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Belt and Road: opportunity or threat?

China's Belt and Road is called "the project of the century" and is set to boost the flows of trade, capital and services between China and the rest of the world. Treasury Today investigates what it takes for a treasurer to ensure their organisation's engagement with BRI is successful.

The Corporate View

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Talking Treasury Forum

Treasury Today brings together representatives from the leading asset managers to discuss the impact of regulatory reform and other factors on corporate short-term investment strategies.

The Industry View

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Towards an open world economy

There may be many contenders for "the project of the century". The worlds of computing, healthcare, automotive and aeronautics for example may all lay claim to the most important missions for the benefit of humanity. And let's not forget the 'project' to save the planet itself from mankind's best efforts to make it uninhabitable through pollutants.

But the quote referred to above is from China's President Xi Jinping. What he is referring to is his country's Belt and Road Initiative. He may have a point.

Some may see this as China's push to trade along easier land, sea and air corridors for the primary benefit of itself. Not so, says President Xi who says: "we should build an open platform of cooperation and uphold and grow an open world economy".

Certainly, it is a long and costly journey, measured in decades and trillions of dollars. China must therefore rely upon the cooperation of many countries along the various routes outwards to Asia, Africa and Europe. Some may see Belt and Road as a form of aid, for which China will no doubt be 'paid back' handsomely for its investment through trade domination. Others may say it is China showing the world that it is prepared to risk creating vast and perhaps at times unserviceable debt to create a collaborative ecosystem of trade.

Whatever it is, after five active years, its sheer magnitude has seen it still at the stage of infrastructure development. Chinese contractors have naturally been the main beneficiary but many overseas firms in the services and supplies sectors have drawn a decent wage from this too.

And now China is just starting to consider the next phase. This is where trade and services will become the focus. In this, Beijing is seemingly handing an opportunity for many more foreign businesses to join the journey.

Each organisation will have to evaluate what opportunities fit with its own strategy, managing the risks accordingly. This leads us to the unique and vital role of the treasurer.

No company should be heading into new territories without first understanding how best to navigate through a full corporate lifecycle, from entering into a new market, to growing the business, to integrating operations with a regional hub or headquarters.

With treasurers playing an increasingly important role in company growth, as the nexus of much of the necessary information, thinking through these different stages is vital. Treasurers are in a good place to help their organisations become successful players in Belt and Road progress. And if it turns out to be the 'project of the century', then the profession can stand taller still.

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China's Belt and Road Initiative is not just a massive infrastructure project, it is also a major opportunity for businesses across the world in many different sectors. How can treasurers ensure their organisations are ready?

A true celebration of community

With the theme of 'treasury as a community' weaving throughout this year's Gala Presentation Lunch, we look back on another highly successful year of ingenuity and professionalism as we celebrate all that is best about treasury.

Women in Treasury: from insight to action

Dialogue around diversity was on the agenda at the most recent Treasury Today and State Street Global Advisors Women in Treasury Global Roundtable. Read about what was said about the event in London and find out how you can get involved.

STATE STREET GLOBAL ADVISORS

The role of treasury in M&A

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After a decade of debate, the new rules governing European money market funds will come into effect on 29th January 2019. This follows the implementation of new regulation in the United States in late 2016. To find out what this means for your treasury operation, Treasury Today brought together senior representatives from the world's leading asset managers.

"Treasurers should never stop asking for advice. Those at the top needed advice and help on the way; they didn't do it on their own. Winning the award, shows that someone from the outside has seen what I've done and acknowledges and appreciates my direction and focus."

Amanda Schreiber
ICU Medical
Highly Commended Winner, Woman of the Year

Adam Smith Awards 2018

A true celebration of community

Over 200 entries from 35 countries made up this year's Treasury Today Adam Smith Awards. With the judging over and the winners notified, it's down to the prestigious Gala Presentation Lunch, held in the City of London's Plaisterers' Hall, to gather the treasury world's finest and celebrate their success.

The idea that the treasury space is a community may, to outsiders, seem like a fanciful notion. After all, it is the place where highly qualified professionals operate, sometimes in intensely competitive fields, always in challenging environments wherever they are in the world.

But with entrants from as far afield as Bahrain and Brazil, Canada and Cameroon, the UK and the US, the Treasury Today Adam Smith Awards 2018 reads like a roll-call from the United Nations. And, as Angela Berry, Founder & Director of the Treasury Today Group, said in her opening speech, this is a group of people who gather "not only to celebrate, but as an opportunity to meet one another and share experiences".

Having celebrated its first decade last year, this year's Adam Smith Awards event was honoured with the presence of greatness, not least in the form of Adam Smith. As a Highly Commended in the Best Card Solution section, Microsoft's own namesake of the great man himself, aptly played up to the coincidence, the audience delighting in the moment.

But if ever there was doubt that treasurers are part of a real community, the spontaneous standing ovation given to the wife and daughter of this year's Winner of Best Cash Management Solution, Inchcape Shipping Services' Nirpal Bharaj, displaces any such idea.

Nirpal sadly passed away a few weeks before the awards ceremony. With his family bravely stepping up to collect his justly deserved trophy – won in the face of intense competition – the genuine respect shown for this talented, vastly experienced and much-loved man is evidence that being professional and deeply caring are not mutually exclusive concepts.

Shared goal

As the Adam Smith Awards continue from strength to strength, this truly international cast of expert teams and their partners have delivered – and keep delivering – solutions to meet a broad range of corporate treasury challenges.

The 240-plus guests at this year's event all have one thing in common: the belief that the determination, teamwork, collaboration, innovation and sheer hard work of the community ensures progress for all.

The core criterion for the Adam Smith Awards is the demonstration of best practice and innovation. This can be evidenced by outstanding cost savings, above average ROI, optimisation of accounts and treasury structures, and quantitative improvements in efficiency. Cutting edge technology, tailor-made solutions, exceptional implementations, and quality accreditation are all par for the course too – singularly or in any combination.

Quality rules

Making the grade is not easy. With a calibre of entrants such as Microsoft, which this year scooped Best Working Capital Management and the Judges' Choice awards, adidas (winner in the Best Risk Management category), and NIKE (Best Foreign Exchange Solution Overall Winner), treasury teams are up against some very well-known competition. And clearly the challenge is accepted with relish.

Jörg Bermüller from global pharmaceutical firm, Merck, the Overall Winner in the First Class Relationship Management category, said strong teamwork and communication has been "crucial" to success. Being able to keep everybody in the loop over a six-year project has been a test of Merck treasury's skill and judgement. But the award, he said, gives the team "even greater recognition in the Group Finance function, and with external partners".

With the likes of Royal DSM (Best Card Solution), STMicroelectronics (Best Funding Solution) and Carnival UK (Harnessing the Power of Emerging Technology), emerging triumphant this year, household names are not the only victors. Indeed, winners are declared at a personal level too.

This year's Rising Star is Dominique Cachelin. Samsung's energetic and communicative powerhouse attributes his success to the "huge number of incredibly intelligent and knowledgeable people who have had the patience to teach me". Without them, he said, "I would not be here today".

Amanda Schreiber from ICU Medical, the Highly Commended Winner in the Woman of the Year category echoes Cachelin's thoughts, noting that treasurers should "never stop asking for advice. Those at the top needed advice and help on the way; they didn't do it on their own". Winning the award, she added, "shows that someone from the outside has seen what I've done and acknowledges and appreciates my direction and focus".

Anatomy of a winner: Adam Smith Awards 2018 in brief

Use of technology continues to be a key focus in many of the solutions showcased and our Harnessing the Power of Technology category accounted for a quarter of the submissions entered. Overall Winner, Tableau Software, like many treasury departments, was suffering from a lack of visibility over its global cash position. Inaccurate short-term cash flow forecasts, and an inability to view all its investment balances and financial

"Being able to keep everybody in the loop over a six-year project has been a test of treasury's skill and judgement. Strong teamwork and communication has been crucial to our success. This Award gives us even greater recognition in the Group Finance function and with external partners."

Jörg Bermüller
Merck
Overall Winner, First Class Relationship Management

exposures saw it build in-house a global cash positioning and short-term cash forecasting platform. It now has 99.9% daily automated visibility to global cash and investment balances.

Other categories strongly contested include Best AP Solution, where winner, Euro-Center Holding, tackled mounting AP complexity with a project based on bank consolidation, process automation and a suite of solutions including a virtual card accounts portal.

Best AR Solution saw Maersk Kanoo Emirates victorious with a full digitisation programme that has changed its customers' experience beyond recognition. Best Trade/Supply Chain Finance Solution Overall Winner, Brake Parts Inc, tackled its working capital management problems stemming from slow collections using a global factoring solution to benefit suppliers, the company itself and its shareholders.

As in previous years, the Top Treasury Team award was very well supported. This year, Digital Realty Trust emerged as Overall Winner, demonstrating how multiple challenges being addressed by multiple projects can deliver fantastic results, but also show what is possible if the team pulls together.

Treasury is a dynamic role. Given the nature of the challenges thrown at it over time, change is inevitable. The Adam Smith Awards are a bellwether of such change. This year, strong themes have emerged. Several entries were driven by M&A activities, treasury transformation projects involving technology and projects which deliver some impressive funding, and foreign exchange with Middle East and Africa solutions rapidly rising up the agenda as treasuries grow in stature in these regions.

Indeed, Overall Winner in the former category, Alghanim Industries, impressed with a project in payment process excellence which has completely transformed how this Kuwait-headquartered company manages its payments by leveraging SWIFT.

The general geographic dimensions of the solutions are worth highlighting, with almost half being global in nature. Collaborative solutions are also prevalent, especially where banks and technology companies have partnered to deliver a particular solution. The use of treasury consultants was also more prominent in this year's nominations, with Zanders notably helping its clients AkzoNobel, Endemol Shine Group and EQUATE Petrochemical towards Highly Commended awards in Harnessing the Power of Technology, Best in Class Treasury Solution in the Middle East, and One to Watch categories respectively.

Although this year's presentation for the Winner of the Best Cash Management Solution, was tinged with sadness when the industry learnt of the sudden passing of Inchcape Shipping Services Treasurer, Nirpal Bharaj, it marked the celebration of a remarkable solution driven by a true professional.

Inchcape is one of the largest maritime services providers globally, with some 300 offices in 68 countries. This solution achieved visibility over 80% of the firm's bank accounts in less than ten weeks. Key to success was the strength of collaboration between different stakeholders, both internally and externally. With a treasury operation now underpinned by world-class technology, the business is achieving its liquidity and risk goals today and can face the challenges ahead with confidence.

The full set of case studies for 2018 will be published soon.

ARE CROSS-BORDER PAYMENT WOES FINALLY AT AN END?

SWIFT reports that gpi is being used by 165 banks, with 100 currencies and 350 country corridors in operation. This represents 80% of SWIFT's cross-border payments traffic and includes 49 of the world's top 50 banks.

To date, 50m gpi payments have been processed. In major corridors such as USA-China, gpi already accounts for more than 40% of total payment traffic.

New Standard

The project, cited as the biggest shake-up in cross-border payments for 30 years, has taken 15 months to reach this stage. Intended to increase the speed, transparency and end-to-end tracking capability of payments, SWIFT says it is expecting gpi to become the standard for all cross-border payments made on the network by the end of 2020.

"It's clear that the global payments industry needs to evolve in order to provide customers with a modern service that meets their expectations," said Harry Newman, SWIFT's Head of Banking in a statement. "With more than 25% of traffic and over US$100bn a day now flowing securely over gpi, it is rapidly becoming the new cross-border standard."

SWIFT says the adoption and use of gpi has been driven by demand for a faster, more transparent cross-border payments service. Nearly 50% of gpi payments are completed and credited to end beneficiaries' accounts in less than 30 minutes, with many taking seconds.

Stiff competition

In March 2018 SWIFT announced the extension of its gpi Tracker to cover all payment instructions sent across the network. This enables gpi banks to track all their SWIFT payment instructions, giving them full visibility over all their payments activity.

Banks using the service are reported as having seen their enquiry costs fall by up to 50%. However, Treasury Today understands that unless a bank turns on this functionality for specific customers within their online portal, those customers must still request the tracker data; it is not an automatic feed.

The main threat to SWIFT's gpi aims comes from Ripple, the largest distributed ledger technology (DLT) – based payments initiative. Ripple describes its offering as a real-time gross settlement system (RTGS), currency exchange and remittance network.

Ripple claims sub-second cross-border payments with automated best pricing from its network. Since Ripple payments are near-instant, its model removes credit and liquidity risk from the process, lowering costs to banks. Its claim is that since the network finds the best price for exchange and liquidity, pricing is optimised and customers are no longer locked in to the wide spreads currently reflected in the bank board rates.

The benefits for corporates seem clear in terms of price and speed. Corporates may also appreciate the elimination of settlement risk. Further, Ripple uses industry standard ISO and MT messaging. Because participants are both directly and multilaterally connected there is no loss of corporate data in the payment messages. Known fees and complete messages make for higher automated reconciliation rates.

Here's a message for banks from corporate treasurers: you need to start applying the best practices of technology firms to become more agile and data savvy, but you also need to beef up your advisory services. This is the call from participants of the 2018 Corporate Treasury Insights report, recently published by BNP Paribas and Boston Consulting Group (BCG).

