treasurytoday

research | insight | analysis

November/December 2017

# Political fallout

This year the fallout from 2016's seismic political events has continued to trouble treasurers around the world. We find out what treasurers are doing differently as a result.

## The Corporate View

**Darrell Thomas**

VP and Treasurer
**Harley-Davidson**

## Women in Treasury

London Forum 2017

## Financing

The treasurer's role in an IPO

## The Industry View

**Beccy Milchem**

Head of Corporate Sales
**BlackRock**

**Eric Hiatt**

Director, Portfolio Manager
**BlackRock**


treasuryinsights
research | insight | analysis
In depth
research | insight | analysis
treasurytoday.com/treasury-insights

Audited member of BPA Worldwide

treasurytoday

treasurytoday.com
Volume 19/Issue 6
November/December 2017

Advertising
media@treasurytoday.com
+44 (0)13 0462 9018

Editorial
editorial@treasurytoday.com
+44 (0)13 0462 9003

Memberships
memberservices@treasurytoday.com
+44 (0)13 0462 9013

Production
production@treasurytoday.com
+44 (0)13 0462 9019

Website
website@treasurytoday.com
+44 (0)13 0462 9008

Publisher
+44 (0)13 0462 9017

Switchboard
+44 (0)13 0462 9000

For all other enquiries please contact
Samantha Collings, Head of Operations
sam.collings@treasurytoday.com
+44 (0)13 0462 9018

Annual Membership Rate £285

© Treasury Today ISSN 1466-4224

Treasury Today is published bi-monthly (6 issues) by Treasury Today Limited
Courtyard Offices • Harnet Street
Sandwich • CT13 9ES • UK

The entire content of this publication is protected by copyright. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means mechanical, electronic, photocopying, recording or otherwise, without the prior written consent of the copyright holders. Every effort has been made to ensure the accuracy of the information contained in this publication, Treasury Today Limited cannot accept liability for inaccuracies that may occur. Where opinion is expressed it is that of the authors and does not necessarily coincide with the editorial views of the publisher or Treasury Today. All information in this magazine is verified to the best of the author's and the publisher's ability. However, Treasury Today does not accept responsibility for any loss arising from reliance on it. No statement is to be considered as a recommendation or solicitation to buy or sell securities or other instruments, or to provide investment, tax or legal advice. Readers should be aware that this publication is not intended to replace the need to obtain professional advice in relation to any topic discussed. Printed by: Buckland Media Group Ltd.

Treasury Today USPS: (USPS 023-387) is published bi-monthly by Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES.

The 2015 US annual subscription price is $588.00. Airfreight and mailing in the USA by agent named Air Business Ltd, c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA.

Periodicals postage paid at Jamaica NY 11431.

US Postmaster: Send address changes to Treasury Today, Air Business Ltd, c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA.

Subscription records are maintained at Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES.

Air Business Ltd is acting as our mailing agent.

The paper used in the production of this magazine is sourced from protected forests and sustainable raw materials.

# Do treasurers dream of electric sheep?

Is the world speeding up? Here we are, in the last two months of a year that has seemingly passed by in a flash. We know the world is not spinning any faster, but the pace of life has increased exponentially over the past decade. As a result, we have all become time-poor, spending our days feeling rushed and, perhaps as a result, demanding instant gratification.

The change in pace of life is having a big impact on how businesses operate. Where once most businesses could operate within a restricted set of hours, today they must be open and trading 24 hours a day, seven days a week.

The treasury department, which is managing its own increasing workload, has largely been able to avoid the need to be on call 24/7 – calls with colleagues in different time zones excepted. This is all beginning to change though, as the world of finance moves from batch to real-time, and faster payment systems and real-time data exchange become the norm.

What does this mean for the treasury? According to experts that Treasury Today spoke with at EuroFinance, it could mean the arrival of the 24/7 treasury desk, the rationale being that in the batch-world, if things go wrong they go wrong within a certain time. Issues in the real-time world wait for no one.

Of course, treasurers cannot work without sleep. In any case, in an era of belt-tightening, corporations are unlikely to pay an 'out of hours' treasury team to operate the department.

So, what might be the answer? One banker suggested that we could see a return of the banks offering outsourcing services, stepping in and playing the role of 'out of office treasurer'.

With increasingly complex algorithms powering ever-more sophisticated AI and machine learning tools, treasurers could establish the rules under various circumstances and leave the banks to execute these on their behalf. In theory, it seems like a reasonable idea. In practice, this potentially raises more questions than it answers – more importantly, would you trust another institution to run your treasury overnight?

And consider this: if the outsourcing arrangement works that well, then why wouldn't corporations shift more treasury activities to the banks? The dystopian vision of a single treasurer acting as a mere overseer of the machines will become a reality.

Of course, these ideas are formed through the lens of today. Who knows what consumers, businesses, treasury departments and banks will look like in a decade? But what is certain is that the emergent 'intelligent' treasury technology will pose a host of interesting questions, not least about who or what the treasurer of the future will be. It is now time to start thinking about the answers.

## Thank you to our readers

It has been another interesting and eventful year for corporate treasury and Treasury Today is proud to be one of your valued sources of treasury information.

Next year, we will continue to offer you the in-depth, insightful articles and print editions that you expect, whilst also expanding our portfolio of multimedia content to give our readers new and different ways to consume the content you want.

See you in 2018.

## Navigating political uncertainty

The significant geopolitical events of 2016 have continued to impact the work of treasurers in 2017. Treasury Today explores what treasury teams have done in reaction to this and finds out how they are preparing for the future.



## Agents of change

Diversity is not about hitting targets, it is about building a culture where everyone can thrive. The panel of Treasury Today's latest Women in Treasury Forum in London sought to address the theme, open up an advanced dialogue and offer our audience some positive strides forward.



## How banks are adapting in an era of disruption

Will there be banks in the future? If there are what will they look like? Treasury Today takes a detailed look at the disruptive forces impacting banking today, before gazing into the crystal ball to find out what the future holds.



## Responding to MMF reform

Beccy Milchem, Head of Corporate Sales and Eric Hiatt, Director, Portfolio Manager at BlackRock explore the latest trends in Money Market Funds and explain why treasurers should begin looking at their investment policies and approaches now.

BLACKROCK®



## Byte marks: sinking treasury's teeth into agile technology

The corporate 'more with less mantra' persists. How can treasurers deliver on such a seemingly difficult mission? Technology is the simple answer. But there's much more to it than buying in a shiny new set of toys, argues ANZ's Mark Evans.

ANZ



## The industry has spoken

### Jonathon Traer-Clark

**Head of Strategy & Advisory for Global Transaction Services**

Bank of America Merrill Lynch

The results are in from this year's Voice of Corporate Treasury Global Study, conducted in partnership with Bank of America Merrill Lynch. They show the profession at a crossroads, with treasury teams searching for answers in an uncertain environment. Here, Bank of America Merrill Lynch's Head of Strategy & Advisory for Global Transaction Services, Jonathon Traer-Clark and a select group of corporate treasurers discuss the study's findings.

# Treasury in the Middle East

> *What challenges have corporate treasurers based in the Middle East been faced with in the last 12 months? What solutions/strategies are they using to overcome these challenges?*

Chris van Dijl
Founder
Cugavadi

Treasurers in the Middle East have had an interesting 12 months with a significant amount of economic and geopolitical uncertainty.

The lower oil price has led to lower government spending. Those regions that have diversified themselves away from oil revenues, such as Dubai, have additionally been impacted by the global economic challenges which has led to a reduction in global trade and tourism. Throw in some new developments in geo-political instability within the GCC and you can easily see why corporate treasurers in the Middle East have not had the easiest of times in the past 12 months.

## Arranging finance

As a direct consequence we have seen a shrinking of liquidity at financial institutions leading to a stricter lending regime. For the treasurer in the region this has meant that they have had to become creative in obtaining financing for their ongoing operations. In many cases this has led to an inward focussed 'living within your means' approach, or in other words fund growth internally with an enhanced focus on cash forecasting and especially cash forecasting automation.

## Introduction of VAT

In a region where tax departments are virtually non-existent, in some cases the treasurer has become tasked with preparing the organisation for the implementation of VAT in January 2018.

Whether or not he or she is responsible, the implementation could lead to a burden on working capital requirements as VAT is transferrable to the Federal Tax Authority based on invoice date, rather than collection date. In a region that is notorious for stretching payment terms, this requires significant planning and cash flow forecasting analysis to ensure that funds remain available for business operations. Again, sophisticated cash forecasting solutions have been looked at by several organisations.

## Geo-political events

The sudden blockage of Qatar by several countries in the region highlighted that instant and real-time access to cash balances and positions is vital in today's ever-changing environment. Treasurers were involved in the initial risk assessment as well as immediate action by moving funds back to the centre: moving funds back into Qatar for Qatari companies and out of Qatar for non-Qatari companies. As supply routes had to be sourced into Qatar, treasurers were also involved in establishing trade finance arrangements for these new trade relationships.

Because of these challenges, real-time visibility and access to positions and exposures have once again become very important and some organisations have taken the initiative to consider treasury management systems with daily MT940 reporting capabilities, centralisation of treasury operations and/or implementation of in-house banking solutions.

What treasurers in the region have shown in the past year is that flexibility and keeping an open mind is a very important professional trait. Especially during times of change and uncertainty, the treasurer needs to be even closer to the commercial operations in order to support operations and ensure that it's business as usual.

Emre Karter
Treasury & Trade Solutions Head for Middle East, North Africa, Pakistan & Turkey
Citi

As Middle Eastern economies continue to diversify away from energy-led growth and considering government spending made up of almost 70% of GDP, this has led to interesting results for the private sector who have been reliant on continued government spending to continue with their own growth.

Recent trends show that private and public sectors alike are tightening up their belts on expenses, pushing more efficiency measures, engaging in innovations and enhancing working capital cycles.

In a bid to improve efficiencies and reduce expenses, companies (especially the multinational corporates) have embarked on centralisation themes.

These include:

1. Moving transactions into shared service centres (with added benefits of control and standardisation).
2. Managing liquidity via a regional/global pool to centrally optimise internal versus external borrowing for working capital needs.

3. Evaluating options that allow the use of liquidity to offset transaction costs.

Citi has worked with various companies (public and private sector) to consult, advise and create such structures that have facilitated their vision. Additionally, the bank has recently developed products to support clients who have or are in the process of creating a regional treasury centre in Dubai.

The other theme that has emerged in a rather strong way is working capital.

While this is not new in the world of a treasurer, the requirement now is 'off-balance sheet treatment' and 'extension of working capital'. The words 'without recourse discounting' of receivables and 'extension of payment terms' with suppliers is now a common practice.

We have rolled out numerous SCF structures (or expanded existing ones) with many clients in this region over recent years. Companies have also been interested in sales financing solutions (allowing receivable discounting), which is giving them a much-needed breather in their cash conversion cycle and supporting the balance sheet.

Corporates are also interested in adopting cashless strategies and extending payables to their long-tail suppliers. As a result, they are looking to leverage commercial cards and we have recently launched a solution in the UAE called 'Early Pay'. This further enables corporates to pay their long-tail suppliers who do not accept cards as a means of payment, allowing these smaller suppliers to be part of a supply chain finance programme.

Enrico Camerinelli

Senior Analyst

Aite Group

Treasurers operating in regions that are at a crossroads of international trade face even more demand to operate in environments characterised by international exchanges, multibank relationships, multicurrency transactions, visible financial transactions and efficient treasury staff activities. The ability to adapt to dynamically changing conditions with the appropriate use of people, processes and technologies represents competitive advantage.

The Middle East is a region showing a fast-growing import-export volume of goods exchanged with international trade partners: the countries in the Gulf Cooperation Council region (comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) rank eighth among the most active in global trade flows.

Corporate treasurers in the Middle East are accountable and directly responsible for cash and liquidity management processes (FX/interest, cash management, trading/capital markets). Their responsibility is less direct (a higher percentage of them share control) for the settlements and trade finance functional areas that underpin the export-trade-driven nature of the market in which these organisations operate. Risk management remains a shared responsibility, while supply chain finance, collections and payables are far from where best practices suggest they should be. Corporate treasurers in the region seek to run their businesses beyond operations execution (cash management, reporting, liquidity management, cash forecasting) and to espouse "intelligent" decision-making in the context of a treasurer's business strategy.

Treasury departments across the globe still use electronic spreadsheets extensively and companies in the Middle East are no exception. When asked to project their intentions for the near future, respondents strongly assert they will reduce the time spent on these systems in favour of more advanced and automated solutions. Enterprise resource planning (ERP) systems are likely to provide the functional applications that corporate treasurers in the Middle East will run to manage their business processes. Most likely, ERPs will soon be paralleled by more dedicated treasury management systems (TMSs).

The direct consequence of these trends is that companies in the Middle East are steadily moving away from building systems internally.

From an organisational perspective, corporate treasurers in the Middle East will continue to run traditional cash and liquidity management processes; based on research findings, anecdotal evidence, I expect it will take time (at least three years) to make the necessary steps and move toward a more decision-making role.

Most likely treasurers in the region will adopt a federated (ie regionalised) structure, and will expect banks in the region to provide the necessary support to facilitate the growing volume of trade flows to and from countries in the Far East. From a business process management perspective, corporate treasurers in the Middle East will continually seek information, technical solutions, and good practices to manage risk factors tied to interest rates, commodities and production operations.

In terms of information technology applications, corporate treasurers in the Middle East will migrate to ERP and TMS as their main applications platforms to run cash and treasury applications in the next three years. They will also use software applications for basic cash and liquidity management operations, while scrutinising solutions and services offered by banks.

## Next question:

"How should treasurers go about rationalising their bank accounts?"

Please send your comments and responses to **qa@treasurytoday.com**

# Navigating political uncertainty

*Last year, corporate treasurers faced unexpected challenges in the form of Brexit and the outcome of the US elections. But to what extent have geopolitical challenges affected the world of corporate treasury this year – and what are treasurers doing differently as a result?*

If 2016 had just one defining characteristic, that could be said to be the geopolitical uncertainty which was manifested in developments such as the UK's decision to exit the European Union and the election of President Trump in the US. These events have had wide ranging consequences which continue to affect treasurers in a number of different ways.

For one thing, Brexit continues to have a lasting impact on FX rates: the value of sterling has remained considerably lower since the referendum took place. Consequently, many UK importers have seen their costs rise – although exporters have conversely benefited from the higher value of overseas sales. "As the unexpected result of the Brexit referendum demonstrated, major political changes can have a rapid and drastic effect on currency and foreign exchange risk management strategies," comments Steve Wiley, VP Treasury Solutions at FIS.

Indeed, the challenges of these currency movements have proven insurmountable for some companies. The recent collapse of Monarch Airlines, which left 110,000 passengers in need of repatriation, has been attributed in part to the drop in the value of the pound following Brexit – both because of rising fuel and aircraft costs, and because a weak pound has deterred many UK-based holidaymakers from travelling abroad. Many other companies have likewise seen profits suffer as a result of currency movements, although some have been insulated to an extent by hedging strategies implemented before the referendum took place.

## Beyond Brexit

Treasurers are paying close attention to these issues: a survey carried out by the ACT, The Business of Treasury 2017, found that 61% of the treasurers surveyed were worried about Brexit. But while the impact of Brexit looms particularly large for companies operating in or trading with the UK, numerous other geopolitical developments are also causing a considerable headache for corporate treasurers.

"More recently, worries in Spain related to Catalonian independence have resulted in similar, though less significant fluctuations in currency, driving the euro down against the dollar," says Wiley. "Political changes in the United States have added an additional element of uncertainty, leaving treasurers confounded as to how foreign and economic policy changes will impact their business."

For example, President Trump's position on the North American Free Trade Agreement (NAFTA) continues to generate uncertainty across the region. The US is currently in the process of renegotiating the proposals, with the Trump administration seeking adjustments such as a sunset clause which would require the agreement to be re-approved every five years. The president has also indicated that the US could even exit the agreement entirely if a deal cannot be reached.

Another consideration is that while European regulators have focused on opening up relationships with countries such as Iran, the US has perhaps been moving in the opposite direction. "There are certain things that banks with operations in the US appear more reluctant to do," explains David Stebbings, Director, Head of Treasury Advisory at PwC. "So if you want to develop business with Iran, a focus on non US banks has been the preferred route for many."

> Political changes in the United States have added an additional element of uncertainty, leaving treasurers confounded as to how foreign and economic policy changes will impact their business.
>
> Steve Wiley, VP Treasury Solutions, FIS

## Challenges for corporates

For companies operating internationally, these issues bring considerable challenges. "Geopolitical shifts complicate a treasurer's ability to forecast risk, whether related to cash flow, external financing, commodity prices, foreign exchange rates or interest rates," comments Patricia Hines, Senior Analyst at Celent.

Indeed, the ACT survey found that 69% of respondents were concerned about geographical uncertainty aside from Brexit – higher even than the number of treasurers who were concerned about Brexit itself. Meanwhile, the 2017 AFP Risk Survey similarly found that 52% of treasury and finance functions are considering the impact of geopolitical events in general on their organisations' growth.

The AFP survey also illustrated that geopolitical risk can incorporate a number of different risks: respondents cited loss of customers/revenue (53%), currency/volatility risk (49%) and supply chain disruptions (30%) as the most pressing issues.

Inevitably, different companies have been affected by these developments in different ways. In some cases, the net outcome has been a positive one. Rick Martin, Group Treasurer at GasLog, an owner, operator and manager of liquified natural gas, says that while the wave of populism has thrown up some "interesting political outcomes", these have not – so far – impacted the company's business model.

"Indeed, if anything, these outcomes have been beneficial," explains Martin. He notes that President Trump is supportive of US natural gas exports, while "a number of governments rightly see natural gas as the cleanest fossil fuel going, and by a long chalk, looking to replace other sources such as coal".

Martin also points out that central bank actions to date have been benign, "helping to keep the global economy ticking over rather well". He says that whether these waves of populism ultimately lead to unhelpful uncertainty, or even anti-business policies, remains to be seen. "However, to date, we have been able to stick to our business plan, and gratefully so!"

## Diversification and flexibility

However, the picture for other companies is somewhat different. For Greek food company, Chipita, geopolitical turbulence looms large in the current environment. "It's the first time in all the years I've been working for Chipita that political events have had such a huge impact on the treasury," comments Marianna Polykrati, the company's Group Treasurer. For example, she explains that recent political turmoil in Turkey has affected the value of the lira – meaning that the company most probably needs to revisit a previously approved budget rate for the following year. Likewise, Polykrati says that turmoil in Russia and Ukraine has had an impact on the group's companies in these markets.

"In the past, due to the Group's diversification across several geographies – including Western Europe, the US, Russia, Ukraine, Turkey and India – we felt quite secure and ring fenced, meaning that when one country/region was not performing very well due to political and economic issues, it would be offset by others that were," she explains. "But today, we are seeing that increased globalisation results in a butterfly effect – so if something happens in Russia, it can have a knock-on effect in many other markets."

As such, Polykrati says the company is working on different ways of minimising the risks that the company faces in different countries. For one thing, the company is looking at hedging more than in the past. Flexibility is also important: Polykrati says that because Chipita has factories all around the world, it is straightforward for the company to change which of those factories are used to provide particular products. "Being flexible allows us to allocate the sourcing in accordance with the costs and expenses," she explains. "This enables us to absorb any sudden and extraordinary costs."

## Changing role of the treasurer

One of the more positive consequences of geopolitical turbulence is a growing awareness of the role played by the corporate treasurer in managing risk. "Developments such as Brexit and the US elections have created financial uncertainty, which always raises the profile of treasurers in their organisations," explains Stebbings. "For example, many companies have seen unexpected FX gains or losses as a result of the recent fall in the value of the pound – and questions about whether or not to hedge FX exposures put treasurers centre stage." Stebbings says that while political turbulence brings challenges, it can also have a positive impact on treasurers by "giving them more influence and an opportunity to be more involved in the business than they are in quieter times".

> The risk management function has expanded within treasury to include not only those areas most sensitive to the global political landscape, such as interest rate, and foreign exchange risk, but also cyber risk.
>
> David Stebbings, Director, Head of Treasury Advisory, PwC

Polykrati agrees that geopolitical pressures have contributed to the evolution of the treasurer's role in recent years. "In the past, the treasurer was envisaged as an accountant or a cashier, focusing on the flows of cash in and cash out," she says. "At Chipita, the role has transformed a lot the last couple of years, especially after the Greek crisis. The treasury reports directly to the deputy CEO in order to advise on topics such as bank relationships, commodities and risk management. So my role has been upgraded due both to changes in the business and due to the challenges brought by the political landscape."

That said, treasurers still need to play a proactive role in seizing the opportunities. "The definition of a good treasurer is the one who is leading the discussion, putting the issues on the table and presenting the solutions, rather than simply letting it happen and then responding to what the business wants," Stebbings says.

## Adjusting to the new normal

In many cases, companies have not been fully prepared for the impact of recent geopolitical events. "Few of these recent events have been widely or effectively factored into company risk management strategies, and so the question for treasurers becomes how to best manage global political, economic, and regulatory uncertainty," comments Wiley. He notes that planning for and reacting to changes in the global political landscape has always been a tricky task for treasurers, "due to the fact many of these changes occur abruptly, unexpectedly, and have uncertain ramifications for currency rates, interest rates and counterparty risk".

