," says HSBC's Morton, adding that he finds it rather surprising how many companies still keep money in "rainy day accounts" that are not actively managed. A sensible first step would be to look again at the composition of the cash on the balance sheet. There is room to be a bit more adventurous and extend maturities of deposits when it comes to so-called 'steady cash', evidenced, says SocGen's Cuny, by the growing attention in term deposits of up to 12 months, witnessed by the bank in recent years. "But even with longer maturity it is still very difficult to increase the return at the moment," she adds.

Since deposit facilities suitable for the investing of operational cash must come with a cash or cash equivalent classification, the options are more limited still. Nevertheless, treasurers who maintain regular dialogue with their relationship banks should be aware of the growing range of new products and solutions most global banks now offer.

At SocGen, for example, fidelity premiums are offered the longer cash is held in the deposit account. "It is easy to administer because it is similar to deposits, and provides the same level of liquidity as it can be stopped every month or every three months, depending how it is tuned." The fidelity premiums mean the return on the deposit is much improved, with rates on \$1 ranging between 50 and 75 basis points, relative to the rate on a typical SocGen account which is presently around the 30 bps mark.

"So they can double or even triple the return they would normally expect through this scheme."

## A perfect storm

An uncertain economic environment demands, more than ever, that treasurers spread risk by diversifying their investments. That might mean spreading deposits between a greater number of banking partners or, perhaps by using money market funds (MMFs).

In Europe, the past couple of years have borne witness to something approaching a perfect storm for investors at the short end. The funds, which manage approximately €1 trillion in assets – mainly on behalf of corporates and institutional investors – saw net outflows almost double last year to €69.2 billion. "If you look back five years, the market then was really dominated by bank supply," says Bea Rodriguez, Head of Portfolio Management for Cash Management at BlackRock. But that is no longer the case. Banks began to deleverage and simultaneously term out their funding to make them more sustainable. That along with their declining credit quality left a shortage of investible short-dated money market instruments.

The consequence of all this is less liquidity and returns so wafer-thin that investors are often in the negative after accounting for inflation. "For a treasurer that will be a big concern," says Rodriguez. The trap for the treasurer is that, in this environment, the incentive to stretch for yield is very strong, she explains. "The danger, of course, is that in most cases it will mean a drop in credit quality."

For asset managers, the challenge is to develop liquidity funds that are able to provide their corporate clients with an incremental return without adding material risk. As a result of this endeavour, a mass of new products have arrived on the market in recent years, such as BlackRock's Euro Assets Liquidity Fund. The fund was launched on to the market in 2013. The rationale was to move away from the requirements imposed by ratings agencies on AAA-rated MMFs. It gives the fund the freedom to go longer on investments they believe offer value and have less invested in near yield-less government securities.

But for the corporate treasurer, surely the peace of mind provided by credit ratings is half the point of MMFs? Are treasurers not raising questions with Rodriguez regarding risk

management? "We say to treasurers, there is nothing in our Euro Asset Liquidity fund that is not in our prime rated fund," Rodriguez says – the only difference is in the way the fund is weighted. "The biggest thing a treasurer needs to worry about is whether the fund is credit worthy. If you think that we are good as your prime rated fund manager then there is absolutely no reason that you should be uncomfortable with our Euro Asset Liquidity Fund offering." Although the product might seem rather exotic to the European treasurer, similar structures have been used in some US funds for some time now. A year on since its launch, the model is now beginning to gain a foothold in Europe, surpassing the billion euro mark in March.

## What else is there?

If the absence of yield did not present a big enough problem for the MMF industry, there is also the prospect of unwelcome regulatory changes in the coming year. Although yet to be confirmed by the respective legislatures, regulators in both the US and Europe have announced proposals that will require funds to sell and redeem shares based on variable net asset value (VNAV) rather than the constant \$€1 per share asset value determined by amortised cost accounting. "That is a very different mindset," says Rodriguez. "Some of our more sophisticated clients are happy with that as they understand that the variability will be very low as we invest in very short-term assets. But some corporates may still be a little concerned about that and decide they want to keep the money elsewhere."

The problem is that for treasurers the number of suitable homes to deposit operating cash is shrinking fast. One alternative solution that has received a lot of attention of late is separately managed accounts (SMAs). These individually managed investment accounts have been around since the 1970s, and are now receiving increasing attention in light of all the uncertainty surrounding MMFs.

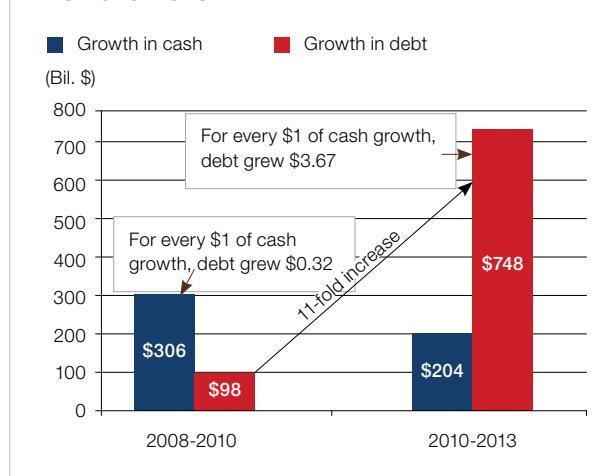
"We've had more conversations around those than at any other point in time," Rodriguez remarks. For larger corporates holding substantial amounts of excess liquidity, SMA are at least worth considering, even if one loses the full liquidity benefits of being in a fund. "You can get around the maturity mismatch that is being created if you choose a SMA because you can be bespoke, and you can really tailor the risk to meet your needs," she adds. "If you are smart, you will also understand the mismatches that are happening in the market structurally and allow yourself to be playing in them."

## It's good to talk

Perhaps the overriding lesson that treasurers can derive from the above is that low rates, while problematic from a liquidity management perspective, can be countered. Often better rates on deposits can be achieved simply by proactively talking to banking partners and fund managers, and keeping up to date with new liquidity products and solutions.

Finally, while some experts forecast rates to remain far from their historical averages for some years to come, recent central bank announcements appear to indicate that – with the possible exception of Europe – they will begin to slowly push upwards again in the coming years. With that in mind, treasurers need to do all they can in the meantime to prepare for the future by improving, as much as possible, the way in which the group manages working capital. That, of course, is the hallmark of any forward-looking treasury. ■

**Chart 2: Debt and cash growth: 2008-2010 vs 2010-2013**



Source: Standard & Poors 2014

# Recognising the best in corporate treasury

## NOMINATIONS OPEN 16TH JUNE

### What's in a name?

The Adam Smith Awards Asia recognise best practice and innovation in corporate treasury within the Asia Pacific region. Nominations will open on 16<sup>th</sup> June 2014 and there are 15 Award categories in total. If you believe your treasury team's work has gone above and beyond the call of duty, this is your chance to put yourself forward.

Often heralded as the father of modern economics, Adam Smith is the perfect representative for Treasury Today Asia's corporate treasury Awards. His resounding influence can be felt today as much as at any other time in history, with his writings and analysis still providing a stable platform for the modern economic era.

These Awards are a celebration of those who, like Adam Smith, aim to push boundaries and think to the future. This might be a project to restructure the company's cash pooling arrangements, embrace eBAM, or raise finance in new markets. It's about recognising corporate treasury talent and innovation – regardless of budget, industry, or scale.

### Why nominate?

Treasury Today has been successfully running the Adam Smith Awards programme globally for seven years now. These Awards are recognised as the pinnacle of best practice and innovation in corporate treasury and are an excellent way to demonstrate to senior management the value that treasury brings to the organisation.

In other words, the benefits of entering the Adam Smith Awards Asia extend far beyond collecting a prestigious trophy in November. Here are just three reasons why your organisation should be part of the action:

- ✓ Raise your treasury team's profile.
- ✓ Showcase innovation and thought leadership.
- ✓ Demonstrate excellence to your peers, partners, clients and investors.

### How to enter

Nominations open on 16<sup>th</sup> June 2014. Everything you need, including the nomination form, can be found at [treasurytodayasia.com/adamsmith](http://treasurytodayasia.com/adamsmith). It is a simple case of completing and submitting the short form online – which should take no more than 15 minutes of your time.

Any number of solutions can be entered for consideration. A single project can also be nominated in more than one category, where appropriate.

Nominations can be made by any corporate and banks and service providers can assist their clients in completing the nomination form. Banks and service providers are also allowed to submit nominations on behalf of their corporate clients (with the client's approval).

All winners will receive an invitation to the Adam Smith Awards Asia Lunch on 13<sup>th</sup> November at the Grand Hyatt hotel in Singapore.

Should you have any queries please do not hesitate to contact us at [awardsasia2014@treasurytoday.com](mailto:awardsasia2014@treasurytoday.com)

## Top submission tips

Above all, our panel of judges will be looking for solutions that showcase the industry's best and brightest and demonstrate exceptional best practice and innovation in the Asia corporate treasury arena.

There should be evidence of true effectiveness and of how you as a company benefited tangibly from the project. Have you implemented a solution that has delivered or leveraged any of the following for example?

- Outstanding cost savings.
- Above average ROI.
- Optimal account/treasury structure.
- Quantitative improvements in efficiency.
- Cutting-edge technology.
- Exceptional implementation (budget/time).
- Quality accreditation.

Testimonials, figures, and any supporting documentation can be included with submissions.

The Adam Smith Awards Asia are open to companies operating in Asia Pacific (regardless of their home base which can be within or without the region). The examples of best practice nominated should be deals and structures that have been implemented or are in the process of being implemented in 2013 and/or 2014.

Please don't be dissuaded from submitting a nomination in the event you feel your company may not qualify for whatever reason. You do not need to be a major multinational to qualify. Focus on the problem that the solution you have implemented, or are in the process of implementing, addresses. Quantify the benefits, both qualitative as well as quantitative.

## Award categories

- Treasury Today Asia's Top Treasury Team 2014
- First Class Bank Relationship Management.
- Best Cash Management Solution.
- Best Short-Term Liquidity Investing Solution.
- Best Working Capital Management/Financial Supply Chain/AP/AR Solution.
- Best Card Solution.
- Best Financing Solution.
- Best Risk Management Solution.
- Best Process Re-engineering Solution.
- Best MME/SME Treasury Solution.
- One to Watch.
- Best in Class Benchmarking.
- Best Foreign Exchange Solution.
- Best Solution in China.
- Treasury Today Asia 'Woman of the Year'.

# Malaysia: The shared services edge for corporations



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Did you know that more than 200 of the world's leading multinationals have Shared Service Centres (SSCs) in Malaysia<sup>1</sup>? If you want highly competitive running costs and personnel capable of managing high value treasury activities, why not join them?

Oil, pharmaceuticals, banking, agribusiness, insurance, automotive and more – it's hard to find an industry sector not represented by a global multinational's SSC in Malaysia. While other countries may be grabbing the SSC headlines, Malaysia has been building a strong case for itself with a highly skilled workforce, attractive incentives, low financial risk and business efficiency. Little wonder that some 60,000<sup>2</sup> people in Malaysia now work in SSCs, with a significant proportion of those working in treasury and finance roles.

## Ideal demographic, growing value

Much of the SSC activities in Malaysia over the past eight years or more have been driven by leading US and European multinationals. However, they are now being joined by a growing number of top tier corporates from Malaysia, as well as from other parts of Asia. In many cases, many of these corporations are now looking to extract more value from their current operations by running customer-facing and strategic finance activities. Some are also either in the midst of or have expanded their scope of centralisation to include the establishment of Treasury Management Centres (TMCs).

While the initial points of attraction for some of these companies may be cost management and standardisation, for some time, there has been a growing realisation that establishing an SSC in Malaysia can offer substantive advantages further up the value pyramid. Previously, SSCs in Malaysia typically focused on IT outsourcing such as Enterprise Resource Planning systems, enterprise applications or IT consulting services, before subsequently adding business process outsourcing such as Accounts Payables and Receivables, contact centre, and legal services. Now, there is increasing emphasis on the top of the value pyramid with knowledge process outsourcing services, such as treasury forecasting, risk management, market research, customer analytics and engineering services.

This is in part due to the efforts of the Malaysia Multimedia Development Corporation (MDeC) which actively encourages

companies to bring higher value-add and more complex processes to the country. This is in line with the Malaysian government's objective of becoming a developed country by 2020.

## All the skills you need

Malaysia's citizens certainly have the necessary capabilities to handle such higher value activities. For instance, the citizens of Kuala Lumpur have a literacy rate of 97.5% and the city is home to 13 tertiary education institutions, 79 high schools, 155 elementary schools and 136 kindergartens<sup>3</sup>. Language skills are essential in SSCs that may be servicing multiple countries. Not only does Malaysia have 7.4 million citizens who speak English of a high standard<sup>4</sup>, the population's other first languages include those common in major markets in the region, including Hindi and Mandarin, whilst secondary languages spoken include Thai, Korean, Japanese and Vietnamese<sup>5</sup>.

## Maximise value, minimise cost

Malaysia has further advantages as an SSC location in terms of both the cost of skilled personnel and the business environment more generally. A similar situation applies to treasury roles. For instance, according to research by Robert Walters Global Salary Survey 2014, current salaries for treasury managers in Singapore range from USD 95,000 – 158,000, compared with just USD 45,000 – USD 58,000 in Kuala Lumpur.

The costs of housing an SSC also favour Malaysia. For example, the average total cost of leasing prime net usable space including rent, maintenance costs and tax is USD14180 in Kuala Lumpur versus USD11,220 in Singapore<sup>6</sup>.

In conjunction with the availability of suitably skilled personnel, this highly competitive cost base represents an important opportunity for corporations looking to establish an SSC or TMC in Asia. Rather than just traditional "back office" activities, customer-facing functions such as Accounts Receivables can be operated efficiently and reliably in Malaysia. Furthermore, higher value functions, such as hedging, cash forecasting and liquidity management can also be viably undertaken – and at a very competitive cost.

## Elbowing the competition aside

Malaysia's business environment ranks well globally. For eight years running, Malaysia has been one of the top three global shared services outsourcing locations in AT Kearney's Global Services Location Index<sup>7</sup>. Furthermore, one of the three primary factors in the Kearney rankings is business environment, which assesses how conducive a location is to business. Malaysia scores particularly strongly in this regard, ranking appreciably higher than countries such as India and China and even approaching the scores of developed markets such as the US.

"Malaysia makes a compelling value and performance case for any regional or global corporation considering the implementation of a Shared Service Centre (SSC)/Treasury Management Centre (TMC) in Asia, for processing or for corporate treasury activities respectively. A location in the heart of Asia, reasonable costs, the availability of suitably skilled and bilingual treasury/finance personnel, and a government keen to deliver a business-friendly environment, will give Malaysia a clear SSC/TMC edge for many corporations."

The Malaysian government is leading the introduction of new and advanced technology, and in this regard, the country ranks in the top ten ahead of most other Asian countries and even above some developed economies such as Australia<sup>8</sup>.

In terms of labour market and business efficiency, Malaysia also performs strongly. In both cases it ranks fourth – ahead of multiple developed economies such as Germany, The Netherlands, the UK and the US, as well as China, India and other smaller Asian countries<sup>9</sup>.