The third annual study by the partnership gives voice to 700 corporate treasurers and multinational organisation CFOs. It demonstrates the need, in an increasingly digitalised, pressurised and regulated environment, for the corporate treasurer's expectations to be addressed with "the highest standards", using a "subtle equation" based on reliability acquired through digital services, multi-disciplinary relationship models and data value.

Trusted partner

Since the last survey in 2016, treasurers report that they have shifted from facing two or three critical risks to now managing five or six. Of these, cybersecurity has joined the top five risks for treasurers. To maintain an effective relationship, treasurers must be able to trust their banks.

Many respondents still view their banks as an intrinsic part of the corporate family, on a par with internal functions. Approximately 65% say they have a high level of trust in their banks, which is nearly the same degree of trust that treasurers extend to internal IT (68%).

Whilst most banks benefit from inherent trust due to their compliance with regulation, their scale and their long-term establishment, the survey also revealed that this advantage cannot be taken for granted. Treasurers, especially those in a mature economy, no longer always see banks as their sole trusted advisor.

Advisory partner

To become a "trust champion", the report suggests that bank service models must change to meet the specific needs of all treasurers.

To meet this need, banks should adopt a "zero-interaction model" that will appeal to treasurers who are looking for fast, stable and efficient processes to complete day-to-day business in a quick and automated way.

Banks should also consider eliminating "low-value intermediaries" and process steps, focusing instead on enabling treasurers looking for agile business intelligence to receive "rapid access to the most relevant service, insight and humans". Further, the new bank model should leverage data generated across the client relationship to help them steer their everyday activities.

Treasurers report a unanimous willingness to share additional data to providers if they can leverage it, many calling for more proactive service and advice. Although more than 60% of treasurers say they are interested in using digital channels (compared to 50% in 2016), they say the quality of human interactions continues to play an important role in transaction banking.

Underscoring the need for a transformation of the transaction banking model, almost 75% of respondents say they are willing to pay for advisory services that help them navigate complexity. One respondent said they want their bank to help prioritise, to share best practices, "and help me be more efficient".

Belt and Road: opportunity or threat?

As ambitious projects go, China's Belt and Road Initiative (BRI) takes some beating. With all the grand plans to establish the infrastructure capable of connecting great swathes of Asia and Europe, it needs businesses to get involved. What does it take for a treasurer to ensure their organisation's engagement with BRI is successful?

BRI is not just an infrastructure project in which land, sea and air ports become links in a vast chain connecting Asia and Europe; it is intended to be "a collaborative ecosystem". When Deloitte released its report entitled 'Embracing the BRI ecosystem in 2018', it was at pains to point out that although the focus to date has been on energy, infrastructure and communications, the next five years or so will see BRI cast its gaze wider, covering sectors as diverse as trade, manufacturing, e-commerce, tourism and culture.

As a multi-decade strategy to boost the flows of trade, capital and services between China and the rest of the world, BRI is a "physical, financial and policy connect", says Vina Cheung, Global Head of RMBI, HSBC. "It is not just about Chinese firms, but about local companies in countries along the route and multinationals that are capable of being part of the project."

BRI represents a huge opportunity for Chinese and non-Chinese companies globally. With the current phase all about developing infrastructure, businesses engaged in the transportation construction, energy, water management and telecoms fields are likely to see most activity. But this list also includes opportunities for businesses that supply the main project firms, including the heavy plant manufacturers and materials suppliers, and professional service providers such as engineering firms, electrical specialists, and architectural practices. The need for legal specialists at this stage is also important for contract work. "Any business involved in these sectors globally should proactively seek out opportunities," says Cheung.

The effect of these projects will ultimately be to ease the flow of trade. This stage will act as a catalyst for more commercial development along the routes, especially for goods and services. The reason is simple: improved efficiency should lower the cost of doing business – one of the underlying BRI objective, notes Cheung. With the growth of BRI trade estimated by HSBC to surpass US$2.5trn in the next decade, the opportunity here, she adds, is "significant".

Despite the dominance of state-owned enterprise (SOE) over the major BRI infrastructure projects to date, Deloitte authors Sitao Xu and Lydia Chenargues also anticipate increasing opportunities for privately owned enterprise and the world's MNCs. Similarly, they see country-level involvement shift from the current preponderance of emerging nations to a greater number of mature economies.

Risk and reward

However, for businesses of all types, the nature of BRI as both a long term and costly investment puts risk to the fore. Of the 70 countries Chinese state media says have joined the BRI (meaning about 125 have not), the sovereign debt of 27 is defined as 'junk' by the three main ratings agencies. Fourteen have been given no rating at all.

The majority of Chinese investment to date has focused on its geopolitical priorities such as Pakistan, Afghanistan, Kazakhstan and Uzbekistan. These are amongst countries that will need to demonstrate significant financial reform in order to see major capital inflow from MNCs.

The extent of China's investment so far raises concerns about its own BRI debt levels. Indeed, global ratings agency Fitch said in January 2017 that the "lack of commercial imperatives" behind BRI projects means that it is "highly uncertain whether future project returns will be sufficient to fully cover repayments to Chinese creditors".

MNCs understand that although there may be an opportunity for massively increased trade flows, BRI could equally generate vast almost unserviceable debts for a long time to come; success is not guaranteed. Whilst not downplaying the risk, Deloitte's Xu and Chenargues argue that the risks are less severe than many assume. In fact, their belief is that "concern is overrated", adding that "China has long insisted that BRI is a commercial venture, not an aid programme".

With China's strong bi-lateral connection with many of the higher risk countries, and its conviction of the need to ultimately develop along commercial lines, the Deloitte authors suggest that SOE-led BRI projects are effectively underwritten by China's policy banks. This should help ease concerns of external investors, they feel, and bringing in quality. Interest is rising.

Beneficiaries

With Beijing having committed a further US$124bn at its May 2017 BRI Forum, President Xi Jinping also announced the commencement of 'BRI 2.0'. In this, the focus on infrastructure shifts to investments in international finance, mining, manufacturing, tourism and culture. The forum attracted delegates from around the world, including Vladimir

Putin amongst state leaders and officials from almost 40 countries; parts of Africa, South America and western Europe all potentially benefiting.

Naturally, large companies are paying very close attention and banks are eyeing up the prospects too, with Citi winning a deal from Bank of China to manage a complex US$3bn bond issue in April 2017. The money is for funding the opening of Bank of China branches across Asia, Eastern Europe and East Africa.

This is just the tip of the iceberg. A recent Asian Development Bank report suggested that, between 45 Asian countries, there should be an investment of US$26trn to 2030, to fix the apparent infrastructure shortfall. Two-thirds of that sum is for further transport and power development.

At this stage, with most of the construction deals going to Chinese firms, the biggest western beneficiaries will be financial and professional services, says Jonathan Bewes, Vice Chair, Corporate and Institutional Banking, Standard Chartered. The demand is for technical expertise and specialist products, and funding to match. Standard Chartered announced in December last year that it will commit US$20bn by 2020 to support BRI.

No wonder then that major MNCs such as Siemens, Honeywell, GE and ABB have already climbed on board the BRI train, along with around 50 Chinese SOEs that have so far played a part in the 1700 or so infrastructure-related 'BRI 1.0' projects.

GE, for example, drew only US$400m in equipment orders from BRI projects in 2014. By 2016, that figure stood at US$2.3bn, with a pipeline of US$7bn for its gas turbines set over the following 18 months.

If Chinese business will be the biggest beneficiary, BRI may well raise fears that it is nothing more than a one-way conveyor belt for Chinese goods to reach the rest of the world. The US has already called for the bidding on related contracts to be transparent. Notwithstanding non-Chinese discomfort, the country's media outlet Xinhuanet reported in May 2018 that the value of China's imports from BRI countries increased faster than its exports in 2017 (a 20% year-on-year rise versus 8.5%). This is the first time it has happened since BRI was announced in 2013. It's not proof of equitable trade flows, but it may be seen by some as a step in the right direction, the current US/China trade war excepted.

International involvement

"We should build an open platform of cooperation and uphold and grow an open world economy," said President Xi at the May 2017 BRI Forum. In its insistence that BRI is open for all – not least because it cannot itself foot the expected estimated final capital cost that ranges between US$4trn and

Belt and Road initiative: directions of flow

US$8trn – Beijing is seemingly handing an opportunity for foreign business to join the journey.

Where, for example, there is a meeting between market need on the one side, and the provision of professional services (and the trade of branded consumer products) on the other, there will be occasion for non-Chinese firms to flourish for many years to come. If domestic firms cannot offer the skills and experience (or brand desirability) to match those of their overseas counterparts, then the trade is seemingly there for the taking.

However, there is a danger of corporates erecting too much of a rigid framework around something that may be more conceptual in nature, says Bewes. "There are plenty of opportunities in one country or another for businesses to take advantage of, but much of this could be seen as 'business as usual'," he argues. Standard Chartered, he adds, has in effect been working on 'BRI' projects for the past few decades – in 2017 alone, the bank closed 50 BRI deals, half of which were in Africa. "Each business will have to evaluate what opportunities fit with its own strategy and manage the risks accordingly."

Conceptual or not, BRI is an occasion for businesses to look beyond their own traditional operating models. Some forward-looking international traders are already incorporating a flexible approach in terms of the goods they source and sell, notes Cheung. A garment manufacturer, for example, might shift its thinking in terms of a finished product being shipped out from a single location, towards the idea of the availability and use of different materials at different points along the route, creating a highly flexible supply chain.

The 'flexible' approach may go some way to mitigating the risks inherent in emerging market operations. But the risk when operating in some BRI countries can be higher than others, and businesses should thus be supported by those with on-the-ground knowledge, says Cheung. "Asia has a very dynamic and varied regulatory regime; with many countries along the belt and road still developing, the local laws, regulations and tax arrangements can be complex."

Treasury approach

The real test in this environment is for companies to navigate through a full corporate lifecycle, from entering into a new market, to growing the business or maintaining the project, to enhancing capabilities through integration with a regional hub or headquarters. With treasurers playing an increasingly important role in company growth, thinking through these different stages is vital, says Cheung.

In general, the difficulty for businesses working in third-party countries (certainly beyond G20 nations) can be substantial, adds Bewes. "Partnering with banks that have on-the-ground presence in those territories, where they are part of the local infrastructure, will offer a huge advantage in terms of help and advice navigating the local cultural, regulatory and legal challenges." The major western banks such as HSBC, Standard Chartered and Citi, boast long operational histories along the BRI routes.

For treasurers, at the start there is a need to define the optimal business form for entering any new market with a BRI project. For the project to function in a sustainable way, this would include a consideration of the best legal structure (many US firms, for example, are working in JVs with Chinese SOEs, according to the Centre for Strategic & International Studies). Treasurers should also define the most appropriate hedging policies, working capital models and, of course, approach to financing.

Financial concerns for treasurers

One of the major themes of BRI is sustainability, notes Bewes. Indeed, Chinese policy-makers speaking at the International Green Finance Forum in Beijing in September 2017 put forward their belief that green finance is the key to making BRI a sustainable project. China has issued US$36bn of green bonds, a figure representing 39% of global issuance. "China will honour our commitment to reduce carbon emissions and make more efforts to promote green finance globally, including facilitating green investment in the Belt and Road region," said Yin Yong, Deputy Governor of the People's Bank of China, quoted by Global Capital. "We believe green finance should be a key pillar of its success." It's an area that treasurers should be looking at.

The broader question of BRI project finance will almost certainly begin to generate the need for creative forms of capital, Bewes believes. "There is a question about how infrastructure is developed further as an asset-class in itself. This will be an important angle, in order to attract and mobilise private sector capital."

The FT has reported that many western banks are leaving the funding of big state-sponsored infrastructure projects to local banks and development finance institutions. They are instead focusing, for now, on ancillary business, such as providing FX, trade finance, interest rate swaps, or cash management. Strong treasury relationships in this environment are therefore essential.

Whether engaging in a BRI 1.0 infrastructure project or 2.0 trading arrangements, for the incumbent bank to support ongoing local business (and familiarity is a real comfort in any new venture), it is necessary for treasury to establish if its bank has a presence in each new market and whether its data flows can be integrated with group operations; standalone operations massively increase risk. It will also be necessary to discover how well-established the bank is in each location, both in terms of size of balance sheet and connectivity to the business infrastructure (including local regulators, local clearing systems and, for FX, whether it is a market maker or taker).

With capital controls likely to be a concern for inbound investors, this is something treasurers will also have to plan and manage. Indeed, with many different currencies and stringent controls likely to be encountered along BRI routes, at the very least, some complex FX scenarios will be encountered, cautions Cheung.

Manifold issues such as currency, local culture and customs, legal and taxation differences suggest that there are and will be many challenges to be addressed when tackling a BRI project. Partners and advisors are available to assist and should be used fully; it does not have be done alone.

Mindful of these concerns, it is also worth bearing in mind the declaration President Xi made at the May 2017 BRI Forum in which he said, "this is the project of the century". Treasurers are in a good place to help their organisations become a successful part of it.