It is clear that there is a need for some companies to adjust their approach in light of recent developments. According to Wiley, corporates have responded to the ever-changing global economy and more uncertain political landscape by taking a fresh look at their risk management strategies and existing technology. "The risk management function has expanded within treasury to include not only those areas most sensitive to the global political landscape, such as interest rate, and foreign exchange risk, but also cyber risk," he notes.

Consequently, Wiley says that treasurers are taking a fresh look at the technology used to manage these risks, in order to mitigate the negative effects of the next unexpected Brexit-scale event. "Treasurers without best in class risk management processes, and the latest technologies which can accommodate these processes through stronger analytics and decision-making tools, will find themselves the most challenged," he adds.

Likewise, many treasurers are keeping a close eye on the banking landscape – particularly in the UK, where a question mark also remains over the longer-term impact of Brexit on banks. "There's a lot of uncertainty right now about what the banks are doing," says Stebbings. "Treasurers are keen to know what services banks will offer post-Brexit and whether they will move certain of their teams out of London. That's very difficult to ascertain right now, but it should become clearer if and when a transition deal is done."

## Brexit: seeking a transition deal

While the outcome of the 2016 referendum caught many by surprise, this year has brought further controversy where Brexit is concerned. After triggering Article 50 in March, Prime Minister Theresa May announced the following month that she was calling a snap general election. This was intended to secure a mandate for Brexit – but the move backfired, with the Conservative party losing its overall majority in Parliament.

As Brexit talks continue, considerable uncertainty remains about the outcome of the negotiations. Particularly significant is the question about whether a transition deal will be signed which will protect companies from a 'cliff-edge' departure.

With the UK set to exit the EU in early 2019, the need for a transition deal is becoming more pressing. In a recent speech, Sam Woods, a Deputy Governor at the Bank of England, warned that a Brexit transition deal is needed by Christmas – otherwise firms will "start discounting the likelihood of a transition in the central case of their planning".

In the absence of a formal agreement, trade between the UK and the EU would become subject to WTO rules, with large tariffs imposed on some goods. Without a transition deal, EU nationals in the UK would also face considerable uncertainty. Meanwhile, the imposition of a new customs regime could bring considerable disruption for businesses as well as congestion at the country's ports.

## Looking forward

Moving into 2018, treasurers are continuing to monitor geopolitical developments closely. Jack Spitzer, Treasurer of Isagenix, comments: "Obviously we are curious how any US tax reforms from Trump and Congress will impact the company and ownership, being privately held. We are trying to understand and predict what might happen, if anything, and be in a position to take advantage of any opportunities."

Looking further ahead, Spitzer says the company is currently considering expanding into a few locations around the world which have high levels of political tension, and that the company remains concerned with any potential changes around free trade agreements. "All of these issues are fraught with uncertainty due to the current US political leadership," he adds.

In the meantime, treasurers are likely to proceed with caution while paying close attention to the impact of political developments on everything from their banking relationships to their hedging decisions. Above all, the events of last year illustrated the importance of expecting the unexpected – a worthy lesson for treasurers everywhere to keep in mind.

# CitiDirect BE® is everywhere you need to be.


Access the full power of CitiDirect BE® from anywhere in the world. Three channels—**online**, **mobile** and **tablet**—deliver one integrated experience. Work with colleagues across locations and channels to seamlessly execute transactions in real-time, anytime.

- Easy to use with intuitive design and sleek interfaces
- Robust features deliver a powerful user experience
- Secure and seamless user authentication across all channels

**Download CitiDirect BE® Tablet** from the App Store, Google Play or Windows Store. **To use CitiDirect BE® Mobile**, enter https://m.citidirectbe.com in your mobile browser and log in.

EUROMONEY AWARDS FOR EXCELLENCE 2017

World's Best Bank for Transaction Services
Africa's Best Bank for Transaction Services
Asia's Best Bank for Transaction Services

©2017 Citigroup Inc. All rights reserved. Citi, Citi and Arc Design and other marks used herein are service marks of Citigroup Inc. or its affiliates, used and registered throughout the world.

citi®


AGENTS OF CHANGE:

# DIVERSITY

IN TREASURY

*Diversity is not about hitting targets, it is about building a culture where everyone can thrive. The panel of Treasury Today's latest Women in Treasury Forum in London sought to address the theme, open up an advanced dialogue and offer our audience some positive strides forward.*

"Until we walk a mile in someone else's shoes, we will never truly understand their professional experience." It would be hard to disagree with this sentiment, put forward at this year's Women in Treasury London Forum held in September. Indeed, delivering true diversity and inclusion will only be possible once we all begin to think in entirely new ways, reassessing how we perceive each other.

With over 180 senior treasury professionals from the UK and Europe attending the event and with similar events taking place in Asia and North America – the themes of diversity and inclusion seem now to be becoming embedded in the consciousness of the treasury world.

There needs to be more willingness to step outside of our own experience to avoid behaviour that can make people feel uncomfortable or see them overlooked for promotions. But in the fast-paced world in which we live, it can be all too easy to forget that those around us have their own set of struggles that may impact how they behave.

Organisations have a role to play in encouraging tolerance and helping to promote diverse thinking, especially around hiring practices. All too often, managers hire people who reflect themselves or replicate the profile of previous high-performers. The result is a failure to promote diversity whilst simultaneously encouraging the creative-limiting practice of group-think. Building and implementing policies can go some way to ensuring checks and balances are in place to avoid such counterproductive outcomes. But what are we really aiming for when we talk about 'diversity'?

## Thinking diversity

In seeking a definition, Frances Hinden, VP, Treasury Operations, Shell International, argues that diversity is not about being male or female, your race or your appearance, "it is about how you think".

A diverse group of people will naturally think differently, based on a whole host of drivers, from nurture to nature. Of course,

if diversity is about thought, then it will not be possible to tell simply by looking at that group if it is diverse.

This argument starts to pull away from the traditional views of workplace diversity. Indeed, for Cornelia Hesse, Head of Controlling, BASF Global Finance Shared Services, the traditional topics of gender and race in her company have already been supplanted by "life-balance issues", where interesting part-time roles are made available to all, and proper parental leave for men and women is the norm. The company has also developed a "competencies-based" approach to hiring into teams, encouraging more soft skills to come to the fore so that leaders are now in effect "orchestrating" the players rather than simply issuing commands.

Having already reached out to more and to varied personalities, the company is transitioning yet again, said Hesse. This time its approach is being forged as a direct response to the digital agenda, where global reach within the business is being stretched to the limit. To succeed here, there is a push for empowering satellite team members so that a truly diverse organisation is created. Technology can then be employed to bring the different skillsets together and to stay connected, helping to drive the overarching goals of the business forward.

## Different sectors, same challenges

With her experience across a number of sectors, Sabine McIntosh, Managing Director, Global Head of Account Services, Treasury and Trade Solutions, Citi, is of the impression that the challenges to diversity remain much the same in each of them.

With the vast majority of senior managers and board members being men, regardless of sector, she feels diversity persists as a topic for all major global corporations. Interestingly, McIntosh notes that in her experience, diversity is far less of an issue in smaller businesses where she says it was "easier to demonstrate performance and be recognised for it". This suggests that it can be harder to be visible in the corporate world. Change calls for a different viewpoint.

"When we talk about diversity, we need to view it from the board and even the shareholder level," says McIntosh. "It's about trying to look for and value different behaviours that are going to start balancing out the organisation from the top down."

In the world of treasury today, the male domination we see stems from a time when banks really were male strongholds, especially in the dealing rooms, explains Peter Lay, Head of Global Treasury, Oxfam. "As a treasurer, if you played golf or went fly fishing, you would fit the mould of corporate entertainment of the time," he notes. There was little room for thinking otherwise and few women it seemed wanted to join that particular club.

With a diverse working background beginning in South Africa, Lay's arrival in a UK finance function, where the MD even controlled what women wore at work, was a bemusing experience. "But there didn't seem to be any anger about the treatment of women," he recalls. He found it similarly odd that for any male that didn't play golf, membership of the elite circle was all but barred.

As the 90s progressed, Lay notes that whilst more women were taking senior roles, many firms were in fact merely exploiting perceived gender differences. Women were seen as having strength in terms of their relationship skills but were not seen in any other light; it was a direct route to HR management in certain industries but higher executive roles were still seemingly off limits.

Lay's move to the British Council saw a different approach unveiled. Women were actively making a difference, championing culture and education across the world. And yet even here, very few women ever made it to board level. Notwithstanding, Lay's current experience with Oxfam, which has been a "revelation" in terms of genuine diversity, he feels that whilst US banking is making enormous headway, its British counterpart "still has a way to go".

> Always remember you have a choice about what you are doing. If you don't like what you do, try and change it.
>
> Frances Hinden, VP, Treasury Operations, Shell International

## Mobile solution

Different attitudes to diversity prevail on the international circuit. It may be that to move ahead, geographic mobility may provide the best opportunities. This has certainly been the case for Deborah Mur, Head of Global Liquidity and Cash Management, HSBC France. Indeed, she feels that her willingness to be mobile has played a vital role in her progress. But it has not been about "taking any job and moving to any country".

Instead, Mur has deliberately identified opportunities and actively sought solutions to help the company, an approach that, for example, saw her relocate to Canada for a period. The overseas moves she has made, in this context, have largely been "strategic" measures to drive new openings for herself.

However, these openings don't have to come from geographic mobility, she says. "You can do the same thing across business lines if you identify an opportunity, transferring best practice as you go."

Taking the long way around has certainly enabled McIntosh's career progression. Having taken many "bold decisions" in her career to date, she has moved across sectors, seeking challenges on her journey.

## Taking risks

Her trajectory through the typical 'relationship-based' female roles saw her emerge the other side into the world of technology. From here she has built a career within Citi "based on my skillset and my ability to bring people together and to deliver".

However, even with progress to a senior level in the male-dominated technology sector, her determination to find the next big opportunity saw her move into cash management "and the rest is history", she says. "Being bold, taking risks and thinking how each move can add to my skillset has helped bring me to where I am now."

## To plan or not?

Whether career planning is a good idea or not is debatable. For Hinden, it is a mistake to think too far ahead, setting a goal and ticking off the key elements one by one. "It is far more important to enjoy and learn from the job you are doing today or tomorrow," she advises. Don't dismiss an opportunity because it does not fit the traditional path and never get hung up on job titles, "they don't matter", she says.

Perhaps most importantly though, make a judgement on whether the job you take is with a group of people with which you will enjoy working. It's very telling that Hinden says the only job she has had that she didn't enjoy was where she didn't get on with her boss. In the final analysis, "it's all about the people you work with."

But in saying this, Hinden is not talking about fitting in nicely "and playing golf". It's about finding a group of people "you can work with, laugh with and learn from". The reason to do so is simple: "It's about what we do now that counts, not what we will do in 15 years' time."

Indeed, people change, plans are altered, no one knows what the future holds. "If you've spent several years striving towards the end-goal of your perfect career with people you don't like, you've wasted those years when you could have been having fun."

## Be the brand

In forging ahead with a career, the concept of 'personal brand' has a role. Mur believes that the individual should "look promotable". An organisation will have an image it wishes to convey; conveying that image is important for success. "Working for a large corporation is not necessarily about individuality; if you want to be an individual you become an entrepreneur," she comments.

Another key to success for Mur is visibility. Being able to articulate your contribution to the organisation, in terms that are "meaningful for senior management", is essential. "Have an 'elevator pitch' ready because you only have one opportunity to make a great first impression," she advises.

To get to the right place, Hesse feels taking bold decisions and risks is vital. "There's no point in sitting comfortably and complaining all the time. It's up to you to take a decision to change," she warns. With a number of diverse roles under her belt, she has taken every opportunity to progress. In fact,

she sees progress as "life-long learning", where the ability to adapt is key and the need to "invest to be successful" is clearly the right mindset.

## A helping hand

Having been exposed, through a British Council colleague, to the difficulties that vision problems can create in the workplace, Lay has experience of looking at life differently. Many of us have little appreciation of how our own working environments are serious challenges for those who are partially sighted or blind trying to navigate their working day. The need therefore is to try to "put the shoe on the other foot" for many different scenarios.

By looking at people in the workplace from a "human perspective" and recognising the challenges faced by so many, he believes empathy and greater tolerance are possible.

In career development mode, the capacity to understand what may be difficult circumstances for an individual, and to develop talent, is an essential part of encouraging diversity. Mentoring is one way of ensuring the best people are recognised, regardless of background.

"The key aspect of any successful mentorship is to be genuine and clear about the relationship objectives," explains McIntosh. Choosing the right mentor is critical. "You have to have someone who is able to empathise with your situation and who is willing and able to listen to your needs." Equally, the mentee must be ready for the process, she adds. They must recognise the need to invest time and effort and be prepared to listen to the mentor, especially if they hold different viewpoints, if they are to rise to senior levels.

Sponsorship is another form of encouragement of diversity. Hinden has positive experiences to relate, where she has been prepared and coached by a sponsor to take on new roles. "Having someone actively involved in your career can be extraordinarily beneficial," she says. However, she warns, there is a downside, where it just becomes patronage of those of a similar background, "sidestepping real progression on merit" and potentially limiting the organisation's diversity. Formal coaching, especially with peers, has proven a valuable career development tool for Hinden too. "It's a good thing to take part in, from both sides," she says. The honesty of the coaching environment often reveals clearer pathways to achieving goals, whilst being a great way for the coach to improve succinct thinking. "I don't think there is any downside," she opines.

These approaches often benefit from a proactive method, adds Mur. Anyone feeling uncertain about asking should know that managers often feel "flattered" to be asked for their advice and views. Adopting this approach is often the way to "build the best relationships", allowing them to develop naturally but, Mur adds, "it really is up to you to initiate it".

## Building for self and for all

In building teams for success, Lay believes companies should take time to celebrate the diversity within. Engaging in open discussion in this way lays the foundations for normalising any differences, ultimately making the team environment "a great leveler" in terms of development.

For the individual seeking progress, Hesse suggests using the human connections between teams, between functions, and even between entities, to build stronger ties and to better understand how the organisation works end-to-end. This serves to create a good business partner and, in doing so, will establish demand amongst the other units.

Add value and take responsibility, she further advises. "Get involved with the entire process but don't be afraid to challenge the status quo. You can coach your bosses, helping them to change their set views so that they too can adapt to the new environment of diversity."

"Always remember you have a choice about what you are doing," comments Hinden. If you don't like what you do, try and change it. "It can feel incredibly liberating to understand what has motivated you and what choices you have made to be where you are." But she also advises people to steer clear of work places where there is no laughter "or where you can't get a decent cup of tea". The latter may be a personal requisite…

## Believe in change

To set out on any path first means to know what you want to achieve and to be clear about what you are good at, says McIntosh. Above all, she says, believe in and be true to yourself. "Everyone has the feeling sometime that they will be found out. But believe in yourself and, if you want the next job or the mentorship, just ask for it; the worst you can be told is no."

To be an agent of change, "be the change you wish to see", counsels Lay, paraphrasing Ghandi. "The only regrets people really have are when they have not been true to themselves." In seeking diversity, there is an opportunity "for those in positions of responsibility to look out for people who are more vulnerable". These people, he says, are in the workplace and they may not have the confidence or the capacity to articulate their needs. "We can all help others to flourish and enjoy their working life."

# How banks are adapting in an era of disruption

*Might there be a future without banks? Perhaps. But what we do know is that the banks of the future will look and act very differently from how they do today. This article looks at the forces that are transforming banking, what banks are doing in response and what this all means for the corporate treasurer.*

Back in 1994 Bill Gates famously said that "banking is essential, banks are not". He might turn out to be right: over the past decade a combination of factors has begun to transform the financial industry. These forces have given rise to a plethora of non-bank players that are disrupting the incumbents and shaping a new vision for financial services.

This is happening right now. In China, for example, Alibaba processes hundreds of millions of transactions and owns one of the largest money funds in the world. Alibaba is a technology company, not a bank.

Across the world, there are numerous other examples of how technology companies have disrupted banking, especially retail banking. In the corporate space, however, the impact has been less pronounced. As custodians of their companies' cash, treasurers are generally not in a hurry to ditch their long-standing and trusted banking partners for a small fintech – no matter how innovative the solution.

## Trusted partner

There are many reasons why banks remain the provider of choice in the corporate space. The main factor is that they are fully-regulated financial institutions, certified by central banks as trusted providers of financial services with privileged access to the underlying financial architecture. Many banks also have long and storied histories, acting as crucial institutions in the development of the markets they operate in, and as partners to the corporates that operate in those markets. These two factors, combined with the fact that until recently there has not been any other choice for corporates, has made banks indispensable partners to every organisation on the planet.

In the post-war era of globalisation, the role of the bank has arguably become more important for corporates who have spread their wings and ventured into new and exotic markets in pursuit of greater profits. In doing so, the banks have moved beyond being an indispensable partner simply because they take deposits, lend money and process payments. They have now become de-facto members of the treasury team, acting as trusted advisors and navigating the way for businesses as they move into new markets.

For Ebru Pakcan, EMEA Head of Treasury and Trade Solutions (TTS) at Citi, the emergence of banks as advisors to their corporate clients has been the big change in how transaction banks operate over the past decade. "Banks have always been in the business of providing corporates with solutions and services to help them realise their objectives," says Pakcan. "But what has changed is how we are now regarded as advisors to the business."

Pakcan explains that banks have assumed this role because it is what clients have demanded. "In the past, many treasury teams were simply focused on executing the basic processes day-to-day," she says. "Today, many treasury teams have a much broader remit and are regarded as a strategic partner to the business. This has led treasurers to turn to their banks for advice on what they can do to achieve their new strategic objectives."

## Regulatory leviathan

Whilst the growing advisory capacity of banks has been a big positive for many institutions, allowing them to foster deeper relationships with clients, there are also some negative forces impacting banks. Most notably these include the regulatory pressure, through Basel III for instance, that every bank in the world has been under post-crisis. These new regulatory pressures have had a profound impact and quite publicly put an end to the era of the global bank, forcing institutions to streamline, refocus and retrench.

This regulatory burden has also hamstrung banks in terms of their ability to be innovative – both in terms of the money they are willing to commit to innovation and the areas they are comfortable innovating in. This has inadvertently opened the door for non-bank providers to enter the market, giving rise to the age of fintech.

"Banks are in a tough spot and often come across as analogue players in a digital world," says Don Raftery, Head of Commercial and Corporate Banking Practice at Greenwich Associates. "This is because at exactly the time when their customers are learning how fast, easy and transparent online service can be, banks are struggling to simply maintain the quality of service, because most of their technology spend is dedicated to addressing risk, security and compliance needs."

## Fintech pressure

Fintechs have jumped at the chance to take advantage of this opportunity and challenge the banks, most notably in the area of payments. These companies are doing so by leveraging new technology and creating value propositions that are deeply focused on solving specific pain points for customers – something that the banks, arguably, have not done in the past.

The dynamics between banking and fintech are constantly in flux and it has been a fascinating story to follow. Initially banks saw these disrupters as a threat: companies that could begin eating into significant chunks of banks' profit margins. Over time, however, their stance has softened and banks now regard fintechs as potential partners that can help them serve their customers better. On the other side of the equation, many fintechs have realised their best chance for success is to align themselves with a bank to distribute their products and services.

A recent paper from Christine Barry, Research Director for Aite Group's Wholesale Banking Practice, highlights this. "The acceptance of fintech companies as potential partners did not happen overnight," says Barry. "In fact, it is part of a far greater shift in bank attitudes and buying behaviours around technology in general." For Barry, the last few years have seen large banks begin to move away from fully building their own cash management solutions to instead deploying vendor-built solutions end-to-end or some components of these solutions.

"Several factors drive this shift in buying behaviour, including faster speed to market and the ability to build in areas in which there is a competitive advantage while outsourcing the rest," adds Barry. "Additionally, technology has improved over the last few years. As such, solutions are far more customisable without having to touch code, and available functionality has widened."

This change in buying behaviour is part of a wider shift in how banks operate as they seek to mimic fintechs and put the customer at the heart of everything they do. "The operating models of banks are profoundly changing," says Winston Nesfield, Partner at Strategy&. "Before, banks used to be organised around products. Now they are striving to put the customer at the heart of their operations and systems in order to embed themselves in the customer journey. We should not understate how big a shift this is, both in how banks operate and how their people think."

## The right people in the right place

Transforming the culture of the organisation by hiring the right people and giving them room to flourish is likely to be a big driver of success for banks in the coming years. In an interview with McKinsey & Co, Piyush Gupta, CEO at DBS, commented that "we are up against businesses that work out of a garage, that take risks, operate in a nimble way and have a different kind of energy and drive. Large incumbent companies that can't create a similar kind of culture just won't be able to compete". Indeed, the public aim of DBS is to be akin to a 20,000-person start-up.