Malaysia is making a targeted pitch for SSCs, with 25 designated areas accredited by the Multimedia Super Corridor (MSC) Malaysia<sup>10</sup> for these around the country. All of these areas meet the infrastructure needs of global as well as regional SSCs that conduct large scale financial processing or mission critical treasury activities, such as high quality fiber optic connectivity. Furthermore, MDeC provides a bill of guarantees, which includes providing competitive financial incentives such as 'pioneer' status, which includes 100% tax exemption for up to ten years. In addition to these national initiatives, individual states within Malaysia are making their own promotional efforts to attract SSC business.

## A warm welcome for TMCs

Whilst Malaysia's initiatives to attract SSCs have already reached a considerably high profile, as part of its strategy of bringing in jobs of higher skill levels and value-add, the country is also providing incentives for TMCs as well. Approved TMCs are given a 70% exemption on certain statutory income arising from treasury services rendered to related companies for five years.

Statutory income includes all fees and/or management income from providing qualifying services to related companies in

Malaysia and overseas. Amongst others, these comprise revenue arising from lending/financing, placement of surplus funds and group risk management activity such as FX, interest rate, market and commodity risks.

## Maximise the value of global banks

While Malaysia clearly has much to offer corporates looking for a location for a global or regional SSC, maximising the value achieved by one and ensuring its smooth implementation is not a trivial matter. This is an area where a bank with a global perspective and connectivity can add significant value. In the case of an Asian corporate looking to implement its first SSC, a global bank can share the best practices that it sees being used by global multinationals, thus providing a valuable benchmark.

Such calibre of a global bank adds a different sort of value when a US or European multinational looks to establish an SSC in a location such as Malaysia. In such instances, the value comes from the bank's global network and its technical expertise in helping such multinationals consolidate their banking providers consistent with the corporation's global treasury strategy and business needs. This is difficult to achieve with a local bank which lacks the wide global network required to extract the maximum value from standardisation of processes and connectivity.

In the case of both Asian and global multinationals, another area where a bank with a global perspective can add value is in the validation of project roadmaps, often provided by external consultants. These roadmaps lay out the steps and process changes required to establish an SSC or TMC, but for a variety of reasons, may not be entirely feasible. A suitably qualified global bank can assess the practicability of these roadmaps and suggest appropriate refinements or amendments that will ensure a smooth transition. Concurrently, it can also assist in other areas, such as reviewing treasury management policies or recommending the most efficient way to aggregate surplus liquidity resulting from SSC operations, into a regional or global liquidity management structure.

## Conclusion

Malaysia makes a compelling value and performance case for any regional or global corporation considering the implementation of an SSC/TMC in Asia, for processing or for corporate treasury activities respectively. A location in the heart of Asia, reasonable costs, the availability of suitably skilled and bilingual treasury/finance personnel, and a government keen to deliver a business-friendly environment, will give Malaysia a clear SSC/TMC edge for many corporations.

Yet attractive as all these factors are, in isolation, they are not enough. Maximising the value of this benign landscape requires the support of a banking partner that has the global perspective to assist the corporate client in the realisation of global best SSC practice. Furthermore, this has to be delivered in the context of a wider appreciation of the client's holistic needs and how a regional or global SSC in Malaysia can deliver optimal support for these.

<sup>1</sup>Performance Management & Delivery Unit (PEMANDU), Malaysia

<sup>2</sup>Performance Management & Delivery Unit (PEMANDU), Malaysia

<sup>3</sup>MSC Malaysia

<sup>4</sup>MSC Malaysia

<sup>5</sup>MDeC: "Malaysia Global Business Services"

<sup>6</sup>"Occupier Perspective Global Occupancy Costs - Offices 2013", DTZ

<sup>7</sup>AT Kearney, Global Services Location Index , 2011

<sup>8</sup>Ernst & Young

<sup>9</sup>IMD Business School

<sup>10</sup>MSC Malaysia

# Malaysia: 20/20 vision

*With a goal of obtaining developed nation status by 2020, Malaysia is becoming a gateway for investors in the APAC region due to its strategic location and sound financial sector. Six years away from the 2020 deadline, Treasury Today Asia analyses how the country has developed so far and outlines potential challenges that lie ahead.*

Like many economies in South East Asia, Malaysia boomed during the late 20<sup>th</sup> century, transforming from a primarily agrarian economy to a multi-sector economy dominated by manufacturing and exports. The Asian financial crisis of 1997, however, put a halt to Malaysia's development, damaging its economy and sending it into recession. Thankfully though, driven by exports and government spending, Malaysia recovered more quickly from the crisis than neighbouring countries, growing steadily through the 2000s and only suffering a slight recession at the tail end of the financial crisis in 2009.

## Current economy

Malaysia is now home to an open, stable and vibrant economy which, according to statistics from the country's central bank, Bank Negara Malaysia, grew by 4.7% in 2013. Inflation in the country is low, as is unemployment, with per capita income averaging around \$10,000, which is \$5,000 shy of the World Bank's threshold for a high-income nation. Growth is predicted to continue in 2014 due to an increase in domestic demand, continued foreign direct investment, and a greater demand for exports.

Indeed, exports continue to be the main driver of the Malaysian economy, contributing \$247 billion in 2012, according to CIA statistics. Electronic equipment, palm oil and natural gas comprise some of Malaysia's key exports with Singapore, China, Japan and the United States among its main trading partners. In recent years however, the government has looked to diversify the economy to maintain growth and strengthen its position through increasing domestic demand and relying less on its exports and natural resources.

## 20/20 vision

Malaysia's goal of becoming a fully developed nation was revisited following the recent global financial crisis as the nation looked to get back on course to meet its 2020 target. As a result, the wide-ranging New Economic Model (NEM) was introduced in 2010 to achieve this. At the heart of the NEM is the Economic Transformation Programme (ETP) implemented to attract \$444 billion in investment and create 3.3 million new jobs by 2020. The ETP is also intended to strengthen the commercial environment and make Malaysian businesses globally competitive. This will be achieved by increasing competition, improving standards, reforming public finances and service delivery, changing the government's role in business and developing human capital.

The effectiveness of the plan was immediately evident as, eight months after its launch, the Malaysian government

## Key facts

Population: 29,628,392 (July 2013)\*

GDP per capita: USD 312.5 billion (2013)\*\*

GDP growth (annual %): 5.6%\*\*

Doing Business (2014) rank: 6<sup>th</sup> (out of 189 economies)\*\*

\*Index Mundi

\*\*World Bank

announced that the country had received MYR 170 billion (\$55.84 billion) in investment and that it expected to create 362,396 jobs.

To achieve developed nation status by 2020 the NEM called for 6% year-on-year GNI growth. However, in 2012 Malaysia only posted a 4% GNI increase, 2% lower than its target of 6%. Despite this disappointing growth, the government believes that Malaysia is "on the right track to hit high-income status by 2020".

## Trouble spots

Nevertheless, the country faces some challenges ahead. Malaysia has continually run a budget deficit since 1998, which currently sits at 4.5% of the country's GDP. The rate of this debt has been increasing since the global financial crisis as government investment has increased in an attempt to stimulate the economy. The government has expressed a desire to reduce the deficit to 3.5% over the coming year.

The Asia Foundation, a non-profit international development organisation, highlights another worry for the Malaysian economy, claiming that it risks falling victim to the middle-income trap. A lack of innovation, low investment in technology, declining standards in education and stagnating productivity are cited as areas of concern for Malaysia. A RBS report issues a similar warning, highlighting that the country faces future economic problems as it has exhausted its fiscal flexibility.

## Financial sector

On a more positive note, the World Bank has recently given Malaysia's financial sector a vote of confidence. Citing it as stable and well capitalised, the World Bank believes the sector's growth can continue over the coming years.

Following the 1997 financial crisis, a Financial Services Master Plan (FSMP) was introduced with a view to creating a modern, healthy, forward-looking financial sector. This has seen the sector greatly improve, adopting global standards of supervision and regulation.

In 2011, the government released a blueprint for the financial sector leading up to 2020. The blueprint calls for the further development of the sector in order for it to become more competitive, dynamic, inclusive and diversified over the coming years. Further regional and international integration is also called for to allow the financial sector to meet both domestic and international needs. The overarching goal of the blueprint is to drive the sector beyond being an enabler of growth and to becoming a catalyst for growth.

Thus far, the development of the financial sector has created a banking landscape shared by both local and global banks. "Local banks tend to be used by corporates primarily for vanilla products," says Anne Rodrigues, President of the Malaysian Association of Corporate Treasurers (MACT). "Global banks, on the other hand, are quite active in hybrid products, especially those which involve cross-border interactions."

## **Islamic banking**

Malaysia is also host to one of the world's foremost Islamic financial sectors alongside the GCC nations. The first Islamic bank in Malaysia was established following the Islamic Banking Act of 1983. Since then, the liberalisation of Islamic finance and the welcoming business environment has only seen the sector increase in strength. Islamic institutions in Malaysia now account for around 25% of all financial assets in the country.

According to the Malaysian International Islamic Finance Centre, the country's Islamic banking sector outpaces the regular sector with average yearly asset growth of 18.6%. This is shared amongst a diverse range of banks including foreign-owned subsidiaries which can offer corporates in the country a diverse range of Islamic financial products.

## **Capital markets**

A 2014 study by the International Organisation of Securities Committees (IOSCO) highlights the strength of the Malaysian Stock Exchange. The IOSCO study concluded that the development and increased regulation of Malaysia's capital markets was beginning to attract long-term investment. IOSCO Chairman Greg Medcraft cited the Malaysian capital markets as a "great template for emerging markets."

"The robustness of the capital markets," says Krishna Chetti, CEO of BNP Paribas Malaysia, "can be attributed to the market acceptance of clearly defined, stable and transparent guidelines in addition to continuous stakeholder investment allowing for orderly market activities." The strength of the Malaysian capital markets means that it is not only domestic companies which use them. "In recent years, foreign corporates have also commenced tapping debt and equity funds from the Malaysian capital markets," says Chetti.

"The Malaysian capital markets certainly offer what corporates require," says Mohamed bin Derwish, General Manager of Corporate Finance at Telekom Malaysia. "They have grown substantially since the 1990s and are now very large and deep." Indeed, statistics released last year by the Securities Commission highlight that, since 2000, the size of the market

has tripled to RM2.5 trillion, or 264% of the country's GDP. In 2012, Malaysia was the fifth largest IPO destination in the world and the fourth most active corporate bond issuer in Asia.

With greater integration of the ASEAN region and the creation of the ASEAN economic community, Derwish expects the capital markets to further improve. "There are already programmes in place for the integration of ASEAN and going forward the tapping of funds and liquidity will increasingly become cross-border," he says. "Malaysia will be well equipped to take advantage of this."

The development of the Malaysian capital markets has also been boosted by the growth of Islamic bonds, known as Sukuk. Malaysia is currently the world's primary issuer of Sukuk, accounting for 60% of the global total as of June 2013. "Sukuk are popular with corporates in the country and over the last year the majority of issues have been Islamic," says the MACTS Rodrigues. "Many companies in the Middle East are also using Malaysia to issue Sukuk. Malaysia's lower funding costs are one of the main drivers of this."

Malaysia is keen on growing its Sukuk market, introducing the Islamic Financial Services Act 2013 to further strengthen Islamic financial institutions. "Being a conducive environment for Sukuk transactions, I believe that Malaysia has what it takes to attract more institutions from all over aiming to tap Malaysia's Islamic finance marketplace and the pool of liquidity," stated Deputy Prime Minister Tan Sri Muhyiddin Yassin in 2013. For Yassin, future growth depends on expertise, Sharia governance and practices, and improved legal and regulatory frameworks.

## **Payments systems**

"The payments systems in Malaysia," says Abdul Raof Latiff, Head of Treasury Services, ASEAN, J.P. Morgan, "have come a long way." The legacy system in Malaysia during the '80s and '90s comprised a multi-state clearing system which has now been replaced with a single clearing zone. "This has made payment execution in the country much faster and more efficient for banks and their clients from both a time and cost perspective," says Latiff. Improved cross-border payments have also been on the central bank's radar and recent developments have seen the real-time electronic transfer of funds and securities system (RENTAS) extend its services to include the renminbi, further facilitating regional trade and allowing corporates to reduce settlement risk for renminbi transactions.

Malaysia has also looked to adopt new payments technology. One recent example of this is the central bank's adoption of SWIFT as its access channel to connect to RENTAS. "Malaysia keeps a watchful eye over developments in the payments space and looks to keep improving," says Latiff. "Due to this, Malaysia now has an advanced payments system compared with developed countries."

## **Drive towards electronic payments**

In 2013, 1.6 billion financial transactions were carried out via electronic means in Malaysia, according to statistics from the central bank. The government is looking to further increase this over the next few years, creating a cashless society by developing the payment infrastructure – allowing annual savings of up to 1% of GDP.

"The policies which are being introduced to reach a cashless society are very aggressive," says MACT's Rodrigues.

"Cheques currently make up 2% of the GDP and they want to eradicate this completely." In 2013, 204 million cheques were issued according to the central bank and the aim is to reduce this to 100 million by 2020. To achieve this, charges associated with issuing cheques have increased to 50sen (cents), as of 1<sup>st</sup> April 2014. This cost is set to rise until 2020 when it will match the cost of providing the service, currently 3MYR (\$0.93).

"The move towards a cashless society will certainly benefit corporates in the country," asserts Rodrigues. "Some of these benefits include improving the efficiency of working capital and use of the balance sheet. There will also be a reduction in idle cash and delays in payments (which cheques can cause)." BNP Paribas's Chetti agrees, highlighting that, "improvements in e-transactions have aided corporates in their daily tasks such as reconciliation and reporting."

As the move to cashless payments gathers pace, companies may need to make some alterations to their operations. "At Telekom Malaysia we are working with our procurement department to ensure our vendors have the correct banking structure for electronic payments," says Derwish. "Around 50% of our payments are already made electronically. We want to increase this to 80% over the coming year to reduce the cost of making payments."

## Treasury landscape

"The development of corporate treasury in Malaysia means that on the spectrum between Indonesia, Hong Kong and Singapore, Malaysia would be somewhere in the middle," says Rodrigues. "The movement of cash in Malaysia is smooth and both netting and pooling arrangements are permitted both in-country and cross-border, due to the lifting of foreign exchange controls."

"At Telekom Malaysia, we have been able to adopt the best international standards, we have taken advantage of cash pooling and we now centralise our operations and carry out inter-company lending from within the group," says Telekom Malaysia's Derwish. Through synchronising the company's cash management system with their financial services, Telekom Malaysia has been able to create more efficiency and streamline its operations. "We are now able to fully maximise the use of money within the group and meet group demands on a daily basis."

Over the last decade, many Malaysian companies have grown to have large international operations and so the development of corporate treasury has followed this growth. "Traditionally," says J.P. Morgan's Latiff, "the primary issue for a treasurer was ensuring their company was able to conduct its day-to-day business. Little time and money was spent on technology and the design of the treasury." As companies in the country are expanding however, many treasurers are now looking at ways that they can improve their treasury operations. "They typically only begin to focus on this as they grow and become more operationally complex," says Latiff. "At that point, it's a question of how they can get back to basics around visibility, control and efficiency of their cash, leading to better yields. To achieve this, companies are increasingly looking towards different models of centralisation through which they can potentially consolidate their accounts and streamline credit relationships, for example."

With the growth of Malaysian companies across borders, another area which Latiff highlights as being important for

corporates is maximising their yield in foreign countries.

"Many Malaysian companies conduct overseas business in the ASEAN countries and many of these are restrictive," says Latiff. The inability to repatriate cash easily in many of these countries often leaves it trapped. "Our customers are therefore asking for ways in which they can make the most of their money in these countries."