Women in Treasury:

From insight to action

State Street Global Advisors and Treasury Today Group's Women in Treasury Roundtables touch down in London.

On 10th May in the City of London, State Street Global Advisors and Treasury Today hosted the second in a new series of global roundtables dedicated to diversity and inclusion in corporate treasury. The London installation was a fantastic opportunity to share personal experiences and learn from each other in a facilitated dialogue, focusing on the data derived from the 2017 Treasury Today Women in Treasury Global Study.

STATE STREET GLOBAL ADVISORS

Sculpture by Kristen Visbal, commissioned by State Street Global Advisors

State Street Global Advisors' support of the diversity and inclusion dialogue is most clearly embodied in the Fearless Girl, a sculpture which has come to symbolise the indomitable strength of women and instantly garnered worldwide attention after it was unveiled on 8th March 2017 (International Women's Day). State Street Global Advisors' Women in Treasury roundtables have been taken to a new level in 2018 as they have partnered with the Treasury Today Group and are proudly supporting our Women in Treasury Annual Global Study. They are taking us on the road with them throughout the course of this year as we bring our study statistics to life in dialogues with corporates in key locations. These events provide us with a rare opportunity to hear what the results mean in real terms for corporate treasury professionals and to come together to pave the way for a better and brighter working future.

Treasury Today's Women in Treasury initiative was created six years ago and has been driving the diversity dialogue in the corporate treasury space ever since. The initiative now incorporates an annual Global Study into the corporate female experience along with global forums, regular profiles of female corporate finance professionals, a dedicated LinkedIn networking group, and now, this new series of intimate focus group sessions dedicated to discussing the study findings.

The London lunchtime session brought a group of more than 30 industry professionals together for a discussion around the key findings from the most recent Women in Treasury Global Study. The event began with a networking coffee session, where guests arrived at an opulent venue in the City of London and were photographed with a resin replica of the Fearless Girl statue.

This was followed by an introductory speech from Yeng Butler, Senior Managing Director and Global Head of Cash Business at State Street Global Advisors as guests came together around a beautifully laid, full-length walnut table. "A year ago, we placed the Fearless Girl in the heart of New York City's financial district," said Yeng. "The impact this had around the world in respect to starting conversations about diversity was overwhelming. Our work with Treasury Today's Women in Treasury initiative is building on this to ensure the conversation develops and to drive long-lasting change."

Beginning with an expert session interview with Cornelia Hesse, Head of Controlling at BASF in Germany and a keen and inspiring supporter of development in the treasury industry, guests were fortunate enough to hear Cornelia's key advice and learn from anecdotes from her career. The atmosphere was animated, as attendees asked candid questions of Cornelia and shared insights from their own triumphs and trials in the workplace.

After a break for some sumptuous desserts, Treasury Today's Joint Publisher & Head of Strategic Content, Sophie Jackson then moved to facilitate a dialogue around the key findings from the Women in Treasury 2017 Annual Global Study. The London chapter of our Women in Treasury shared advice with the other treasurers in the room and there was an incredibly engaged, candid and supportive atmosphere in the room. We sought engagement with our Women in Treasury 2018 Global Study, and which we invite all female corporate treasury professionals to complete before the study closes on 17th August 2018.

The Women in Treasury Annual Global Study roadshow events with State Street Global Advisors will continue throughout the course of the year in various locations across the world and the 2018 Women in Treasury Annual Global Study results will be released in September.

To learn more please contact Lisa Bigley, Global Head of Events – **lisa.bigley@treasurytoday.com**

Join our Women in Treasury community on LinkedIn where you can be part of the discussion around the findings of this study, contribute your insights and engage with a unique professional network. Simply contact our Head of Circulation, Sarah Arter – ***sarah.arter@treasurytoday.com****, to join our Women in Treasury community and be part of the dialogue today.*

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The role of treasury in M&A

With M&A volumes continuing at a high level, what role can corporate treasurers play in supporting the process – and where are the opportunities to add value?

The global M&A boom continues. Last year saw deals worth over US$3trn finalised – and the first quarter of 2018 brought the strongest ever start to the year, with deals totalling over US$1.2trn. Significant deals have included Bayer's US$63bn acquisition of Monsanto.

"The market is extremely buoyant – and frankly, more buoyant than anyone expected going into 2018," says Richard King, co-head of Global Corporate & Investment Banking, UK at Bank of America Merrill Lynch (BofAML). He notes that as well as strong volumes, the current market is also characterised by much larger transaction sizes, with numerous deals exceeding US$10bn announced in recent months.

Vincent Couche, Asia Sales Sector Head of Industrials for TTS at Citi, says that a number of factors are currently driving growth in M&A. "Financing is very cheap compared to historical averages, which makes many deals attractive," he observes. "And the fact that the economy has slowed down globally has also created opportunities for companies to grow by buying market share." He adds that some companies are looking to diversify their portfolios and balance their businesses across various industry lines, while some are selling down certain activities so that they can concentrate on others.

Of course, not all M&A deals are a roaring success. Figures published in June by Willis Towers Watson in partnership with Cass Business School revealed that quarterly global M&A performance – measured in terms of the acquiring company's share price performance – was the lowest in Q2 since records began ten years ago. Given this caveat, what role can corporate treasurers play in making sure any acquisitions result in the desired outcome?

Role of the treasurer

For companies embarking on M&A activity, there is much to consider – and treasurers have an increasingly important role to play in that process. King points out that as a highly strategic area, M&A starts and finishes with the CEO and the Board – but that the treasury team and group treasurer are very much part of a company's M&A team. He notes that since the financial crisis brought the importance of treasury into the spotlight, "treasurers now get involved at a much earlier stage of the M&A process than they might have done ten-15 years ago. In most cases today, they are brought in well before the transaction has been confirmed as definitely going ahead, to help with integration and synergy planning from a treasury perspective, and funding/risk management strategies."

As such, there are four areas of M&A in which treasurers can play an important role: by supporting the due diligence that happens before the deal; financing the deal; settling the deal – and integrating the new acquisition into the company after the deal has been completed.

Before the deal

Couche points out that treasurers have a role to play at the earliest stage of the process, when the focus is on understanding the target's shareholding structure – but "unfortunately they are not always engaged at that point". As such, he says that treasurers should be proactive in stepping up and getting involved in this part of the process – "Don't wait to be asked".

In some cases, treasurers can play a role at the very earliest stages of the M&A process by advising on the implications of different locations from the perspective of currency controls, FX risk and trapped cash. "If the opportunity were to involve multiple jurisdictions, the treasurer would be able to identify optimal sources of financing and trading to minimise FX and other market price risks to advantage the M&A's operations and integration within any existing operating model," says Fulvio Barbuio, Board Director of the Finance and Treasury Association (FTA) in Australia and the former Head of Corporate Treasury & Risk at Australian Broadcasting Corporation. "This would also require the treasurer to integrate cash management and ongoing operational funding for the changed entity."

Global information, software, and services company Wolters Kluwer has carried out M&A to the tune of roughly €200m-€300m per year since 2010, with recent acquisitions including last year's purchase of Tagetik, provider of corporate performance management solutions, for €300m. "Getting involved as early as possible in the game is essential," says George Dessing, Senior Vice President, Treasury & Risk. "It depends a bit on how large the deal is, but treasurers always need to stay close to the implications of a deal on leverage or debt levels; the discussions with banks and credit agencies and questions around valuation." He adds, "The real question is, 'do we actually get value for our money?'"

Financing

Naturally, one of the most important areas is that of financing. "The traditional role of the treasurer is in raising the financing to enable an acquisition or to manage debt," says David Stebbings, Director, Head of Treasury Advisory at PwC. He points out that this can be a complex activity, depending on the scale of the deal and the geographies involved. "For example, if you're in the UK and you're buying something in the United States, do you borrow in the UK or in the US?"

Barbuio says that first and foremost, treasurers formulate "a financing plan aligned to the strategic plan which identifies sources of funding (both internal and external) available to the

Q&A

Guillermo Gualino, Vice President & Treasurer

Agilent Technologies

How would you describe the treasurer's role in M&A?

The role of the treasurer is critical, particularly in large deals, where choosing the right acquisition financing strategy will have a long-term impact in credit ratings, debt covenants, financial synergies, and liquidity. The treasurer not only advises the CFO on M&A capital structure but also executes on the financing and payment of the acquisition. A treasurer's M&A financing experience will be especially valuable in challenging economic conditions and cross-border deals.

What involvement have you had in M&A?

Depending on the acquisition, my involvement has ranged from planning the financing strategy to integrating cash management systems and operations. One thing I learned from my prior years in private equity is not to underestimate the general view that every acquisition is different and unique. That forces me to prioritise on customising the M&A process over spending too much time on a template of due diligence questions. While most principles for treasury M&A are the same, the focus on a "unique process" for a "unique deal" is very useful to anticipate issues and allocate the right resources upfront.

How have you added-value to the process?

Treasury can add significant value by managing the FX risk of cross-border M&A deals, especially during periods of financial volatility. For example, I have protected the cash value of multibillion dollar deals by hedging the acquisition payment against FX fluctuations between the time of signing and closing. A proactive post-integration FX hedging plan is also important since FX exposures may be unintentionally created during the transition of the target's balance sheet into the buyer's balance sheet.

What challenges did you need to overcome?

The main challenge to overcome is having limited information during the due diligence that could later complicate integration activities. To deal with this potential issue it is helpful to complement the data room with a couple of pre-closing meetings with the target. This could be arranged in a way not to overwhelm the target's team with unnecessary requests.

How important is it for treasurers to take a proactive approach where M&A is concerned?

It is important to get involved early in the M&A process because it takes planning and coordination to avoid potential liquidity issues post-closing. This upfront planning is also needed for the design of contingency plans, especially if there are critical dependencies for closing, such as securing debt financing.

What advice would you give to other treasurers when getting involved with M&A for the first time?

Regardless of the deal's dynamics and competing M&A priorities, treasury's number one objective for day one should always be having full control and visibility of the target's cash. This will minimise the risk of business disruption, potential fraud, investment losses, and liquidity and credit issues. Securing the cash on day one should be prime responsibility for any treasurer.

organisation giving it flexibility, diversity, capacity and cost effectiveness." He explains that once a specific M&A deal has been identified, the treasurer can tailor financing from these sources that best matches the M&A in terms of factors such as source, structure, timing, drawdowns, repayments and refinancing.

"This would take into account any leverage, WACC, credit rating and risk management implications for the organisation which would have a bearing on its enterprise value, something it seeks to maximise for its shareholders and broader stakeholders," he comments.

Settling the deal

When it comes to the settlement day, much will depend on how well the company has prepared beforehand. "If you haven't prepared, your payments could be blocked because your financing line isn't large enough," warns Citi's Couche. "If the payment doesn't go through, you could miss the cut-off. It's really about being very transparent with banking and technical partners – and with the target you're acquiring – about how things are going to work."

It's also important to be aware of any practical obstacles that could prevent settlement from taking place. For example, Couche points out that clearing houses in the United States can only clear a maximum of US$10bn in one transaction, which can result in obstacles where mega mergers are concerned.

Integrating the new business

Settling the deal isn't the end of the story and integrating a new acquisition into the existing company takes time and planning. "Treasurers need to consider how they will integrate the new business into their cash management, FX management and banking structures," says Stebbings. "Or if they are demerging part of the entity, they will need to consider how they set up a separate treasury function for it, including the systems and operational aspects."

> It's important to integrate quickly, but it can take a month or two to open up new accounts and integrate the payments and hedging processes. Having visibility over cash flows should be the number one priority.
>
> Vincent Couche, Asia Sales Sector Head of Industrials for TTS, Citi

In practice, the integration process cannot be done and dusted on day one but will need to be managed over a period of time. For example, essential tasks will need to be completed on the day of completion, such as updating bank account signers when necessary and putting in place the required sweeping and funding mechanisms. Other tasks can be scheduled in the following weeks or months, from training staff who have joined from the acquired company to rationalising the number of bank relationships and bank accounts. Further down the line, treasurers may then begin to look at integrating their treasury systems and centralisation structures.

"The number one goal is to ensure the continuity of business," explains Couche. "It's important to integrate quickly, but it can take a month or two to open up new accounts and integrate the payments and hedging processes. Having visibility over cash flows should be the number one priority."

The ingredients of success

So what should treasurers bear in mind when playing a role in M&A? For one thing, it's important to pay close attention to timings and to make sure the necessary resources are available when needed. However, this isn't always straightforward: BofAML's King says that there is a certain amount of ebb and flow during the M&A process. "Deals can go quiet for weeks or months, and then become extremely busy," he explains. "Once the price has been agreed, everything will need to be done in a matter of days – so managing resourcing within the treasury team is not an easy matter."

Also essential is a treasurer's ability to communicate effectively with other parties involved in the process. Barbuio says that in order to deliver on M&A objectives, a treasurer needs to be a strong communicator and influencer, both with internal stakeholders and with external advisors. "This would require strong and highly developed commercial and soft skills, with the treasury/analytical skills being a given," he comments.