DBS' Head of Digital of Institutional Banking Group, Raof Latiff, offers more insight into how the bank is achieving this goal. "We have established various innovation project teams throughout the bank, they are left alone to work on improving products and processes, and bring new ideas to the table," he says. "At the same time, we have trained staff around new ways of working, such as applying the agile methodology and following a customer journey process to encourage staff and clients to think innovatively and develop client centric solutions. Thus, we have started to cultivate a culture where it is encouraged to think outside of the box and experiment, and it is okay to even make mistakes as long as we learn from it."

Erik Zingmark, Co-Head of Transaction Banking, EVP at Nordea explains that the Nordic bank has adopted a similar philosophy. "The people we hire today have a very different skillset to those we recruited five years ago," he says. "We are also empowering our people to work differently, ensuring that creative people are not burdened by institutionalised reporting processes and other things that have traditionally hampered banks' ability to innovate."

## Immediate improvements

Scanning the market, it is clear that these changes in thinking, culture, procurement and hiring at banks are having an impact on the products and services they are offering. Over the past year or so a seemingly endless list of bank product launches have leveraged all manner of existing and emerging technologies in an effort to solve pain points for clients.

The future of banks, though, is not dependent on digital product launches or on applying the "digital lipstick to products" as DBS' Gupta so viscerally told McKinsey & Co. It is about completely digitising the organisation end-to-end.

Treasury Today has had numerous conversations with banks around the world about how they are leveraging various technologies to improve their back office functions and offer a more seamless experience for clients using the bank. "Banks will not necessarily have to continuously release cutting-edge digital services to satisfy customers' needs," says Greenwich Associates' Raftery. "Instead, they need to get the basics right and make it easier for their customers to do business with them."

Granted, some may cynically say the banks are doing this to cut costs, and to a degree they are right. However, Strategy&'s Nesfield is keen to point out that banks realise many products are commoditised, and that they will only retain and gain more customers by making themselves easy to work with. "As a result, banks are now looking to leverage technology not only to cut costs but also to ensure they keep business," he says.

To put this into context, Citi's Pakcan explains that it is crucial for banks to look at their process end-to-end and remove all the friction that exists. "To provide an example, we are working to digitise our call centre so that clients no longer need to pick up the phone to ask questions about the status of a payment," she says. "Instead we want to provide that information into their eBanking portal using APIs, or allow them to ask a chatbot that will find the information for them. To do this, though, requires a big overhaul of our back office processes to ensure all the dots join up to deliver the correct information to our clients in a timely fashion."

## Winning advisory

Revamping the back office and making sure that data is organised in a logical fashion and easily accessible to clients will also enable banks to be better advisors to clients. According to Greenwich Associates' Raftery, this work is crucial because advisory will be "one of the enduring pillars of differentiation".

Raftery goes on to say that "the true power of the advisory model will emerge when banks integrate 'high-touch' service with digital technology". This will see banks use algorithms based on client inputs and industry data to inform solutions to clients' short, medium and long-term goals – thereby enabling banks to "connect customers with products experts in areas critical to their business".

For some banks, this is already becoming a reality. Citi, Nordea and a host of other banks have developed solutions that harness client and third-party data to show where improvements can be made and are using these to build more bespoke solutions for their clients.

DBS has also recently stepped into this area, taking a slightly different approach. Treasury Prism, a web-based solution, allows treasurers from around the world to upload data on their treasury structure and simulate what impact certain changes or the use of different liquidity and payment products will have. The solution suggests all the possible changes that can be made to their operating model today.

Explaining the thinking behind Treasury Prism, DBS' Raof highlights that the bank was conscious not to develop a product to just simply push sales. "This tool gives treasury teams an easy way to evaluate their treasury management structures and see what improvements they can make or new structures they can work on without having to talk to the bank directly," he says. "Of course, we would like them to come and speak to us down the line and we would follow up. But the main purpose of the tool is to get people thinking and share the knowledge that we have with anybody that wants to access it."

## Future gazing

What will a transaction bank look like in the future? Will there even be transaction banks? It is hard to say because as Nordea's Zingmark notes: "The only guarantee you have when predicting the future is that you will be wrong." With that in mind, Zingmark highlights how the strategy of Nordea is to develop a bank that is digital and nimble, thereby "allowing us to be able to meet customer demands as they evolve".

This view is similar to the future of banking as predicted by Greenwich Associates' Raftery. In his opinion, banks will prevail and the threat of non-bank financial services companies will subside as regulators scrutinise them more closely. "With electronic banking ubiquitous, large traditional providers transform into 'digital banking superstores'," he says. "Stripped of their technology advantage (and their regulatory advantage as well, assuming regulators act appropriately), non-banks will cede clients and share of wallet to the banks. At the same time, corporates will rediscover the benefits of one-stop shopping with large banks. Many remaining major fintech and non-bank providers will be acquired by banks, further enhancing banks' technology prowess."

For Strategy&'s Nesfield, the question of whether or not banks will survive in the future is a simple one. "Banks need to make their offerings simpler, smaller and more connected to the customer," he says. "To do this, banks need to stop being a destination you go to in order to use financial services and instead become an experience you consume as part of everyday life. They need to fit into our lifestyles and workstyles rather than us, the customer, fitting into their operating model. If they can do that then they can survive in a variation of their current form, and it will be more of an evolution than a revolution."


Which is why we actively work with you to craft the right cash strategy. Segmenting cash and leveraging solutions across the full ultra-short spectrum to help maximize opportunity.

Visit **jpmgloballiquidity.com** to learn more about how we can help optimize your cash strategy

LET'S SOLVE IT.℠

The value of investments, and any income from them, may fall as well as rise. Investors may not get back the full amount invested.

**LV-JPM50240 | 10/17** 304698c0-b8d4-11e7-99dc-005056960c63

J.P.Morgan
Asset Management

# Easy riding treasury

**Darrell Thomas**
VP and Treasurer

Darrell Thomas is VP and Treasurer for one of the world's most iconic brands, Harley-Davidson. He runs a large team across a broad spectrum of treasury activities, reaching across North America, Europe and Asia. It's a big job for a huge brand but for a biker, this is surely 'Hog Heaven'.

---

*Harley-Davidson, Inc. is the iconic American motorcycle manufacturer. The company was founded in Milwaukee, Wisconsin in 1903. Having survived fluctuating fortunes and intense global competition, today the company is one of the world's largest motorcycle manufacturers and is widely known for its loyal following. The US$6bn business employs around 5,900 globally, with subsidiaries across Brazil, India, England and Singapore.*

Harley-Davidson. The name is deeply evocative of America. The huge V-twins, the chrome, the Chopper-stylings of Easy Rider fame, the raucous flat-track Sportsters: it all adds up to the kind of brand power that few can match, though many have tried.

Being VP and Treasurer for the manufacturer and its captive financial services operation is not just a job for Darrell Thomas: it is a responsibility. There's heritage at stake here. In his seven-year tenure to date, Thomas has helped shape the financial strategy and direction for one of the world's largest motorcycle manufacturers, guiding the 26-strong treasury team, in four locations across the US, the UK and Singapore, towards a secure financial future.

Of course, there are day-to-day matters to which the team must attend. In addition to the primary treasury function of managing the cash resources of the company – from collections and investments, to borrowings and shareholder distributions – treasury is also charged with overall risk management. This involves a host of activities including insurance, worldwide business continuity management and financial risk management measures such as hedging currency and commodity exposures. On top of this, the team takes on relationship management with banks and ratings agencies. Retirement plan asset management is also on the agenda, as is managing the firm's working capital and capital structure.

## Broad mix, big team

It's an extensive mix of responsibilities but Thomas takes it in his stride. "It doesn't feel so big to me," he proclaims. He has a big team supporting him. Non-financial risk management, including business continuity, is handled by a four-person team. The two-part funding team, covering secured and unsecured markets, has two and three personnel respectively. And so it is, throughout the spread of activities: when they are broken down into specialist components, treasury here is really just a collective of small, professional teams. In fact, says Thomas, the biggest head-count is the eight-strong accounts payable team which, in some organisations, might be found in a shared service environment; at Harley-Davidson, it is part of treasury.

Some functions, notably business continuity (BC), may not seem like a traditional treasury occupation at all. To this, Thomas responds that it does not necessarily have a natural home. "It was something I felt my risk management team and I could add some value to." So far, it has formed a good fit. With its element of non-transferable risk – it can't easily be insured – it has to be managed.

The team has identified key processes around the organisation. All have a BC plan in place, informing how each should continue to operate in a range of disaster scenarios, bearing in mind normal day-to-day activities or support levels may not be available for some time. The plans are regularly tested, in every location, to find and address any gaps or new requirements.

All processes have been divided into high, medium and low tiers, giving each a degree of prioritisation. High priority processes, depending on the event, would determine which organisation attracts the resources first. For example, in the event of a major IT-centre outage resulting in a company-wide impact, tiering determines which processes must come back online first.

## Journey

Thomas's journey to Harley started in banking, following an MBA in Finance and Marketing. Fifteen years at Citibank, followed by a period with Commerzbank Securities as US head of DCM. The latter role was demanding, in that the bank's clients located outside the US that wanted to understand and have access to the US market, wanted a US native to explain it them. Time on the road (or rather in the air), visiting clients, put pressure on his family life. "I realised something had to change," states Thomas.

In late 2003, with 19 years in banking to his name, he embarked on a new career path. The role of Treasury Director at PepsiCo beckoned. Around six months in, he says he "really started to appreciate the opportunities on the corporate side". This was the point he determined that a treasury role made the most sense for his career. "That's when I started to make sure I was developing the skills and competencies needed to become a treasurer for an S&P 500 type of company."

With two years at PepsiCo under his belt, an opportunity arose for Thomas to become VP and Assistant Treasurer, a position he assumed for just over four years. Harley-Davidson emerged as a possibility for his next move, and by June 2010 he was on board. "I hadn't set out to be a treasurer but the way the opportunities unfolded made it a viable career choice," he comments.

Its viability works on different levels. Indeed, he says, treasury provides him with a demanding and fulfilling career, and work-life balance. "It was so refreshing for me to just have dinner with my family and attend my kids' activities without having to worry about missing a flight." It was, he adds, "the perfect transition" where "the stars and the moon lined up for me".

## Moving away from the crisis towards a vision

Having moved into Harley-Davidson after the crisis bit harder, Thomas feels that, to some extent, the events of 2008/09 had served to create the opportunity for him. The company had emerged from the crisis, but it had also incurred some significant costs, notably around debt. This opportunity to make good an American legend saw Thomas tackling scenarios he had not previously seen.

Harley-Davidson's credit standing had been impaired, demanding that Thomas seek ways to shore-up the balance sheet and restore its credit quality to pre-crisis levels. Time too was spent enhancing the company's liquidity, making sure there was no repeat performance of any destabilising issues. He also evaluated the treasury department – seen at that point as a "fixer-upper" – to make sure he had the right people to get the job done. With the pension fund also having been depleted, restructuring the asset allocation was required to put it back on track.

All this, so soon, required Thomas to "hit the ground running and be much more hands-on in setting the direction and strategy". There were, he recalls, "a lot of things to focus on". Having set the agenda, and a vision of creating "a world-class treasury", Thomas likes to delegate to his team, which he feels has matured in its various roles and responsibilities. "Now it's about letting them do their job." This approach of empowerment works well, he feels, "as most people respond better when they have skin in the game".

Indeed, he enables each member to respond to his vision as they see fit. He will challenge but if the benchmarks reveal 'world class' then he goes with it.

## A ten-year plan, with headwinds

Today, on the commercial side, the whole company is focused on the ten-year strategic plan to build the next generation of Harley-Davidson riders globally. "Everything we do in treasury is designed to support that plan. When we work with other parts of the organisation we make sure we are all working together."

As treasurer for the financial services business, for example, this entails finding the right programme to help increase ridership. Individuals who successfully complete the rider training programme, for example, may be offered a discounted borrowing rate to help them finance a new motorcycle. "We're also looking at ways to support our international growth through broader financing programmes."

Naturally, treasury must ensure cash resources are available, in a timely fashion, to support the company's various marketing and product development programmes.

All of this pushes Thomas and his team deep into the realms of strategic importance. He suggests this may not be as self-evident as for other functions "but we play an important role in the overall execution of the company's strategy and our business partners recognise this".

Financially, market volatility, especially in some of the more visible markets, has been a challenge for treasury. Currency markets, despite the recent weakening of USD, have not favoured Harley-Davidson. "We are uniquely positioned, with respect to many US organisations, in that we are hurt more than most by a strengthening US dollar." Harley-Davidson manufactures the vast majority of the motorcycles its sells worldwide in the US so almost all bikes sold outside the US are export sold in local currency.

The negative impact of a strong dollar is immediately apparent. With approximately 95% of the firm's competition not facing this US dollar headwind, the market seems at an imbalance as those firms sell into the US, and repatriate greater value for higher profits or as funding to compete against Harley-Davidson with lower prices. "This has been challenging for us over the last 24 months," notes Thomas.

Harley-Davidson has an active currency hedging programme that helps. "But this tends only to buy us time," he comments. With rolling hedges, as existing ones expire, new ones are at the mercy of currency movements, only protecting the firm against any further increase in USD. It also uses natural hedges where treasury works with the procurement team to source buying opportunities in currencies where it is exposed, using local currency to meet local expenses. Treasury also runs many 'what if' scenarios, often based on contingencies, testing ideas for new overseas production facilities, for example.

One potential headwind for Harley is the interest rate market. It has been a long time coming in the US. Whilst short-term rates are on the rise, long-term is yet to really move. If and when they do, the financial services company's margins will be impacted. This business represents approximately 25% of Harley-Davidson's operating income. Rate rises will eventually be passed along to the customer, increasing the rider's cost and potentially negatively impacting sales. Treasury's goal is to ensure the firm manages the funding strategy to mitigate this risk.

There is an ongoing regulatory impact on the financial services side to tackle. As a lending institution, it has to adhere to new, more stringent rules, post-Dodd-Frank. Indirect impact also comes in the form of changes imposed on its banking partners, where some products and services are no longer available on a cost-effective basis, for example as a result of rules around capital and liquidity adequacy. "The regulatory environment has added cost to our activities and reduced some of the flexibility and options for us," comments Thomas. "We continue to partner with industry groups to share our concerns with regulators."

## Making connections

That said, he feels the banks have largely maintained a consistently good relationship with Harley-Davidson. With 15 core banking relationships around the world, the treasury team spent a lot of time assessing potential long-term partners. "We try not to have one-off relationships because we believe those are less sustainable and are frankly rather pricey," explains Thomas. He also feels that when times are hard, the real partners stand shoulder to shoulder, prioritising their limited resources with strong clients.

Technology has a key role to play within Thomas' treasury, notably around reducing the number of manual tasks. It's approach to digital saw Harley-Davidson win a Treasury Today Adam Smith Award 2017, based on its innovative deployment of a truly global treasury workstation, executed under Thomas' comprehensive five-year game-plan to deliver standardisation.

"This has improved our processes significantly, and reduced risk to our organisation," he comments, adding that automation of low-value, manual work has enabled headcount to be halved in accounts payable and freed up resources to staff international treasury positions which did not exist prior to his arrival. Having laid the digital foundations, Thomas has his professional eye on "additional opportunities" from AI solutions as a means of "further increasing productivity of the treasury staff".

## Keeping ahead

Progress can halt the moment you take your eye off the ball and for Thomas, vision and leadership are as essential to maintaining momentum as the technical skills and hardcore number-crunching. "First, you have a vision but then you have to be able to communicate it and have people buy into it," he advises.

"If you can't develop that kind of relationship with your team, it will be very difficult for you to succeed." As one with innate skills in this respect, he has long since been a go-to leader in his professional and personal life. "I think it can be learned but you have to have some natural inclination in that direction."

For those rising up the ranks of treasury, the need is for technical strength. This, says Thomas, is what will get them recognised. "From there it is important to then start developing the softer skills that will be necessary for them to progress."

## Outside inside

Riding a Harley-Davidson is a lifestyle choice for many, Thomas included. But he also enjoys pedal-power too. Away from wheels, he is a golfing nut who enjoys playing all around the world with his social golf club. "Now I travel because I want to," he jokes.

It's not all entertainment though and Thomas is keen to put something back into society. He is on the board of Milwaukee's Big Brothers, Big Sisters charity focused on helping youngsters avoid risky and detrimental behaviours and giving them positive role models.

With Thomas' plans for a world class treasury within Harley-Davidson still coming to fruition, he has work to do. "I want to make sure we have a deliverable treasury succession plan so that we have people in the ranks that are qualified and able to step into the treasurer role," he explains. But for now, he is very happy being the treasurer of Harley-Davidson. "From a professional point of view, I see this as the pinnacle of my career and now I am making sure that we develop the team and processes so that we are considered world-class."

# Responding to European Money Market Fund reform: a portfolio manager's perspective

*At long last, European Money Market Fund reform is almost upon us. But don't wait until the ink has dried; start looking at your policies and approaches now, say BlackRock experts, Beccy Milchem, Head of Corporate Sales and Eric Hiatt, Director, Portfolio Manager.*

Beccy Milchem
Head of Corporate Sales
BlackRock

Eric Hiatt
Director, Portfolio Manager
BlackRock

For treasurers, it is time to prepare for European Money Market Fund (MMF) reform. The European Commission's proposals now have an implementation date for new funds of mid-2018, with existing funds on a 19th January 2019 deadline. However, the new rules may have an earlier impact on the existing major European sectors of variable and constant net asset value MMFs (VNAVs and CNAVs).

Whilst most corporate investors can expect minimal short-term impact from the changes, industry consensus says the wise investor will begin working with their asset managers now on forming a clear response. "With the two dates in mind, we are using this period to educate all of our clients," confirms Beccy Milchem, Head of Corporate Sales, BlackRock. "We are cautioning that although we have a 2019 final implementation date, we think a lot of funds will migrate before then. It is worth being prepared ahead of that."

## Start now

BlackRock believes it is prudent to plan a transition to the new rules during Q4 2018. It is being mindful that not only is the final date right at the start of 2019, but also that this date is sufficiently close to year-end as to apply an unnecessary challenge to managing liquidity.

The aim of this preparatory period for corporates should be to confirm full awareness of LVNAV's features, and to ensure investment policies and all stakeholders are ready for the changes when they come into effect, says Milchem. This means kicking-off internal conversations with investment committees and Boards, around updating investment policies.

Mindful of the fact that these often only get looked at once a year, they should certainly be tabled for the next available review. But Milchem adds that investors should also start dialogue with external auditors and other stakeholders who might have input on the choice of response, both to the possible changing shape of their funds, and to any operational impact this might have. "Have these conversations sooner rather than later so that if you do unearth any questions, you have time to address them."

## Market impasse – the same but different

The US$2.7trn US domiciled MMF market faced up to its '2a-7 reforms' back in October 2016. This saw a shift away from a prime fund's ability to maintain its investment value at US$1 a share, towards a price that moves with the market. Government funds in the US have been allowed to maintain their constant net asset value pricing.

US and EU reforms bear some similarities but European reform for MMFs domiciled predominantly in Ireland and Luxembourg will see the introduction of Low Volatility NAV (LVNAV) funds. These, Milchem explains, are a "hybrid" composition that nestle between CNAV Government funds, priced to two decimal places, and the VNAV funds that deploy mark-to-market or mark-to-model pricing to four decimal places. The aim of LVNAV funds is to provide many of the attributes that make CNAV attractive to corporate investors, in particular the utility of a constant net asset value as long as certain tolerances are met, but with the added safety net sought by the EU lawmakers. Hiatt believes that the addition of the LVNAV category will see a more uniform migration rather than the shift in investor preferences we witnessed during the US reforms.

“We think LVNAV are a good compromise strategy,” Milchem comments. “In the US, there were two ends of the spectrum, which is why we saw that huge shift; in Europe, we will have more structural uniformity in terms of where the asset flow goes because LVNAV is similar to what investors have been used to.”

The rate environment in Europe may also help frame investor decisions, says Eric Hiatt, Director, Portfolio Manager at BlackRock. It is unclear to what extent this may take place but, in the US, there is an ongoing conversation around what spread differential is required for a Government fund investor to consider a move back to prime. The difference in USD is currently around 35bps and BlackRock has seen some assets return to Prime as a result, however with short-term EUR Government rates deeply negative and GBP Government funds currently close to zero, investors in these currencies are likely to be more mindful of the gap. The proposition around reform is different in the EU but Hiatt says fund managers will be paying particularly close attention to client considerations in their discussions around the ‘fund structure versus income’ debate.