## Regional treasury management

Traditionally a hub for shared service centres (SSC), Malaysia has recently begun to take steps to promote itself as a Regional Treasury Centre (RTC) to compete with Singapore and Hong Kong. To initiate this drive, the 2012 Malaysia budget, which focused on national transformation, contained tax incentives to entice corporates to locate their RTC in Malaysia. As part of a wider strategy to bring more investment into the country, the incentives include a 70% tax exemption for five years on income from qualifying treasury services, such as cash management and investment, rendered to related companies. Also a withholding tax exception and stamp duty exemption is offered, among other incentives.

To obtain the benefits of the incentives however, a company has to have at least three related foreign companies and derive 80% of its treasury income outside Malaysia. "For Malaysian companies like ours," says Derwish, "we are unable to benefit from the incentives. We have therefore begun discussions to extend to Malaysian-based operations as well."

Traditionally corporates may look to the well-established treasury centres of Singapore and Hong Kong. However Rodrigues believes that "Malaysia does have one key edge over these being an established manufacturing centre. This means Malaysia already has a large number of multinationals based in the country. It would therefore make sense for these companies to base their RTMC where their manufacturing centre is," she says. "It may be because of this that we see a number of MNC's in the manufacturing industry start looking toward relocating to Malaysia."

"Malaysia also has the advantage of providing stability, politically and economically," says BNP Paribas's Chetti. "Coupled with the push to become a leading international and regional Islamic finance hub and the incentives offered by global corporates who establish their operations in the country, it shows that Malaysia is committed to establishing itself as a prominent treasury destination."

## Outlook

Last year, telecommunications group Axiata became one of the first companies to establish a RTC in Malaysia. On the whole however, companies have been slow to adopt Malaysia as their RTC, something which Rodrigues puts down to the infancy of the incentives. "We also have strong competitors in Singapore and Hong Kong," highlights Rodrigues, "Malaysia must therefore continue to review and renew its incentives to see how it can encourage MNCs treasuries to use the country." In doing so, Malaysia can continue to develop its financial sectors and infrastructure, further raising its appeal and enhancing its position as a hub of treasury operations in the region.

"Overall," says Rodrigues, "I see corporate treasury becoming an increasingly vibrant industry in Malaysia over the coming years." ■

# Making a success of supplier finance

*Characterised by smoke and mirrors, supplier finance is seen by many as something of a dark art. In reality, it is a practical means of enabling key suppliers to secure an early cash flow injection on better-than-normal credit terms, while allowing the corporate buyer to obtain a longer settlement period, reduce the risk of supplier failure, and increase supplier loyalty. So why does this 'win-win' solution still have an air of mystery about it and how can companies make the most of supplier finance?*

Different banks and providers use myriad names for it – some misleading or even erroneous. Little surprise then that there is often confusion around what supplier finance actually is. Referred to by many under the generic supply chain finance (SCF) banner, and by others as 'reverse factoring', supplier finance is actually a form of receivables-driven financing that is initiated by the buyer, through their relationship bank(s).

A balance sheet efficient solution, supplier finance works by allowing the supplier to leverage the buyer's credit rating and access an agreed percentage of the due payment up front from the bank. It is described as a 'win-win' since, in return, the buyer is able to extend out payment terms or benefit from early settlement discounts, safe in the knowledge that their supplier is being supported financially – and that there is no arrangement fee to pay.

Despite the obvious benefits, "a number of misconceptions still exist around supplier finance," says Rene Chinnery, Head of Supply Chain Finance, Lloyds Bank Commercial Banking. "On the buyer side, there is a fairly widespread perception that supplier finance programmes require a great deal of systems integration, for example. That's simply not the case. All that needs to happen is for a report to be written and the file to be exported from the company's standard accounts payable system."

On the supplier side, continues Chinnery, "the main misconception that we encounter is that 'there must be a catch' – it seems too good to be true. But supplier finance is referred to as a 'win-win' solution for very good reason."

Somewhat ironically however, it is precisely this 'win-win' label that seems to be one of the factors holding supplier finance back. After all, when a bank comes knocking at your door promising a solution that works in favour of all parties, it's only natural to feel a little suspicious. As Anil Walia, Head of Supply Chain Finance, Global Transaction Services, RBS notes: "There is still a lack of education on the mutual benefits of supplier finance, so there is a certain amount of insecurity around the way it works – not least the fact that it is a form of off-balance sheet financing."

In many senses, these psychological barriers are the most difficult to overcome. As supplier finance becomes more deeply embedded in the consciousness of treasurers and procurement

professionals, however, the rationale for such programmes should seem increasingly obvious to both buyers and suppliers – these mental barriers will shrink. And as more and more supplier finance programmes become a success, momentum will only continue to gather. But how can corporate buyers make their supplier finance programme one of these success stories?

## Get your ducks in a row

The first step towards supplier finance success is getting internal buy-in and making sure that all the relevant departments within the corporate are ready for the programme to begin. According to Oliver Petersen, Global Head Supply Chain Finance, ING, "one of the main challenges is internal alignment. If a large buyer is not ready from an internal perspective to implement a supplier finance programme, it is unlikely that the rollout will achieve maximum efficiency."

There is a dialogue which needs to happen within the corporate, he says. "It's not a very 'typical' conversation because it actually requires the alignment of people from treasury, procurement, the IT department, and accounting and legal as well. In our experience, it is very beneficial if this alignment is also supported from top down. You need upper level management support, from the CEO to the CFO."

RBS's Walia agrees, saying: "Every buyer has its own environment, both internally and externally, and that is actually what creates the challenge when implementing a supplier finance programme. Corporates often still work in siloes and different departments will have varied, and sometimes conflicting, KPIs."

The approach that Petersen advises is "for KPIs to be implemented in line with the rollout to keep track of accountability. These KPIs could range from implementation dates to cash flow targets." He adds that: "A well-structured supply chain finance programme tends to generate free cash flow more quickly and generally grows larger than those programmes that are not so thoroughly thought through. This is because people are more engaged – and once the benefits start to show, everyone is motivated to continue."

Internal timing of the programme is another critical success factor, since supplier finance requires so many different corporate departments to come together and work collaboratively on the project. "If it begins in November for example, it is likely that



*Arnaud Crouzet joined the Auchan Group in 2010 as Head of Group Global Payments Development. He is also General Manager of Auchan Suppliers Advanced Platform SA (ASAP SA), the company in charge of managing the Group's supplier finance programme. Here, Arnaud explains how the programme came about and what factors have contributed to its success.*

Back in 2010, requests began coming in from suppliers across the different countries in which Auchan operates to assist with earlier payment of their invoices. This was in large part due to the difficult credit environment at the time. Some suppliers were asking for factoring arrangements, while others were looking to negotiate reduced payment terms. Since Auchan has very strong and valued relationships with its suppliers, the company's treasury function began looking into possible solutions.

"We analysed a number of possibilities, but it was reverse factoring that seemed to tick all the boxes," says Crouzet. Given that there were few large scale supplier finance programmes in the market at the time, there were some initial hurdles to overcome. "What we found was that many of the reverse factoring programmes that were out there were beneficial for the buyer, but not so interesting for the suppliers. Certain programmes virtually forced suppliers to join. But we felt that this was not a fair approach and it certainly didn't match the Group's philosophy," he explains.

"What we were looking for was something open, transparent and flexible that we could offer to all of our suppliers. We wanted a programme that suppliers could decide to use – or not use – however they wanted." Additionally, Auchan needed a solution that would operate on a multi-country, multi-currency, multi-bank and multi-lingual basis. The best way to achieve this, it was decided, would be to manage the programme in-house, rather than outsourcing it to a third party.

A significant number of RFPs were sent out to gather information on the type of platform that would best meet the company's requirements – whether it be an out-of-the-box solution or something bespoke. "We wanted to get the broadest possible view of the market, so the RFPs were sent out to banks and software vendors not only in Europe but also in the US and Asia. It was a huge amount of work, but it was definitely worth the effort," says Crouzet.

What the research highlighted was the importance of a platform that would not only meet the company's needs from a buyer/supplier perspective, but also from a treasury perspective. After consideration, Auchan chose to work with Kyriba to deliver the platform as the vendor was able to respond to all of the requirements set out in the RFP through its white-label offering, while addressing the need for integration with the treasury workflow. "We were pleasantly surprised by Kyriba's response to our RFP. Only knowing the company by name, we spoke with some other corporates who were using Kyriba's treasury software and the feedback was extremely positive. As such, we chose to run a pilot programme with Kyriba."

A handful of companies were involved in the pilot, and it went very smoothly so Auchan was soon able to expand its reverse factoring programme. "The programme is currently live across several different countries and Auchan entities, with many different suppliers now onboard. On the whole, our suppliers are very pleased with the programme – we can see that from the level of uptake and the fact that once they are live with one Auchan entity, they are asking to go live with others. The platform gives them a single window on their transactions with the entire group. It also gives them a lot of flexibility – they can ask for payment manually or automatically, specifying their requested payment date. They also know exactly how much to expect, which helps them with their cash flow forecasting," he notes.

Auchan chose to work with multiple banks to provide the financing for its supplier finance programme and this provides an extra level of flexibility for suppliers. "We arranged it so that the suppliers can access funds at a very reasonable rate – and through their bank of choice."

It is precisely this flexibility and transparency that Crouzet believes has made the programme such a success. "Nothing is imposed on our suppliers. They are free to use the programme if they wish, or to leave it if they wish. What you see is what you get – there is no hidden agenda. For me, this is vital to make a real success of reverse factoring."

Another key success factor, he believes, is the intuitive and user-friendly supplier portal, which Auchan has worked with Kyriba to enhance. "Financial software is often over-complicated. We wanted something very simple, so that no specific training would be required to use it. Not only have we achieved this easy-to-use functionality – suppliers can request payment in just two clicks – but it looks great too," Crouzet explains. The supplier portal is also available 24/7.

For other companies thinking about implementing a supplier finance programme, Crouzet has the following advice: "Don't forget the legal side of things. This can be extremely complicated and it's very important to get it right, so make sure you allocate sufficient time and resources to that. Marketing the benefits of reverse factoring to suppliers is also key – if you make the business case clear to suppliers, this will help to speed up the onboarding process. However, I must re-emphasise the importance of not forcing suppliers to join the programme. A fair approach is always best."

delays will happen as the company will be busy setting up its annual report for the following year," Walia explains.

## Choose the right partner

Although there are a handful of large corporates that run their own supplier finance programmes, without the help of a banking partner or third party provider, the vast majority do have external involvement. What is more, the choice of provider can have a significant impact on the seamlessness of the programme's implementation and its overall success.

The challenge here is, as Walia puts it, that: "All of the supply chain providers can talk the talk, but which of them can deliver? That's a key question for the treasurer to consider." Looking at implementation times and previous experience in the space will help the treasurer here. "Those providers that have established themselves well in supply chain finance now have quite streamlined business propositions in this field. From an RBS perspective, five years ago, it used to take us two to three months to put in place the connectivity between the buyer and our system – now it takes all of ten days," says Walia.

But it is not just the buyer's implementation experience that matters in the overall context of 'success'. The partner bank's standards and practices around supplier onboarding are also vital, and again these vary greatly from institution to institution – not least where documentation is concerned. "At RBS, our supplier documentation is simple and ranges between two and a half and four pages, depending on the jurisdiction," he notes. It is not uncommon for documentation to run into double figures, however, and this can be extremely daunting for smaller or family-owned suppliers.

The way that banks approach supplier onboarding can also have a significant impact on uptake. "Some banks believe that suppliers can be onboarded through overseas call centres," says Chinnery. "That's not Lloyds Bank's philosophy. We have a team of experts on hand to support the onboarding process at every step. What is more, they understand how each supplier's business works and where supplier finance fits within that."

Jacqueline Keogh, Managing Director of Global Trade, Lloyds Bank Commercial Banking, re-emphasises the benefits of this: "Each supplier has the support of a named point of contact at Lloyds Bank who is equipped with the knowledge to answer all their questions. We establish relationships with every supplier; they are never 'just another number'."

RBS's Walia supports this philosophy, adding that: "There needs to be a relationship of trust between each supplier and the bank, too. Before suppliers join an RBS programme, we assure them that we will not use their data to approach them for any other business – it's a question of mutual respect."

The right banking partner can also help to overcome any concerns the supplier might have, or iron out creases in the plan. Petersen explains that one such hurdle might be "if the supplier has existing financing in place that has essentially locked up the company's assets as security – meaning that all of the receivables can't be pledged." In this case, he says, "we would urge the supplier to go back to its lenders to either waive the overall requirement or ask for a basket in terms of what they can approve. After all, supplier finance brings in cash more quickly for the supplier, so it's in the best interests of both the supplier and its lenders."

Elsewhere, having a professional third party service provider, who has experience in implementing supplier finance programmes, either engage in a benchmarking or business case exercise or simply validate what the corporate buyer has in mind, can also be extremely valuable in ensuring the programme is a success for everyone, Petersen believes.

## Support your suppliers

Ensuring suppliers are on side and up-to-speed with supplier finance is not just up to the provider, however. For Keogh, "a successful supplier finance programme is largely determined by the level of buyer engagement and support in promoting it. Some buyers are very restrictive around which suppliers they will allow to join, while others have been known to give their suppliers no choice but to participate. In our experience, best practice constitutes a supportive buyer who encourages supplier uptake, without making the programme mandatory."

Walia echoes this sentiment, saying: "In the spirit of best practice, the buyer should not be influencing suppliers by pushing them to join a programme. That said, much can be done around educating suppliers about the benefits of supplier finance."

This education might not be the typical 'small supplier' conversation, either. "If you have a supplier which is stronger rated than the buyer," explains ING's Petersen, "supplier finance can be a great risk management tool. Take a company that has just been acquired by a private equity firm, for example. All of a sudden, the credit metrics don't stack up – and if there is no credit insurance available, supplier finance is a very quick and efficient way to de-risk."

## Embrace technology

The kind of technology that a supplier finance programme leverages can also have a significant impact on its success and uptake. User-friendliness is imperative. "When it comes to platforms, simplicity is key," says Lloyds Bank's Chinnery. "While our platform has global reach, is multi-currency and is available in multiple languages, we have never had to provide on-site training to a supplier because it's so intuitive."

Indeed, when looking to implement a supplier finance programme at French international retail group Auchan, the company knew that, among other key ingredients, the right technology platform would make a real difference to the overall outcome – as the case study opposite clearly illustrates.

## Play the long game

A final word of advice for both corporates and banks in the supplier finance space is to think to the future. After all, supplier finance aims to build sustainable supply chains. According to Petersen, "it's all about the long-term view – this is not something that you put in place just for one or two years, it's about understanding how the client is developing and what the future business case is."

Keogh adds that: "Longer-term, the industry will need to further analyse and respond to the need for cross-border supply chain finance. While FI networks and partnerships are becoming more collaborative and transparent, cross-border supplier finance is most definitely an area that deserves greater attention going forward." ■



# Unleashing the dragon: capital account liberalisation

*Despite its emergence as an economic superpower, China's financial system has remained something of a closed shop. However, that might be about to change. Beijing is looking to accelerate the opening up of the country's capital account, which could have significant implications both for China and the global financial system as a whole.*

China's economic might is indisputable. At the end of 2012, it was the world's largest exporter and the second largest economy. Of the major global economies, it is also the fastest-growing by several percent. And yet, until now, the development and opening up of its financial system has not matched China's growth as an economic and trading powerhouse.