Dessing also notes the importance of teamwork where M&A is concerned. "We have to make sure that we are in close discussion with the M&A deal team leading the transactions from the beginning," he says. "You also have to make sure that the interconnection between finance, accounting, legal and tax teams is secured. Likewise, investor relations has to know how the external world will react to certain M&A deals. So I would say it's truly a team play. In treasury you cannot simply sit behind your PC – you need to literally walk around and make sure you have the right information."

Finally, Dessing says it is important to have a team which has a can-do attitude and be mindful of the energy that is needed during the M&A process. "At the end of the day, buying new companies is fun and exciting, but it's also time consuming, requires a lot of energy – and is always pretty urgent," he says. "So you can't just say you are out of the office for a couple of days, because the transaction still needs to go ahead."

Planning for success

Bank of America Merrill Lynch suggests that treasurers ask the following questions in order to plan for success when undertaking mergers, acquisitions and divestitures (MA&D):

1. Have appropriate controls been put in place for compliance, audit and risk management?
2. Have you established a cash monitoring and funding process to ensure cash visibility and control?
3. Do you understand the regulatory, tax, treasury practices and instruments in the new geographies where the NewCo will operate?
4. Would you replicate the current setup for a carve out, or would you look to take advantage of opportunistic redesign?
5. How will you accommodate the differing investment grade and liquidity needs of the NewCo?
6. Do you see opportunities for treasury enhancements for the NewCo?
7. Does treasury have full access to resources needed to integrate the acquired company?
8. Is MA&D part of your core group strategy? What is the role played by your treasury in MA&D events?

Vasu Reddy
Treasury Leader, GE Africa

A healthy body and healthy mind. This is what keeps Vasu Reddy, Treasury Leader, Sub Saharan Africa, for GE Capital, in touch with his expansive 25-country territory. And with his fair share of challenging conditions to tackle, he needs to be ready with the right solutions.

Reddy, willing and able

General Electric (GE) is a NYSE-listed American multinational conglomerate. Founded some 125 years ago, today the company operates through a diversified portfolio that includes aviation, healthcare, power, renewable energy, digital, additive manufacturing, venture capital and finance, lighting, transportation, and oil and gas. With revenues of US$122bn (2017) its operations employ around 295,000 people across 130 countries.

When your day-to-day activities are focused on a moving target, the levels of concentration needed are high. But for Vasu Reddy, Treasury Leader for Sub-Saharan Africa, part of GE Capital for GE based in South Africa, having some of the most challenging regulatory and commercial environments under his watch is part of what keeps it interesting.

GE's Africa business had previously been divided into the four finance hubs of Nigeria, South Africa, Angola and Kenya, with the latter harbouring the region's Centre of Excellence. Reporting into corporate treasury in Dublin, and the Africa CFO in Kenya, former accountant Reddy acts as the conduit between corporate treasury, the local businesses and the banks.

With a remit currently spanning 25 countries, his core responsibilities include cash management and funding, bank relationships and FX management. Of the latter, with 21 of the 25 countries subject to exchange control regulations, advising the businesses on hedging strategy, repatriation opportunities and optimal investments is a vital element of his day-to-day work. Of course, funding plays a major part here too, further advising, for example, on the suitability of capital injections and how best to optimise working capital for the businesses.

Reddy joined GE from multinational energy corporation, Chevron, where he was Senior Financial Manager – Treasury, covering South and Central Africa. Prior to that, he had spent a year in banking, and six years in various finance functions at South African multinational retailer, Woolworths. He started his career earning a Bachelor of Commerce (Accounting) and Honours degree in Financial Management from University of Cape Town, following on with a Postgraduate Diploma in Accounting from University of Kwazulu Natal, South Africa, also completing the Leadership Executive Programme from the Graduate School of Business, Cape Town.

With such an early emphasis on accounting, the transition to pure treasury has been progressive for Reddy but it is one that has increasingly fulfilled his professional interests. For him, the processes of accounting had become "mundane".

Treasury appeared to be a deeply specialised area at first look, but it also presented a more exciting opportunity for him, being both forward and outward looking. This, he explains, enables both exposure to market change and closer interactions with banks and other third parties. "Today, it is very much about combining my finance and market knowledge and working with our partners and banks to put solutions in place to support the business."

Gaining experience

Although a member of the Association of Corporate Treasurers, South Africa (ACTSA), formal training has not been

> Today, it is very much about combining my finance and market knowledge and working with our partners and banks to put solutions in place to support the business.

a major feature of Reddy's career progression; this despite its specialist needs. "Treasury training can give you a solid grounding in the concepts but in this region, experience is more important," he explains. He adds that it's essential to know what the banks can do for treasuries. Indeed, whilst anyone can learn what a hedge is, knowing what can and can't be done to mitigate currency risk in Angola, for example, comes from close involvement with key players.

With a depth of finance and accounting knowledge upon which to draw, being immersed in the region means Reddy has been able to take a hands-on approach, seizing every opportunity to keep learning in his varied commercial and banking roles to date.

Banking work, in particular, he says, has positioned him well to manage the interactions between partners, the inside view giving him at least an equal footing in many conversations. The in-depth treasury knowledge he gained within Chevron has been further refined and taken to a more granular 'expert' level within GE. Here, Reddy has been able to gain a more profound understanding of treasury from his corporate colleagues on a global platform.

Having worked in retail, oil and gas, banking, and now a diversified industrial setting, Reddy is able to see that whilst the treasury principles are the same in most organisations, the way the different sectors operate generates nuances for each; these must be understood if the function is to add value.

Taking the challenge

Africa is a tough region in which to operate. "It is still an emerging market, so currency volatility is strong," comments Reddy. "Many of the local banks suffer from poor credit ratings, rendering them difficult to work with, from a risk perspective." What's more, he says, "the local banking environment is still generally unsophisticated". With a largely under-developed technology infrastructure, it seems that manual processes are rife. This contributes to generally "quite poor" service levels from many local players. The markets are highly commodity-dependent too and so not only is there a limited banking product set available, any market downturn immediately puts pressure on foreign currency flows and liquidity.

With relatively high banking costs with which to contend, treasurers may find this a difficult setting in which to operate. What's more, Reddy knows only too well that "the gate will not be automatically opened" by the authorities for every large corporate that enters the region. As such, strict rules are imposed, and documentary processes are demanding.

With multi-million dollar deals for equipment and services par for the course for GE in Africa, the challenge of navigating this different and changeable environment is outweighed by the opportunities. However, with deals of such magnitude at stake, bank finance is often required; herein exists one of Reddy's key obstacles.

Partner benefits

GE has a preferred-bank list based on global relationships, this being derived in part from mutual counterparty risk assessment. However, many of these banks do not have a presence in Africa. Subsequently, few are entirely comfortable with the risk presented by sizeable long-term deals in certain countries.

With a limited number of opportunities for the sale of gas turbine equipment, for example, the company is sometimes faced with the challenge of finding alternative sources of funding. "If you want to bid for local business, in many cases you must try and bid with a local bank," says Reddy. Indeed, in parts of Africa, he adds that there is "a focus on localisation", Ethiopia, for example, having closed its market to foreign banks.

Trapped cash

Risk management, it will be no surprise to learn, is a vital function of GE's Africa presence. Whenever a deal is sought, this team will carry out a detailed country analysis. This will define the maximum appetite for risk, taking into account the customer, the tenor and value of the deal, the likelihood of any guarantees being provided by the customer, and even the management team behind the deal.

There is little or no FX liquidity in the market and in recent times reliance on oil revenues has seen a country's foreign currency inflows hit by the downturn in global market prices of that commodity. As a result, the relevant central bank has taken control of the FX market. Last years' allocation was minimal.

Keeping up with the rules

With the possibility of regulatory and political change occurring quite quickly in some countries, the need to stay up to speed is essential. If, for example, an allocation of currency is made available by the central bank, the local team can respond if it is in the normal course of business; anything outside must be authorised by Global Treasury. For Reddy, this means 'ears to the ground' to ensure all opportunities are known and decisions are made in good time.

GE sees its African operations as part of a long-term plan, says Reddy. Regulation and compliance are complicated, but the firm consciously abides by the rules. It works closely with its banking partners and the central banks, following due

> Technology takes away most of the manual interventions and the risks this creates. It's very important in terms of simplification, cost-containment and the creation of an efficient and structured organisation.

process but at the same time seeking to manage its cash optimally.

Meetings with the central banks will typically highlight the depth of investment and commitment the company has made in-country. "Where possible we will work with the authorities to try to improve the market or open it up further for foreign corporates," says Reddy. Where a country is reliant upon FDI flows, its authorities are usually open to conversations with key global players. "We do understand that they are constrained if their reserves have been depleted so we are trying to push all buttons, looking for solutions to keep moving forward."

Driving technology

One of the driving forces of treasury in all GE operations is technology. With the aim of centralising as much as possible – where the tools and local skills enable it – "technology takes away most of the manual interventions and the risks this creates", says Reddy. "It's very important in terms of simplification, cost-containment and the creation of an efficient and structured organisation," he says.

There is only so far this can reach though. Although GE's FX trades are largely monitored and executed automatically from corporate treasury, FX is still necessarily a manual process in terms of booking trades locally. This is because Africa is still largely manual and has exchange controls, with the region's central banks taking a somewhat "diverse" approach to their management. For treasury, Nigeria offers a hedging choice of spots, forwards and NDFs but three different dollar rates; Angola offers spots only and the rate is managed by the central bank.

Despite these anomalies, technology has enabled GE's African operations to be included in the general roll-out of its standard processing models. A global banking administration team, for example, has as part of its remit the responsibility to execute all the necessary bank account opening processes, including those of its African operations. This desire for a worldwide system is driven in part by the quest for efficiency but, in this context, it is also a means of enabling corporate treasury to fully control bank account opening.

Finger on the pulse

Taking a view across so many diverse and sometimes extremely challenging country operations requires technical competence, strong communication skills and some very close allies. Whether researching for advice on local hedging execution, or for corporate transactions such as a loan or funding, "we must always be abreast of what is happening in each market," states Reddy.

For this to be possible, he says close banking relationships are vital. "We have bi-weekly calls with our banking partners to help us understand what's happening in each market, what's causing rates to move and where they are going," he says. Without this source of intelligence, treasury in Africa he feels, would be so much more difficult.

Reddy also holds regular meetings with the various treasury outposts, corporate treasury and its local partners and global support functions to help him understand any changes in the business. This enables him to meet the advisory and practical needs of functions throughout the business.

All good experience

Having built a career on a solid foundation of academia and experience, Reddy's advice to up-and-coming treasurers is to similarly establish a strong accounting and finance background. But he also believes everyone seeking a career in treasury would benefit from time spent in a relevant banking role, not least as it offers insight into how banks view and treat their corporate clients.

With his own moves from retail, to oil and gas, to banking, to a diversified industrial setting, he has had the opportunity to learn how different sectors apply the fundamentals of the profession, and how the different approaches to hedging, for example, are executed. "If you can get the proper exposure, then I suggest also spending time in different industries," he suggests.

Getting the job done well is about more than knowledge and experience though. Keeping up with the pace of change in Africa requires a keen eye and a healthy mind and body. Outside of treasury, Reddy is a sport and fitness enthusiast. He also harbours a penchant for stock market activity which, he says, offers him a "different perspective on life".

The demands of treasury and the need to travel for work are always going to be a challenge, he notes, but he is a firm believer that a healthy life and work balance are essential "to stay focused and calm so nothing falls through the gaps". Amidst the complexity and pace of change that running a successful African treasury encompasses, this is a simple lesson from which we all can learn.

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Talking Treasury Forum

Understanding the road ahead:

short-term investing in an era of unprecedented change

After nearly a decade of debate, the new rules governing European Money Market Funds will come into effect on 29th January 2019. This follows the implementation of new regulation in the United States in late 2016. The new rules bring about a host of challenges and opportunities for investors and asset managers alike. To find out what these are, and offer you, the corporate treasurer, some practical advice on what to do next, the Treasury Today Group brought together senior representatives from the world's leading asset managers to discuss the impact of regulatory reform and a number of other factors on corporate short-term investment strategies.

Participants

Anthony Callcott
Head of Pan-European Liquidity
AVIVA INVESTORS

Beccy Milchem
Head of International Cash Corporate Sales
BLACKROCK

Laurie Brignac
Managing Director, Head of Global Liquidity Portfolio Management
Invesco

Paul Przybylski
Head of Product Strategy and Development, Global Liquidity
J.P.Morgan Asset Management

Gunjan Chauhan
Senior Managing Director, Head of EMEA and APAC Cash Business, Global Cash
STATE STREET GLOBAL ADVISORS

Moderator

Richard Parkinson
Chairperson
treasurytodaygroup

Laurie Brignac

> **Once you scratch below the surface of LVNAV funds and look at how they will operate in practice, you can make a strong argument that the experience for investors using LVNAV products will be near identical to what they currently have using CNAV products.**

Welcome all. Can we start with a brief overview of the key changes that are coming in the European money market fund (MMF) industry as a result of recent reform?

Laurie Brignac, Managing Director, Head of Global Liquidity Portfolio Management, Invesco: The European MMF reforms focus on four primary areas: product structure, portfolio liquidity, portfolio credit and transparency. Whilst these are all important, what is crucial for investors is the different product structures that have been introduced.