## Table 1: What are the structural impacts to European Money Market Funds?

| | Short-Term Money Market Funds | | | Standard Money Market Funds |
|---|---|---|---|---|
| | Government (CNAV) | Low Volatility NAV (LVNAV) | Variable Net Asset Value (VNAV) | Standard Variable Net Asset Value (VNAV) |
| **Stable NAV** | √ | * | X | X |
| **Floating Net Asset Value (FNAV)** | X | * | √ | √ |
| **Liquidity Fees** | ** | ** | *** | *** |
| **Redemption Gate** | ** | ** | *** | *** |
| **WAM (max)** | 60 days | 60 days | 60 days | 0.50 year |
| **WAL (max)** | 120 days | 120 days | 120 days | 1.0 year |
| **Maturity (max)** | 397 days | 397 days | 397 days | Fixed – 397 days<br>Floating – 2 years |
| **Liquidity requirements – daily liquid assets (min)** | 10% | 10% | 7.50% | 7.50% |
| **Liquidity requirements – weekly liquid assets (min)** | 30% | 30% | 15.00% | 15.00% |
| **Pricing – dealing NAV** | Constant NAV (rounded to 2 decimal places ie nearest penny/cent) | Constant NAV (rounded to 2 decimal places ie nearest penny/cent), provided dealing NAV does not deviate from mark-to-market NAV by >20 basis points | Variable (rounded to 4 decimal places) | Variable (rounded to 4 decimal places) |
| **Reference** | * The Fund can price to 2 decimal places if the full mark-to-market price does not deviate from 1.00 by more than 20bps, essentially rounding up to 1.00. If the 20bps tolerance is breached the fund will price to 4 decimal places using the full mark-to-market NAV, essentially rounding down to the nearest basis point<br><br>** If the weekly maturing assets of the fund fall below 30% the manager will inform the board who has the discretion to implement fees and/or gates as deemed appropriate. If the weekly maturing assets of the fund fall below 10% the board must decide which fees and/or gates they deem appropriate to implement<br><br>*** Although fees and or gates are not prescribed for VNAV funds as part of the European Money Market Fund Reform text, they will be required to be included within funds prospectus under UCITS and AIFMD rules, as they currently are. | | | |

It is interesting that the birth of LVNAV was in part informed by the close involvement of the corporate community, says Milchem. Being consulted around regulatory reform, and offering feedback on what was highly prized in today's products, has paid dividends. But the regulators were also, to a degree, conscious of the impact of ongoing Basel III changes on banks and their attitude to the short-term investment space.

In pushing corporates off the bank balance-sheet, it created an environment where there was almost nowhere for corporates to place their day-to-day cash. "Regulators wanted to create something that still had the usability factor that was present in the CNAV world, along with much more transparency around the risk, so that end-users can really understand what they are getting into," says Milchem.

## US better than EU?

Is one set of reforms better than the other? It is not easy to make a relative comparison, says Hiatt. "That's why we are focused on providing attractive solutions, no matter the operating environment. The European landscape certainly offers more choice and we plan to have a full spectrum of products available so that clients can choose the best money market fund for their needs."

Away from fund reform, US policy-makers have moved target rates up from zero in the past two years. This has been helpful to USD cash investors. At the same time, there has been a steady demand for USD funding by international banks, helping to augment dollar-issuance and thus also helping USD investors, irrespective of US 2a-7 or EU structural change.

However, there are "cross-currents" that should be highlighted, notes Hiatt. Chief amongst these are the liquidity and capital standards for banks that arise from the aforementioned Basel III. "This has fundamentally altered the supply environment for short credit, with banks rationalising exposure to short-term wholesale funding," he notes, reiterating Milchem's earlier observation that corporate non-operating deposits are being bounced off bank balance-sheets.

As such, Milchem believes that MMFs of any form – whether the predominant Government funds in the US or Europe's new LVNAV – will continue to provide "an attractive solution for short-term investing for corporates", representing an "easy tool for quick diversification of credit and day-to-day liquidity with reasonable yield".

## Two approaches, one platform

The US market, having already reformed, has seen US asset managers with platforms on both sides of the Atlantic leveraging the experience. The operational architecture that sits behind the new 2a-7 reforms can be used in Europe for LVNAV and the short-term VNAV product and BlackRock is currently in close dialogue with the Irish regulator around the appropriate ways to handle multiple NAV strikes, which were developed for the US Prime funds, for the new fund structure in Europe.

Indeed, BlackRock's single, global 'Aladdin' platform is an operating system for investment managers that supports the entire process, including trading, portfolio management, risk analytics and compliance. Hiatt explains that whilst there are nuances unique to EU reform, BlackRock has spent time planning for and implementing the changes around 2a-7 reform that "lend themselves very well to reform in Europe".

Within Aladdin, portfolio managers are able to analyse liquidity metrics in real-time. This can run scenario analyses based on shareholder subscriptions and redemptions. The platform also offers enhanced analytic capability, extending to NAV per-share impacts and asset value per-share impacts on portfolio transactions, shareholder activity and security price movements.

Despite BlackRock's US 2a-7 experience, and the system's easy translation to European reform, Milchem does not see the sets of portfolios fundamentally being run differently. "This is very much us continuing with the risk management and credit management approach that we have always worked to, but adhering to extra rules and procedures which we have now embedded in our systems."

## Corporate preparations

The changes likely to be seen are therefore not far-removed from what treasurers might experience today, it is simply a new concept that all must now get used to. First and foremost, as mentioned, this requires taking action now, at least discussing 'new world' plans, appetite and policy approach.

As part of this programme, securing data from funds could prove essential in making the right decision. Treasurers looking at an LVNAV strategy, for example, should seek data on the liquidity level and the shadow net asset value of the fund. These are the critical data points that allow LVNAV funds to price to 'one', explains Milchem. It is also the kind of information that should now start to become available through the MMF portals – it is certainly information that BlackRock is already publishing live to its website in a bid to make sure its clients become familiarised with it in good time.

Investors that are comfortable with the composition of risks in today's prime funds will find familiarity with the LVNAV structure, notes Hiatt. "It's also important to recognise that a lot of the conditions that regulators are placing around the new fund structures will see enhanced transparency, which will benefit shareholders, and if a fund chooses to add a rating, investors will also still be able to rely on the independent scrutiny of the rating agencies."

## A useful way to think about regulation

Ultimately, says Hiatt, think of LVNAV as "retaining the investor utility of CNAV but with the capability to round the NAV to 'one'". Where in the old CNAV environment, the 'breaking the buck' point was 99.50, LVNAV takes that concept and tightens that broad collar to 20bps. As long as a fund stays within a 20bps margin of a stable NAV pricing, rounding it to 'one' is fine and a 20bps threshold is tolerable from a portfolio management perspective

And on the matter of fending off runs on a fund – rare though they are – the new formalised rules around gates and fees (they are already in place in European UCITS funds) should be seen as measures designed to protect investors in a stressed environment.

The key differences in new fund guidelines are thus really around the increase in the requisite levels of liquidity, and the revision of diversification and concentration limits that will apply at either the product or institutional level. If there is any yield differential with LVNAV from CNAV Prime funds today, it will be a function of those liquidity standards, and even then, in most circumstances, "not be very meaningful", notes Hiatt.

Indeed, on a day-to-day basis, the reasons for a corporate using a money market fund will not be subject to drastic change, adds Milchem. However, she continues, one outcome we may see as a result of far wider-ranging market reforms in financial services, is the client becoming more adept at segmenting their cash for different use cases.

If MMF reform does indeed encourage treasurers to look at their investment policies and have a more open view on it, this is an opportunity for them to investigate some of the other solutions available, maybe taking on Standard MMFs with more duration. Having better oversight of cash flow forecasting and being able to segment more effectively has seen BlackRock engage in many more conversations with clients in the US about bespoke investments, she notes.

The wider regulatory environment is making investors become more aware of their needs and the challenges they now face for investing day-to-day cash. As they draw the veil from many more investment solutions, where they previously may have relied heavily upon their banking relationships, they may now see fit to explore a far wider portfolio of possibilities. Some may even outsource credit expertise to an asset manager with substantial resources, leaving treasurers to get on with being treasurers.

To find out more please visit our website or contact us via these details:

**EMEA Clients only**
Web: blackrock.com/cash
Email: cashmanagement@blackrock.com
Tel: +44 (0) 20 7743 3187

**APAC Clients only**
Web: blackrock.com/cash/en-hk
Email: clientservice.asiapac@blackrock.com
Tel: +852 3903 2688

Capital at risk. The value of investments and the income from them can fall as well as rise and is not guaranteed. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested.

This advertisement/material is issued by BlackRock for Institutional Investors only (or professional/wholesale investors as such term may apply in local jurisdictions) and does not constitute investment advice or an offer or solicitation to purchase or sell in any securities, BlackRock funds or any investment strategy nor shall any securities be offered or sold to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction. Risk is inherent in all investing. ©2018 BlackRock, Inc. All Rights Reserved. BLACKROCK is a registered trademark of BlackRock, Inc. All other trademarks are those of their respective owners. For professional clients/ qualified investors. TLS1017E-280865-855051


# Have cheque, will pay: the revolution in paper payments continues

With around US$23bn in annual revenues, US Foods is one of America's great food companies and a leading food service distributor. Its approximately 250,000-strong customer base includes independent and multi-unit restaurants, healthcare and hospitality entities, government and educational institutions. Around 60% of all receivables are paid by cheque, with a value-average of around US$1,000.

These can be expensive to process, not least from a cash application perspective where treasury must physically manage settlement and reconciliation of these payments. But slow application also means slow availability of the cash which, given the volumes involved, negatively impacts working capital.

Back in 2013, the company picked up a 'One to Watch' Adam Smith Award for its development and roll-out of a mobile deposit capture solution – J.P. Morgan's Image Deposit Direct (IDD) Mobile solution – now used by US Foods' sales force to digitally process cheque payments received in the field.

In practice, encrypted cheque photographs, taken on a smart phone, are sent directly to the bank by the sales person. This enables its sales force to get cheque payments in the door and applied to the relevant customer account, either same-day or next-day, maintaining customer credit status and facilitating more sales. At the time, Krotiak concluded that US Foods was "powering a revolution in collections that in turn is allowing treasury to better support the company's working capital management objectives".

## Still relevant

With cheque volumes still high, IDD still has an important role to play for US Foods and it will continue to play a key part in the firm's collections and WCM processes.

With IDD, cheques are easier to process, and the firm's systems and processes are set up to handle them. The switch to other methods is progressively moving toward ACH but cheques still represent more than half of all transactions and dollars collected, says Krotiak.

Not all cheques are easy. There are some challenges, and some further reconciliation is required. A cheque that is processed via a bank lock-box may have remittance details attached – the system does not capture this data. The back office team then has to figure out which invoice to apply the cheque to.

## Seeking automation

To assist, US Foods uses an application which provides automation by matching payment to account and invoice. "If the system has a confident match, it processes straight through without human intervention," says Krotiak. Currently around 45% are automatically applied, with another 15% managed with "little touch" of intervention. "It's a nice match rate but not as high as we achieve with our lock-box that comes in with additional remittance information, where we have an application match rate of almost 80%."

With US Foods' preference for ACH payments from its customers as "the cheapest and easiest form", Krotiak still acknowledges that some "do not have that capability or the desire to do it". As such, it does not have any formal existing-customer conversion programme; rather, it is predominantly promoted through general interactions with customers, alerts to it on email signature messages and other communications. New customers are encouraged towards electronic payment but not forced. Even with all the talk of cutting-edge payments solutions, it perhaps comes as no surprise that many customers still prefer using cheques.

The ideal payments environment would further the use of ACH, says Krotiak. "And anything we can do to eliminate the use of actual cash would be terrific," she adds. Not that she sees this happening by any substantial degree to date, so cash "still causes a lot of friction, work and security issues".


# The industry has spoken

*The results are in from this year's Voice of Corporate Treasury Global Study, conducted in partnership with Bank of America Merrill Lynch. They show the profession at a crossroads with treasury teams searching for answers in an uncertain environment. Here, Bank of America Merrill Lynch's Head of Strategy & Advisory for Global Transaction Services, Jonathon Traer-Clark, and a select group of corporate treasurers discuss the study's findings.*

Jonathon Traer-Clark

Head of Strategy & Advisory for Global Transaction Services

Bank of America Merrill Lynch

In a world in flux, it is good occasionally to take a step back and assess where we are and, most importantly, where we are going. These were the key objectives of this year's Voice of Corporate Treasury Global Study, conducted in partnership with Bank of America Merrill Lynch.

The results of this quest provide a detailed and unique snapshot of the treasury universe. They show it at an inflexion point where, on the one hand, treasurers are having to weather the storm created by recent political, regulatory and economic upheaval, and on the other they are taking the next step and leveraging new technology and ideas, allowing them to better support their business. It goes without saying that these are interesting times to be a treasury professional.

Conducted in the first half of this year, the wide-ranging study attracted 625 corporate respondents from around the world. The universe was diverse in terms of company size, industry sector, geography and treasury structure. As expected, there were some nuances that arose when the data was cut by region. Broadly speaking, several key themes emerged.

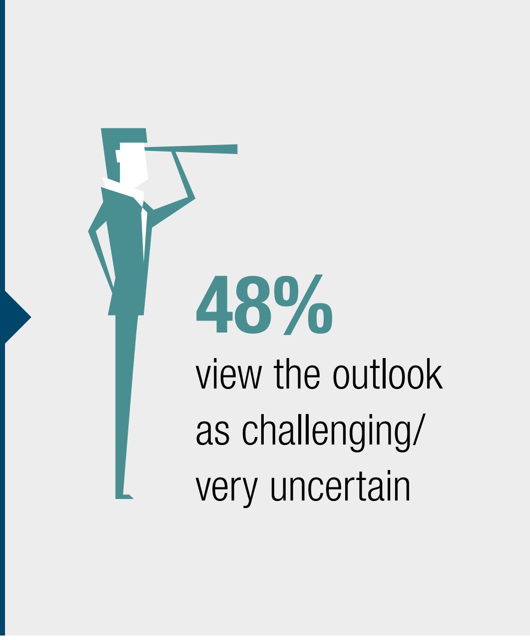
## Political turmoil

Almost half of the sample view the outlook for the next 12-18 months as challenging and very uncertain. This is to be expected, given the myriad of political surprises the world has faced over the past two years. Respondents cited the uncertainty around the Donald Trump presidency and the direction of Brexit as two major concerns. Even if corporates are not directly impacted by these two factors, it is clear that they have caused ripple effects around the world.

During a recent webinar covering the results of the study, Sonia Clifton-Bligh, Director, Regional Treasury Services Centre, APAC at Johnson & Johnson, said the political environment, "is one of the factors contributing to the uncertainty". This, she added, "presents its challenges across cash and liquidity management as well as foreign currency exposure management".

Specifically, she noted how several countries in Asia, especially China and Malaysia, have introduced new regulations aimed at protecting their currency as a result of political events. These decisions, she explained, "impact the way we would have previously executed our risk management strategy and also impose onerous obligations on the business to be able to operate within the financial markets".

Séverine Le Blévennec, Director, Treasury EMEA at Honeywell, participating in the same webinar, notes that such events remind us that "political risk exists". That said, she insists that her treasury sees more opportunities than threats in today's market.



## Treasury: at tipping point or crossroads?

Today, most treasury functions are either at a tipping point or a crossroad. They are undergoing a major transition, having to embrace additional responsibilities whilst continuing to operate with extremely lean teams. There is a keen focus on risk management in its many guises but also a focus on growth. The latter can be influenced by cash-flow forecasting, a frequently cited area in the study, as both the enabler of growth and of capital funding. Treasurers continue to balance risk versus investment, striving to answer the burning question, "where is the best return?".

That investment may well be in new technology. Bank of America Merrill Lynch's Jonathon Traer-Clark feels many corporates, "are waiting for the 'light-bulb' moment use-case and a compelling event to justify such an investment".

Treasurers are also navigating the changing technology landscape in a period when their companies are changing too. Many treasurers noted that one of the fundamental changes is that their decisions are being much more influenced and driven by external factors, most notably the shifting commercial models of their organisations.

## KYC continues to challenge

Whilst the course of business changes, some issues remain static. KYC is a case in point with many respondents citing this as a major test. "Around the world, we're helping clients address the KYC challenge in multiple ways, focusing primarily on advisory and secure information sharing," says Traer-Clark. "Our documentation specialists are current on local regulations so they know exactly what information is required in specific jurisdictions or entity types." The degree of variation is significant and thus, he adds, "it is important we collate only the information we need and do so in a single streamlined request to avoid any unnecessary duplication or rework from a documentation perspective".

Realising how big a pain point this is, Traer-Clark also notes that his bank tries, where possible, to self-source information on behalf of its corporate clients. Bank of America Merrill Lynch, he says, also continually seeks to leverage technology. The team recently installed a global 'document crawler' that finds and retrieves client information or documentation already held across its global data repositories – whether in credit, a different region or a different line of business, he explains.

Non-bank providers are also looking to solve the KYC challenge. These firms, notes Traer-Clark, are now starting to gain traction. The bank has "cast a wide net" in this regard. It offers "complete flexibility" for its clients and is currently signed up to numerous industry KYC utilities such as SWIFT's KYC registry, IHS Markit's kyc.com, Clarient's entity hub and Bloomberg's entity exchange. "We think these utilities present a real opportunity in the KYC space – helping banks satisfy the need for robust KYC, and doing so in an operationally-efficient manner."

## Bank relations are as important as ever

Given that many corporates work with a mix of global, regional and local banks, solid relationships are key to success. Although the global financial crisis was almost a decade ago, its legacy dictates that honesty, integrity and trust are most important in the bank-corporate relationship.

Maeve Robinson, Assistant Treasurer at Omnicom Group Inc. commenting on bank relationships and the main factors in the selection process, said that she starts with the banks in the company's credit agreement, then assesses product capabilities, looking for "the superior product providers" in each market.

For Omnicom, the arrangement relies upon a core banking group supplemented by numerous regional banks servicing operations in each of the company's home markets. "We find this approach works best given time zones, languages and access to client service or relationship managers," she explains. "We closely monitor the various products and services each provides to be sure our wallet is fairly distributed according to each bank's credit support."

Honesty/integrity/trust are the key factors in bank relationships

Cyber-crime is the top concern amongst respondents

Controls and security is one area identified in improving corporate-bank communications

According to Bank of America Merrill Lynch's Traer-Clark, transaction banking relationships have noticeably evolved since the crisis. "Relationship banking is not a new concept but it became more salient post-financial crisis," he says. "Both corporates and banks realised they want more visibility and less complexity in their respective relationship groups."

It is not necessarily easy for corporates to achieve these aims, not least because many corporate bank groups and structures have grown both organically and acquisitively over time. "Rationalising bank structures has obvious advantages from a structural cost and visibility perspective, but the relationship management piece shouldn't be underestimated," explains Traer-Clark. "Banking is very much a 'people business' so having solid relationships with a select group of banks that know you and your business is really important". This, he adds, makes it easier to do business and build the collaboration and experience "that really form the foundation of reciprocal trust".

> Relationship banking is not a new concept but it became more salient post-financial crisis.
>
> Jonathon Traer-Clark, Head of Strategy & Advisory for Global Transaction Services, Bank of America Merrill Lynch

The crisis had a severely negative impact on the trust people and corporations have in banks, but Traer-Clark believes the industry is doing a good job rebuilding this. "In terms of trust and integrity from a financial stability and counterparty perspective, this is one of the positive outcomes arising from a decade of increased post-crisis regulation," he comments. "From contingency planning and capital adequacy, to operational segmentation or ring-fencing – much has been done to ensure the industry is more robust and worthy of our clients' trust." And to keep banks accountable, corporates and society at large "should, frankly, expect their banks to treat them fairly, honestly and with complete integrity".

## Cyber-security is top of the agenda

Banks are also rebuilding trust with clients by acting as strategic advisors, especially around areas such as cyber-security. And with almost a third of the study respondents having been victims of a cyber-attack or fraud in the past five years, corporate treasurers are now heavily focused on technology and processes which mitigate the risk of such occurrences.

Digital security company Gemalto recently published its findings from the 'Breach Level Index'. They revealed that 918 data breaches led to 1.9bn data records being compromised worldwide during the first half of 2017.

"We take this issue extremely seriously but we are not working in isolation," says Traer-Clark. "We certainly maintain awareness and have introduced procedures that aim to spot things that are out of character, allowing us to identify potentially rogue transactions in a timely manner."

In general, the banking community is providing a lot of education in this space, hosting workshops and webinars, and ensuring its own shops are in order so it can be a trusted partner to clients. Bank of America Merrill Lynch has a very clear focus on policy, procedures and best practice and strictly adheres to legal and regulatory obligations. "Security is key and we develop, train and encourage the appropriate mind-set around these issues," Traer-Clark says.

## Blockchain revolution

Banks talk a lot about blockchain, but do corporates have the same interest? The results of the survey are somewhat mixed. Whilst there are detractors amongst treasury professionals, blockchain is cited as an area of serious interest and many corporates are considering their own blockchain projects.

> We are taking a collaborative approach to blockchain technology which often utilises an open sourced framework. The technology has clearly helped encourage collaboration between banks and regulators, and between banks and fintechs.
>
> Jonathon Traer-Clark, Head of Strategy & Advisory for Global Transaction Services, Bank of America Merrill Lynch

Bank of America Merrill Lynch is evaluating blockchain technology too, validating the benefits and framing the path to commercialisation, says Traer-Clark. "We are taking a collaborative approach to blockchain technology which often utilises an open sourced framework. The technology has clearly helped encourage collaboration between banks and regulators, and between banks and fintechs."

In September 2016, the bank announced its participation as a founding member of Ripple's Global Payments Steering Group (GPSG). The GPSG will oversee the creation and maintenance of Ripple payment transaction rules, formalised standards for activity using Ripple, and other actions to support the implementation of Ripple payment capabilities.