Its share of world financial integration, excluding reserves of less than 2%, makes a stark contrast against the country's 10% share of world GDP. Its banking system, the largest in the world by total assets, is also one of the most sheltered from foreign exposure. Furthermore, the renminbi (RMB) is only starting to be traded outside China – before 2010, Chinese

companies were forbidden from paying import or export bills in RMB.

However, plans to open up the country's capital account – which will effectively allow foreign investors to put money into China and the Chinese to invest overseas – could have major implications for the country itself and the rest of the world.

## Steps thus far

The acceleration of capital account liberalisation was one of the pledges set out in China's 12<sup>th</sup> Five-Year Plan, which was approved in 2011 and covers the period 2011-15. Indeed,

China has been taking steps to deregulate its capital account since the early 1980s. But it is only in recent years that Beijing has redoubled its commitment to this opening up, thus boosting the momentum of reforms.

China took steps towards larger-scale capital account opening in 2002 with its Qualified Foreign Institutional Investor (QFII) programme, which allows licenced overseas investors to trade in RMB-denominated shares. This was followed up in 2007 with the Qualified Domestic Institutional Investor (QDII) scheme, which allows capital raised from Chinese investors to be invested abroad.

Given the scale of the financial resources effectively locked up in China, the impact on financial markets, both in China and internationally, of liberalising China's capital account could be significant. Gross national savings in China are set to reach almost \$5 trillion in 2014 (compared with \$3 trillion in the US), and this wealth could be channelled to acquire a large portion of global financial assets in the long term if the capital account is opened up.

Before large-scale liberalisation is implemented, a pilot programme has been put in place to monitor how corporates adapt to the measures.

## Pilot scheme

In late 2012, China's State Administration of Foreign Exchange (SAFE) initiated a pilot scheme by which 13 Beijing- and Shanghai-based companies, including the China treasuries of Caterpillar, Intel, Samsung and Shell, could set up a cross-border FX cash pool. A second batch of companies, in other regions beyond Beijing and Shanghai, was added to the pilot in 2013.

"Capital account liberalisation is an important part of the RMB's journey towards internationalisation – an idea which has been around in the market for some time now," says Anthony Lin, China Head of Corporate Bank, Trade Finance and Cash Management for Corporates at Deutsche Bank. "We see the pilot scheme as a big move. It's really the first strong signal from Beijing about capital account deregulation," he adds.

The launch of the SAFE pilot programme allowed foreign currency, two-way cash pooling, as well as centralised payment and collection on a company's current account. It also technically allowed netting for trade settlement to take place, explains Lin. Before the 2012 pilot scheme, cross-border cash pooling was a technical impossibility in China, so now the ability to pool cash is undoubtedly the biggest boon to treasurers to come out of the deregulation process so far. "This is definitely seen as a positive development by corporate treasurers, some of whom were very keen to take part in the pilot and get a first-mover advantage. It gives corporates opportunities to better integrate their cash pool in China with the rest of the world. You improve efficiency, and enhance your risk management, fully integrating the China business with the global franchise," says Lin.

## Free Trade Zone

Linked closely to the capital account liberalisation plans is the Shanghai Free Trade Zone (SFTZ). Launched in September 2013, the SFTZ is a testing ground for a number of China's economic reforms. One of Beijing's key goals in setting up the zone is facilitating foreign investment into China and Chinese investment abroad. The SFTZ is often spoken about in the same

breath as capital account deregulation, as RMB convertibility and unlimited foreign currency exchange are permitted within the zone. "The SFTZ and the regulation around it is another big step to supporting capital account liberalisation. Indeed, we are seeing the establishment of semi-capital account convertibility in the zone," says Deutsche's Lin.

One advantage of the SFTZ is that it allows companies to further expand their business in China. "Companies in the zone now face a significantly simplified documentation process, which is very important when you come to the execution of some transactions," says Lin. "There is also a smoother channel for direct investment. Companies are required to file a single registration, whereas before they had to order pre-approval from SAFE."

**"The SFTZ and the regulation around it is another big step to supporting capital account liberalisation. Indeed, we are seeing the establishment of semi-capital account convertibility in the zone."**

Anthony Lin, Deutsche Bank

As well as reducing the burden of bureaucracy, the SFTZ is, along with other regulatory changes, helping MNCs deal with the challenge of trapped cash in China. For example, full two-way cash sweeping is being trialled in the zone and is expected to be rolled out nationwide in the not-too-distant future. To find out more about trapped cash in China, see our Point of View feature on page 38.

Foreign companies in the zone are also allowed to convert 100% of their registered foreign currency capital at any time, subject to certain supervisions. Again, this was not possible under the former regulatory regime. "Corporates will have much better management of their capital from an exchange risk and timing perspective as a result," adds Lin.

## Playing it SAFE

Although some ambiguity is inevitable with any new regulation, it appears that SAFE is largely taking on board the needs of corporates as it proceeds with the reforms. Li-Gang Liu, Chief Economist, Greater China at ANZ, believes the regulator's willingness to listen to companies has been key in expanding the pilot to the wider market. "In the very beginning when the programme was announced, it was launched as a pilot programme because SAFE wanted to see how enthusiastically MNCs would take this opportunity. It then quickly spread to other corporates who had been waiting to pool cash," says Liu. "SAFE understands corporates' challenges – partly because it listened to a number of MNC treasurers' suggestions before the pilot was launched."

Lin agrees that SAFE's approach to keep corporates in the loop as it proceeds with the deregulation is working so far. "The regulators have demonstrated they know the market and understand customer needs very well. They are very open-minded," he says. "They welcome new ideas, and we've spent a lot of time bringing clients, and their new ideas,

to the regulators. Not every single idea will get through, of course, but through this process, it helps regulators to understand the actual market situation."

Deutsche's Lin thinks the measures instigated by SAFE could encourage more MNCs to set up treasury functions in China, but cautions there is more to it than capital account liberalisation. "These measures have made it more attractive for MNCs, and corporates are generally very excited about the direction things are going in. But there are still many other factors that companies will consider when they're setting up treasury operations, such as the FX environment, interest rates, logistics, and tax, and these other factors also need to be developed together with the regulators," he says.

ANZ's Liu, on the other hand, believes the issue is not attracting more MNCs to China, but better connecting the treasuries of those already there with their central offices abroad. "Most of the big MNCs already have treasury operations in China. The key is whether their operations in China can now be easily linked with their treasury operating centre in London, Hong Kong, Singapore, or wherever that may be. SAFE is attempting to allow just that kind of linkage, with fewer restrictions, with the liberalisation measures," he says.

**"If China proceeds to liberalise its capital account over the next decade or so, it has the potential to be a force for growth and stability not just in China but also for the international monetary and financial system."**

John Hooley, Bank of England

## Complex business

Given the scale of the task, deregulating China's capital account will not always be plain sailing, nor will it be fast. "Everyone involved understands that this is essential, but it is also a very large and complex process, and it should be no surprise if you don't get everything you want from it in one go," says Lin. "If you expect everything to happen overnight, then you'll be disappointed. The regulators are taking a step-by-step, progressive approach to implementing it, and the development of the SFTZ has created an environment that allows more aggressive liberalisation in a managed manner, but it will take time."

Not only is the process complex, but Beijing is moving into the unknown. Regulators may need to seek advice from outside. "This will not be a trivial task. Given that Chinese capital account liberalisation could lead to dramatic changes in the global financial landscape, policymakers will be facing uncharted territory. To succeed, policy co-operation between national authorities is likely to be necessary, both to increase understanding of the risks and to develop common policy approaches," writes Bank of England's John Hooley in a Q4 2013 quarterly bulletin.

Beyond the initial complexities, deregulation also poses a larger macroeconomic risk. If liberalisation continues at its current pace, and as a result large portions of the world's financial assets are acquired by Chinese owners, future unexpected shocks to China's economy – which, with a closed capital

account, would be dealt with domestically by Beijing – could have serious repercussions for the world economy. China should also take note of other countries' experience with capital account deregulation; as such a move has often historically been followed by exchange rate or banking crises. However, these crises have not always occurred in the immediate aftermath of the liberalisation – indeed, in the cases of Japan and the UK, it was a full decade after the reforms were put in place.

Some observers feel China is not ready for full capital account liberalisation, given the underdeveloped nature of its financial markets. And there is the risk that if China opens up its capital account too much, too soon, it will be hit with a significant liquidity shortage. After all, with such a heavy reliance on domestic deposits, moving just a small portion of those funds overseas could pose significant problems to its large but China-focused banking system.

However, under certain conditions, Chinese companies may prefer to keep their money at home. Liu points out that many corporates in China have recently chosen to keep their RMB onshore, as a response to the RMB's steady appreciation against the dollar and the high-yield on RMB bonds, adding that Chinese corporates with funds abroad have repatriated the money for investment for the same reason. He says that it may take some time before a reverse flow – that is, corporates sending RMB abroad for investment – takes place.

## Incremental benefits

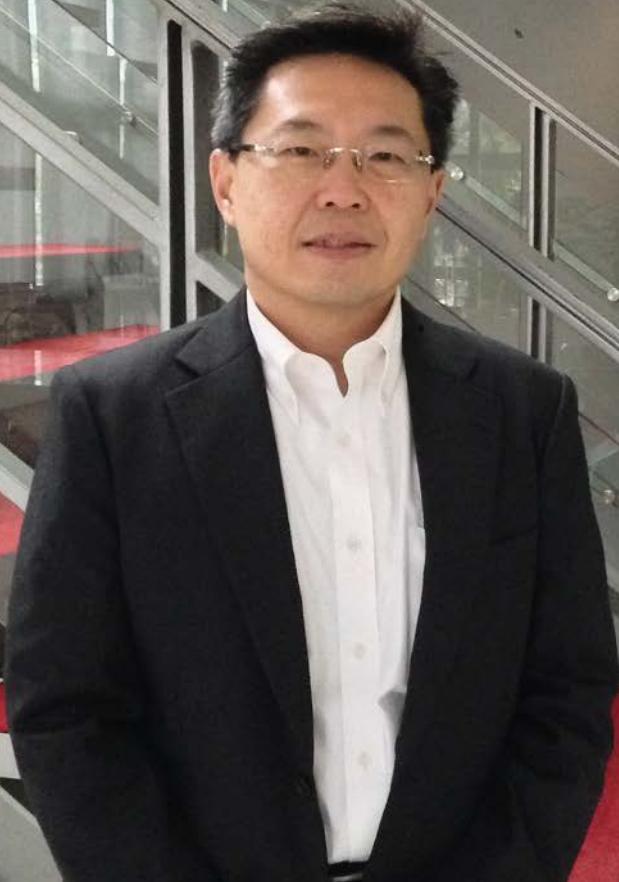
Despite the risks, if handled correctly, the benefits of capital account liberalisation could be huge, not just to China. "If China proceeds to liberalise its capital account over the next decade or so, it has the potential to be a force for growth and stability not just in China but also for the international monetary and financial system," says Bank of England's Hooley.

With the 12<sup>th</sup> Five-Year Plan approved in 2011, and the first SAFE pilot schemes coming into effect just over a year later, the effects of capital account liberalisation are likely to be felt incrementally. "We have probably already started to feel the impact, albeit slightly," says Liu. "This is a continuous process, alongside the SFTZ experiment. We expect China's capital account liberalisation to accelerate, to the point where the RMB could be a freely convertible currency by 2020, by which time the capital account could be mostly open," says Liu.

He also believes that given the scale of the financial resources within China, some of those funds will eventually work their way out of the country. "It's inevitable that there will at some point be a capital outflow from China because the reserve is currently huge. Chinese corporates and residents have very little foreign currency exposure and they cannot diversify their home-bias at the moment. If the government can actively encourage this capital outflow, there could be a very large initial movement from China to the rest of the world, and to some extent countries with close trade relationships with China could benefit from such a capital outflow."

## Forward-looking

This will be an extremely interesting space for treasurers to watch going forward, and not just those with operations in China. After all, once the dragon has been allowed out of the box, and the capital starts to flow from China to the rest of the world, the global financial system may never be the same again. ■



## TURBO-CHARGED TREASURY

**John Chen**  
Treasury Director

**Honeywell**

John Chen has over 20 years of experience in treasury and finance across a variety of industries. In 2012 he joined Honeywell in the Asia Pacific region, where the company has regional revenues in excess of \$6 billion generated by business entities spanning 14 countries in the continent.

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*As a Fortune 100 diversified technology and manufacturing leader, Honeywell invents and manufactures technologies to address some of the world's toughest challenges linked to global macro-trends such as energy efficiency, clean energy generation, safety and security, globalisation and customer productivity. The company employs approximately 132,000 people worldwide, including more than 22,000 engineers and scientists.*

*In the Asia Pacific region, China has been critical to Honeywell's growth and innovation strategies. Today, all of Honeywell's four Strategic Business Groups are represented in China, and all of them have relocated their Asia Pacific headquarters to China. Over the years, Honeywell has set up subsidiaries and joint ventures in over 20 cities across the country. Honeywell employs approximately 12,000 people in China.*

*The company's key footprint in Asia Pacific also includes turbo operations in Korea and Japan, as well as semiconductor manufacturing operations for its Electronic Materials business in Thailand, Korea*

*and Japan. The Honeywell Process Solutions and Building Solutions businesses have established a R&D center focusing on designing automation and control software in Sydney, Australia. Honeywell's UOP – the leading international supplier and licensor for the petroleum refining, gas processing, petrochemical production and major manufacturing industries – has established a design and operations centre in Kuala Lumpur, Malaysia to serve oil and gas customers across Southeast Asia.*

There are certain qualities that all individuals who reach the top of their professions display. It makes no difference whether the person in question is a leading politician, a Premier League footballer or a corporate treasurer at one of the world's largest multinational conglomerates.

One such quality is a relentless determination to improve. That is the challenge John Chen sets himself every day in his role as Treasury Director for Honeywell in Asia Pacific. When he succeeds, and time is freed up from performing the routine, nuts-and-bolts treasury activities, it benefits not just his department but the business as a whole. "Any time that can be freed from my team members from operational work," he explains, "can be more effectively utilised to forge a deeper partnership to the businesses that we support."

## Treasury engineering

Perhaps John's fascination with simplifying work through automation, standardisation and integration stems partly from his time spent as a mechanical engineering undergraduate – a field of academia concerned principally with providing efficient solutions to the development of processes and products.

After adding to his degree with an MBA in Finance, John got his big break in the world of corporate treasury when he earned a place on a fast-track programme while at General Motors in Jakarta, Indonesia. It was a valuable introduction, one which proved instrumental in shaping his future career trajectory. With General Motors' inclusive approach to staff development, John was rotated through several of the firm's finance departments, enabling him to acquire a taste for different aspects of the business. That helped him to acquire a broad skill-set – a valuable asset to any employer – but it was the time spent within the treasury department where his real education began. "In hindsight, that proved to be a very valuable experience as not many regional treasury offices offer such breadth in their scope of mandates and responsibilities," he says.

Over the course of the next decade-and-a-half, John built upon this experience by taking on a variety of different treasury positions across General Motors' various Asian entities. After leaving the company in 2006, he worked for a handful of different multinational companies and financial institutions including Phillips Electronics and J.P. Morgan. In 2012, he arrived at the technology and manufacturing giant Honeywell. Within the Asia Pacific domain, Honeywell's treasury operations are structured around geographical coverage with John's team in Singapore supported by another office in Shanghai, together overseeing all treasury activities within their respective regions.