Beccy Milchem, Head of International Cash Corporate Sales, BlackRock: To expand on this, from 21st January 2019, asset managers will be able to offer clients different fund structures. There are three short-term MMFs: a government constant net asset value (CNAV) fund, a government low volatility NAV (LVNAV) fund, and prime and government variable net asset value (VNAV) funds. Then there is a separate VNAV fund type for standard MMFs.

What is disappearing is the prime CNAV fund structure that many corporates utilise today. Asset managers will be replacing these with either LVNAV or short-term VNAV products and we will all be deciding which in the next few months.

So, the product that investors know and love is not going to exist any more?

Laurie Brignac, Invesco: I think that's a fair statement as prime CNAV funds will be no more, although once you scratch below the surface of LVNAV funds and look at how they will operate in practice, you can make a strong argument that the experience for investors using LVNAV products will be near identical to what they currently have using CNAV products. It is true, however, that the legal structure of the fund will be different.

Paul Przybylski, Head of Product Strategy and Development, Global Liquidity, J.P. Morgan Asset Management (JPMAM): It is worth pointing out that LVNAV products will be managed tighter than the existing CNAV product, as the threshold (outside of which the fund must be mark-to-market) will be reducing from 50 basis points in the CNAV construct to 20 basis points in the LVNAV construct. I agree with Laurie on the whole though: the client experience investing in LVNAV funds should be very similar as investing in CNAV funds currently. Based on ongoing conversations with many of our clients, we anticipate to transition to this fund structure by the transition deadline.

Laurie Brignac, Invesco: Paul makes a good point: LVNAV funds will be managed tighter because the reform is designed to make money funds more resilient. Although all of us at the table currently manage funds that are AAA rated, so to a certain extent we were already managing to tighter construct than the regulations prescribe today. In that sense, regulation is simply catching up with market best practice.

> **We're hearing from clients that LVNAV is the closest thing to what they have today and that is probably where many of them will be heading. But their due diligence is to assess their investment policies and ensure they are flexible and able to change quickly if need be.**
>
> Paul Przybylski, Head of Product Strategy and Development, Global Liquidity, J.P. Morgan Asset Management

Anthony Callcott, Head of Pan-European Liquidity, Aviva Investors: True, but the new rules are putting less of an onus on the rating agencies and more of a focus on the fund managers. The way I see it is that it is a constructive, not destructive, move by the regulators. If we think back to why this is happening, it is ultimately to prevent another financial crisis. In addition, it is also aiming to increase transparency, improve liquidity and improve security.

Gunjan Chauhan, Senior Managing Director, Head of EMEA and APAC Cash Business, Global Cash, State Street Global Advisors (SSGA): And that can only be helpful for the end investor. Everyone will benefit from greater transparency and more clarity in the market.

Laurie Brignac, Invesco: Transparency is probably one of my favourite components of the reform. When we look and see what happened in the United States with its own recent reform, the increased transparency has made a huge difference in the way we interact with our clients. It also means that clients know exactly what they are investing in and are able to easily compare fund A with fund B.

Can we now dive into the new product structures in a little more detail to ensure that the corporate investor understands the options? Most crucially, could you please explain the differences between an LVNAV and VNAV product?

Paul Przybylski, JPMAM: In an LVNAV fund, asset managers can use amortised cost accounting to price all instruments shorter than 75 days, and can round to two decimal places, so that the fund largely resembles current CNAV funds. VNAV funds are priced mark-to-market and rounded to four decimal places.

The other differences are around liquidity. In an LVNAV structure, the minimum liquid assets that the fund must hold are 10% and 30% respectively. This compares to 7.5% and 15% in a VNAV construct. That gives the portfolio managers a bit more flexibility managing the VNAV vis-a-vis the LVNAV fund. Theoretically, this means that VNAV funds may offer investors greater yield.

Gunjan Chauhan, SSGA: I think the fact that VNAV funds are rounded to four decimal places, while LVNAV funds can be rounded to two decimal places, is important and something that investors need to be mindful of. This is because even under normal market conditions, that fourth decimal place may fluctuate. We have seen this in the US.

You stopped your CNAV fund some time ago but are you going to introduce an LVNAV fund?

Anthony Callcott, Aviva Investors: Yes, we are. We are planning to launch the LVNAV fund on 1st September. Although in reality, we are just adding the 'L' to the marketing brochures of our government and short-term VNAV funds because there are minimal changes that we have to make.

> I would argue the added benefit of money funds – whichever format you decide is appropriate for you – is that they are a sustainable solution that provides same-day access to cash. No matter what, money funds remain a hugely beneficial tool for corporates to have in their toolbox.
>
> Gunjan Chauhan, Senior Managing Director, Head of EMEA and APAC Cash Business, Global Cash, State Street Global Advisors

It is worth pointing out though that our euro fund will remain VNAV due to the difficulties in offering an LVNAV fund managing in a negative yield environment.

Yes, we will come to that a little later.

Beccy Milchem, BlackRock: VNAV can be a slightly confusing construct for investors, particularly because there are short-term VNAV funds and standard VNAV funds. Should a treasury department decide to invest in a VNAV product, they need to consider which category they are actually looking at for their policy purposes.

It is also interesting to note just how important that AAA rating is for investors, especially when it comes to seeking board approval of their investment policy. Given this investor focus, I suspect that most fund managers will maintain a rating for their short-term MMF funds, whether they are VNAV or LVNAV. This will bring a certain degree of consistency into how these funds are managed and might mean that LVNAV and VNAV funds end up looking quite alike in many respects.

Does this mean they will yield the same?

Beccy Milchem, BlackRock: There could be a marginal yield difference between an LVNAV fund and short-term VNAV fund. As Paul mentioned earlier, there is a different liquidity threshold, which could allow for some extra yield pick up to be generated. However, the need to meet the requirements of an external rating agency may reduce the difference due to the more conservative liquidity requirements of the rating agencies. It remains to be seen.

Laurie Brignac, Invesco: Another item to mention here is gates and fees. These exist in LVNAV funds and may be triggered if the level of weekly liquid assets falls below 30% and net redemptions from the fund exceed 10% in one day. Given this trigger point, most LVNAV funds will be running north of 30% when it comes to liquid assets, so I think you will see an additional yield pick up when using a VNAV product – even when you consider the external rating.

Paul Przybylski, JPMAM: To add to this point, in the US, product managers were running their funds with a much higher level of liquid assets than necessary prior to the reform – some were running at almost 100% in the weekly cash because they knew significant outflows were coming in anticipation of the US reform conversion date. This is one of the key statistics for clients and they will react if a fund is lower than 40% because it is below industry average.

I expect that we will see the same behaviour in Europe and liquidity will be increased in excess of the 30% threshold. This is going to be a detractor of the yield differential because even though the reform lets you go down to 15%, the reality is that that number is going to be north of that. This will compress the spread between LVNAV and VNAV funds.

Every single survey I have seen says that investors don’t like fees and gates. What is your view on this?

Paul Przybylski, JPMAM: Fees and gates are not a new concept in the international space; clients have been investing in products with fees and gates for a long period of time. What is new is that the reform has defined when these mechanisms will be activated – before it was at the discretion of the fund manager and the fund’s board. We are currently spending a lot of time talking to our clients about this to ensure they are comfortable and understand the fees and gates triggers because, as you rightly said, there is some concern in the market about fees and gates.

Is this because we never talked about fees and gates before?

Paul Przybylski, JPMAM: Previously the use of fees and gates was essentially the same as ‘breaking the buck’ (fund no longer able to redeem at par) so hopefully we will never have to use them.

Laurie Brignac, Invesco: Hopefully going forward none of us will have to use them either!

One element of the reform that is very interesting is that the regulators have said that fund managers can transact a stable NAV until they go out of the 20 basis point collar. When this happens, the fund can convert to VNAV and round to four decimal places and then revert to LVNAV once the market has calmed down.

Yet despite this, I think if your transactional NAV moves from two decimal places stable to a four decimal place variable, you really probably ought to consider putting up gates, because I have a feeling clients are not going to forgive you and allow you the opportunity to go back to two decimal places. It might just be my personal opinion, but I don't see that really happening.

Gunjan Chauhan, SSGA: I think those investors who are going into a stable NAV investment on day one, are going in expecting a stable NAV investment.

Laurie Brignac, Invesco: At all times.

Beccy Milchem, BlackRock: Ultimately, the purpose of fees and gates are to protect the end investor and to ensure we are all acting as a fiduciary by treating investors fairly.

Gunjan Chauhan, SSGA: Yes, that point is not emphasised enough. As we have said, fees and gates exist today. The new rules simply provide additional clarity on when fees and gates around liquidity or redemptions may well come into play.

And in stressed market conditions, if any of those factors or triggers do get breached where redemptional liquidity fees or gates need to be imposed, it's again transparent and clear for any investor in that fund to understand what is happening and what is going on. So, it really is actually a helpful mechanism for them in a stressed market environment.

OK. So LVNAV provides that stability that corporates are looking for – albeit with gates and fees. Why then would I as an investor use VNAV? Is it just to pick up that bit more yield?

Anthony Callcott, Aviva Investors: There is a growing trend for corporates to want to make their cash work harder for them. There is also a growing acceptance that if you are chasing that yield, there might be a little bit more volatility.

> **"Many large corporates take a blended approach, looking for low volatility investment options for their day-to-day operational cash and liquidity requirements and then investing some stickier cash in products that make it work a bit harder.**

You might not ever see that volatility though, correct?

Anthony Callcott, Aviva Investors: Correct, but investors need to understand that it could exist. Because of this, many large corporates take a blended approach, looking for low volatility investment options for their day-to-day operational cash and liquidity requirements and then investing some stickier cash in products that make it work a bit harder.

Laurie Brignac, Invesco: True, but we have talked to some large global corporates that you would have thought might be aggressive with their investment options who still don't want to see that NAV move at all. They want two decimal places and certainty.

Paul Przybylski, JPMAM: Yes, it depends on whether the investment policy dictates that you can't book any losses on your money fund investments.

This is where we suggest that corporates do their due diligence because each decision will be unique. We're hearing from clients that LVNAV is the closest thing to what they have today and that is probably where many of them will be heading. But their due diligence is to assess their investment policies and ensure they are flexible and able to change quickly if need be.

> **I would encourage treasurers to look at their investment policies sooner rather than later. Top of mind should be creating something that is future proof. It is about being a bit more open-minded about what tools you can use now and ensure this is reflected in the policy.**

Anthony Callcott, Aviva Investors: I think the majority of investors in this space have changed policies now or are very close to doing so. That's certainly been happening for quite some time, but I think in the last six months we're seeing it more and more. Treasurers are getting themselves ready.

And they are adopting LVNAV?

Anthony Callcott, Aviva Investors: Yes, on the whole. Some of our European investors that have US parent companies are more interested in government CNAV funds because that's what their investment policies in the US dictate they can invest in. But the European investors and the UK investors are ready for the change to either LVNAV or VNAV or both.

Our job is really to make sure that we are fully educating investors, making sure we are transparent about our plans and meeting our clients face to face, and giving them that comfort. It is about trust: that is the one thing you must have from your client base.

Now, if I am going to think about VNAV in addition to LVNAV, what do I need to think about? We've got the regulatory differences but is there anything else I should be considering?

Gunjan Chauhan, SSGA: Absolutely. I would suggest you carefully consider your investment objectives. As touched upon earlier there are two types of VNAV fund structure: there is the short-term VNAV, which is considerably shorter in duration, and I would argue would have a portfolio make up similar to an LVNAV fund. And then you have standard VNAV where you are potentially exposing yourself to additional duration risk, but then also may well see a pick up in yield for doing so. Corporates will need to decide which of these they are comfortable with.

It is actually quite exciting for investors to be able to take a fresh look at their investment guidelines, ensuring that their systems are fit for purpose to be able to handle the various scenarios. We would like to hope everything always remains under normal market conditions, but experience tells us that it is prudent to plan for the unexpected.

Are you all transitioning your funds at the same time?

Paul Przybylski, JPMAM: No and I think the dates of conversion are going to be an interesting storyline to follow when it comes to the reform in Europe. This is because in the US everyone converted within a two-week period, whereas in Europe we are all going at different times. For example, at J.P. Morgan Asset Management we are transitioning over the weekend that starts after the funds close on Friday 30th November. Spacing between managers converting will allow clients to see how the industry shapes and provide insight to client behaviour that could influence their own.

Laurie Brignac, Invesco: We're moving in January 2019.

> **I think pre-financial crisis, all money funds were deemed to be exactly the same, and we always knew there were differences. And that is why it's so critical to make sure that our products are being properly sold and that the clients know what they're buying.**
>
> Laurie Brignac, Managing Director, Head of Global Liquidity Portfolio Management, Invesco

Paul Przybylski, JPMAM: It will be interesting to see how clients behave as a result. And that's something we can't predict because they don't really know what the fund sizes and structures will look like in the future and I think they're going to pay attention to that. Clients do ask what size funds they should expect and we do provide estimates on our own fund line-up.

Laurie Brignac, Invesco: But if you choose to stay in an LVNAV and your CNAV fund is converting into an LVNAV, really for all intents and purposes it shouldn't matter.