## Focusing on the client experience

Much has been made about the disruptive nature of fintechs on traditional financial institutions, but in recent years, the dialogue has shifted from disruption to collaboration. Traer-Clark agrees with this notion. He believes banks and fintechs together can make a "formidable team". Banks have the scale and relationships whilst the emerging fintechs, "make us think differently and make good partners," he says.

What is most important is that banks are addressing the big issues and leveraging the speed, agility and innovation of fintechs to find solutions to these issues. In doing so, they are also focusing on the client experience. "Assuming that banks can get the basics right first – and that isn't always easy – they can then think about delivering an enhanced client experience which is where the fintechs have a role to play," says Traer-Clark.

## Where will corporate treasury be in 20 years?

Progress is often incremental – and this is well illustrated by the motor industry. Exactly who invented the automobile is a matter of opinion but if we had to accredit one inventor, it would probably be German, Karl Benz. Many suggest that he created the first true automobile in 1885/1886. In 1903, Henry Ford established the Ford Motor Company and five years later the company rolled out the first Model T. Elon Musk, CEO at Tesla Inc. has taken the automobile to new heights with electric vehicles. And we now hear that British inventor James Dyson is investing £2bn into developing a battery-powered vehicle which is expected to launch in 2020.

It has taken well over 100 years for the motor car to evolve to the type of vehicles we see on our roads today. Yet in less than 30 years since Tim Berners-Lee invented the World Wide Web, we are now all using the internet and mobile technology as if they had been around for a century or more. What does this all mean from a technology standpoint with regard to the world of corporate treasury? The answer must of course be set against a backdrop of geo-political uncertainty, the increasing threat of cyber-attacks, 'Black Swan' events and the naturally conservative approach to new technology exhibited by corporate treasury in general. One thing is certain – there are further interesting times ahead.

## A voice being heard

Bank of America Merrill Lynch's client base made up around 30% of this study's respondents. Nonetheless, it is fair representation of the corporate treasury industry as a whole, concludes Traer-Clark. "We are delighted to have been associated with this body of work. Part of our client-centric approach is to understand their concerns, their challenges and their plans for the future, so that we can support them in the best way possible. The industry is certainly in transition and we hope that by providing the community with an opportunity to express itself, and to be listened to, we are helping to facilitate better solutions and better financial outcomes for all."

If you would like to listen to the webinar mentioned in this article please go to:

**treasurytoday.com/voct/webinar**

# UK bank ring-fencing a fraudster's charter

The UK's ring-fencing rules intended to make finance safer could trigger a surge in fraud, claims Stuart Gulliver, CEO at HSBC. With over one million account holders, both individual and corporate, currently being contacted about changes to their bank accounts details, Gulliver's concern is well founded.

"Treasurers clearly need to be vigilant when receiving information supposedly from their UK banks at the moment," comments Marcus Hughes, Director of Business Development at Bottomline Technologies. "Fraudsters know that all the changes currently happening are creating a window of opportunity for them to pretend to be the bank and persuade somebody to reveal their credentials, or worse still, fool them into making a payment to a fraudulent bank account."

## Walls of safety

The ring-fencing projects being undertaken by the UK's largest banks have come about following the Vickers Report into the UK banking sector, prepared in the wake of the global financial crisis. The report recommended that banks operating in the UK must 'ring-fence' their high street banking activity from a range of more-risky investment banking and global banking activities.

Applying to banks in the UK that have over £25bn worth of retail deposits, the rules aim to safeguard retail customer deposits by ensuring the banks can continue to operate in the event of a failure of the investment banking arm. The rules will also enable the Bank of England to let investment banking operations collapse, but keep the retail bank running in the event of a bail-out.

For treasurers dealing with many different parts of the affected banks, this could add complexity to the relationship. This is especially true considering that core treasury services, such as lending and trade finance, can sit on either side of the ring-fence. Corporates are likely going to have to deal with both the ring-fenced and non-ring-fenced bank after the 2019 deadline.

## Banking blackouts

The process of ring-fencing is creating risks, as is to be expected with any major banking upheaval. We have already mentioned that the risk of fraud is likely to increase as banks contact customers with a flurry of information about changes in sort codes and other bank account details.

"Corporates should be aware of this risk and be especially vigilant over the next 18 months," says Hughes. "I would advise that treasury teams work to get clear visibility over their cash balances and the transactions into and out of their accounts. They should also consider using tools that monitor what is happening across their bank accounts and alert them to any strange or anomalous activity. In many cases, this is standard best practice, but right now the risks are even higher than normal."

Corporates may also face operational risks from the banks' ring-fencing projects. The Bank of England has recently warned UK bank customers of some disruption. Barclays has also announced that there will be service blackouts on their online and telephone banking services for one weekend every month until 2018.

Hughes notes that whilst banks are doing their utmost to avoid any severe service disruptions for corporate customers, that does not mean there will not be any though. "Anytime there is a big infrastructure project within a bank there is always the potential for significant failures or for mistakes to be made," says Hughes. "We haven't seen this yet, and hopefully we won't, but treasurers need to be alert to the possibility."

**To join our treasury community and receive our weekly Insights newsletter please contact memberservices@treasurytoday.com with your email address and job title.**

# The treasurer's role in an IPO

*Taking part in an IPO process can be a once-in-a-career opportunity – so how can treasurers add value, navigate the challenges and support their companies during an IPO and beyond?*

Embarking on an initial public offering (IPO) is a big step for any company. Obtaining a listing can bring many benefits, from fulfilling the company's need for capital to enhancing its public image. IPOs are also sometimes used as an exit strategy for startups, as an alternative to selling the business.

Many treasurers will progress through their careers without ever being involved in an IPO. But when an IPO does take place, the treasurer may have the opportunity to play an important role in the process. "Every IPO benefits from having a primary point person," says Adam Farlow, Partner and Head of Capital Markets, Europe, Middle East & Africa at Baker McKenzie. "The treasurer is often the perfect person for that – someone inside the company who knows where to find information and to pull together the right internal team."

Farlow notes that IPOs are intense exercises for everyone involved, and that often – particularly late in the process – the CEO and CFO are pulled in lots of directions to do early look investor meetings, analyst presentations and the roadshow itself. "Having a treasurer who knows the business intimately, and that is available, therefore makes a huge difference," he says.

## How can the treasurer help?

Roger Lamont, Treasury Advisory Services Director at Deloitte, says that treasurers are key to an IPO for three main reasons. "They play an important role in the process, both by raising cheaper debt and using their investor relationship skills," he explains. "Post IPO, they can also avoid shocks by managing the financial risks in the group properly."

- **Raising debt.** Where debt is concerned, Lamont explains that listed businesses typically have lower leverage than privately owned or private equity-owned businesses. "As a result, the business typically needs to deleverage in preparation for an IPO, and that reduced leverage allows the company to raise cheaper debt."
- **Managing investor relationships.** At the same time, Lamont says that treasurers are accustomed to managing external stakeholders such as banks and credit rating agencies – as well as bondholders if the company has capital markets debt. "These skills are obviously key while going through the IPO process, and once listed," he says. "Effectively you already have a team within the group that has the necessary skills and experience of facing the market. The treasurer is therefore best placed to help the company through the IPO in terms of the roadshow and investor management process."
- **Managing risks.** The third component of the treasurer's role, according to Lamont, is managing financial risks such as FX and commodity risks after the IPO has taken place. He explains that once a company is listed, there is more pressure on the company to meet its announced forecast earnings. It is therefore important for treasurers to start managing the relevant risks well before the IPO occurs.

## Making the most of the treasurer's skills

No two deals are alike, and the treasurer's role in an IPO will depend on a number of different factors. "It varies tremendously from deal to deal, much as the role itself varies from company to company," says Farlow. "In some deals, we virtually never see the treasurer. In others, they are driving the process – and these invariably have smoother execution." Farlow also points out that many early-stage companies don't

### IPOs in 2017

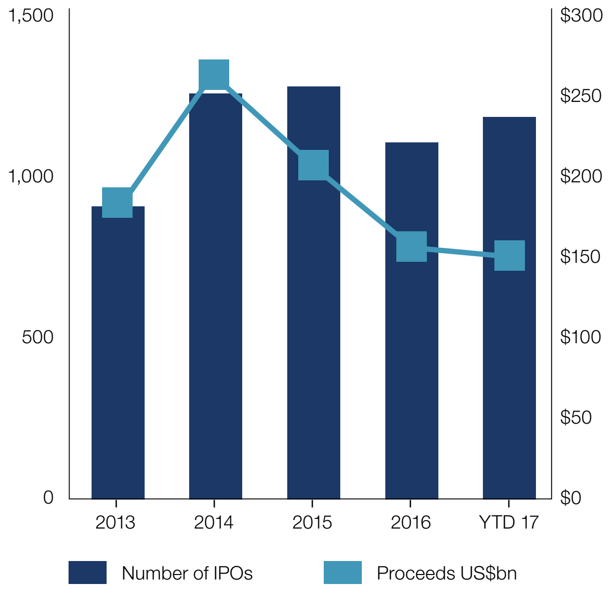
While 2016 was a quiet year for IPOs, activity in the earlier stages of this year has been considerably higher. "Although the London IPO market is down on prior record years, 2017 has been stronger than 2016 in both volume and number, and the pipeline into 2018 feels stronger than ever," comments Farlow.

At a global level, EY's third quarter report on the global IPO market noted that IPO volume in the first nine months of the year had already exceeded the total volume from 2016, with 1,156 deals already completed and US$126.9bn raised. Accordingly, the report notes that 2017 is on track to be the busiest year since 2007 where global IPO activity is concerned.

According to the report, activity was dominated by Asia Pacific, which accounted for 60% of the IPOs taking place over the first three quarters of the year. The report noted that there is a particular demand for technology IPOs in mainland China, which hosted 353 IPOs in the first nine months of the year.

The report also found that exchanges in both EMEIA and the Americas have been more active in the first nine months of this year compared with 2016, noting that activity in the US was "unusually slow" last year, with contributing factors including the uncertainties around the US election and interest rate hikes.

## IPO activity




**Top IPO issuers** YTD 2017
by number of IPOs outside home country

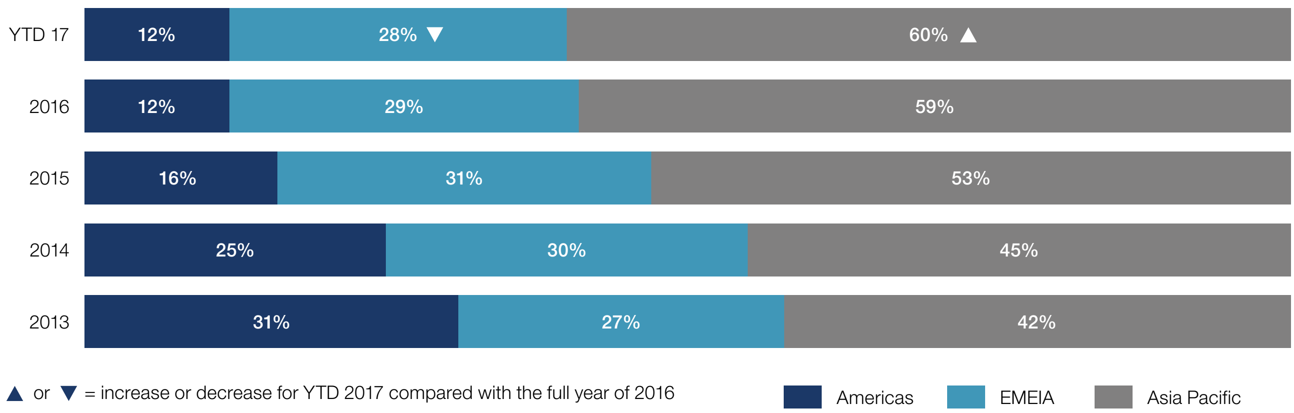
- China (14)
- Singapore (8)
- Malaysia (7)
- Israel (7)
- US (6)

**Top IPO destinations*** YTD 2017
by number of IPOs

- Hong Kong (14)
- NASDAQ (13)
- London (12)
- NYSE (11)
- Australia (11)

**IPO destinations refer to stock exchanges.*

## Regional share by number of IPOs




▲ or ▼ = increase or decrease for YTD 2017 compared with the full year of 2016

Figures may not total 100% due to rounding.

*Source: EY Global IPO trends: Q3 2017*

yet have treasurers, with the role sitting with the CFO or FD. "But even for those companies, the earlier they can be on-boarded, the better for the process."

Lamont adds that the nature of the treasurer's specific responsibilities will play a part in determining their role in an IPO. "There are businesses I've looked at where cash management is the only real issue the treasurer has to deal with, as there is a strong debt structure already in place," he says. "The treasurer's role in that type of IPO is likely to be much smaller than at a company where the treasurer's responsibilities are larger or more complex. This might be the case when the business is being carved out of a group, or where there is a significant FX risk, or if the debt needs to be refinanced."

It is clear that treasurers can be highly involved in an IPO process. Marianna Polykrati, Group Treasurer at Greek food company Chipita, experienced such an involvement when Edita, a joint venture between Chipita and the Berzi family, completed a dual listing on the Egyptian Exchange and the London Stock Exchange in 2015. "Myself and Chipita's legal department were on board for a month and a half, assisting with all the documentation and assignments and working with global coordinators and bookrunners," Polykrati explains.

With Chipita now in the early stages of exploring and evaluating a potential IPO, Polykrati is involved in several aspects of the process such as optimising the capital and debt structure and managing the logistics. However, she says that her previous experience with the Edita listing is unlikely to be directly relevant to the current process. "The Egyptian market is very unique, and we weren't involved for the duration of the deal," she observes. "The treasury's role in this IPO will be much more thorough."

## Hitting the ground running

For Daniel Jefferies, a timely move to take up the role of Group Treasurer at Equiniti in May 2015 meant that he was involved from an early stage in planning for the company's IPO later that year.

"I came to Equiniti at a reasonably early stage in their decision-making process," he explains. "It's not uncommon

> "You have to take on board that this is a unique piece of experience that may never be repeated in your career.
>
> Daniel Jefferies, Group Treasurer, Equiniti

in that scenario for an organisation to evaluate a number of different tactical and strategic options – so it might be a trade sale, it might be a merger, it might be another private equity sponsor, or it might be the IPO route."

In the case of Equiniti's IPO, Jefferies says that he played a part in helping the company work through the different options – although the decision was ultimately driven by the owners, private equity group Advent International.

Once the decision had been made to go up the IPO route, Jefferies' focus shifted to the debt structure of the deal. "Obviously an IPO is an equity raise," he says. "You're normally raising equity to allow an owner to exit or reduce a holding. But there is commonly a debt component as well – and it was the debt component where the bulk of my attention was focused."

Jefferies actively chose to take on as much of the debt capital process as possible in order to free up management for the work involved in meeting investors and advisors. "On the debt side, our arrangement was fairly straightforward as we were just going for a bank deal," he says. "We had existing high-yield notes in issuance and a fairly typical structure that you'd find with private equity ownership. Obviously the high-yield notes would be redeemed. We would retire the existing working capital facility and put in place a new debt facility."

Equiniti secured new bank funding in the form of a term loan and revolving credit facility, which meant the company moved from a highly levered situation to a crossover credit structure. "So we weren't in high-yield territory, but we weren't in investment grade territory either – we were some way from that," says Jefferies. "That's something you can aspire to and trade into over time as you improve your bottom line."

## Navigating the challenges

An IPO is not without its challenges. Farlow says that the single most important item is not to underestimate the amount of work involved in the process. "Good company counsel and underwriters can do a lot to help manage the process," he says. "But ultimately, this is the company's story that has to be told in the way the company wants to tell it. The day the IPO closes, life will be different and the company will have to deliver on that story that has been told to investors, so don't let the process get in the way of allowing management to tell that story."

### Educating the market

In the case of Equiniti's IPO, Jefferies says that one challenge was that as the company was moving from a high-yield structure to a pure bank deal, the company's presence in the bank market was limited. "We were coming to the table with a business that wasn't well known, and that wasn't known in the bank market," he explains. "We therefore had to educate people not just about the terms of the deal, but also about the terms of the credit itself – what is the business? What does it do? What drives the top line? What drives the bottom line? How are you going to do it?"

Jefferies says these factors made the IPO process more complicated than in a typical refinancing deal. "In a refinancing, even if it's a new bank deal, you will be known and people will understand your business," he says. "There will be information about you in the public domain, whether through S&P or Moody's or through existing bank lending. But if you don't have this, you have to work hard with your advisors and your new lenders to educate them on what you're doing and how you're going to do it."

## After the IPO

The work involved in an IPO doesn't stop once the IPO itself has taken place – and treasurers will need to consider how the IPO will affect treasury operations in the future. Jefferies emphasises the importance of getting a deal in place that will be right for the company going forward. He notes that in any financing deal, the most difficult part is delivering on the numbers after the financing has actually been secured.

"After closing the deal in 2015, the business went away and worked very hard in 2016 and delivered on the numbers," says Jefferies. "And in 2017 we've just announced a major acquisition which takes us into a new geographic territory." He explains that it's important to remember that rather than seeing the launch of an IPO as the end of the journey, treasurers should regard that as day one. "You then have to keep up the work to get that credit known in the wider market."

For Equiniti, the success of the process was demonstrated when the company undertook a debt raise as part of the rights offer process. "The uptake on our deal has been very encouraging, both with existing members and new members," says Jefferies. "I would say that's due to the hard work the company has put in over that period."

### Investing in treasury

Treasurers may need to consider other new requirements which can arise following an IPO. "One point to note is that your treasury operations and infrastructure may require some investment post IPO, reflecting the additional requirements," says Lamont. "You'll potentially need additional people, processes and systems to deliver that."

For example, he points out that a smaller treasury team may need to put in place more rigorous segregation of duty controls. "Another example is that with increased scrutiny you may need stronger and better reporting, which may require additional resources or systems."

## Stepping up

Finally, Jefferies has some advice to offer other treasurers who may be embarking on the IPO process. "You have to take on board that this is a unique piece of experience that may never be repeated in your career," he says. "You've got to enjoy it, as well as working hard and being prepared to engage with the relevant stakeholders. You may not always find that the asks are clearly defined, but you have to be prepared to say, 'What can I do to facilitate this process?' That's how you, as a treasurer, can add value and make a difference."

# Dynamic working capital management: the next frontier for treasury

*Managing the intricacies of working capital is becoming a crucial task for many treasury teams. And a raft of changes driven by technology is giving treasurers the chance to play an even more decisive role in driving value-adding working capital strategies across the organisation.*

When companies are under cost pressure, efficient working capital management shoots up the agenda. For many corporations, that is the case today. However, as any treasury team that has embarked on a working capital efficiency project will attest, driving significant and lasting change is no easy feat.

The reasons for this are multi-faceted and will vary slightly from company to company. However, one thing that is consistent across all organisations is that working capital is a truly cross-functional area, requiring treasury to align all disparate departments with different aims and objectives.

Whilst many of the challenges are largely organisational in nature, it is technology and data that hold the answer to solving them. And as we will discover, new solutions are not only enabling treasury teams to better manage working capital – they are also allowing treasury to play an increasingly pivotal role in shaping the future commercial success of the business.

## Funding shifting business models

The impact that technology is having more broadly on companies is, in part, driving a renewed focus on working capital. As Michael Vrontamitis, Head of Trade, Europe and Americas at Standard Chartered explains: "The transition to the digital economy is forcing businesses to drastically change their business models. To fund this transformation, organisations are looking to drive out costs and release working capital tied up in the business."

Achieving this is proving difficult for the world's top organisations. The Hackett Group's most recent analysis of the world's biggest companies' working capital performance highlights this, indicating that the working capital performance of companies in Asia, Europe and the US is slipping or remaining static (see box for more detailed analysis). Consequently, trillions of dollars remain locked up in working capital around the world.

Across all regions, much of the improvement corporations are making is coming about through changes in the management of days payables outstanding (DPO). "There are numerous strategies that can be employed and they are relatively easy to execute," says Vrontamitis. "In Europe and the US, the most popular strategies are to push out supplier payment terms and utilise supply chain finance (SCF) solutions. This is also becoming more common in Asia."

Whilst lots of corporates have realised significant improvements using these solutions, The Hackett Group claim in its latest reports that the use of targeted SCF programmes is only likely to deliver short-term success. Significant and lasting success only comes from a more holistic working capital efficiency strategy that tackles all aspects of the working capital cycle.

## Lessons from the best

US-headquartered technology giant HP Inc. is a company that can claim to be world-class when it comes to working capital management. Zac Nesper, Head of Finance and Assistant Treasurer, says this is down to an all-encompassing C-level project the company launched several years ago to become best in class in this space. The project not only involved implementing new solutions but also completely changing the culture of the organisation.

"Historically we were a very P&L focused organisation," explains Nesper. "This doesn't necessarily correlate with strong working capital performance, especially when we start talking about changing payment terms of suppliers and customers are involved. Key to our success has therefore been pivoting the focus towards cash flow and ensuring that cash is being considered for in every business decision."