Besides routine cash management duties, John and his team have risk management duties which entail ensuring compliance with corporate policies, in addition to minimising the incremental risks that might result from the introduction of a new financial instrument or counterparty. The other activity that consumes a lot of his time is managing working capital.

Other than for some strategic reasons, almost all of Honeywell's funding needs are met through inter-company loans. Treasury structures the tenor of the funding according to the intended use of the proceeds, with drawing on cash concentration structures to fund working capital and short-term funding needs at one end of the spectrum, to structuring bilateral inter-company lines to fund longer-term capital projects at the other end.

## Staying ever vigilant

Having lived through two near apocalyptic financial crises, John knows just how important it is for the corporate treasurer to remain alert to signs of market stress. In this increasingly globalised and interconnected world, the probability of contagion, direct or otherwise, is always present, he says. In order to avoid nasty surprises, therefore, constant vigilance is necessary to monitor more than just local events within Asia, but also beyond the continent's periphery, too. As we have seen in recent months, Asian markets – just like every other – can soar or dive on the basis of manufacturing data in Europe, or even a tacitly implied indication by the Federal Reserve that it intends to reduce the pace of its quantitative easing programme.

Market stress is certainly a key agenda item for John. Unlike regulatory, tax or operational issues which can usually be tackled through negotiation or discussion, when financial markets begin to unravel it is simply impossible for an organisation, however large, to confront. "The Asian financial crisis in the late 1990s and the recent banking crisis should serve as reminders that such financial events, even though eventually contained in those two episodes, will be too powerful to be stopped," says John. The best the treasurer can do is to keep a watchful eye on events so risks can be mitigated before it is too late. "As a company, we exercise great diligence towards managing exposures to our financial counterparties, and we are very disciplined and methodical in managing our cash balances against those limits."

## Proof is in the pudding

Like nearly all multinationals, Honeywell maintains extensive global banking relationships while working more closely with a handful of banks on the partnership level. But what do John and his team look for when selecting a relationship bank? An organisational structure mirroring Honeywell's own treasury structure is critical, explains John, adding that it is also important for "communication to flow in a seamless and transparent manner across both organisations at all of the various contact points". Meeting that criterion really boils down to the way in which the bank perceives Honeywell; the Honeywell business should not be considered an aggregate of business across the bank branches that the company holds accounts with, rather it should be looked at as a single global business.

Delivery is also a big issue. Having worked in the treasury world for over 20 years now, sitting through glossy

## Chart 1: Key financials

12 months to 31 <sup>st</sup> December 2013	2009	2010	2011	2012	2013
<b>Total revenue (\$m)</b>	29,951	32,350	36,529	37,665	39,005
<b>Price/earnings ratio</b>	16.00	15.1	20.4	17.2	18.6
<b>Profit after tax</b>	1,529	1,957	1,865	2,931	3,962
<b>Total fixed assets (\$m)</b>	22,068	22,348	23,674	24,255	24,271
<b>Total liabilities</b>	27,050	27,047	28,906	28,788	27,856
<b>Operating margin (%)</b>	8	9	7	11	14
<b>Dividends (\$m)</b>	1.21	1.21	1.37	1.53	1.68

*Fiscal year ending 31<sup>st</sup> December  
Without CPG*

presentations about a new product or service promising the earth is an all too familiar experience for John. However, making something “look good on paper is the easy part,” he explains. The real test for a bank comes in providing a solution that actually does all it promises.

### Ahead of the curve

That is not to say that John has an aversion to innovation. On the contrary, he cites a strong focus on technological innovation an important quality to look for when selecting a banking partner. “We prefer to work with banks which offer the latest technology,” he says. “We like to stay ahead of the technology curve.”

That mantra extends to Honeywell’s own treasury operation. Currently, treasury uses SunGard’s AvantGard Quantum treasury management system (TMS), supplemented with external portals for investments and an internally developed system to track the numerous bank guarantees that the business issues. By allowing treasuries to process vast amounts of information quickly and with far fewer resources than before, TMS portals are certainly an advantageous asset – if not a necessity – for today’s rapidly expanding multinationals. A degree of caution must be exercised, however. The benefits of technology, after all, can only be realised if all the systems are running smoothly – and as every treasurer knows, that is not always the case. As such, John recommends treasurers ensure a robust disaster recovery plan (DRP) is in place to safeguard against the worst-case scenario.

There is also another big risk associated with technology beyond its reliability. It comes from a lack of coordination and understanding of the system amongst users. As a result, each user needs to be fully trained in the use of the system, and if global operations are using a single portal, a common understanding of the segregation of responsibilities on a universal scale is absolutely imperative, he explains. Similarly, users running reports need to have a good understanding of the search and filter criteria built into the customised reports, or they may run the risk of pulling position reports that do not reflect the intended request. Like many of the financial risks treasurers manage in their day-to-day work, the risks associated with technology can never be fully eliminated, but by taking sensible precautions, they can be minimised. Either way, John would rather embrace technology than fear it. “Despite the risks, the advantage that technology offers far outweighs them. It’s all about managing the risks” he says.

### The regulatory challenge

Like any forward-looking treasurer, John is strongly focused on integration, standardisation and automation (ISA). It has become a key part of how Honeywell’s treasury operates. “I would like ISA to become a habit, the way we do things by nature,” he exclaims. “It is not part of a plan, it is how we work.” Of course, such ambitious objectives are not easily achieved, particularly in Asia’s notoriously complex and uneven regulatory environment. Across the region, regulations, investments, and the processes that surround them can vary considerably, making it near impossible to achieve complete consistency in practice across Honeywell’s Asian entities. It is a challenge compounded by the need to integrate newly acquired companies into the Honeywell set-up. “As acquisitions continue to form part of our growth strategy at Honeywell, we will continue to face ISA requirements, but as long as it is in our DNA, we will get there.”

Given the challenges it poses to him in his treasury role, one might expect John to express considerable frustration at the weight of the regulatory burden within the region. His assessment of regulation in Asia is more nuanced, however. Although Treasury Today’s 2013 Asia Pacific Benchmarking Study reveals that 68% of treasurers in the region see regulatory issues as a challenge – more than any other region – John argues that the question of whether regulation should be viewed as a force for good or a constraint on business has greater applicability beyond APAC. Some degree of regulatory oversight is clearly necessary, he explains. But, on the other hand, too much can be detrimental to the markets and businesses operating within them.

Overall, regulatory bodies in Asia are generally pragmatic and pro-business, he says. “Nevertheless the pace at which changes are introduced is often dictated by political and domestic agendas, which sometimes takes precedence over economic considerations.”

### Moving forward

Honeywell recently changed one of its cash management banks in a particular region and as such working on that project has consumed much of John’s time of late. Now that is behind him, he intends to spend more time creating more efficient processes, tearing down silos, and developing the department into a strategic partner for the business units in the region looking to grow. “I have a strong team which certainly has the capability to do more, such that over time, we should take on an increasingly larger partnering role within the business.” ■

# Liquid funds in India

From the outset it should be known that the liquid funds industry in India is well-established. New asset managers launching in the country will typically offer a liquid fund as their 'access point' to other asset classes. India's success in this sector can in part be attributed to the fact that it is well-regulated, with the Securities Exchange Board of India (SEBI) continuously monitoring and responding to activities in the segment. The market size as of January 2014 is approximately \$40 billion, around 35% of the total mutual fund market size. Over the last five years the liquid funds segment has grown at an annual rate of 15% (source: The Association of Mutual Funds of India, AMFI). The market is 90% composed of institutional investors, eg large and medium corporates, multinational corporations (MNCs), financial institutions and banks, for which it clearly remains an attractive proposition. Whilst the economic growth rate of India has slowed in the last 24 months, it is a broad-based economy and with more investors continuing to enter the liquid funds market at the corporate and institutional level, the sector looks relatively healthy.

## Liquid funds as an asset class

Liquid funds in India provide daily liquidity whereas the bank deposit structure imposes a seven-day minimum placement; there is no concept of overnight deposits in India. In addition, yields from liquid funds are typically higher than seven-day deposits. However, investors should note that the risks associated with liquid funds may be different from bank deposits. "You have access to professional credit management, transparency and efficiency and you have a higher yield and daily liquidity; these are interesting parameters in themselves," notes Gordon Rodrigues, Investment Director, Fixed Income and Head of Liquidity, Asia, HSBC Global Asset Management (Hong Kong). But liquid funds also offer a diversified portfolio of instruments and (perhaps as importantly for corporate investors) it is "very easy to access the markets", with bank and non-bank online trading portals and cash sweeping facilities in conjunction with mutual funds readily available.

## Tax status

For investments in liquid fund, short-term capital gains tax (currently 30%, assuming the investor falls into the highest tax bracket) is applicable on investments held for less than a year in the accumulating or growth option. It would be the same as that applicable to a bank deposit. If the dividend payout option is chosen, dividend distribution tax at 25/30%\* (plus surcharge and cess) is paid by the liquid fund before distributing dividend to the investors. If investments are held for more than a year, it attracts long-term capital gains tax. Long-term capital gains tax is currently applied at a rate of 10% without indexation or 20% with indexation (eg cost of the investment is indexed to the Indian government's annual Inflation Index). Investing in a product that spans three financial years (eg starting 25<sup>th</sup> March 2014 and ending 5<sup>th</sup> April 2015) gives investors a 'double-indexation' benefit.

## Ratings

It is a benefit too that all liquid funds necessarily have the highest rating from the domestic Indian operations of global ratings agencies, Moody's (ICRA) and S&P (CRISIL). CRISIL's high-point is AAA to ICRA's A1+; there is no appetite for lower-rated funds. In order to distinguish between funds providers such as CRISIL publish fund rankings in which individual funds are placed in order of merit using a weighted system based on two key parameters: a quantitative assessment linked to returns, and a qualitative assessment of asset quality, liquidity and investment concentrations. These are dynamically ranked CPR 1-5 (1 being the highest) and are reviewed quarterly. This provides corporate treasurers with another independent source for reviewing fund quality and returns.

## Regulatory environment

The Indian liquid fund environment has been based on variable net asset valuation (VNAV) from the start. Funds have to mark-to-market (or fair value) assets beyond a certain tenor with amortised cost for assets below that tenor unless a traded price is available which creates volatility as the price alters. The maturity cut-off beyond which assets are marked-to-market has progressively been reduced from six months to 91 days to 60 days currently. The alternative (used by most Money Market Funds (MMFs) in the US and UK, for example) is constant net asset value (CNAV) which uses amortised cost accounting to value all assets. In Q4 2008 India saw interest rates on a sharp upwards trend with the banking system in a "deficit liquidity scenario". This, combined with the global financial crisis, led to concerns on liquid funds credit and liquidity risk which saw a group of international and local institutional investors pull out of the market. Although far from causing a run on funds, institutional investor concerns did trigger redemptions.

"In an illiquid market it forced some asset managers to step in and support their own funds so as not to show negative returns in a VNAV environment," recalls Rodrigues. This hit the year's profitability for those funds. The regulator started to pay close attention to the kind of risks being run in the liquid funds versus the level of liquidity they could provide. Until this point, investors in Indian liquid funds could buy instruments of up to one year's tenor.

Following regulatory intervention in 2009, the longest maturity that could be purchased for an Indian liquid fund was shortened from one year to 91 days, one of the few jurisdictions in the world to take such a precautionary action. In 2012 the regulator started requiring all instruments of over 60 days maturity to be marked-to-market, every single day whether traded or not; previously they could be accounted for on an amortised cost basis.

\*This depends on the status of the investor - 25% for individuals and 30% for corporates.

The information provided is based on provisions of the Finance Act 2014. You are advised to consult your tax advisor for detailed tax implication.

A daily security level valuation alongside a credit pricing matrix is provided by both CRISIL and ICRA to value all 60+ days credit papers, but when this ruling came into being, the extra volatility generated in portfolios saw asset managers automatically dropping their weighted average maturities closer to 50 days. "In the global context, if an investor wants less volatility in a VNAV environment where it has fairly volatile short rates – and short rates in the Indian and emerging market context can be more volatile than in a European or US context – this essentially means that they might have to run significantly lower-maturity instruments," says Rodrigues.

## Macro-economic events

In spite of all of the Indian regulator's actions, in July 2013 the Reserve Bank of India (RBI) recalibrated its Marginal Standing Facility (the rate at which a bank can borrow on a clean basis) to be 300 basis points above the policy repo rate. This action was seen as an interest rate-led defence against depreciation of the Indian rupee (INR). In the belief that the US would start tapering its quantitative easing programme, pressure had been put on emerging market currencies as they were sold by investors returning to USD (despite the relatively promising economic fundamentals of countries such as India). The INR came under pressure as one of a number of EM currencies facing current account deficits; the RBI's decisive action was taken to restore stability to the foreign exchange market.

With a 300-basis point hike, even an investor with 60 days or less of weighted average maturity in its cash fund was going to see a negative NAV, explains Rodrigues. Mutual fund providers under the aegis of the Association of Mutual Funds of India (AMFI) agreed that the effect of US monetary policy could not have been anticipated and it was decided that the mutual fund management industry could pass on to investors the negative returns it had been seeing – the first time this has ever happened. It is a classic example of interest-rate risk but this time investors did not panic and those that remained invested for a week or more recovered to a position of net positive return. "This time they understood what was happening," he says. "There was a lot more mature communication from asset managers to their clients in explaining the reality of the product."

Corporate treasurers and institutional investors were forced to consider their reaction in context of their individual investment policies and how they should view their portfolio going forward. Rodrigues believes the industry has in fact "come out stronger from this entire experience", knowing that it can quickly rebalance itself even in the wake of significant macro-economic events.

## Investment options

For corporate treasurers, the biggest advantage in terms of optimising returns on cash will be attainable if they have the ability to tranche that cash, explains Rodrigues. Under this model, normally cash is split three ways; "working capital" (on-demand cash), "core cash" (held in the medium term for a specific reason such as a dividend payment) and "strategic cash" (the long-term 'war chest').

Medium-term core cash options in India include fixed maturity plans (FMP). "These are closed-end products run by asset managers invested in a combination of debt securities and money market instruments," explains Rodrigues. The securities cannot be greater in maturity than the stated tenor of the FMP, another 2009 ruling intent on avoiding interest rate mismatch between assets and liabilities and ensuring all obligations can be met. FMPs are "an established and robust market" with usual maturities being three months, six months, one year, two years and three years, the bulk being six months and one year. "Specifically in the one-year segment investors get very good tax-adjusted returns," he notes. Investments of this type also help to maintain a diversified portfolio and, as a 'hold-to-maturity' product, can insulate against interest rate risk. As passively managed products the pricing attracts lower fees too, adds Rodrigues.

In terms of longer-term strategic cash the Indian market offers a segment known as ultra-short bond funds. These are often split two ways, with a weighted average maturity of two and five months for the conservative option or as a "more aggressive" version running between five and 12 months. The yield differential between these two could be as much as 50 basis points.

## Outlook

The RBI's focus on containing inflationary expectations is expected to continue. The RBI repurchase (repo) rate – the rate at which banks borrow in the overnight market from the RBI – is now hovering around an anti-inflationary 8%. "In the short term we expect that rate to remain relatively stable if still on the high side" says Rodrigues. Although the central bank is looking to be more "pro-growth", he feels that during 2014, short-term funding rates are likely to range somewhere between the repo and Marginal Standing Facility rate. From an asset manager and treasurer's point of view "it therefore makes sense to run shorter-weighted average maturities".