Paul Przybylski, JPMAM: Yes, but if you are the first fund to transition you need to get it right because if you convert and your systems don't work, that's not going to be a good experience for clients. This is a really big risk for whatever fund manager makes the move first.

Laurie Brignac, Invesco: You're bringing up a good point. I know we mentioned earlier that a lot of treasurers use different investment platforms. So, something else to highlight is to make sure that they are talking to their platform provider and making sure that they're going to be ready. I know it shouldn't be as big of an issue here, depending on how the funds transition and what they're converting into, but I know in the US, being forced into a floating NAV was prohibitive for certain platforms. I would encourage treasurers to make sure that how they transact today will be the same in the post-reform world.

Is it important that I get into the investment policies of the fund manager as an investor? If so, how far do I have to dig?

Anthony Callcott, Aviva Investors: I think you dig all the way. Choosing your fund provider is an important decision and you have to ensure that they fit your criteria.

Beccy Milchem, BlackRock: In terms of approving an investment manager, most corporates that I work with will not only look at whether the fund has external ratings, but also have a look through into the individual holdings of the funds and make sure that the manager's investment process sits comfortably with them.

Our clients have a long list of questions for us. Quite frequently, we hold due diligence days with our investors to walk them through exactly how we manage the portfolio, how our credit process works and how our risk process works. This homework certainly needs to be done by the investment community.

Laurie Brignac, Invesco: Most definitely. As we know, a big part of the reform is to remove the reliance on the credit rating agencies. Therefore, even though our funds are externally rated, investors should still have their own robust credit processes. The transparency created by the regulation is going to help greatly here because investors will be able to quite easily compare two funds side by side.

> **The new rules are putting less of an onus on the rating agencies and more of a focus on the fund managers. The way I see it is that it is a constructive, not destructive, move by the regulators.**
>
> Anthony Callcott, Head of Pan-European Liquidity, Aviva Investors

Gunjan Chauhan, SSGA: We are seeing the same thing. Investors want to know the details of our funds, they want to understand our internal processes and risk and credit appetite. The fact they are asking for this level of detail evidences that they are carrying out diligent analysis to ensure that they make the right investment decision between one money fund and another. They are looking beyond just the ratings as the regulators hoped they would.

Anthony Callcott, Aviva Investors: Some investors are even insisting on meeting the credit analysts themselves. This is something that is happening more and more.

Laurie Brignac, Invesco: That is a tremendous change. I think pre-financial crisis, all money funds were deemed to be exactly the same, and we always knew there were differences. And that is why it's so critical to make sure that our products are being properly sold and that the clients know what they're buying. That is where the additional transparency is going to make a really big difference.

Paul Przybylski, JPMAM: I would add that it is about scale; the size of your fund matters as much as everything we just talked about here. To investors, a percentage allocation of the fund that they represent matters, and they will not feel comfortable if their investment is north of 10% of the total fund's values. This is something that we are thinking about carefully when constructing our future fund line-up.

On the subject of transparency, how easy is it for corporates to get a report of the fund's holdings?

Anthony Callcott, Aviva Investors: When I look back to some years ago in a meeting with a client and I said, 'What are you most nervous about in these products?' He said, 'I'm nervous because I can't see what I'm in, and the information is never accurate, and I'm nervous my CFO's going to tap me on the shoulder one day and ask what we are exposed to – and I won't be able to tell him.'

Now corporates can get all that information very easily. There are many different portals that customers are using which aggregate information and have reporting tools that allow treasurers to drill down into the geographical locations of investments and asset classes. The information is all there at the press of a button.

Paul Przybylski, JPMAM: If we compare Europe to the US, I believe that the US has a more transparent system when it comes to reporting. Fund managers in the US are subject to monthly and quarterly reporting of the complete underlying portfolio of investments mandated by the regulator. In Europe, policy makers have started to move towards this by introducing requirements to make a weekly disclosure of the top ten holdings in the portfolio, the credit profile and the maturity profile.

The timing of the data is the critical component. For example, currently in Europe, one fund house might report on a monthly lag versus a weekly lag or bi-weekly lag, so the information the treasury has might not be current or accurate. With more information being disclosed weekly, this should improve under the new rules.

Laurie Brignac, Invesco: Although the regulations in Europe don't require us to report in the same way as the US, many of our clients are invested in both European and US funds and they want consistency. To that end, we have ensured that we are offering the same level of transparency to European investors as we do to US investors.

Paul Przybylski, JPMAM: At J.P. Morgan Asset Management, currently our reporting on our website is consistent on a monthly basis. This means that in Europe, we provide a greater deal of information versus most of our peers, simply because our clients require consistency when they invest here and in the US. This is crucial when you are dealing with multinationals.

Let's talk about negative interest rates, which obviously operate particularly in the euro at the moment. I wanted to understand how you deal with that now and how that might change in the future under the reform.

Laurie Brignac, Invesco: We are sort of in our 'new normal' when it comes to negative interest rates. Initially, there was a lot of fear of the unknown and everybody was asking, 'Who's going to go negative first? How is this going to work?' Now that we're comfortably negative I think it's a more normalised environment – it's just negative from an investment perspective.

How does it work today if I am invested in a euro fund with a negative return?

Laurie Brignac, Invesco: There are a few different options. If you're in a distributing share class, then there is a technique called share cancellation. This is when an investor's shareholdings in the fund are reduced the longer they are invested in the fund to reflect the negative interest rates.

Or investors can use an accumulating share class fund. This will see the investor's number of shares stay the same, but the price is going to change every day. It's effectively the same as VNAV. You'll see that price slowly drop to reflect the negative interest rate.

Anthony Callcott, Aviva Investors: It was also a challenge to manage clients' expectations through the process of going negative. But the narrative has certainly now shifted from treasurers saying, 'How dare you charge me for looking after my money?' to accepting that it has to be this way and being proactive and working with it.

Laurie Brignac, Invesco: From my experience, corporates were quite taken aback when we started to charge them for investments. But once the banks started as well, the conversations changed as our negative rate looks a little bit better than the banks' negative rate.

Gunjan Chauhan, SSGA: That is a really important point. Negative interest rates are not unique to the money fund industry.

And is there a predominance of the way it is treated, is it generally treated by the cancellation of shares or is it generally treated by changing the value of the shares?

Beccy Milchem, BlackRock: If you are running a constant euro NAV fund today, the majority of investors, particularly corporates, are in the distributing share class that Laurie mentioned, using share class cancellation, otherwise known as reverse distribution. And so yes, we're predominantly using reverse distribution which is the reverse of the positive income distribution process, whereby shareholdings are reduced to reflect the negative income distribution.

You do also have VNAV products where the share price moves to account for the negative rate.

Anthony Callcott, Aviva Investors: Which is how we run our euro funds.

> **"It is actually quite exciting for investors to be able to take a fresh look at their investment guidelines, ensuring that their systems are fit for purpose to be able to handle the various scenarios. We would like to hope everything always remains under normal market conditions, but experience tells us that you sometimes also need to plan for the unexpected.**

And going forward?

Gunjan Chauhan, SSGA: There is still a considerable amount of discussion across the industry, as well as with the regulators, around the treatment of the reverse distribution mechanism that essentially enables fund managers to maintain a stable NAV for a euro investor today. So that's still out there being discussed, and we are all eagerly anticipating clarity around that point.

Beccy Milchem, BlackRock: Without clarity from regulators over how they view reverse distribution, it's difficult to say exactly what solutions might be possible moving forward, and therefore, what the impact on product offerings in euro might be.

Gunjan Chauhan, SSGA: The main point here is that euro investors looking to achieve a stable NAV must be mindful. As

Paul Przybylski

> **Fees and gates are not a new concept in the international space; clients have been investing in products with fees and gates for a long period of time. What is new is that the reform has defined when these mechanisms will be activated – before it was at the discretion of the fund manager and the fund's board.**

mentioned, without the ability to cancel shares it will not be possible to achieve a stable NAV in a negative interest rate environment. For investors that don't have that flexibility in their policy, it will become very challenging for them to find suitable products to invest in.

Beccy Milchem, BlackRock: I would add that euro investors have gotten used to negative rates on the whole. We have been in this situation for quite some time now and they have become used to the way that the reverse distribution mechanism works. Perhaps further education around how it will work in a VNAV world with that daily adjustment in the NAV is still needed.

It comes back to the point: where does the money go? There won't be other options and as Laurie mentioned, euro MMFs are often the best option out there these days. Banks tend to have threshold limits for euros, particularly with the corporates: they might allow them to put five million in their deposit account before they start going deeply, deeply negative – but the negative yields available from the banks are often much worse than the money funds.

Gunjan Chauhan, SSGA: And I would argue the added benefit of money funds – whichever format you decide is appropriate for you – is that they are a sustainable solution that provides same-day access to cash. No matter what, money funds remain a hugely beneficial tool for corporates to have in their toolbox.

Laurie Brignac, Invesco: Of course, there remains some uncertainty around this topic, but I think that no matter what the outcome is, we need to be working with our clients to make sure they are drafting flexibility into their policies. We don't want them to say they can only invest in a stable NAV and then have them forced into investing in a product that doesn't suit them.

Anthony Callcott, Aviva Investors: Corporates have the opportunity to affect change now and they need to get to work on this. And when they do it, they need to ensure that they can use LVNAV and VNAV funds going forward.

Is there still competition in fees? There was a time when very large investors were getting fee reimbursements. What's happening to fees today?

Anthony Callcott, Aviva Investors: It is competitive. It will continue to be competitive. We all charge fees, because we need to earn money. We're not in this to give a free service. Customers understand that.

Gunjan Chauhan, SSGA: I would argue that in the money funds space, management fees are incredibly transparent for end investors. This isn't the case if you are investing in any other short duration instrument where the pricing can maybe be more ambiguous.

> Ultimately, the purpose of fees and gates are to protect the end investor and to ensure we are all acting as a fiduciary by treating investors fairly.
>
> Beccy Milchem, Head of International Cash Corporate Sales, BlackRock

Paul Przybylski, JPMAM: Compression of fees is inevitable. We have seen it for years; this is happening more and more across not only liquidity products but more broadly across the mutual fund industry.

Are you expecting further consolidation of fund managers in the industry?

Anthony Callcott, Aviva Investors: There has been consolidation and there will always be consolidation. The desire to acquire will continue going forward. But I think what we can look forward to is good growth in this business over the coming three to five years.

Paul Przybylski, JPMAM: Yes, if you look at the league tables, ten names account for approximately 80% of the market today; it's already fairly consolidated at the top. Regulatory reforms are going to push more players out, simply because of the cost. It's quite expensive to build the infrastructure for regulatory reform. So, we'll probably see smaller players consolidated a bit further down, but you probably won't expect the top ten to start merging together, at least not yet.

Briefly, what impact will Brexit have on the business?

Laurie Brignac, Invesco: I think it's too soon to say. At this point, we are cautiously optimistic that we'll still be able to offer our UCITS products. But again, until you get clarity around what the final rules are, it's hard to know, and that's at least part of it. Even with reform, it's hard to navigate something when you don't have clarity.

Anthony Callcott, Aviva Investors: Yes, until we know the terms of trade then we don't know the landscape.

Gunjan Chauhan, SSGA: The devil is really going to be in the detail. And until we have that detail we aren't really going to be able to guide investors in an appropriate fashion around the impact, the consequences, what they need to be mindful and thoughtful around.

The issue is selling what will be a European regulated product into the UK market – that's the major area of potential impact, is it?

Paul Przybylski, JPMAM: Correct. We may have to set up a brand-new construct of products. But as Gunjan said, the devil will be in the detail. Another component is how much time we will have to implement. That's going to be a huge factor in deciding what we can actually bring to our clients.

Because you can imagine the body of work that would be required to launch a sterling product – we have clients that would like to see euros and dollars in the same space – so you're talking about potentially duplicating our offering. As mentioned before, that will take time and effort – and costs will again be part of that equation.

Beccy Milchem, BlackRock: There is also the impact from the investment perspective and the potential volatility in sterling, or cautious views on UK credit.

Gunjan Chauhan, SSGA: It is interesting that we have EU MMF reform and Brexit happening at the same time.

Paul Przybylski, JPMAM: It's perfect!

Laurie Brignac, Invesco: A perfect storm!

Paul Przybylski, JPMAM: Investors certainly have reform fatigue. They have had to go through reform in the US and they are now dealing with everything that is happening in Europe. I think they're tired, to say the least!

As a result, when we speak to our clients about these trends, their eyes glaze over. But there is not a lot of time left, and we implore that treasurers push one last time and ensure they are ready to invest in the new regulatory landscape.

Anthony Callcott, Aviva Investors: I think you're right, there is fatigue on the client side. I had a client recently that I booked a meeting with who said, 'You can come and see me – but if you mention reform, you're leaving!'

Gunjan Chauhan, SSGA: It means that more than ever, investors should be very close to their investment managers and vice versa, uncertainty calls for partnerships, and guiding our clients through all these changes is a responsibility that we take incredibly seriously.

We should be mindful of the priority list that our investors have. One of the reasons why investors in the US really were not indicating what they were going to be doing until the eleventh hour may be a reflection of where it's stacked in their priority list. Sometimes investors or clients will not do anything until they absolutely have to. So, I think that's where you need to just be ready to support them when they start working on it.