A natural consequence of this pivot has been the growing presence of treasury in discussions around sales and procurement. "We are involved in frequent and in-depth discussions with our colleagues in both departments to ensure we carefully analyse the impact different strategies have on sales/purchases and cash flow to make sure we do what is best for the business," says Nesper. "We also work together when communicating out strategies to our suppliers and customers." The result of all this work speaks for itself and HP has been able to release billions of dollars previously tied up in working capital.

SAP is another company that has worked hard over recent years to improve its working capital efficiency. SAP has transformed the company's culture and made cash a part of every conversation. "P&L is important, but cash generation is the clearest measure of success for an enterprise in our opinion," says Todd McElhatton, CFO at SAP North America.

To make sure everyone understands this, SAP has changed how it measures the performance of its staff, giving them KPIs based around first-class working capital management principles. To provide an example, McElhatton explains how the company has turned its sales team into an effective cash collection tool.

"Our sales reps receive their commissions payment for a sale once we have received payment from the customer," says McElhatton. "Through linking cash collection and commission in this way, our sales reps are now engaged with finance to understand who has and hasn't paid and chasing up any late payments."

The use of technology has also empowered SAP to collect more effectively from its customers. McElhatton explains that SAP has recently installed various machine learning and AI powered tools that drive efficiency in its collections process by enabling straight through processes and reducing errors.

These benefits are par for the course of any technology project, says McElhatton. For him, what is most important is the wealth of data on SAP's customers that this technology produces. "Today, we have a real-time snapshot of our customer's historical payment performance and every open transaction," says McElhatton. "This data is invaluable because it means our sales reps can see if their customers have outstanding invoices and find out why these haven't been paid and ensure we receive payment."

## Transformational technology

The power of data to drive working capital improvement is immense according to Cedric Bru, CEO at Taulia. "The reason for this is simple: data gives you the facts," he says. "Working capital projects fail because companies don't have the facts to work with."

To elaborate on this point, Bru says that while all companies know that they can improve their working capital performance, knowing where and how is the challenge. Technology – and the data this creates – allows companies to better measure their working capital performance and gives them a set of facts to work from. "Once companies have a real-time view on their own working capital performance they can compare this to their peers to see if they are leading or lagging," says Bru. "Companies can then use this data to work out where they need to improve and how to do this."

Technology can even tell corporates where and how to improve. On the AP side, for example, Taulia has developed a solution that leverages AI and machine learning to analyse its clients' data and compare this with other corporates. By doing so Taulia can highlight opportunities for them to offer SCF or amend payment terms with their suppliers, for instance. "This is extremely powerful and means that our clients can easily drive meaningful change that benefits the company," says Bru.

Most importantly though, the use of technology such as this means that corporates can drive continuous improvement, Bru explains. "Working capital is not a static space and the opportunities that corporates have to improve constantly change. Technology such as machine learning and AI don't sleep and can show the opportunities that exist to our clients in real time every day of the year."

On the AR side, Lewis Sun, Managing Director, Head of Product Management Asia Pacific at HSBC is also seeing opportunities for corporates to be more dynamic by using innovative technologies. "By using big data and algorithms, corporates can transform their credit policies from static documents to 'dynamic' documents," he says. "In practice this means that the sales team will be able to offer bespoke deals to their customers like improved payment terms or discounts without increasing the risk or damaging working capital performance."

In the broader scheme of things, Sun believes the increased use of this technology will ultimately give treasury teams the chance to further highlight their value to the organisation. "The board are interested in the bottom line, and if treasury can provide the tools and support that enable the company to improve the bottom line, this will not go unnoticed."

## More to come …

Working capital is clearly a hot topic and with investment from banks and fintechs pouring into technology to help corporates achieve their working capital objectives there is a lot more to come. And in the view of Victor Penna, Managing Director, Regional Head of Cash Management and Global Head of Treasury Solutions at Standard Chartered, the possibilities are limitless.

"As the world becomes more connected through the rise of eCommerce and the use of internet of things (IoT), corporates are being presented with the chance to completely revisit how they buy and sell and how they interact with suppliers and customers," say Penna. "As a result, this will completely redefine the working capital metrics."

Penna provides the example of parts supplied by a manufacturing company. "Traditionally, the company would need to keep a supply of parts so that they could be replaced in equipment when needed – this obviously adds to the DIO of the company," he says. "However, when you use the IoT and use sensors on the equipment that records their wear, an automated purchase order can then be created when the part need replacing so that parts can be manufactured as they are needed and they arrive at the customer just in time – significantly reducing the days inventory outstanding (DIO)."

This is just a single example, but when you apply this to every other facet of corporate life Penna believes it changes the game completely, linking the physical and financial supply chains more closely than ever before. "In my view, working capital is the new frontier for corporate treasury," he says. "These developments will give treasurers a multitude of opportunities to have a positive impact on the business, above and beyond the areas they are focusing on today."

## Ahead of the game

Although much of this technology is in a nascent stage, initiatives such as those carried out by HP and SAP demonstrate the working capital benefits that can be achieved today. If that was not enough, Taulia's Bru offers something else to consider, commenting on the rising interest rate environment in the US (and potentially elsewhere as economic improvement continues).

"Treasurers have been working in a low-interest rate environment for a decade now where it has been cheap to borrow," he says. "This has made it relatively easy to fund the business cost-effectively using debt. As rates rise, however, the dynamics change: debt becomes expensive and working capital becomes the cheapest form of funding. As a result, those treasury teams that are focusing on working capital today will be in the best position to ensure they can cost-effectively fund the digital transformations of their business."

## Lay of the land

The Hackett Group's annual survey of working capital performance of the world's leading corporates provide interesting insight into the current state of play. Here is how corporates in the US, Asia and Europe are currently performing.

### US

The working capital performance of the top 1,000 US corporates improved slightly in 2016, with the average cash conversion cycle (CCC) falling from 37.1 days in 2015 to 35.7 days in 2016.

Much of the improvement came in DPO as corporates pushed out payment terms and implemented SCF programmes. Conversely, both DIO and days sales outstanding (DSO) deteriorated in 2016.

### Asia

Working capital performance in Asia is on a downward trajectory and the region's 1,000 largest listed companies had around US$2trn tied up in working capital in 2015 – the latest data available. The average CCC is 45.6 days, the worst seen in the region for more than ten years.

The opportunities to improve working capital performance are abundant. Hackett suggests that better working capital management will unlock US$741bn in inventories, US$633bn in receivables and US$579bn in payables for these companies.

### Europe

In 2016, the CCC of Europe's 1,000 largest companies slipped due to an increase in inventory and receivables. As a result, these companies lost the use of over €1trn, which remained tied up in net working capital.

# Byte marks: sinking treasury's teeth into agile technology

*The increasing pressure on all business functions to deliver more with less is not going away. What's needed, argues Mark Evans, Managing Director, Transaction Banking, ANZ is a communicative, connected and agile business environment. For treasurers, this includes exploring new technologies.*

Mark Evans
Managing Director,
Transaction Banking

There is absolutely no doubt, states Mark Evans, that over the past decade, the role of the treasurer has become more strategic. The role is no longer just about funding or managing short-dated risk as increasingly the treasury is relied upon to supply timely decision support for the board and C-suite's long-term goals.

The need to optimise is one that all companies in all sectors would benefit from, says Evans. In particular, the larger publicly-listed companies, which are naturally subject to closer external scrutiny and the pressure of multiple reporting regimes, might experience heightened urgency to seek change. A different pressure to perform might also be seen by companies operating internationally; by virtue of their exposure to complex, multi-jurisdictional activities, they almost inevitably must focus on extracting maximum efficiency from their processes.

In treasury terms, progress to optimal status has in part been an extension of where the role has historically sought to achieve efficiencies. But as the wider business demands increase, moving beyond a pure accounting view of working capital efficiency, for example, risks missing the bigger picture, says Evans.

## A helping hand

But in achieving that wider view, the treasury aim is not to run other functions but to have greater ability to influence how those functions achieve their goals, for the greater good. Through collaboration – including the appropriate deployment of technology – Evans believes there is more opportunity to drive enterprise-wide efficiencies. A sales department might benefit from lengthening trade terms but if this is not possible from a balance sheet perspective, the treasurer is in a position to assess the advantages of, and perhaps implement, a payables financing solution.

Over the years, the need for more treasury input at the corporate level has been a push-pull affair, with the business asking and treasury offering. Progress has been steady. But the speed at which global and domestic economies are changing, driven in part by technology's enablement of more rapid processing, means business unit silos really should be a thing of the past, says Evans. "All good organisations have to collaborate to succeed."

The C-suite increasingly understands that treasury has a broader role to play and is empowering treasurers with the right to engage with colleagues in other areas. But well-developed soft skills for all involved in seeking to optimise the business are critical here, Evans warns. "People are naturally protective of their roles and suspicious of those who seek to influence. But no one has all the information and all the ideas; the real need is to be able facilitate the sharing of opportunities."

## Softly spoken

To become the most agile, responsive and business-sensitive treasury, there must first be an acceptance that other functions may not necessarily welcome what could be seen as 'interference' from areas where there has been no previous engagement.

If success is absolutely dependent upon collaboration, then that must be derived from empathy for each other's part in the business, says Evans. But he adds that it is also incumbent upon the treasurer to be upfront about the agenda of any proposed engagement, and why it is good for the business. "It helps to identify some quick wins with their colleagues so they can buy into the value-add that treasury can produce."

For the treasurer, an "inquisitive mindset" is vital in helping bring about these quick wins. Taking an interest in the other functions will, says Evans, help create a learning curve that in turn delivers the capacity to identify pain points and where treasury can add value but to honestly assess where it has no facility to help.

The logical areas of development from where treasury can start building out an assistive role are commonly around automation and straight-through processing. In being able to harvest specific data to improve reconciliations on accounts receivables it could speed up the working capital and cash conversion cycles to the benefit of sales planning.

In managing multiple risks (credit, interest rate, country, currency et al), treasurers are uniquely placed to provide guidance to other functions on how to incorporate risk management into their own processes. Even something simple such as alerting sales to the possibilities of using different trading currencies, or advising on the commercial impact on buyers and suppliers of geopolitical risk, has value.

In the context of practical solutions, it may be that sales has willing buyers but the credit team places constraints on deals by putting on conservative limits. Extending credit terms through supplier finance or applying credit insurance to buyers are not traditional considerations for sales team, yet with treasury guidance on the options, sales volumes can be increased.

## Keep it clean

One of the keys to success of any treasury optimisation plan will be the adoption of appropriate technology. Of course, treasury and technology are known associates but developments in the technology space in recent times seem to be ushering a new era of agility. With advances in APIs, robotics, artificial intelligence and distributed ledger tools (such as blockchain), progress can be rapid.

The overarching goal from the outset should be for clean data, explains Evans. This, he notes, "is what will unlock a lot of the currently constrained opportunities for the organisation". APIs, used to connect third party systems through a variety of digital channels, will only be of worth if the underlying data is both accessible and sound.

The viewing of aggregated data from internal or external sources could be through an app or a bespoke dashboard, depending on the needs of the user. A departmental manager will already understand the impact of credit limits or the flow of receivables, for example.

With access to clean data of this nature, the treasurer will be able to overlay and configure relevant and possibly real-time external market, sector or client data, drawn through APIs to suitable third parties such as banking partners. This will start to bring a deeper and broader understanding of the fundamentals for each function, says Evans. With the application of modern business intelligence (BI) and analytics tools capable of processing multiple data sources, the level of information achievable today is unprecedented.

## Outsource for expertise and advantage

This sounds like an expensive ideal rather than an achievable aim. With the outsourcing of some treasury activities to shared service centres or to cloud-based third-party service providers, treasury costs can be reduced, says Evans. Instead of having to build and maintain their own infrastructure, the operational element can be divested by treasury to professional providers whose expertise, developmental capacity and economies of scale in these areas could exceed those of treasury or in-house IT.

Where a provider works with a number of clients across sectors and jurisdictions, Evans says the accumulated knowledge allows each user to benefit from the insights and experiences of the other users whilst still respecting confidentiality. At a high level, this might be in terms of understanding and responding to emerging trends. Where these trends indicate a need for a system change across the board, the outsource provider can do so for all in a single iteration yet individual needs can still be met. Depending on sector, the early heads-up on trends provided by the vendor's broader connection to the market could even be extended to its clients' clients.

## The new tools on the block

Few treasurers could have failed to note the recent increase in volume of conversation around robotic process automation (RPA), artificial intelligence (AI) and blockchain-type solutions. "These solutions will impact treasurers positively if they embrace them, or if they don't they will impact them negatively," warns Evans. "The technology is just getting better and better."

RPA is focused on tackling high-volume repetitive processing. As a means to the end of straight-through processing, it is a means of reducing operational risk and increasing efficiency, explains Evans. "The technology is available, its application is clearly an efficiency driver and it is being embraced by corporates large and small," he notes.

Looking at AI and the idea of machine learning is generating much more speculation and excitement. Where process repetition is a factor but decisions are not always black and white, judgement is required on every exception. Algorithms within RPA can adopt 'fuzzy logic' – the IT equivalent of a 'maybe' – so that decisions based on calculated probability can be made. As each decision is accepted, the basis of that decision can be formed into a rule for future action where similar conditions exist, further promoting automation.

Within ANZ, a number of fintech solutions are being explored in the trade finance environment. With some recent successes in this space, the accuracy rates of machine learning have risen from around 50% to over 90%. With some institutions now claiming over 98% accuracy "we're getting at or beyond the levels achievable by humans," says Evans.

The application of these tools is being deployed in areas such as document checking, reconciliations and the provision of customer advice and information. In this context, optical scanning and character recognition technology can be used to further automate data extraction prior to decisioning.

## Fixing real issues

The exploration of further developments in this space is very much part of ANZ's strategy. It has a dedicated in-house lab populated by engineers who fully understand the technology. Their skill is augmented by the Bank's business units that are charged with bringing an understanding of the clients' pain points, and thus commercial viability, to the IT concepts.

In taking on projects, it would be a mistake to work on a solution looking for a problem, says Evans. "First we must have an understanding of what the problem is that we are trying to resolve. We then have to work out what a good outcome looks like. Only then will we engage with the technologists and the operations experts to explore what options we should consider applying."

One of the loudest conversations today is around blockchain as the great panacea. But the most appropriate solution for an issue, taking real client needs into consideration, may be as simple as moving them out of the branch and onto phone banking, says Evans. It could give a much better customer experience yet still reduce processing times and operational errors.

It would be a mistake too for a bank to doggedly pursue a technology roadmap that in some instances does not align with current client needs. "It cannot be a case of 'our way or the highway'," comments Evans. "We have to work hand-in-hand with our customers." Indeed, he adds, progress through technology is not about banks investing in the latest and dragging customers with them. As Evans says, "we can't do everything overnight and we have to respect that customers may not be able or want to either".

In the spirit of collaboration – and in the spirit of finding solutions that really work – a key part of ANZ's development strategy is to involve its customers in a collective discussion on how best to remove pain points and optimise the technology experience. The real benefit for customers here is that they stand to shape the solutions they need rather than explain how they should be developed after the fact. "It also demonstrates that we are listening to them," adds Evans.

## A business case for agility

The key activity-based metrics and KPIs (such as cycle times, treasury process costs, throughput and available liquidity) used by treasurers will remain as relevant going forward as they have always been, says Evans. However, the success of the treasury function across the business may not be reflected in these metrics.

If treasury is going to contribute to the success of the organisation, the way in which it has made an impact needs to be counted. It will be necessary to secure feedback from the functions that the treasurer has worked with in order to ascertain the level of value added as a result of that relationship. This may be tied in with a reduction in Days Sales Outstanding (DSO) or increased sales off the back of a working capital initiative. The bank itself may also be in a position to quantitively assess the value added by treasury to different functions through analysis of activity across different banking areas.

## Get involved

More and better collaboration is the message for treasurers in the new technology landscape. Ensuring other functions understand the context and purpose of treasury involvement will encourage cooperation. But treasurers also need to exercise curiosity and learn about those parts of the business that may not traditionally be on their radar. Only then will they see the opportunities to add value that lie ahead.

"Engage with the financial services providers and ask what they are doing in the technology space too," advises Evans. "Most will be more than happy to share their thinking around it and learn from the practitioners. A treasurer with a proactive and collaborative approach asking if they can work together on a problem is a signal that this issue could be affecting many more businesses."

## The end of treasury or a new beginning?

As the march of technology continues, will the treasurer eventually be automated out of existence? There may be no value in speculating what the treasury of 10 or 20 years' time may look like, says Evans. But look back by that same period and who could have confidently stated the degree by which technology would have advanced by today and how it has helped treasurers reach a position of genuine strategic importance? It is, he adds, almost certain that the work of tomorrow's treasurer will be intrinsically plugged into the company's strategic roadmap, enabling them to continue to holding elevated positions within their organisations.

The role of the treasurer and the CFO will become more closely aligned, says Evans tentatively. It may be that the CIO function will also become more closely aligned with treasury, because technology will be deployed across the whole organisation for both external and internal benefit.

"Ultimately, if you think the job you do today will be the same in ten years' time, you're probably not going to be in that job," cautions Evans. Today's treasury professionals, including bankers, "have to be flexible, to anticipate and embrace change, and be responsive to the opportunities that those changes bring". To avoid being bitten, agility, it seems is more than just having the latest toys.


CONNECTIONS
MAKE
THE WORLD
GO ROUND
When it comes to growing your business across borders, connections count.
That's why ANZ connects you to insights and expertise in markets across Asia Pacific.
So when you need to reach your customers, suppliers and business partners, you know
you'll have the right people at the right places.
- BEST TRADE FINANCE PROVIDER IN AUSTRALIA AND NEW ZEALAND -
Global Finance World's Best Trade Finance Providers 2017*
anz.com/expertise
©Australia and New Zealand Banking Group Limited (ANZ) ABN 11 005 357 522.
*Best Trade Finance Provider in Australia 2009 - 2017
*Best Trade Finance Provider in New Zealand 2012 - 2017
YOUR WORLD
YOUR WAY
ANZ

# Private placements explored

*As part of the quest for reliable alternative sources of funding, private placements are high on the agenda for treasurers. We explore the ins and outs of this robust option.*

With the possibility of securing long-term, fixed-rate funding, private placements of debt securities provide treasurers with an alternative to the usual bank loans and public bond issues.

Often attracted by the private, and thus more personal nature of these placements, corporates have the ability to access the capital markets without the need for obtaining a credit rating. However, it's not all a one-way street. A private placement's success relies heavily on the treasurer's and the investor agent's ability to structure and negotiate the terms of transaction.

## What is a private placement?

A private placement enables a company to raise funding by offering shares, stocks, bonds or securities to a small group of sophisticated investors.

Investors of private placements could include larger banks, mutual funds, insurance companies and pension funds. Since these placements are only offered to a few individual investors, buyers can request a custom-built financial plan from the issuing company. Using this approach, potential investors can assess the deal and see if it precisely meets their investment criteria.

## The market in general

Historically, the long-established US private placement market is the model to follow, US investors having taken advantage of an exemption to the SEC registration and business prospectus requirements in the 1933 Securities and Exchange Act.

The market has 'internationalised' over the years, with nearly half of all placements now coming from non-US issuers. That said, leading investors in the private placement market remain solidly institutional and US-based.

In recent years, institutional investors have become interested in less traditional assets due to lacklustre normal market yields. More adventurous investors are buying stock through private placements, seeing it as a safer way to yield than heading into the junk markets.

On the issuer side, in a loans market partly constrained by Basel III capital requirements exerted on banks, mid-range businesses especially with their less attractive smaller wallets and limited ancillary business, could see a way forward with private placements.

Perhaps as a result of this, the smaller private placement markets in Germany (the 'Schuldschein'), the UK and France and have expanded in recent years.

## Why would a corporate issue a private placement?

### Direct investor relationship

The beauty of a private placement can be found behind the scenes. Because more shares are bought by fewer investors, they have the power to request a private placement memorandum (PPM). This is similar to a bespoke business plan for buyers. Buyers can see exactly how shares would help the issuer, allowing for more complex business circumstances and investment stories to be communicated effectively. Business sensitive information is always subject to an NDA, so the level of publicity often seen with a public offering is avoided, which may suit both sides.

### Access to capital markets without a credit rating

A key difference between private placements and public offerings is credit ratings: placements don't need one. Whereas most public debt issues require at least one credit rating from a recognised credit agency, private placements allow companies without a long-term credit rating (or simply those that don't want a long-term rating) to access capital markets. The lack of a credit rating doesn't mean the placements have a low credit quality though; placements are usually investment grade, with issuers typically having an implied credit quality of AA to BB.

### Diversification of funding sources

Variety is the spice of life and private placements offer help in this department, providing treasurers with an alternative source of funds to the usual bank loans or public bond issuance. This allows companies to easily diversify and thus make secure their funding sources, potentially freeing-up additional credit lines or enabling refinancing of existing bank loans.

### More breathing room for issuers and investors

One of the good things about having such a personal relationship between issuer and investor is the increased freedom for both parties when making business decisions. Placements generally give the issuing company more breathing room in the disclosures it makes to potential investors. The theory is that buyers will make sure they know exactly what they're buying when investigating shares. In terms of advantages for investors, the private market gives borrowers the opportunity to delay funding for 12 months or longer, as opposed to the public market where a transaction is funded just a short time after it has been priced. It can therefore secure funding for when it really needs it, not just when it can get it.