Gordon Rodrigues is an Investment Director in the Asian fixed income team and is also the Head of Liquidity Asia. Rodrigues has been working in the industry since 1992. He joined HSBC Global Markets, India in 1994 as a treasury sales specialist covering corporate and institutional clients. He traded credit products on the fixed income trading desk from 1998-2002. He moved to HSBC Asset Management India in 2002 to set up the fixed income investment team and headed the team until 2007 before relocating to Hong Kong. Prior to joining HSBC, Rodrigues worked as a foreign exchange and fixed income dealer at Merwanjee Securities in Mumbai. He holds a Bachelor's degree in Electronics Engineering and a Master's degree in Finance, both from the University of Mumbai, India.



# Thinking big

*'Big Data is not a problem, it is an opportunity.' This may sound like the kind of empty mantra beloved of assertiveness counsellors or lifestyle gurus, but in this case the statement might be true.*

Few in the business world can have failed to notice the concept of 'Big Data'. Since it first emerged in the early 2000s it has often been used as shorthand for 'impending meltdown' as businesses sink under the weight of uncountable bits and bytes. But the volume of data carried by a business as a whole could be a problem or an opportunity – it all depends on how data is managed and what is done with it to make it useful. Treasurers have access to a variety of different data sets that could, for example, be useful in helping them with their forecasts so they can make better decisions. Being able to look at a wider set of data provides better intelligence however mismanaged information is at best confusing but potentially a major source of risk.

To try to quantify just how 'big' Big Data is, IBM published an 'infographic' last year showing that an estimated 2.3 trillion gigabytes of data are created each day and 40 zettabytes (43 trillion gigabytes) of data will be created by 2020. Data analysis and data-about-data (meta-data) generates yet more data ensuring that growth really is exponential. The problem with having so much data is that it can be difficult to capture, file,

store, search, share, transfer, analyse and visualise without coming up against a range of issues such as duplication, inaccuracy, irrelevance or unavailability. In essence, if it takes too long to make a decision it may be too late.

Today, very few businesses will be unaware of the importance of their data. But leveraging Big Data to unlock more business value requires planning. Kelvin To, Founder and President of Data Boiler Technologies (and a guest speaker and lecturer at City University, Hong Kong) says discovery of opportunities "often depends on the correct diagnosis of problems".

For analysing historical bank transactions, for example, the typical reporting tool in a treasury management system (TMS) will probably limit analysis to a 12-month period at best, especially if the business has an annual, repetitive nature to its cash flows, says Bob Stark, VP Strategy, Kyriba. "You end up narrowing down what you are analysing very quickly." However, the concept of Big Data in this context is about taking a larger data set, across a larger number of years, to give a better idea of what the cyclical nature of data is going to

look like. Expanding reach for Stark is not just how far back in time analysis goes but also how broad a sweep is included – and this even covers macro-economic data. “Big Data is about being able to leverage all those data sets and being able to pick and choose how you want to use them; for treasurers without the right tools it is not something they have been able to achieve in any meaningful way,” says Stark.

The financial crisis of 2008 certainly provided motivation for looking further into and more widely at data, with most forms of risk mitigation higher on the agenda, notes Alex Robertson, Head of Treasury Analytics, Treasury Solutions, Capita Asset Services. The reliance on more data – both internally and externally sourced – and deeper analysis to protect the business (counterparty credit risk might now take in CDS spreads, equity prices, tier one capital ratios, bond spreads and so on) naturally demands increased time, but so too does the need to seek out different investment and funding options and, notes Robertson, “this is all increasing the scope of information that treasurers need to look for and understand”.

If confusion reigns when too much information is available, Richard Childe, Director, Product Marketing, OpenLink Financial, says the problem is usually that people “do not know what they want, they ask the wrong questions and end up being inundated with the data”. In the Big Data world, knowing where to source data and then asking the right questions is critical.

## What's stopping you?

When it comes to seeking answers, Robertson suggests barriers to meaningful business analytics may arise from existing technology, resources and processes. “Overlapping data sources and contradicting data versions often exist both within and outside the organisation,” adds Data Boiler's To. “This can be exacerbated by poor vendor performance and integration issues, constant battles with non-standardised technologies and frequent requirement changes.” In ‘fire-fighting’ mode, he notes many organisations are attempting to adapt by rolling out “retrofitting” projects, “trying a hundred different things and hoping some of them will work” and/or using Business Process Outsourcing “to let someone else worry about it”.

For a treasurer, spending time identifying, collecting, cleansing and analysing additional data “to the point where they can make meaningful decisions confidently” means spending less time on core activities, comments Robertson. “Most businesses will have a clear corporate strategy; what is required here is a strategy for business analytics.”

## Starting a project

Before any project commences, Childe urges all companies to ask this simple question: “What business challenge are you trying to solve?” By understanding what the requirements are it is possible to figure out not only which data should be found and analysed but also what tools will be needed to do that. Business teams and IT should collaborate to reveal those needs. Only then will firms overcome barriers to leveraging their data, such as legacy systems that aren't easily replaceable, lack of confidence in new technologies, and siloed functionality and data.

Big Data and business analytics issues can be tackled internally as long as the right plan and resources are in place. Alternatively, as To states above, the project can be outsourced to a third party, typically using cloud technology to manage and process data offsite. Cloud technology still raises the issue of

security (and may even be prohibited by corporate policy) but in reality the cloud is as secure, or more so than in-house storage, a view now espoused by many IT professionals who, Stark notes, tend to be the drivers behind such moves. Be warned though: data management projects can be costly when IT and final stakeholders who will use the information are not aligned and requirements for the project are unclear, says Leonardo Orlando, Manager in Finance and Risk Business Services at Accenture UK. “When the IT function and those who will ultimately use the data are in agreement about their final goal and have a mutual understanding of the project trigger, such as regulatory compliance, these projects tend to be more readily supported by those involved.”

## Technical solutions

Centralisation is one of the key components for efficient use of Big Data for Orlando. “Without using a unique golden source, there is the risk of having multiple versions of the truth,” he notes. “Standardisation, however, is not the answer when there are multiple requirements across an organisation.” One of the most efficient Big Data methodologies therefore involves creation of a common golden source, which can provide information at its lowest level of granularity. However, it also needs to offer organisations the flexibility to use additional data sources to meet unique departmental needs.

Current technology is capable of meeting Big Data requirements. What's important, says Orlando, is to think through how your organisation wants to use Big Data and factor that in before selecting and implementing. “Technology is constantly evolving but there are multiple options that should be evaluated against business use cases to ascertain the most suitable – one size does not fit all.”

Notwithstanding his obvious bias as a technology vendor, Stark believes companies need to centralise as much as possible. “It doesn't mean that if you haven't centralised it is impossible, but for a treasurer looking across 18 different systems to try to understand their cash forecast, rather than having it in one system, it's easy to see which approach is simpler.”

But for Data Boiler's To, centralisation is not necessarily the answer. “Putting everything into a central data warehouse and maintaining that every year is very expensive; an ‘Enterprise Service Bus’ architecture [a system of connecting and unifying multiple data inputs] is capable of addressing many non-standard data issues, but it too is not cheap.”

He suggests tiered data storage as a potential solution. High-tier, high-availability servers enable real-time delivery and instant backup for business-critical data, whilst the lower-tiered servers are used for non-urgent or archiving purposes. Tiered data storage has been made possible with the advent of new analysis tools. With older technologies, when data analysis was required, it was necessary to load all sets of data into a high-availability server to execute the process, To explains. “With modern in-memory analysis and tiered storage there is no need to do that; you can do the analysis wherever the data is.”

One of the persistent issues, according to Robertson, is cleansing and normalising data. “Unless you have common identifiers to integrate data you will have to spend a significant amount of time doing it manually,” he explains. There are rules-based tools available to help look for and normalise common linkages between data (to quite a granular level), and there are systems to ensure version control and document

management, but users must have confidence that their data has been properly integrated.

Standardisation and centralisation clearly have a place in Big Data management, but for To, "firms should focus on optimising what ought to be fast, resilient, scalable and flexible". In the real world, where funding is limited, this creates a genuine need to balance the cost and benefit of standardisation with the need to preserve IT agility for rapid response to business change.

In order to keep costs down, Orlando urges companies to prioritise goals, information and stakeholder needs. "A company might create a roadmap for change that also factors in short-term compliance considerations, and then slowly move towards an integrated reporting platform that enhances a more efficient decision-making process." Prioritisation requires cross-functional discussion, the aim being to find a common goal. It demands the buy-in of senior management, to drive fair and equitable discussion, and may even see the provision of a dedicated project manager to ensure focus. Everything should connect back to the business model.

One way of achieving unity when aggregating data from multiple sources, without recourse to a single central data warehouse, is to embrace 'Lean' IT processes. The Lean process, To explains, stems from the Japanese motor-manufacturing sector. It is a way of maximising efficiency through organisation and removing the unnecessary through constant refinement. "If you look at all processes together in your system development, you will be able to prioritise the aspects that give the biggest 'bang for your buck'." In the context of Big Data, Lean is about building a "flexible and agile" IT system that is capable of handling multiple standards.

## Human intelligence

Using technology to automate processes is a useful exercise in itself, but Stark believes IT should be deployed to enable treasuries to take their processes "to the next level". Automation can free-up individuals to concentrate on more valued-added activities, allowing the entire treasury team to contribute to data analysis and the search for new trends and opportunities. In this respect, treasury experience and expertise are still essential. "If you don't know what you're looking for and don't have the experience to know which buttons to press, the technology won't just magically do your job for you; you need to know what you are doing to learn from data."

From Robertson's perspective, designing a system that will do everything is not the point. "What we are really trying to do is give treasurers transparent information to enable them to make good decisions; the process of good decision-making shouldn't change," he says. "Becoming over-reliant on any application is a bad thing; it should be a tool to make the best decision, not one to make the decision." In the risk management space, for example, there is an increasing need for stress-testing, complex simulation and scenario analysis, using higher volumes of data and at a more granular level. Whilst software can steer a decision in a certain direction, ultimately there will have to be a call made based on professional judgement.

"People design computer systems and people are not infallible; their systems will do what they are designed to do but that does not mean they are right," notes Childe. Data has to be interpreted correctly and anomalies spotted so even with the best technology "treasurers will always have to remain on the ball".

Whatever technology is used, the final user may make their own analysis and evaluations, says Orlando. "Experience, especially when business-related, may be a factor in data interpretation, but some control may be needed to tie decision-making processes sufficiently to the information provided." With regards to treasury, risk management will want to define a risk appetite and monitor and control treasury actions so they are compatible with that appetite.

In To's view, there will always be a need for treasury professionalism, but he suggests technology can offer a different and perhaps unexpected view. "What Big Data enables you to do is look across the board, where places you would never think of may present big opportunities." He believes that combining the broad sweep of Big Data with a machine-learning approach to analysis is the route to success. "If you don't make that connection, you will be like everyone else because whatever you can think of, other intelligent individuals will be able to think of too!"

## What next?

A business is linked by many processes. Where data is generated, the individuals working with it day-in and day-out will have developed specific sensitivities to that data. This unique understanding allied with the Big Data toolset enables every experience and understanding to be drawn together to enhance the view of the business as a whole, through what Orlando refers to as an "interactive and dynamic data flow". Big Data is thus not just an IT issue, but one for the whole business to tackle and everyone in the organisation who works with data can make better use of it. As Childe says, "you just have to know how to access it, what questions to ask and what tools to use to mine that data to get the answers you are looking for". Instead of seeing Big Data as a threat, why not embrace it? ■

## ✓ Big Data checklist

According to Accenture UK's Orlando, Big Data does not become a "big problem" if a business has the right processes, the right teams and the right technology in place. He suggests the following:

- There are clear functional requirements, which need to come from the information user.
- There is a unique golden source (even if the level of data granularity may be different across the organisation).
- The IT architecture is clear, simple and scalable. To help meet regulatory requirements corporates and banks may want to adjust their processes without changing the information source, rather than making manual adjustments which can affect data integrity.
- Having the right teams with clear lines as to who is responsible for which tasks is key. Many organisations now have a dedicated Chief Data Officer.
- Data governance and data management is essential. Not all data has to be physically stored in one big box as long as strong data governance is in place.



# THE BANK INTERVIEW

## Amol Gupte

Region Head, Treasury and Trade Solutions, Asia Pacific



Amol Gupte is Managing Director and Region Head of Treasury and Trade Solutions in Asia Pacific. Based in Hong Kong, Amol is responsible for the strategic direction and development of Citi's comprehensive suite of solutions to meet the transaction banking needs of clients across the region and help emerging markets clients go global. A 25-year Citi veteran, Amol has extensive international banking experience including leadership roles as Region Head of Treasury and Trade Solutions in North America, Head of Payments for Europe, Middle East and Africa, Head of Cash Management for Western Europe, as well as Head of Transaction Services for sub-continent India.

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*In this interview, Amol Gupte, Region Head for Citi's Treasury and Trade Solutions (TTS) business in Asia Pacific explains how treasurers in the region are responding to the challenge of an uncertain economic outlook, and how Citi is developing its offerings to help them. He also discusses recent liberalisation initiatives in China, the growing popularity of mobile treasury solutions, and trends in trade finance.*

### What are the major challenges that corporate treasurers face in the Asia region today and how is this impacting their priorities?

There is growing uncertainty regarding the economic outlook in Asia and globally. In any situation where the direction of the economy is not clear, there are three main areas corporate

treasurers in Asia need to focus on – maximising liquidity, optimising working capital, and increasing accuracy in their cash flow forecasting.

The first of these is the management of corporate liquidity pools across disparate local markets. For example, trapped cash or money stuck in restrictive markets for diverse reasons

such as regulatory constraints, capital requirements, currency convertibility and transferability, and tax issues, is a real barrier to efficient global cash deployment for multinational companies that operate in Asia. In fact, the more successful a company becomes, the greater the need to effectively manage and mobilise profits or cash reserves to maintain competitive advantage. Leading companies in the region, whether they are western or emerging markets corporates, would generally pursue the dual strategy of generating cash and then optimising the cash generated.

In Asia, corporates have to navigate a diverse blend of markets. On the one hand, the region has highly developed markets such as Singapore and Hong Kong while, on the other, there are tightly regulated markets such as India, and Indonesia. Since corporate treasurers often find visibility over liquidity in such conditions difficult to achieve, we try to help our clients by performing diagnostics with them and assisting them to benchmark their performance against their peers. Once that has been achieved, we can also help them to mobilise their liquidity with pooling structures that can be used to distribute any excess liquidity they are holding across the operating accounts of business entities with liquidity shortages.

The second consideration is that volatile market conditions necessitate a stronger focus on working capital. That is not just for the benefit of the corporate's own balance sheet, but also to lubricate their supply chain, both on the buy and the sell side. In certain markets – India, Korea, Hong Kong and, to an extent, China – we have seen growing interest amongst our clients in supplier finance solutions, both in terms of the financing of receivables and payables as a result.

The final item is cash flow forecasting, which nobody wants surprises with. It might be that there is a large debt payment suddenly due or a large inflow that the treasurer needs to find a good use for. Either way, the treasurer doesn't want to be scrambling for cash or planning the allocation of funds at the last minute.