That really brings us to a close. I'd like to go around the table to hear your closing thoughts.

Anthony Callcott, Aviva Investors: From a client perspective, I believe the reforms are positive and create opportunities. The rules also give clients more comfort in the way they invest and what they are invested in. Creating that transparency, giving them enhanced liquidity and more security of capital, can only be a positive outcome for clients and also for fund managers going forward.

Paul Przybylski, JPMAM: Broadly speaking, I would say that reform is positive for our clients and the overall industry. My advice to treasurers would be to think, plan and act with regards to the upcoming reform. Treasurers need to think about what their investment portfolio will look like in the future and ensure they understand the new structures to build a policy that will enable them to achieve this. Plan accordingly within their organisations with respect to the new product offerings and act when the time comes by selecting the products that best suit their needs by the defined conversion dates.

Beccy Milchem, BlackRock: Like Anthony and Paul, I also agree that the reforms are positive, bringing in a lot more transparency and choice for investors.

I would also encourage treasurers to look at their investment policies sooner rather than later. Top of mind should be creating something that is future proof. It is about being a bit more open-minded about what tools you can use now and ensure this is reflected in the policy.

Laurie Brignac, Invesco: I would echo all these points. I would also encourage treasurers to be close to their fund managers and know exactly when they are transitioning. We're all going to be transitioning at different times, in different timescales. So it's probably time to start gathering that information and asking when the conversion dates are, so you can work your way back if you haven't updated your investment guidelines already.

Gunjan Chauhan, SSGA: My advice for investors is to take the time to stay close to your investment managers and ensure that you are getting up to speed with what the different product choices will be post-reform. And take the time to take it one step further and actually look at the operational mechanisms around how each of those product types will function.

Thank you very much.

AVIVA INVESTORS | BLACKROCK | Invesco | J.P.Morgan Asset Management | STATE STREET GLOBAL ADVISORS

Get ready for the fintech revolution

The impact of fintech is starting to be felt around the world – and even though most of the development sits in the retail space, the corporate world is also benefiting. What should treasurers be doing to take advantage of the possibilities?

Treasury professionals have heard lots about the transformational impact of fintech. Everyone involved in financial services is keen to outline what they are doing, who they are working with and what's included in their vision of the future. And all the talk is being backed up by significant investment: KPMG's latest Pulse of Fintech Report notes that global fintech investment topped US$31bn in 2017. This has pushed total investment over the past three years to US$122bn, with banks, corporates and venture capitalists pouring money into start-ups. But has this talk and investment had much impact?

This is a tough question to answer because the global fintech marketing machine is running at full steam. Whilst this is raising awareness about fintech, it has also made it hard for casual observers to distinguish between hype and reality.

Take Bitcoin, for example. When the cryptocurrency first emerged, commentators couldn't stop talking about its transformative power. One expert told Treasury Today in 2014 that Bitcoin would "become more integral to our lives than we can possibly imagine", adding that it would "replace the backbone of finance, capital markets and commerce".

For a while, this prediction looked like it might be correct. Bitcoin hype soon reached fever pitch and the value of the currency exploded. In late 2017, one Bitcoin was valued at US$17,000. Bitcoin hype (and value) has since trended negative, with confidence in the cryptocurrency rocked by severe volatility, scandals and adverse regulatory rulings. Few are now predicting that Bitcoin will become the world's dominant global currency and have a dramatic impact on our lives.

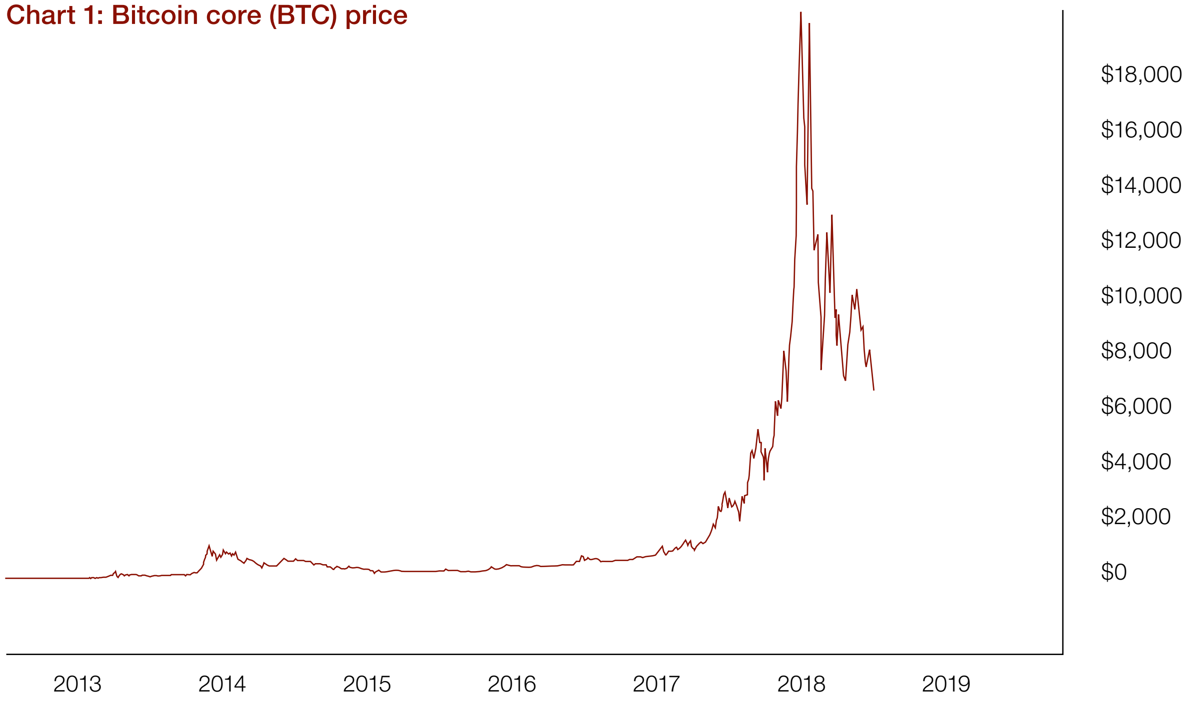
This shouldn't be a surprise. Bitcoin and several other fintech trends are closing following the course predicted by Gartner's Hype Cycle. The Hype Cycle shows that after an initial explosion in excitement around a particular technology, interest wanes once it fails to deliver on the early promise. Then, as the time horizon expands, the technology quietly matures. Eventually, mainstream adoption occurs, growing in line with the widespread applicability of the product.

Instant impact

This isn't to say that fintech has had no impact. In China, for example, technology firms Baidu, Alibaba and Tencent (BAT) have brought financial services to the masses. Individuals in China today can bank, invest and borrow using their mobile phone. Indeed, US$12.77trn was transacted on mobile platforms in the first ten months of 2017.

Businesses in China have responded accordingly. Many have partnered with BAT to accept payments from their platforms, and banks are now building aggregation services to streamline this. More recently, businesses outside of the C2B space have also

Chart 1: Bitcoin core (BTC) price



Source: Bitcoin.com

begun to leverage these platforms. For example, a company that uses contractors to carry out maintenance has embraced WeChat Pay. This has removed the risk of contractors handling cash, while creating additional value through the automated and straight through reconciliation of payments.

Fintech is also shaking up developed economies, albeit in a less spectacular fashion. In the UK, for example, a range of challenger banks have emerged. These include Monzo, which launched in 2015 and captured the retail market's attention with its simple onboarding process, intuitive app and innovative features. Monzo now has over 750,000 current account customers.

Development in commercial banking is less obvious. There has been a steady trickle of new solutions, built in collaboration with fintechs. One example is Bank of America Merrill Lynch's Intelligent Receivables solution. This was built with fintech firm High Radius and uses AI, machine learning and optical character recognition to match incoming payments with disparate remittance data.

For the most part, however, the industry remains in a period of experimentation defined by small-scale pilots and proof of concepts, especially around transformative technologies, such as blockchain.

Focus on partnerships

It shouldn't be a surprise that fundamental change is not happening overnight: commercial banking is an entrenched, complex industry, with high barriers to entry. Corporates are also rarely willing to make significant internal changes or take a gamble on technology with no track record.

Change is coming, however. PwC's 2017 Global FinTech Report highlights this, showing the growing influence of fintech on financial services. Most notably, the report suggests there is a considerable awareness amongst banks that fintech poses a significant risk to profit margins: over 80% of respondents said that a part of their bank's business is at risk from innovators.

To combat the risk of losing business, banks are investing heavily in technology to upgrade legacy infrastructure and develop new solutions. HSBC has announced it is investing US$17bn in new technology as it looks to return to "growth mode". British lender, Lloyds Bank, also said it was investing over US$3bn in technology.

Meanwhile, traditional banks are increasingly working in partnership with fintech firms. The objective of these partnerships is to learn about the technology that such firms are using and to see where and how this could be applied by the bank. Additionally, banks are looking to replicate the culture and ways of working associated with fintechs in a bid to become nimbler and more innovative.

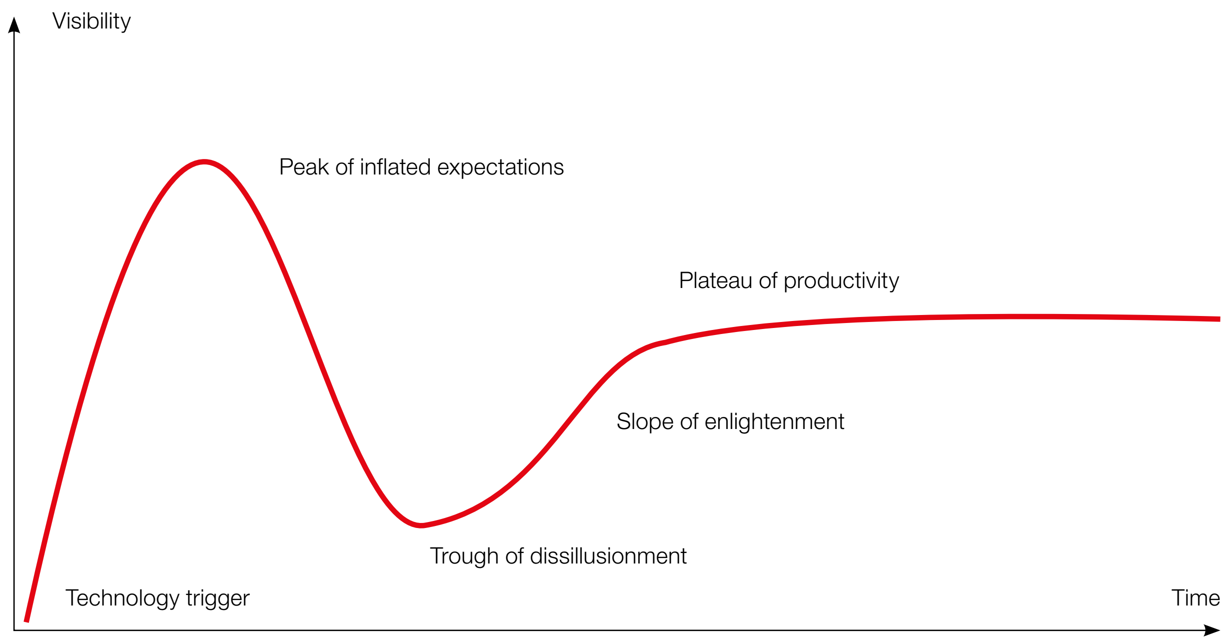
This also points to an interesting change in the approach of fintechs themselves, many of which marketed themselves as disrupters of the traditional financial system. Today, this thinking is no more. The aim of most fintechs is to partner with a bank, as this strategy is considered the best way to achieve the scale required to survive in the long term.

Bank unbundling

These trends are what Sam Hall, Managing Director at Rainmaking Singapore believes has led to the unbundling, and in some cases selective rebundling, of financial services. The term refers to the splitting of combined services at scale into component parts or modules, which can now feasibly be positioned selectively to deliver highly sophisticated value props for particular user segments – somewhat like being able to buy individual tracks on an album, rather than just the complete album.

Hall explains that the impact of emerging technology, access to customer data, cloud, regulatory changes, availability of

Chart 2: Gartner Hype Cycle



Source: Gartner

capital and customer expectations have created a context whereby fintechs are able to create value in far more niche areas of the traditional financial services value stack than was previously possible. This means the banking landscape will collectively evolve to be everything to all people, although for individual banks the historic reality of operating at scale across capital, platform and application layers is long gone.

"The emergence of fintech has given the end-users of financial services more choice," says Hall. "For example, if your bank provides a poor payment experience, you can now use one of the fintech payment providers. And regulation such as PSD2 and Open Banking – which give third-party providers access to customer data and the possibility of offering bespoke and segment-specific front-end financial services – will drive this trend, exposing banks to more competition."

This will have a big impact on banks in the long term, as they will need to overhaul most aspects of their operating models, adds Hall. "Banks are burdened with significant legacy technology that is expensive to maintain. They are being outcompeted on cost of technology and must evolve their business models to focus on areas where they have capability and can seek to remain competitive."