### Competitive pricing and flexibility

The fact that the process of offering debt placements to a limited number of investors is private, means relatively competitive pricing is assured. There is also greater flexibility in structuring the debt issue, with issuers and investors laying out individual finances on the table before investors look at buying.

“ Variety is the spice of life and private placements offer help in this department, providing treasurers with an alternative source of funds to the usual bank loans or public bond issuance.

### Issuance costs

Another bonus for companies issuing private placements is that they could potentially avoid significant underwriter fees; things like formal registration in the US, for example, and publishing a prospectus, all cost money, and it can be very helpful if such things can be avoided.

## Why do investors invest?

Private placement investors are usually sophisticated, institutional investors, who will take the time to fully research and analyse the credit of the issuer. Most of the time, investors will be insurance companies, larger banks, mutual funds and pension funds.

In some cases, because the investor is buying more shares, they expect a higher rate of interest than they might earn on a publicly traded security, thus they are able to achieve slightly higher returns than can be achieved by investing in comparable publicly traded securities.

Also, because issuers may not have a credit rating, investors may not buy unless secured with specific collateral. This, accompanied with the fact that investors are often buying stock from less well-known names means they may expect a higher percentage of ownership in a business or a fixed dividend payment per share of stock.

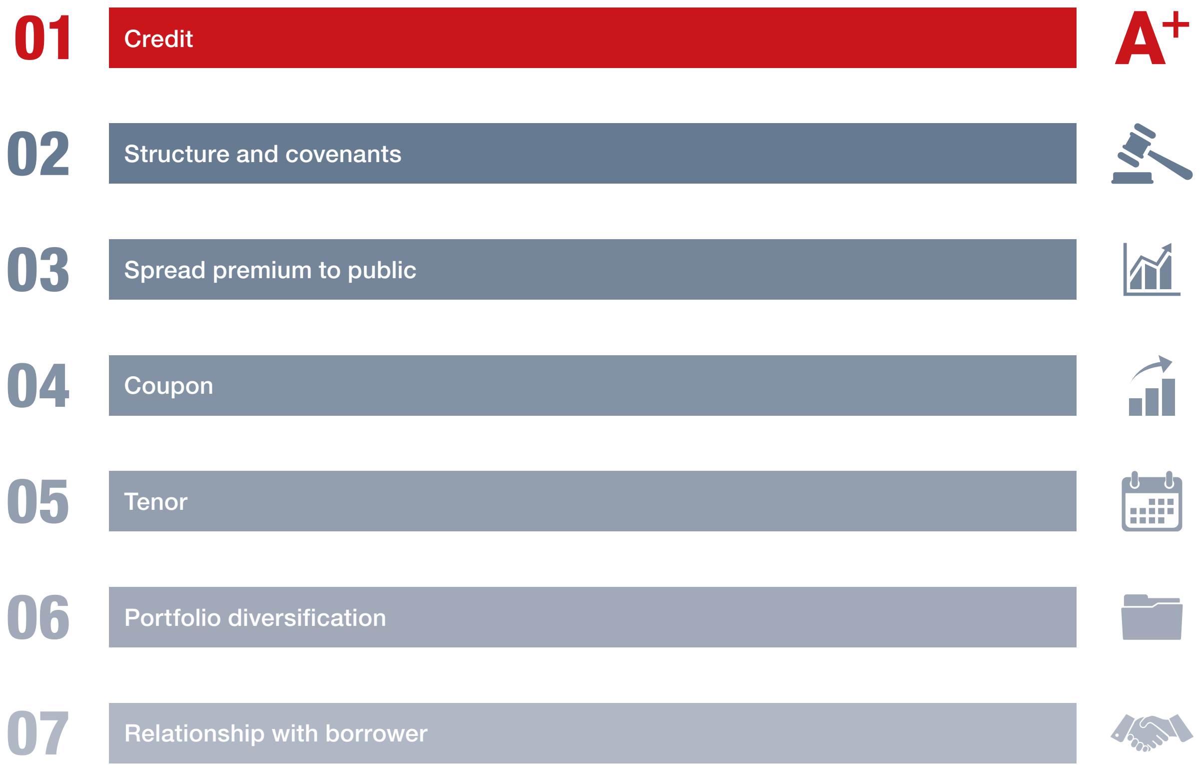
## Regional focus

### Asia

About a decade ago, investments in Asia were moving into bubble territory. Eventually, there was little for investors to purchase on Asia's underdeveloped capital markets. There was a period of prosperity for private placements as investors bought up all the debt they could in this market.

Whilst public placement accounts for the majority of corporate bond issuance in a number of Asian countries such as China, Malaysia, the Philippines and South Korea, its private counterpart thrives in other markets, like India. Here, private placements have remained the primary form of bond issuance, representing more than 80% of the corporate

Diagram 1: Investor priorities when investing in private placements




*Source: EY private placement market investor survey 2016*

bonds issued domestically in 2012 and 2013. In 2015, private placement debt in India was at an all-time high, with 2,953 companies using this route.

### US

Public bond issuances in the US still outweigh privately placed debt 80/20, despite the latter being on the rise generally speaking. In 2015, new issues of private placements amounted to US$49bn. This compares with more than US$1trn in the public corporate bond market during the same period. In 2015, US$578.9bn or 20.9% of insurance companies' total bond portfolio was in private placements, up from US$531.5bn in 2014.

### Europe

Before 2014, Europe was unable to recreate the thriving US market, where insurers, pension funds and other investors avoided public markets to buy billions in private placements.

A year later, in 2015, it looked as if the European private placement market was expanding but fragmented, with pockets of regional activity in areas such as Germany, France and an emerging market in the UK.

Over the last few years, momentum has been growing towards the establishment of a pan-European private placement market (Euro PP), which is envisaged will complement the established US private placement market.

Indeed, many European companies in search of private placement money still head to the US for it. About a third of the US market consists of placings for European companies.

Despite these developments, the US market looks to remain dominant, at least for the foreseeable future. The continued need by many global corporates for dollars remains a strong advantage. Perhaps the private placement market in Europe can continue to gain momentum and achieve the capital success of America it desires.

In 2017, Apple broke into the Canadian 'maple bond' market for the first time, raising US$2.5bn in private placements. In a filing with the US SEC, Apple said it planned to use the funds for general corporate purposes. Investors included institutional clients HSBC Bank Canada, RBC Dominion Securities, BMO Nesbitt Burns and Goldman Sachs Group.

## PP conclusion

Private placements have continued to grow over the last ten years, and not just in underdeveloped capital market countries. Boasting many positive factors for both the issuer and investor, it is easy to see why placements are, in some parts of the world, outweighing bonds offered to the public by a factor of 4:1.

As leading US companies continue to invest in these more personal corporate deals, European markets remain for now the poor relation, at least in terms of deal size and volume. With capital markets rising and falling in different parts of the world, private placements can act synchronously to meet the ebb and flow of need.

As part of the treasurer's funding arsenal, it is likely that private placements will be in demand for some time to come. Investors, it seems, are happy to oblige.

# The Netherlands

*The Netherlands has long been a centre for global trade and finance. Peter Van Ginneken, Country Head of Global Liquidity and Cash Management, Netherlands, HSBC, explores why the country is an ideal location for corporate treasuries.*

Over the years, the Netherlands has capitalised on its position as a key player in Europe by developing a world-class technology and logistics infrastructure. By promoting financial and logistical expertise alongside an open economy (the Netherlands has, for example, well-established multi-currency liquidity markets), the country has formed itself into an attractive home for treasury centres and liquidity structures, according to Peter Van Ginneken, Country Head of Global Liquidity and Cash Management, Netherlands, HSBC.

## Always thinking big

For a small country sitting on the northern shores of Europe, the Netherlands has long been keen to demonstrate its openness to the world. Playing a part in shaping global and regional development, it was a founding member of both NATO and the European Union. As the key northern gateway to Europe throughout the country's history, trading stands proud.

### Key facts

Population: 17,016,967 (July 2016 est.)

Capital city: Amsterdam

Time zone: CET

Land boundaries: Belgium, Germany

### Economy and business sector

Currency: euro

(Financial) capital: Amsterdam

GDP per capita (2017): US$50,800

Ease of Doing Business rank: 28th (2016)

Index of Economic Freedom: 15th (2017)

### Politics

Government type: constitutional monarchy

Head of State: King Willem-Alexander of the Netherlands

Prime Minister: Mark Rutte

### Major trading partners

Top import partners (2016): Germany, China, Belgium, US, UK

Top export destinations (2016): Germany, Belgium, UK, France, Italy

### Country credit rating

AAA (S&P)

The country's geographic position and access to the vast European distribution network of road, rail, canal and rivers is ideal. Additionally, long-term commitment to the strategic development of Rotterdam, Europe's largest port, has seen the World Economic Forum's 'Global Competitiveness Report' bestow upon it the accolade of best port infrastructure in the world several years in a row.

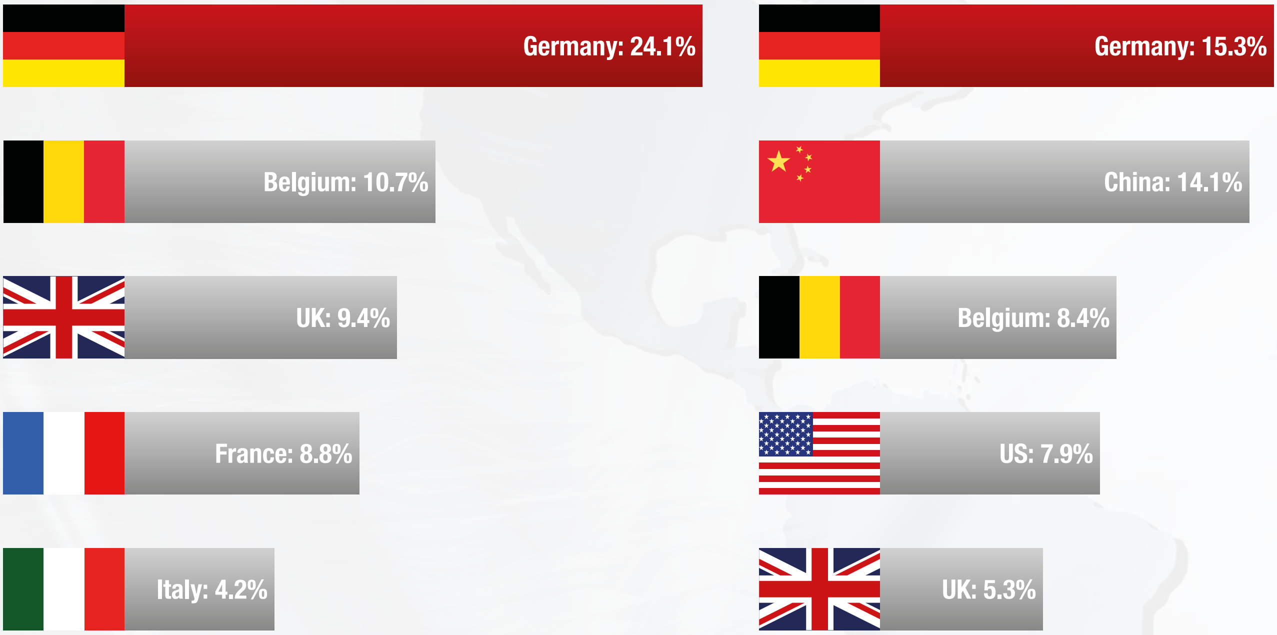
## Strength in numbers

Over many years its status as a productive nation has seen the Netherland's trade surplus remain consistently high, industrial relations remain stable, and the unemployment rate stay relatively low. The country is now the sixth largest economy in the EU and as such can be fairly described as a major hub for international trade, transportation and banking. It is the world's second largest agricultural exporter and has major interests in technology, food processing, chemicals, petroleum refining and electrical machinery.

As an integrated EU country, its key trading partners are regional. Figures from 2016 shown in order of size:

### Export partners

### Import partners




Domestically the Netherlands has maintained the kind of astute financial management that others would do well to observe.

When the global financial crisis hit back in 2008, much of Europe and the world suffered. The Dutch budget deficit crept up to 5.3% of GDP. Recession followed and unemployment doubled to 7.4%. However, growth returned in 2014 following the government's austerity measures, with internal controls serving to rapidly rebuild strength and confidence.

Starting in 2010, the measures taken aimed to improve public finances and evolve broad structural reforms in key policy areas such as the labour market, housing, energy and pensions. By 2016, the government budget returned to a surplus of 0.3% of GDP, with economic growth of 2.1%.

The government's macro-economic policy unit, CPB[1], in August 2017 revised its growth forecasts for the Dutch economy upwards to 3.3% for the year and 2.5% in 2018. Currently the Netherlands has a sovereign rating from Fitch of AAA (the highest credit quality) with a stable outlook. Moody's have granted it Aaa (prime) status and the same stable outlook.

According to Eurostat[2] data, current nominal GDP of the Netherlands is €697.2bn. It outperforms the EU aggregate in terms of real GDP growth, attaining an average annual differential of 0.1% between 2006 and 2016. The country can also claim above-average levels of wealth in terms of per-capita GDP, at purchasing power parity. Measured across the decade from 2005 to 2015, this surpasses the EU average by 36.8%.

## Ready appeal

The lifestyle element has a strong appeal here, says Van Ginneken. He feels the size of Amsterdam and other key cities allow the kind of 'connection' that often eludes its bigger, busier counterparts. This, he feels, leads to a work/life balance in the Netherlands that is "optimal".

[1] *dutchnews.nl/news/archives/2017/08/dutch-economic-growth-set-to-reach-3-3-this-year-says-cpb/*
[2] *ec.europa.eu/eurostat*

Naturally, the country's transportation infrastructure is a major asset when residents seek to expand horizons. "From here you can explore Europe and the rest of the world easily," he says. With flight times from Amsterdam to London or Paris, for example, at less than one hour, the Netherlands is well-connected with other European financial hubs.

"Not only have the Dutch achieved high levels of education, they also rank among the most skilled." This is not promotional puff but a statement from the OECD[3]. On average, 32% of Dutch 25 to 64-year-olds hold a university degree, which is significantly above the OECD average of 24%.

## Votes of confidence

The combination of these elements serves to make the Netherlands an increasingly powerful proposition for treasuries.

The investment by a top tier global technology firm in a new data centre shows that the Netherlands "has a lot to offer to international and IT companies", said Dutch Minister of Economic Affairs, Henk Kamp. The nature of investment by global technology giants demonstrates that, in tandem with all that is mentioned above, the country's strategy to become one of the top international hubs for a multitude of sectors – not just finance and treasury – is working. It also shows that the scalability of the country's technical infrastructure is solid.

## Banking in the Netherlands

The Netherlands' relative financial strength is tied to its long tradition of banking and finance. This is linked to its history as a global trading nation stemming back hundreds of years.

The country's place today as a major trading centre is without question. For companies to sustain their operations in a globalised market, it requires a level of banking support that matches their global reach whilst fully meeting the needs of their local operations. For this to happen, expertise 'on the ground' is essential. This should be met with a depth of solutions, services and customer support that can actively connect all of these local, regional and global needs.

To be truly effective, foreign investors into the Netherlands need nuanced regulatory and cultural perspectives from their bank. But international or global businesses also need a global partner bank that understands each region and country in which it operates, in the same detailed manner, so that the trade and investment corridors between them may be optimised.

## A fintech haven

In recent years, there has been a jump in the number of participants on the flow trading side in the Netherlands. This has been facilitated by the country's willingness to build a sympathetic infrastructure. This, notes Van Ginneken, is giving investment banks and high-tech trading companies a huge market for the trade of stocks, bonds, currencies, commodities, derivatives and other financial instruments.

## The wider landscape

### Geopolitical trends

Treasurers will need guidance from their bank when considering the impact of geopolitical trends and events on their business to ensure that their organisations are prepared for various scenarios.

With regards to Brexit, ccompanies in all industries including banks are preparing for different scenarios. For example, treasurers will continue to require regional cash management solutions once Brexit negotiations conclude.

Currently reaching 33 markets in Europe, HSBC has always been a fully international and European bank. As a result, HSBC Netherlands is already well-equipped to support clients as they navigate geopolitical uncertainty.

### Belt and Road Initiative

It is not only trends originating within Europe that have the potential to change the European landscape. For example, the impact of the Belt and Road Initiative (BRI) and economic stimulus programme, first announced by the Chinese government in 2013, should not be underestimated. China is connected to Europe by the Silk Road Economic Belt routes, and the 21st Century Maritime Silk Road creates a network of waterways across Asia, Africa and Europe.

BRI is already having an impact in Europe in a variety of ways. Investment from China into Europe rose by 25% during 2016 (source: EY Attractiveness Europe 2017).

With the transport of goods becoming easier and cheaper, it gets easier for Chinese businesses to invest in Europe, in countries such as the Netherlands. To help support these businesses, HSBC is bringing experts from China to Europe who understand the specific needs of Chinese businesses operating overseas, and can provide this support in Mandarin.

[3] *oecdbetterlifeindex.org/countries/netherlands/*

> HSBC is strongly embedded in the Netherlands and able to offer truly global liquidity structures, with multi-currency pooling, links to the RMB market and a global network.

Indeed, the strength of the Netherlands' technology infrastructure (including the ultra-fast fibre connectivity sought by some flow traders) is both established and reflected by the presence of data centres from global players.

This works alongside a national commitment to support fintech development. Amsterdam was cited last year by the European Commission as the European capital of innovation. "Our advantage resides in the knowledge, the infrastructure and the stability of the country," Van Ginneken explains.

## Instant payments

The digital economy and the rise of electronic banking tools for consumers and corporates in the Netherlands has provided a strong incentive for faster payments, in particular mobile ones, with an expectation that decision-making should be able to be done on-the-go. The exponential growth of the mobile phone and notably the smartphone has further nurtured this expectation.

There is a drive towards innovation and alternative payments that will open the way to new ecosystems that respond to customer and corporate requirements to pay within seconds and be informed about transactions at the same time. Such solutions are not only coming from the banking sector, but also from new third-party providers.

## An ideal treasury location

When looking to establish a European or global hub, or indeed when simply starting a business, the Netherlands consistently scores very highly as the place of choice. The banking, tax, and legal frameworks make it an ideal location to set up a cash pool, payment factory or a company's entire treasury centre. "It truly is very close to a perfect environment for regional and international corporates," suggests Van Ginneken. "Infrastructure, location, stability, tax, legal and financial infrastructure are all important factors but so are the more human factors such as, kids' schooling, language, cost of living and overall quality of life."

Van Ginneken states that "we are proud to be able to assist many of the largest global companies with their local, regional and global treasury needs from the Netherlands."

HSBC is strongly embedded in the Netherlands and able to offer truly global liquidity structures, with multi-currency pooling, links to the RMB market and a global network. Through HSBC's online banking platform, HSBCNet, and non-bank platforms such as SWIFT for corporates, our flexible liquidity solutions work seamlessly with customers' existing processes to ensure they are making the best use of available balances.

The ongoing pursuit of global trade and investment, which is both exemplified and accelerated by current events, will continue to strengthen the connection between countries and the regional and international reach of organisations. This in turn will increase the complexity of their cash, trade and treasury management needs and the demands on their banking partners.

Peter Van Ginneken
Country Head of Global Liquidity and Cash Management
T: +31 6 2329 66 35
E: peter.vanginneken@hsbc.com

# Inflation, interest rates and asset prices in a transition phase

*There are several factors that have led to a sweet spot for financial markets (low inflation, loose monetary policy and the economic recovery) in recent years. However, these factors are now declining in force and will disappear or turn to negative.*

Firstly, reserve capacity is increasingly on the wane worldwide and in some major economies such as Japan, the US and Germany the situation is already tight, especially on the labour market. This will lead to loose monetary conditions, higher wage incomes and increased investment, resulting in economic growth being above potential in most countries in our opinion. Subsequently, the reserve capacity will continue to decline and the tightness on the labour market will increase. Because of this we anticipate higher levels of wage increases in the quarters ahead and therefore upward pressure on inflation expectations. In this scenario, we see many central banks accelerating the pace at which they make monetary policy less loose.