### **With those three macro challenges in mind, how does that correspond with your plans for Citi's Treasury and Trade Solutions (TTS) going forward?**

In Asia, one of our big strengths is our international footprint. Since many of our clients are large western multinationals or large local emerging market companies, both of which are also very international, our first priority is making sure our network is easy for our clients to access and use. That has been the driver of a significant proportion of our investment in recent years.

One of the other things we have been doing is expanding the size and the scale of our local product suite. This investment in the local capabilities of our network allows us to compete with local banks. But what we do then, and this is what really differentiates us from other banks, is to overlay that with a technology platform that is common across all countries. So, if you are a treasurer trying to deal with multiple markets, you can use tailored products for each local market and access them through our common horizontal technology layer. It is a very powerful combination.

We are also investing heavily in our liquidity management products and services. The cornerstone of our market-leading global liquidity network is something we call the

Global Concentration Engine, a platform for automated cash mobilisation services that offers our clients a great deal of flexibility with respect to how they want to do their cash pooling. One of our main objectives at the moment is investing in this platform – making it available in even more markets. As a result of recent deregulatory initiatives, our clients are now able to use the platform in Singapore and Hong Kong for renminbi transactions.

With the increasing digitisation of financial services, more companies are now seeking efficient technology solutions to drive automation in their treasury services. Citi has continued to enhance our integrated set of channels, platforms and products to provide one-stop solutions for multinational clients. CitiDirect BE, our flagship next-generation corporate banking platform is core to our digital strategy, enabling access to comprehensive cash management capabilities and advanced analytical tools via a single, global portal. New e-channels such as mobile and tablet banking are also enabling clients to manage their accounts and transactions while on the go. For example, our CitiDirect BE Tablet, launched in Asia last year, provides treasurers with advanced data visualisation features, including geographical driven graphical results of account balances, and drill down options to global, regional, country or individual account level.

So, in summary, we are working to expand out our local capabilities while striving to have a uniform platform across the region's markets. The investments we have made to this end over recent years have enabled us to roll out very sophisticated products across Asia's markets. For instance, we recently concluded a pilot of a set of risk management tools to help clients identify and track occurrences of fraud or non-bona fide transactions, which we were then able to take and roll out across 16 markets in the region. Another example is a product we recently rolled out on the receivables side that can take invoice data and overlay it on top of an incoming payment, before it is automatically reconciled through the client's ERP system. Again, we rolled this product out across all 16 countries – which is a great feat.

### **What is Citi's involvement in helping liberalisation of the renminbi in China? What do you feel are the next big steps?**

Since it is a constantly evolving issue, it is important to step back and take in the bigger picture. Looking back, the progress that has been made over the past 12 months has been truly phenomenal. It is amazing to think that just over a year ago there was little or no movement of money out of China and a lot of multinationals had years of cash just sitting in China. Suddenly, around June time last year we saw the first string of regulations and ever since then barely two weeks passes without another development. The first approvals were for one-way loans, but this was soon extended to an ongoing two-way sweep and further liberalisation within the recently established Shanghai Free Trade Zone (SFTZ).

Citi has, without a doubt, been at the forefront of these initiatives providing access for our clients as new capabilities are piloted and approved. This allows our clients to do two fundamental things. First and foremost, it allows them to release their trapped cash from China to aid group working capital, thereby reducing the dependence of other entities on bank finance for funding. Likewise, it allows China entities to access funding from the pool when they themselves are short of liquidity.

Liberalisation also presents other opportunities for multinationals. We are seeing a growing number of companies using RMB as an invoicing currency, for example. A lot of western multinationals that traditionally invoice in dollars are beginning to think about using renminbi for invoicing as it can offer a natural hedge for FX exposures.

Although we have seen enormous progress in terms of liberalisation, there is still work to do. The next step for the Chinese regulators in the coming years is to bring in measures that will improve the depth of offshore RMB markets because right now, China really has two separate currencies; onshore and offshore. I think there is also a need for a more sophisticated clearing infrastructure if we are to see the renminbi gain the robustness it needs to develop into a truly international currency.

### **How important is the Shanghai Free Trade Zone and what projects are we seeing there that are particularly significant at the moment?**

It is hugely important. I visited our branch which we opened in the zone recently and believe the Chinese regulators are showing signs of serious intent with what they are doing there. Ultimately, if the zone is successful, the plan is to roll the pilots out into more geographies within China, as we saw previously with other economic initiatives such as the Shenzhen Special Economic Zone.

### **To what extent are treasurers in Asia embracing mobile technology?**

I used to be quite sceptical about the application of mobile technology in the treasury space, but about three years ago my view began to change. At Citi we began to realise that consumer trends in mobile technology were really something we needed to embrace in our corporate finance offerings, to make it easier for the treasurer to access his or her work on the move.

Just over two years ago, we launched the award-winning CitiDirect® BE Mobile solution and we were amazed with the uptake and the sheer volume of transactions we saw flowing through the mobile channel. In 2013 alone, over 2 million transactions valued at more than \$140 billion had flowed through our mobile platform, of which, over \$36 billion has been in Asia.

### **What do you think are the key geographies to watch in Asia at the moment?**

The China market is a hugely exciting and vibrant opportunity for us. The pace of liberalisation continues to step up, and the timing is opportune as we assist our clients to link their Chinese franchise with their existing global and regional treasury and liquidity structures. Also Chinese parented companies are increasingly widening their footprint around the world, and this once again is a very rich partnership for us as we support them in this journey.

India remains one of the world's most important markets – and they are reforming their economy and financial system. We have been helping clients to evaluate treasury management changes and provide optimal structures and

processes to take advantage of these reforms. These include optimisation of funding options for investments, digitisation of payments with the launch of their national automated clearing house, and growth in mobile payment solutions.

Markets such as Singapore and Hong Kong continue to have a high level of importance, given their status as regional hubs where corporate pooling is concentrated. But I also think the Korean and Taiwan markets are hugely significant at the moment, given that a large number of exporters are based there. Then there are key markets such as Australia and Indonesia. Both of these countries are important regional markets due to their size, more than anything, but are at opposite ends of the economic spectrum. Australia is highly developed and advanced while the other, Indonesia, is still an emerging economy. But that is precisely the fun of the Asia Pacific region!

### **What are your views on intra-Asian trade? From a trade finance perspective is the support always there for corporates?**

Intra-Asia trade flows are continuing to give rise to new opportunities for companies in the region. If you look at the figures about 53% regional trade flows are directed to other Asian economies and, to add to that, more than half of Asia's imports or exports end up or originate within the continent. So this is evidently a hugely important component of the Asian economy.

In terms of trade finance, there is no shortage of supply at the moment for large corporates across countries such as Singapore, Korea, India, Indonesia, Malaysia, Taiwan, and Australia. If anything, demand is now beginning to slow down as overall exports on the continent begin to drop off.

But if you go down a level, the story is rather different. For small and medium sized businesses trade finance is not so readily available. This is why, when we talk about trade finance with our clients, we try really hard to understand their ecosystem. For example, we try to find out who their obligors are, who they sell to and where they buy from, and try to provide liquidity to those counterparties for the benefit of our client.

### **If the Asian regulatory environment was not so complex, what tools would you like introduce if you could?**

My answer goes back to the challenge of accurate cash flow forecasting which I raised earlier. Regrettably, that remains an unfulfilled challenge for many of our clients and one that we are working hard to resolve. If it could be solved in a bank agnostic fashion – not just between a client and Citi – it could be a tool that would make life for corporate treasurers in Asia considerably easier.

And then there would be further development of tools to take advantage of big data. This is already happening, it is no longer just an idea that we are toying with, it is actually driving our conversations with our clients. Having this more interactive way to communicate with clients, backed by analytics, is pretty transformational as far as transaction banking goes. ■

# The end of trapped cash in China?

*A couple of years ago, trapped cash in China was a major challenge to MNC treasurers with operations in the country. But in a flurry of regulatory changes, China has freed many restrictions on cross-border cash flows. Are we now witnessing the end of trapped cash in China?*

Until recently, exchange controls dominated cross-border flows in and out of China. Trade flows were allowed but an arduous process of pre-approval by the State Administration for Foreign Exchange (SAFE) took time and effort from local staff of MNCs in China. Employees had to take stacks of forms, invoices, customs documents, and so on to SAFE offices to be chopped before taking them to their bank for verification and payment. We got this down to a fine art, but it still drove delays and inefficiency.

Capital account flows were much tougher. Long pre-approval through multiple government agencies was the norm, often including the ministry responsible for the industry sector. Short-circuiting the system could have ruinous consequences – for example improperly registered loans might be treated as income, thus taxed at 25%, and then there would be no paperwork to document getting the money out again.

Dividends have always worked – as long as you were prepared to graft to make them work. First you need audited accounts, then sign off from the tax department, then SAFE and possibly ministry approval – all this took three months at best, not to mention the expense and effort required. In short, cross-border loans out from China were only possible on an exceptional basis, with challenging approval requirements.

## CNH trade flows

CNH is the unofficial currency code for CNY circulating offshore. The “H” refers to Hong Kong where offshore CNY first started. CNY is the ISO code for Chinese Yuan – sometimes called RMB (“renminbi” or ‘people’s money’) – and is the only code recognised by SWIFT and other official platforms. Despite occasional arbitrage, CNH = CNY – just as USD circulating in a developing country behind exchange controls may attract different interest rates than offshore USD, but is still USD.

CNH has been popular in Hong Kong since 2004. So much so that Hong Kong citizens regularly cross the border to Shenzhen to get cheap food and shopping and load up on CNY, well up to CNY20,000 (sometimes for each child too) which is the cash limit crossing the border.

In June 2009, China allowed selected companies to trade cross-border in CNH. Since September 2011, any Chinese company (both local and foreign owned) can pay and receive CNH cross-border. Furthermore, since CNH is not foreign exchange under the remit of SAFE, cross-border CNH payments are not subject to ex-ante SAFE approval described above. CNH payments are approved by banks, can be 100% electronic (with an obligation to produce paper if audited), and thus fast and efficient. China has deliberately made it easier to pay out in CNH than in foreign currency, to boost internationalisation of CNY.

I still hear people saying that CNH flows are restricted to DMEs (Designated Mainland Entities – the lucky few in 2009), I want to reiterate that since September 2011, all Chinese entities can pay and receive CNH cross-border. This is a substantial benefit to any cross-border business in China from multiple perspectives. It opens the possibility of more efficient FX hedging and streamlined cash and working capital management.

“I still hear people saying that CNH flows are restricted to DMEs (Designated Mainland Entities – the lucky few in 2009), I want to reiterate that since September 2011, all Chinese entities can pay and receive CNH cross border.”

## Cross-border loans

Last year saw the spread of two routes for inter-company lending from China to offshore. SAFE introduced a programme for inter-company loans in foreign currency. This has been popular with MNCs who accumulate FX onshore and do not want to convert to CNY. The downside is that SAFE requires case by case pre-approval of each facility.

SAFE also introduced FX Concentration Header Accounts through which onshore entities can manage FX with bank accounts in Shanghai. Their purpose is to facilitate bringing corporate treasury onshore in line with China's goal to make Shanghai an international financial centre by 2020. Amongst other things, FX Concentration Header Accounts are used to sweep funds cross-border thereby connecting onshore pools with global cash pools offshore.

The most popular cross-border inter-company lending scheme is the PBOC's. PBOC has liberalised cross-border lending rules to support the internationalisation of CNY. Onshore entities can, reasonably freely, make cross-border loans to related parties offshore. In most regions, PBOC has delegated approval to commercial banks. In some regions it seems the local PBOC is approving facilities itself, but firstly the approval is not onerous and secondly, it is easy enough to do the loans through bank accounts in Shanghai (where approval is delegated to banks) so this is not a big impediment.

These cross-border inter-company loans can be implemented as simple bullets, or as term loans under a facility, or as a bank-automated sweep. The latter provides a route to integrate China liquidity to global liquidity pools in a fully automated and efficient manner.

Sweeping is allowed in both directions – out from China and into China – but the net balance (for the time being) must be a net loan from China to offshore. Treasurers are keen to see full two way sweeping, and PBOC is trialling this in the new Shanghai Free Trade Zone. This trial is widely expected to go nationwide soon.

The maximum amount of these inter-company loans is capped at the total capital of the onshore entity. There is some disagreement amongst commercial banks about the group limits when connecting onshore pools to global pools.

In any case, the cap is high enough to allow considerable flexibility for MNCs operating in China.

I imagine many readers are thinking this is too good to be true. China is a large and complex country, and will provide years' more excitement for treasurers, but what I describe above really is available, and really is not that hard. Treasurers who have implemented these solutions – even when they needed to get pre-approval – generally report that the internal issues (like getting board resolutions to open new bank accounts and change management) were more challenging than the external ones (like regulators and banks).

Yields on CNH are lower than CNY, so, once you have got your CNY offshore, you need to do something with it. The most common choices are to:

- Keep CNH in a notional pool offshore (and drawdown other currencies).
- Use CNH to pay internal or external suppliers.
- Swap CNH to another needed currency.
- A combination of the above.

## Farewell to trapped cash?

To sum up, as of now: any entity can pay and receive CNH cross-border without pre-approval; FX can be swept on and off shore with SAFE approval; CNY can be swept offshore without pre-approval.

Surely, that should pretty much take care of trapped cash? Well, at the very least, it certainly gives rise to a more nuanced view of trapped cash. We can say that regulations and particularly the exchange controls are no longer such a big problem in China. The tax constraints (both onshore and offshore) are likely to remain unchanged, but that is another can of worms entirely. So, yes, I think we can say this is the end of (regulatory) trapped cash in China.