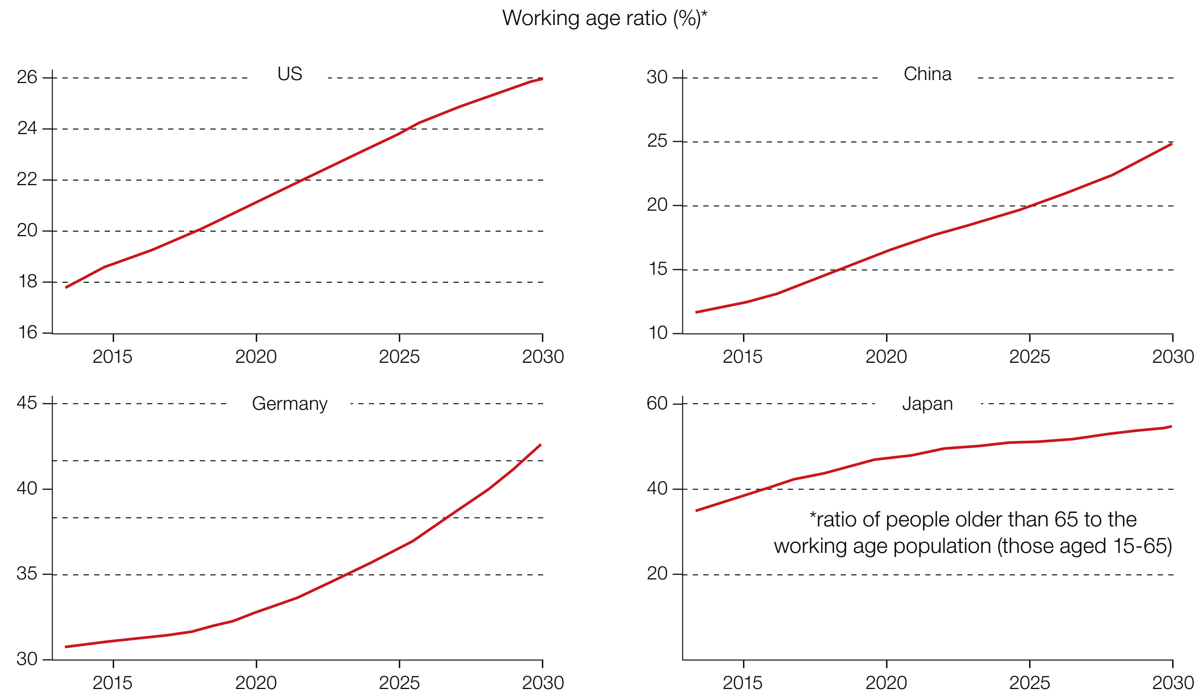
Secondly, we expect additional wage increases to lead to higher wage costs and, due to fierce competition of, among others, internet businesses, we see many businesses allowing higher wage costs to come at the expense of profit margins.

Thirdly, an important congress of the Communist Party of China took place in October, (this Market View was written before the congress) where President Xi was awarded a second term. In the run up to the congress, the Chinese authorities are making every effort to ensure the greatest possible financial and economic stability, meaning the authorities will not seriously tackle the unstoppable rise in debt/GDP ratios until afterwards. Putting the brake on credit provision means downward pressure on growth. As China is the second largest economy in the world and is responsible for the largest contribution to global economic growth, this also means downward pressure on growth worldwide.

Fourthly, in recent years the US and Europe in particular have benefited from:

- Lower interest rates, which have enabled governments, businesses and consumers to borrow more without rising interest charges (or only to a limited degree).
- Pent-up demand, because businesses and consumers postponed major expenditure during the credit crunch, although it must be noted that expenditure has increased in recent years.

**An ageing population and rising government debt pose a serious economic threat**




*Source: Forecast of Oxford Economics*

*Source: Thomson Reuters Datastream/ECR Research*

Stimulus as a result of pent-up demand and more debt does not necessarily have to stop immediately, but we do see its positive effect on growth decreasing, certainly if interest rates start going up in the period ahead.

## Positive supply shock

Finally, the post-1980 positive supply shock, as a result of China and the former Communists European countries opening up to the world economy, threatens to slowly turn now due to a rapidly ageing population in many Asian and European countries. In most developed economies (including China) the number of working people in relation to the number of pensioners will decrease greatly in the decades ahead if policy remains unchanged. Not only does this mean there will be relatively fewer people creating output, but also that more and more people will use their savings for consumption. At some point, this will contribute to increasing upward pressure on wage increases and inflation and result in less (pension) money requiring investment.

Consequently, we see persistent downward pressure on inflation and long-term interest rates gradually turning to persistent upward pressure, and we envisage share prices coming under mounting downward pressure. It will also have a significant impact on economic expectations and monetary policy. In the event of rising interest rates, soaring debts will weigh more heavily and refinancing risks will increase. Furthermore, with rising inflation and interest rates it will become more difficult for central banks to boost asset prices and growth.

## Transition phase for financial markets

Because we foresee a reduction in force or even the complete disappearance of the factors that have created a very favourable backdrop for financial markets in recent years, we anticipate investors becoming increasingly concerned about the high valuations and the consequences of low potential growth, a less loose monetary policy and the excessively high debts.

We do not see this leading immediately to a considerable decline for asset prices or much higher borrowing costs. Some of the aforementioned developments are progressing slowly and will therefore not have a major impact on the markets over the next months or perhaps quarters. Furthermore, we foresee several developments over the next couple of months which are positive for asset prices:

- We consider the option of tax cuts in the US.
- Due to the tighter labour market in countries such as the US, Germany and Japan, we anticipate businesses stepping up investment. As a result, we anticipate a boost in hopes for a positive scenario as previously described in this article.
- We envisage that additional wage increases and consequently higher inflation expectations and a less loose monetary policy will initially be regarded as a confirmation that the economy is recovering sustainably. This might even additionally boost confidence among consumers and businesses.
- We foresee the ECB and the Bank of Japan keeping monetary policy very loose for the time being, thereby offsetting the effect of a less loose monetary policy in the US, for example. It has been evident over the last quarters that Fed rate hikes have not led to tighter monetary conditions in the US. The reason may be that investors assume the Fed is pursuing too tight a policy at present. As a result growth will ultimately be slowed down too much and the Fed will have to climb down again. Hence US long-term interest rates remained under downward pressure and the dollar has weakened. But it is also down to the ultra-low interest rates in Japan and Europe, which create downward pressure on US long-term interest rates as well.

Although the positive climate for stock prices might continue, we do expect upward pressure on long-term interest rates because of the expanding economy, tighter monetary policy and upward pressure on inflation expectations. Initially, long-term rates could increase gradually, followed by a stronger increase as we expect investors will realise that higher borrowing costs will make high debt levels much harder to service, prompting many central banks to pursue a too loose monetary policy, with higher inflation as a consequence.

INTERESTED IN OTHER MARKETS?

Go to www.ecrresearch.com and request access to 18 different reports & services. Clear views, concrete market predictions, based on the world's leading research.

ANDY LANGENKAMP

Political Analyst
+31 (0)30 232 8000
a.langenkamp@ecrresearch.com

MACRO & POLITICAL | FX & INTEREST | ASSET ALLOCATION | FUND SELECTION | MORNING BRIEFINGS

ecr research

*The clever research solution for time-pressed decision makers*

IN A CHANGING WORLD,
**CITIES ARE CONNECTING TOGETHER.**




INTERCONNECTED CASH MANAGEMENT SOLUTIONS

We serve 40,000 corporates worldwide with our unique combination of global reach and a network of strong local presence, to provide your cash flow with new horizons.

cashmanagement.bnpparibas.com

BNP PARIBAS

The bank
for a changing
world

**This communication is for professional clients only. The value of your investments can go down as well as up, so you could get back less than you invested.** This advertisement has been approved and issued by BNP Paribas. BNP Paribas, incorporated in France with limited liability (Registered Office: 16 boulevard des Italiens, 75009 Paris, France, 662042449 RCS Paris, www.bnpparibas.com), is authorised and lead supervised by the European Central Bank and the Autorité de Contrôle Prudentiel et de Résolution and authorised by the Prudential Regulation Authority. BNP Paribas is subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request.

# Accelerating supplier payments

*Paycelerate's mission is to accelerate supplier payments. Rajah Chaudhry, Founder and CEO, explains how he aims to achieve this.*

Rajah Chaudhry
Founder and CEO
paycelerate

## Tell us a bit about yourself and your background.

My background is in investment banking. I spent ten years working in this space in both Hong Kong and Australia, mainly with Deutsche Bank. Seven years ago, I left banking and founded ChinaScope, a financial data and analytics provider. This was my first foray into the world of fintech, before fintech was even included in the financial lexicon.

## Do ex-bankers make good fintech entrepreneurs?

I think the answer is very much dependent on the individual. In my case, as an investment banker, I was trained to be a perfectionist. At the bank, we would never do anything without it being triple checked and you would never put anything out to a client without it being as good as perfect.

I quickly learnt that you cannot be a perfectionist working in fintech. The innovative nature of the sector means that you are always pushing the boundaries of what is possible, at speed and whilst working with imperfect information. The result is that some mistakes will be made, and failures will happen. Becoming comfortable with this fact and trying not to be a perfectionist was probably one of the biggest challenges I faced when switching from banking.

## Where did the idea for Paycelerate come from?

The idea for Paycelerate was born out of the frustration I experienced when launching ChinaScope. As I am sure other small business owners will attest, when you start out there are very few financing options available.

Even once the business starts making progress and attracts institutional or venture capital, the banks are still not going to offer finance, unless you can provide proof of profitability – which is unlikely to happen in the early stages.

## How vibrant is the fintech community in Hong Kong?

The scene is vibrant. There is a lot of hype and everyone is talking about fintech – you could probably go to a fintech event every night of the week. This community is playing a positive role in building an understanding of what fintech companies are trying to achieve.

My only concern is that despite all the talk, there are very few companies out there with an actual product. To some degree, this is just the nature of Hong Kong. I hope to see more people translating their ideas into products in the coming years so the momentum that currently exists around fintech in Hong Kong can continue to grow.

## What about across the rest of Asia?

I think what is happening in China speaks volumes. It is a completely different ballgame there when you compare the market to Hong Kong, or any other country for that matter. One issue is that the market in China is so saturated that there will be a lot of companies that just cannot survive. When you couple that with the growing dominance of the big tech firms, it is going to get increasingly hard for smaller players to penetrate the market.

China does have an advantage, though, because of its massive consumer market. This is what the majority of fintech companies in China are catering for.

## What can regulators do to help fintech thrive?

Regulators across Asia are reacting differently. In China, for example, one of the reasons why the fintech community is so vibrant is because the regulators are quite hands-off. That is, until companies start having a noticeable impact on the economy – we have seen a prime example of this around cryptocurrencies recently.

In Singapore, which is like Hong Kong in the sense that it has a relatively small consumer market, the regulators are being very proactive and supporting fintech. Lots of companies are receiving funding and numerous products are hitting the market.

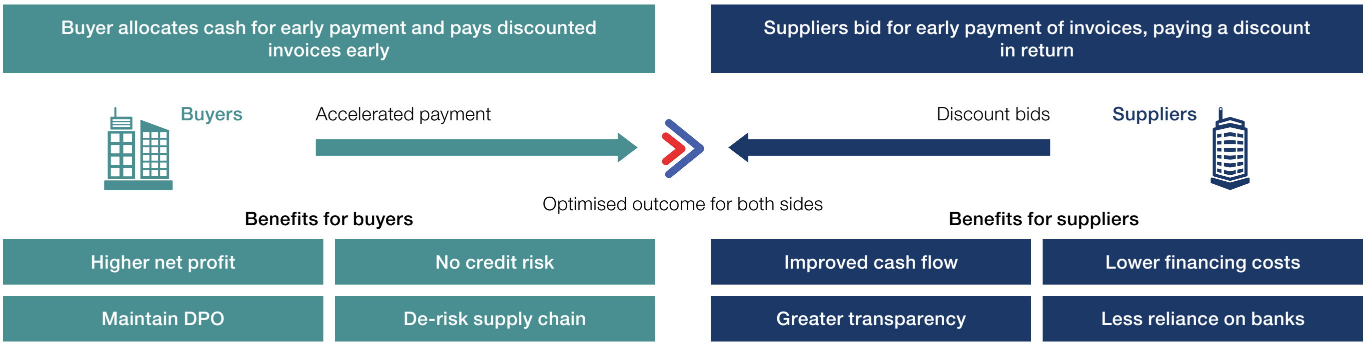
In contrast, the regulators in Hong Kong are taking a more free-market based approach. There is nothing inherently wrong with this, but the fintech space would certainly be boosted with a little bit more support to ensure more companies can receive funding.

Broadly speaking, I think the regulators in Asia are doing a good job by facilitating innovation without creating risks to the economy. Ultimately it is a balancing act. Only time will tell what is the best approach.

**June 2016**
Paycelerate founded in Hong Kong

**October 2016**
Platform developed

**January 2017**
Testing completed




## Unlocking value in the supply chain

Around the world, SMEs are struggling for cash. This is largely due to their inability to access readily available and reasonably priced funding from traditional lending sources. "In Asia Pacific, this problem is especially acute with somewhere between 50% and 70% of SMEs claiming to be unfunded or underfunded," says Rajah Chaudhry, CEO & Founder at Paycelerate.

On the other side of the equation, large corporates are increasingly stockpiling cash and searching for ways to use it. "This is proving to be a challenge as there are few options available to invest short-term cash," explains Chaudhry. "The options decrease even further if the corporate is seeking a healthy yield from these investments."

Paycelerate looks to solve both issues by offering a dynamic invoice discounting solution. "Invoice discounting – where suppliers offer discounts for accelerated payment of invoices – has existed for some time in Asia," says Chaudhry. "Yet despite the benefits it can offer buyers and suppliers, invoice discounting has not gained the kind of traction it should have. This is largely down to the absence of a system to manage the process, making invoice discounting a highly manual, convoluted process that is impossible to roll out on any large scale."

In contrast, Paycelerate's solution is flexible in the sense that suppliers can select when they want to accelerate a payment. "This is a much more efficient process and gives SMEs the ability to more strategically manage their working capital on a week-by-week basis," Chaudhry says.

## Supply chain finance +

To do this, the solution links up with the corporate buyer's ERP system either through an API or similar data transfer option. Once an invoice has been received and approved by the corporate buyer, invoice data will be sent to the Paycelerate platform and the supplier will be alerted that there is an opportunity to receive accelerated payment, subject to a discount being offered on the invoice. The supplier can then select what payment(s) they want to accelerate and receive payment almost instantly.

Also, unlike more traditional forms of supply chain finance, Paycelerate's solution negates the need for suppliers to go through lengthy and complex KYC checks when onboarding. "As a result, suppliers can be on-boarded and begin using the solution in a matter of minutes using our online portal," Chaudhry says.

## Realising the benefits

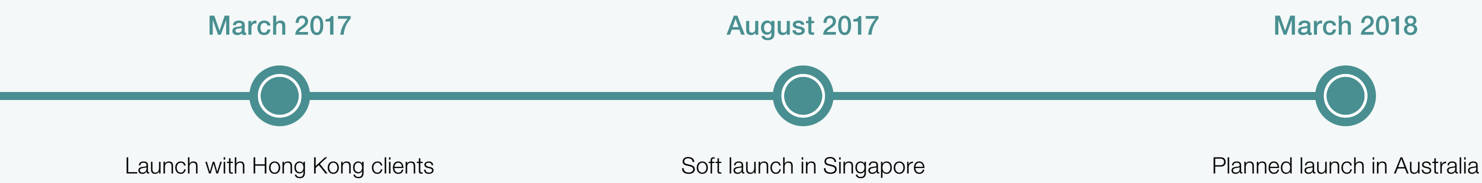
So what are the benefits of using the solution? Chaudhry explains that suppliers ultimately get the chance to access a much cheaper form of funding than they would from a bank. "If a supplier offers the buyer a discount of 0.5% on a HK$100,000 invoice to receive payment 30 days early, that equates to an annual 6% cost of financing for the supplier," he explains. For the buyer, the discount means that they improve their yield to 6% on an annual basis as well – a better return than most, if not all, other risk-free short-term investment options.

Despite the clear benefits the solution can offer, Chaudhry admits that it is not always an easy sell. "Corporates generally understand how the solution works and the benefits it offers," he says. "The issue is that it requires a small change to an existing process. From my experience, many corporates can suffer from organisational inertia, which makes getting them to make these changes a challenge at times."

Corporates may also need to make some changes in how they work with their suppliers to attain full value from the solution. "Although the solution works with all forms of invoicing, it works best when the buyer and supplier are using electronic invoicing," notes Chaudhry. "This is because the quicker the invoice can be received and processed, the quicker the supplier can access the financing."

## Future ambitions

After building solid foundations in Hong Kong's corporate community, the next step for Chaudhry is to launch in Singapore. "This is the short-term ambition," he says. "Medium term we are looking to launch in Australia and Taiwan as both these markets have expressed an interest in this type of solution."



# COMING NEXT ISSUE

INSIGHT & ANALYSIS

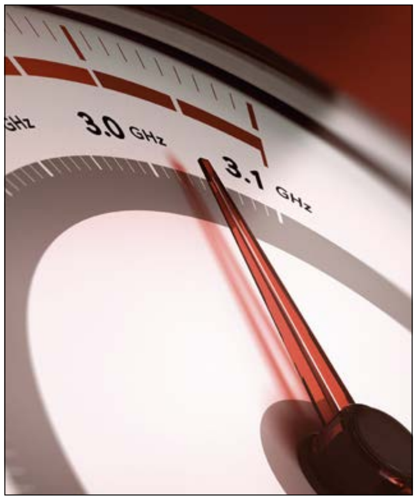
## What do global markets have in store?

Compared to the major political and economic upheaval of 2016, last year was relatively calm. That does not mean 2018 will be, however. To help guide you through the year ahead, Treasury Today will look at some of the key events scheduled for the year, analyse what the actions of President Trump and other politicians might mean for the financial market and see how technology will continue to move the needle in treasury offices around the world.

REGULATION

## The treasury impact of GDPR

The EU General Data Protection Regulation (GDPR) will come immediately into force on 25th May 2018 and no matter what business you are in, it will have an impact. In this article, we will explain what GDPR is, analyse what it means for treasury teams and also look at how it can be used as a catalyst to drive even more efficiency across the organisation.




BACK TO BASICS

## Treasury KPIs

All treasury departments (should) have some key performance indicators. These not only give departments something to aim for, they can also be used to show off the work treasury has done to add value to the business. And as treasury continues to build up its strategic mandate within organisations, we ask what KPIs treasury teams should be using and how these can be communicated to the rest of the business to show the value treasury is adding.

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

Cedric Bru, CEO, Taulia; Enrico Camerinelli, Senior Analyst, Aite Group; Rajah Chaudhry, Founder and CEO, Paycelerate; Mark Evans, Managing Director, Transaction Banking, ANZ; Adam Farlow, Partner and Head of Capital Markets, Europe, Middle East & Africa, Baker McKenzie; Eric Hiatt, Director, Portfolio Manager, BlackRock; Patricia Hines, Senior Analyst, Celent; Daniel Jefferies, Group Treasurer, Equiniti; Emre Karter, Treasury & Trade Solutions Head for Middle East, North Africa, Pakistan & Turkey, Citi; Roger Lamont, Treasury Advisory Services Director, Deloitte; Raof Latiff, Head of Digital of Institutional Banking Group, DBS; Rick Martin, Group Treasurer, GasLog; Todd McElhatton, CFO, SAP North America; Beccy Milchem, Head of Corporate Sales, BlackRock; Winston Nesfield, Partner, Strategy&; Zac Nesper, Head of Finance and Assistant Treasurer, HP Inc.; Ebru Pakcan, EMEA Head of Treasury and Trade Solutions, Citi; Victor Penna, Managing Director, Regional Head of Cash Management and Global Head of Treasury Solutions, Standard Chartered; Marianna Polykrati, Group Treasurer, Chipita; Don Raftery, Head of Commercial and Corporate Banking Practice, Greenwich Associates; Jack Spitzer, Treasurer, Isagenix; David Stebbings, Director, Head of Treasury Advisory, PwC; Lewis Sun, Managing Director, Head of Product Management Asia Pacific, HSBC; Darrell Thomas, VP and Treasurer, Harley-Davidson; Chris van Dijl, Founder, Cugavadi; Peter Van Ginneken, Country Head of Global Liquidity and Cash Management, HSBC; Michael Vrontamitis, Head of Trade, Europe and Americas at Standard Chartered; Steve Wiley, VP Treasury Solutions, FIS; Erik Zingmark, Co-Head of Transaction Banking, EVP, Nordea.

EuroFinance

# Are you a treasurer managing operations in Africa?

## Take just one day to hear how to unlock the potential of this dynamic region

**Effective Finance & Treasury in Africa**
8 March, 2018 // London

- Hear from industry-leading speakers and get the latest regulatory updates and best practice
- Participate in roundtables and deepen your knowledge of specific regions & topics
- Connect with senior-level treasurers and finance professionals operating in the region

**REGISTER AND SAVE 20%**
USE CODE: **TT/20**

**www.eurofinance.com/africa**


CHINA'S BELT AND ROAD.
WE KNOW THE WAY.
To those who endorsed us for our expertise on the Belt and Road Initiative, we'd like to say thank you. At the Asiamoney New Silk Road Finance Awards 2017, HSBC was recognised in multiple categories, testament to the progress we've made together.
• Best Overall International Bank for BRI
• Best Bank for BRI-related infrastructure finance in Southeast Asia and South Asia
• Best Bank for BRI-related finance in Central & Eastern Europe
• Best Overall Project/Initiative for BRI: The $2bn Kuala Lumpar Double-Tracking Rail Project, part of the Singapore-Kunming Rail Link
Discover more at business.hsbc.com/belt-and-road
NEW SILK ROAD FINANCE AWARDS 2017 ASIAMONEY
Issued by HSBC Holdings plc.
HSBC