As a postscript it is remarkable how quickly these changes have been rolled out. It shows that China is very serious about internationalising CNY and also very serious about bringing more market discipline to onshore markets. Watch this space very closely. ■



### David Blair, Managing Director

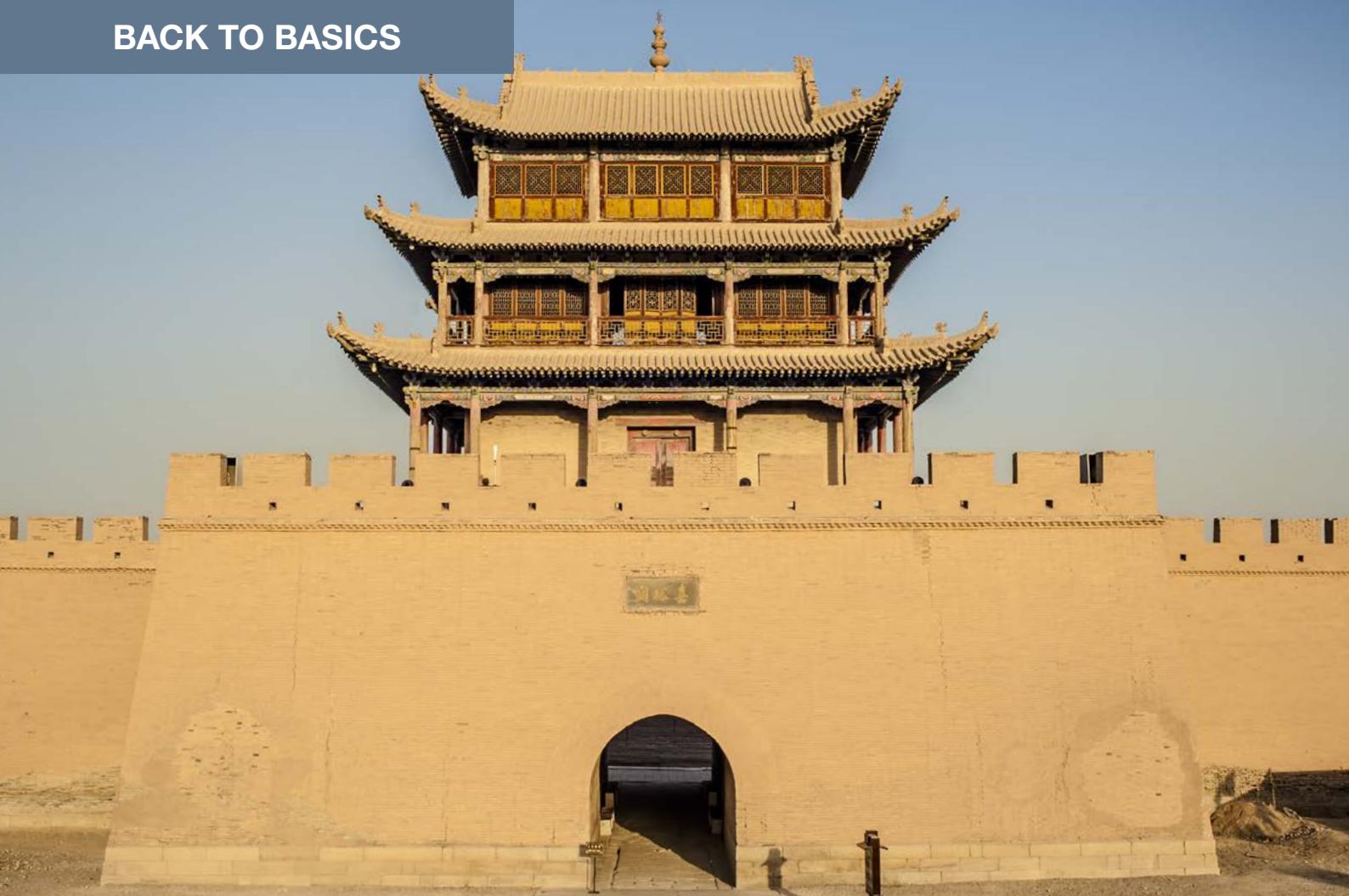
Twenty five years of management and treasury experience in global companies. David Blair was formerly Vice-President Treasury at Huawei where he drove a treasury transformation for this fast-growing Chinese infocomm equipment supplier. Before that Blair was Group Treasurer of Nokia, where he built one of the most respected treasury organisations in the world. He has previous experience with ABB, PriceWaterhouse and Cargill. Blair has extensive experience managing global and diverse treasury teams, as well as playing a leading role in e-commerce standard development and in professional associations. He has counselled corporations and banks as well as governments. He trains treasury teams around the world and serves as a preferred tutor to the EuroFinance treasury and risk management training curriculum.

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# Pooling: crossing the border

*Cross-border cash pooling solutions can help corporates to optimise their cash management structures by pooling their funds into a single liquidity basket. However, they can also prove to be an administrative headache. We explain what cross-border pooling options are widely available to treasurers and how they work.*

A cross-border or multi-country cash pool is a cash management structure that allows a business to concentrate the cash it holds in different countries, across separate bank accounts, in one location. This technique provides corporates with an effective way of interest optimisation and improved liquidity management as excess balances from one subsidiary can be used to offset debit balances in another. A cross-border cash pool can be a physical, notional or hybrid structure, depending on the jurisdictions covered and the legal requirements therein.

For the purposes of this article, we are using a definition of pooling that includes both sweeping and notional pooling. This may differ slightly from the definitions used by some cash management banks who prefer to classify sweeping structures, including zero balance account and target balancing structures as cash concentration rather than pooling. When establishing a cross-border cash pooling structure, the first choice that the treasurer has to make is whether to opt for pooling per legal entity or pooling per country.

## Pooling per legal entity

When a subsidiary maintains multiple bank accounts in different currencies and countries, pooling the bank balances in each country on a legal entity basis can offer benefits to the group treasury. Cross-border sweeps are delivered to a pool in one country – concentrating all the subsidiary's cash into a single position and providing much sought after visibility over all accounts. From this position, the net balance is swept to a master account in a central cash pool on either a notional or zero balance basis.

## Pooling per country

If the decision is made to set up pooling per country, cash pools set up in the participating countries will see the various subsidiaries' bank account balances swept to a master account in each country. These master account balances are then swept cross-border into a central pool in the main country of operation.

## Multi-bank cross-border solutions

Cross-border pooling solutions can also be categorised according to whether multiple local banks are used in each country, or a single network that covers the region (or indeed the world) is employed. Using local banks in each individual country may be advantageous if the corporate operates in a relatively small number of countries, especially if it requires highly specific local expertise and services.

Using a larger regional network bank offers the advantages of harmonised services and documentation, and the possibility to execute true end-of-day-based cross-border zero balancing. In order for a regional network bank to be a viable option, it must have branches or operating subsidiaries operating in all the countries in which the corporate is active.

It is sometimes possible to implement a hybrid solution, whereby domestic banks provide local services, such as payments and collections, whereas a larger regional bank provides cash pooling services. With these hybrid solutions, balances held with local banks are often concentrated to a central treasury account held with the pooling bank.

Certain banks even offer multi-bank sweeping services that automatically transfer balances between local bank accounts and the main cash management bank. Using SWIFT messages, the cash management bank monitors the sub-account balances at the local banks, before sending a transfer request to transfer the funds to the master account. The receiving local bank then executes a payment instruction that transfers the money to the cash management bank.

Since cross-border multi-bank sweeps go through the correspondent banking process, the sweeps usually happen before the end of the business day, and it is often impossible to achieve a zero balance using this setup. However, it can be possible to achieve a zero balance through multi-bank sweeping in cases where banks develop collaborative solutions.

## Cross-border zero balancing

When the corporate has established the main country of operation they wish to use for cross-border zero balancing structure, they then need to set up bank accounts with the concentration bank in this country. The focus for all liquidity in the structure is on a single master account in this country. Depending on factors such as the scope of operations and the type of business that the corporate operates in, the corporate will have to weigh up the benefits of potential locations, as well as carrying out a thorough evaluation of the tax and legal issues that may exist in the potential locations.

There are a variety of ways in which a cross-border zero balancing sweeping arrangement can be set up:

### 1. Cross-border zero balancing by legal entity

Automatic sweeps from the subsidiaries' bank accounts in the different country branches of the concentration bank go directly to the master account at the central pooling location. Should the subsidiary have multiple bank accounts in the same country, the balances need to be consolidated or netted on to one account before this process, to limit the cross-border sweeps to one per country. If a corporate uses cross-border zero balancing by legal entity, they need to be aware of the tax issues that can arise from cross-border inter-company loans being created between the master account holder and the operating companies.

### 2. Cross-border zero balancing with domestic zero balancing

If the corporate has a number of subsidiaries in each participating country, a two-step process can reduce the number of cross-border transfers involved in the sweeping arrangement. In this case, the master account holder would open a non-resident bank account, or target account, with the concentration bank in each participating country. The purpose of this is to enable cash concentration to take place on a domestic basis within each country first, prior to a second cross-border zero balancing sweep arrangement from

the target account in each country to the master account held in the final pooling location. Once again, cross-border inter-company loans are generated by cross-border zero balancing with domestic zero balancing.

### 3. Cross-border zero balancing with domestic notional pooling

In this set up, the subsidiary balances are notionally pooled in each country first. The cross-border transfer is made from a master account in each of the domestic notional pools to the master account in the central pool location, taking the balance of each country's notional pool to zero.

Not every bank offers notional pooling, so the corporate will need to ensure this is possible with their preferred bank before proceeding. In most cases, the group treasury is the master account holder in the zero balance pool in each country, as well as at the central pool location. This solution allows local subsidiaries to maintain ownership of their cash balances and negates the need for inter-company loans.

The one exception to this rule is if any inter-company loans arise between the master account holders of the domestic cash pools and the central master account holder. The only way that this could happen is if the master account holder in the zero balance pool in each country is different from the master account holder in the central pool location.

## Variation on a theme

Banks often adapt their cross-border zero balancing solutions to meet the particular needs of the company. Beyond a plain vanilla ZBA, there are also several variations on the end-of-day sweeping theme:

- **Constant balancing** operates on exactly the same principle as zero balancing, but a residual amount is maintained in the sub-accounts as opposed to a balance of zero. The advantage to sub-account holders of this method is that a balance is immediately available at the

start of the trading day to action payments, and interest is accrued on the sub-accounts.

- **Target balancing** differs from plain vanilla ZBAs in that transfers are made from the master account to the sub-accounts in the opposite direction to which the zero balancing transfers were sent, so the sub-accounts keep a target balance. As the target transfers have a book date of 'today' but a value date of 'tomorrow', the sub-accounts always have a credit book balance but a zero value balance.
- **Trigger balancing** is when upper and lower amounts are set on sub-accounts. Balances that exceed these amounts trigger the zero balancing process to take place, but only on those sub-accounts that meet the limits (these limits may vary for each sub-account). Trigger balancing can eliminate the need to sweep insignificant balances and lower the number of sweeps that take place, which in turn can reduce banking costs.

Some banks also offer the possibility to execute zero-balance sweeps at intervals other than the standard end-of-day frequency. This may benefit companies when activity on certain sub-accounts is low during certain periods of the month or year.

## Cross-border notional pooling

A cross-border notional pool allows corporates to optimise interest across a number of accounts in a variety of countries. In this case, the debit and credit balances of the participating accounts in each separate country are pooled for interest purposes. This may or may not involve cross-border transfers.

Structuring notional cash pools on a cross-border basis can be difficult, due to the cross-guarantees required. This is one of the reasons why some banks that offer domestic notional pooling may not also offer cross-border notional pooling. Once again, cross-border tax and legal issues must also be taken into account by the corporate if they are to achieve full set-off. Some of the variations that corporates should be aware of from banks that offer this structure include:

- Some banks may only arrange cross-border notional pools in major currencies.
- Some banks will only arrange cross-border interest compensation.
- Some banks may insist that the funds must first be physically transferred to one account in each pooling location before the accounts are notionally pooled cross-border.

It is possible that the bank may offer a cross-border notional cash pool without any transfers of the liquidity balances being required. With no transfers, there is no single location for this type of cash pool. The bank simply calculates the interest differently or arranges rebates to reflect the credit and debit balances that are being maintained.

Once it is established that a cross-border notional cash pool is the corporate's preferred option, and their chosen bank can provide this in the countries required, an assessment of the structure being offered is required by the treasury to establish whether it meets business requirements of the organisation.

Some of the main structures for cross-border notional pooling are outlined as follows:

### 1. Cross-border notional pooling with domestic zero balancing by country

In this structure, a domestic zero balancing cash pool is set up in each participating country. The balances on the master accounts for each of the domestic zero balancing country pools are then swept cross-border to accounts in the same name in the central notional pool. Sweeps can be two-way or one-way, depending on the treasury's requirements. The country accounts in the central pool are notionally pooled for interest purposes. Using this structure, inter-company loans can be created in country, but not cross-border.

If the master account holders in the domestic pools are local subsidiaries, this type of structure can be very useful. Ultimate control of the notional pool master account will most likely lie with group treasury.

### 2. Cross-border notional pooling with cross-border zero balancing by legal entity

Unlike the first option above, this structure negates the need for a domestic cash pool to be established, as cross-border sweeps are made on a legal entity basis. Within the cross-border notional pool, separate accounts are opened for each subsidiary using the structure. Sweeps are set up from all accounts held by the subsidiary in every country directly to its notional pool account in the ultimate pooling location. In some circumstances, the subsidiary may have multiple bank accounts in any one country. In this case, it can be beneficial to zero balance on a legal entity basis within the country first.

Cross-border notional pooling with cross-border zero balancing by legal entity ensures that there is no co-mingling of funds between subsidiary balances. The subsidiaries themselves retain control of their operating accounts, while their balances are simultaneously used to improve the group's interest charge. Should the subsidiaries require funding at the local level, the two-way zero balancing sweeps also enable them to be funded indirectly by the master account holder in the cross-border notional pool.

### 3. Cross-border notional pooling with domestic notional pooling

In-country notional cash pools are established for each country that the corporate requires in this structure. The master account holder for each of these then arranges transfers to an account in their own name that resides in the cross-border notional pool in the main pooling location. These accounts are then notionally pooled. The main benefit of this structure is found on the legal side, as the amount of participating accounts in the cross-border notional pool is streamlined.

## Restrictions

The wide variety of liquidity management structures that exist offer the treasurer the opportunity to gain full visibility over their end-to-end cash flows and positions. More than that, they also then allow the treasurer to make their corporate cash work harder for the business. It is also important for the treasurer to be fully aware of the legal and tax requirements of the structure they choose to implement, and they should pay particular attention to any regional or national legislative restrictions. ■

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## TECHNOLOGY

### MMF portals

With regulation hanging over the money market fund (MMF) space, how are technology vendors reacting? And in what ways are MMF portals evolving to not only reflect the new regulatory environment, but also to better serve treasury professionals?

We always speak to a number of industry figures for background research on our articles. Among them this month:

**John Chen**, Treasury Director, Honeywell; **Krishna Chetti**, CEO, BNP Paribas Malaysia; **Richard Childe**, Director, Product Marketing, OpenLink Financial; **Wong Hooi Ching**, Head of Treasury Services, Malaysia, J.P. Morgan; **Rene Chinnery**, Head of Supply Chain Finance, Lloyds Bank Commercial Banking; **Arnaud Crouzet**, Head of Group Global Payments Development, Auchan; **Mireille Cuny**, Global Head of Liquidity and Investment Solutions, Société Générale; **Mohamed bin Derwish**, General Manager of Corporate Finance, Telekom Malaysia; **Amol Gupte**, Regional Head, Treasury and Trade Solutions, Asia Pacific, Citi; **Sun Hong**, Partner, Norton Rose Fulbright; **Jacqueline Keogh**, Managing Director of Global Trade, Lloyds Bank Commercial Banking; **Abdul Raof Latiff**, Head of Treasury Services, ASEAN, J.P. Morgan; **Anthony Lin**, China Head of Corporate Bank, Trade Finance and Cash Management for Corporates, Deutsche Bank; **David Ling**, Tax Partner, KPMG China; **Li-Gang Liu**, Chief Economist, Greater China, ANZ; **Wei Liu**, Corporate Partner, Pinsent Masons; **David Morton**, Asia Head of Corporate Banking, HSBC; **Leonardo Orlando**, Manager Finance and Risk Business Services, Accenture UK; **Sandip Patil**, Asia Head of Liquidity Management, Citi; **Oliver Petersen**, Global Head Supply Chain Finance, ING; **Alex Robertson**, Head of Treasury Analytics, Treasury Solutions, Capita Asset Services; **Anne Rodrigues**, President of the Malaysian Association of Corporate Treasurers (MACT); **Bea Rodriguez**, Head of Portfolio Management for Cash Management, Blackrock; **Bob Stark**, Vice President Strategy, Kyriba; **Kelvin To**, President, Data Boiler Technologies; **Anil Walia**, Head of Supply Chain Finance, Global Transaction Services, RBS; **Latifah Mohamed Yusof**, Treasurer, Astro Malaysia; **Tony Zhong**, Associate, Norton Rose Fulbright.

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