Hall says that this will see banks evolve differently. He expects some to take a platform-based approach, leveraging API layers to connect with best of breed fintech firms and offer retail and corporate customers a one-stop shop for all their banking needs. Others will become back-end infrastructure providers or utilities for other firms.

Digital transformations

This is already happening, at least to a degree. J.P. Morgan, for example, has been bullish in its willingness to partner with fintechs. "There are instances where we are willing to partner with fintechs," says Manoj Dugar, Head of Core Cash Products, Asia at J.P. Morgan. "The reason J.P. Morgan takes this approach is simple: it is about ensuring that we deliver cutting edge innovation to our clients."

Dugar adds that J.P. Morgan also wants to assist its clients with their own digital transformation journeys. "In a recent survey of our clients, we found that the majority are going through a digital transformation," he says. "We must be ready to help guide them through this journey, not just with products and solutions, but by sharing our own experiences to help them build a roadmap for the future."

Raof Latiff, Group Head of Digital, Institutional Banking Group at DBS echoes this point. He explains that DBS is currently undergoing a technological and cultural transformation to become akin to a "24,000 people start-up". Latiff adds that to achieve this, the bank is working with fintechs and bigtechs to digitise its internal technology stack. "We are moving all of our data and platforms into the cloud and reimagining our internal processes," he says. "This will enable us to cut costs, be more agile in innovating, and deliver solutions to customers more rapidly."

These back-end improvements will take time to complete. However, it will be worth the wait. Not only will corporates be able to enjoy a wide range of new products and services; banking costs may also fall. Indeed, a report by Bain & Company suggests that this investment, tied in with increased competition for business, will cause a structural decline in prices for services such as cross-border payments and trade finance.

New engagements

Fintech isn't only impacting banks behind the scenes – it's also changing how they interact with clients. Most notably, banks are paying attention to how fintechs design their solutions and the user experience they create. "We are working hard to bring the experiences we have in our consumer lives to the corporate space," says Jennifer Doherty, Head of Innovation, Asia at HSBC. "To achieve this, we are ensuring our products and propositions have intuitive user interfaces and are easy to use – which hasn't always been the case with banking products."

It goes beyond look and feel, however. Doherty explains that HSBC is redefining how treasurers interact with the bank. "Traditionally, if a treasurer had an issue or needed something, they would make a phone call or email," she says. "Today, clients can initiate these questions through our chatbot, which can deal with many of these enquiries instantly. The idea is to remove the friction between bank and client."

As well as changing how banks and corporates interact, fintech has also pushed banks to design solutions differently. In the past, banks followed a model of designing and building a solution in-house that would then be pushed out to the market. But today, banks are keen to have corporates involved in the design process.

"We look to solve business problems with our clients," says Latiff. "Rarely do we talk about basic treasury solutions today as a starting point. Instead, we talk about digital solutions addressing business problems. For example, one of Asia's largest leading general insurers, MSIG Insurance came to us because they were seeking a way to improve the speed and convenience of the claims process for customers, whilst streamlining internal processes and reducing costs. We worked together and solved this through a real-time payment solution, enabled by DBS' API solution, IDEAL RAPID. This transformed both the efficiency with which insurance claims are processed, and the quality of the customer experience, setting a new precedent for the insurance industry and strengthening MSIG's position as a market leader."

Pricing models for solutions are also likely to change. Rather than banks charging corporates per service, it is likely many will package services together and charge a single fee. This is similar to the switch made by the telecoms industry several years ago.

Alternatively, product pricing may become more bespoke as technology gives banks new ways to track what their clients are doing. Commerzbank, for example, recently announced that it had struck a deal with machine tool manufacturer, EMAG, to create the world's first data-based, pay-per-use loan. This innovative structure sees the repayment of the loan linked to the usage of capital equipment – data which is shared with the bank through tracking devices installed into the tools produced by EMAG. Elsewhere, Nordea has publicly said that the pricing of the loans offered to corporate clients will be directly influenced by their cyber-security awareness and readiness.

Taking action

It's an exciting time for treasury. The main advice is to be engaged with banking partners, technology providers and industry peers to understand what is happening and split hype from reality.

Corporate Interview

Royston Da Costa, Assistant Group Treasurer

Royston Da Costa, Assistant Group Treasurer at Ferguson, talks through why technology is so important to his treasury operation. He also reveals what emerging technology will have the greatest impact on treasury.

Why is technology vital to your treasury department?

Technology is very important to us. It provides enhanced visibility over our cash, accounts, loans, FX activity and payments. This is crucial because we are managing treasury for a decentralised business and need to know what is happening.

We also want the technology we invest in to have a good ROI. We are therefore keen that any technology we use should connect with the other systems used in our organisation. This then allows us to drive efficiency and cost savings through automation and straight through processing.

Finally, new technology, especially cloud-based offerings, such as our TMS, BELLIN, provide greater security, which is crucial for treasury.

Which emerging technologies are of interest?

AI and robotics will be game-changers. We are already seeing these impact shared service centres by automating manual processes. I am now investigating how these might benefit our treasury.

Harnessing Big Data is also of great interest. Everything we do relies on having access to reliable data. The challenge is that this data often sits in disparate systems across the organisation. A technology that brings all this data to a central location would be interesting and allow us to better support the business.

What about blockchain?

Blockchain is interesting as it can solve many issues we have, such as KYC. If blockchain can facilitate true-digital document exchange and matching, it will reduce the time and effort it takes to conduct KYC. This would be a huge benefit for both corporates and banks.

I would be open to using a blockchain solution if it solved this issue. The problem is that the technology is largely unproven.

What is most important for me as a treasurer is not the technology itself, but the value it can deliver. So whilst blockchain is very interesting, my real focus lies in not how it works but the business problems it might solve.

Has new technology had a positive impact on financial services more broadly?

Yes, without question. The focus on fintech has delivered new solutions to individuals and businesses. These provide greater speed, accuracy and reduce costs.

Beyond that, new technology has also enabled businesses to scale up and reach a wide array of new customers around the world. This is revolutionary.

How will the continued evolution of technology impact treasury in the years to come?

Some argue that increased technology usage and automation will make treasury teams redundant. I don't believe this to be true. Technology is not replacing the role; it is replacing the process. And making the process more automated will mean that treasury has more time to focus on the data and act on it. So in five years I foresee treasury departments being slicker and driving greater value in how they support the business.

Views are of Royston Da Costa not Ferguson PLC

Those who want to benefit from new technology at the earliest opportunity must ensure they're ready. HSBC's Doherty notes that treasurers should look at their existing technology stack and see if it is ready to integrate with the new technology coming through. "Most importantly, it must be able to consume APIs as these are the future of bank/corporate connectivity," she says. "I would also recommend that treasurers are involved in the company's annual technology plan. This will ensure that the treasury function is not being overlooked when deciding what areas of the business receive attention and investment."

The future is bright for corporate treasurers who will eventually benefit from all the investment in fintech. This will see them enjoy improved services, products and greater choice and flexibility. So, whilst the fintech revolution is yet to fully deliver on its potential to improve financial services, it's just a matter of time.

Seeing is believing: a clear view across the payments landscape

Sven Lindemann
CEO

SERRALA

The payments landscape has become increasingly complex. Driven by the demand for corporate value-added services, rising customer expectations, and a dynamic global regulatory landscape coupled with structural changes in the financial industry, treasurers are facing challenging times. Clarity of information is essential. But can a true-view of cash-in and cash-out be achieved? Is a 'Treasury as One' integrated process possible? Sven Lindemann, CEO of Serrala (the new name for Hanse Orga Group) explores the notion of a new payments universe.

From your interactions with clients all over the world, what do you see as the main challenges companies are facing regarding payments management today?

From our perspective, as both an integrated and cloud-based solution and service provider, we are seeing common issues around transparency, efficiency, fraud prevention and compliance. Companies are often lulled into thinking they have all these issues covered. But further specialist investigation frequently reveals this not to be the case. Consider fraud prevention. A business may believe that it has all the elements in place to secure it from attack, and yet most organisations have not centralised their payments processes. A business with 50 subsidiaries globally could have as many

> Central to most corporates is the desire to focus on their core business. In the payments space, I believe most companies, wherever possible, would choose not to get overly involved in matters such as format handling, connectivity, fraud and compliance checking. There is a relatively easy way to overcome this because those corporates can outsource these tasks to a payments managed services provider such as Serrala.

payments systems and bank connections, and many more people able to approve payments. Unless each and every one of these nodes are managed fully and effectively, former employees, for example, may still be able to access corporate systems as signatories. It may sound unlikely, but we know it happens.

Centralisation is not something that must be imposed upon all payments processes, but it should concern the underlying technology. If everyone works on the same central system, wherever they are, it means the same central mandatory handling rules can be imposed and managed. This facilitates controlling, for example, access and permissions around a whole range of payment elements such as amount, bank, customer and country. Centralisation of technology also effectively erects a fraud prevention barrier, giving a single view across all nodes. In the fraud prevention context, our system can even enhance that level of control through our 'always on' system-wide rules-based fraud monitoring, analysis and early-warning tools.

If a lack of system centralisation is the root of the common issues, the problem is exacerbated by aspects such as customer expectation, industry regulation, and the unremitting need for treasurers to 'do more with less'. Covering all that ground suggests a complex solution is required.

That's not the case. Central to most corporates is the desire to focus on their core business. In the payments space, I believe most companies, wherever possible, would choose not to get overly involved in matters such as format handling, connectivity, fraud and compliance checking. There is a relatively easy way to overcome this because those corporates can outsource these tasks to a payments managed services provider such as Serrala. They still control and run their business processes but the moment a payment is approved, it can be forwarded to us to run those onerous back office functions such as format conversion, mapping and routing, routing optimisation and the connectivity to the most appropriate banking channel. Of course, as we respond to our customers' growing requirements, so we can deploy our expanding knowledge and solution set to help many others enjoy the same benefits.

It is worth mentioning here that access to this broad and deep industry experience cannot be achieved by a business working in isolation. And this is a potentially complex scenario to manage. An international business dealing with just five network banks across 100 countries will have to develop and execute for every bank in every country, a country-specific payment dialect. In this case, 500 different formats are required. Using the right technology approach and a trusted vendor allows the treasurer to focus on what needs to be paid, how and when. With our payments routing optimisation algorithms, factors such as bank fees and even agreed wallet-share can be handled automatically. Now consider how a large company manages this alone. It's a huge workload for that business, even across a relatively small network.

You have a large client-base; in what state do you find many companies when trying to tackle these issues?

As I mentioned earlier, only a very small number of corporations are fully centralised from a payments perspective. But a business can be centralised and still be at the mercy of multiple technology solutions. Even more commonly, we see systems fragmented along country- or region-specific lines.

Typically, we see organisations asking their banks to help them bring order to their processes, instructing them to take on the mapping and connectivity to other institutions. From what I see, the banks are usually not equipped to be able to execute these requirements automatically. Ultimately, the customer has to manage their own payments processes and find the right solution to handle their instructions in the necessary transparent, efficient and secure manner.

Paint a picture of how centralisation positively affects treasurers in areas such as order-to-cash, procure-to-pay, payments, cash visibility and data and document management.

When seen from an order-to-cash standpoint, centralisation means considerable process time savings, working capital optimisation, process security and strong compliance. And for global organisations, it can mean fewer automatic write-offs of outstanding debt; this can represent a huge amount of money saved.

Perhaps for historical reasons, many corporates run their payments separately from invoice processing. On the procure-to-pay side, an invoice generated by the supplier will be checked, matched, posted and eventually paid. Where technology centralisation has been implemented effectively, the functions can be seamless. A business can start with an open invoice, and end with a payment in the supplier's account, with no need for human intervention. In our system, this can account for more than 85% of cases.

The reduction in exceptions alone means time- and cost-savings can be significant here too. But with a straight through automated process, so long as the master data from the supplier has not been changed in any way, there can be certainty that fraud has not been attempted. Seamless automation can also ensure all invoice discounts from suppliers are accredited. In a manual set-up, often these are missed, again potentially costing the company time and money to correct, if they are even acknowledged. It should be noted too that where seamless automation generates more accurate days payable outstanding (DPO) figures, working capital optimisation can increase accordingly.

In my view, centralised payment processing means it is possible for a business to collect and manage data at a single node, for everything from a single manual treasury payment to instructions from global payments factories and bulk payments on-behalf-of. By combining managed payments services with clear authorisation pathways, the organisation is able to assume control of the payment and all its related historical data.

Of course, the standard internal business processes used to create payments files will vary from function to function, the different needs of Accounts Payable and Treasury, for example, placing different requirements on the system. However, with the rise of real-time payments systems, these different business processes must be able to align in order to handle the data flow to banks in all the available channels. This will be the case whether accessing in the 'classic' mode direct to bank, or through modes such as credit and virtual card payments and even blockchain payments (the latter we see currently rising up the agenda). In effect, companies that wish to have the luxury of choosing between real-time and bulk payments will have to be able to align their entire payments stream.

For every business, everything starts and ends with a payment one way or another. It demands full visibility if the start and end points are not to be left to chance. All the information from order-to-cash and procure-to-pay must be automatically integrated and available in the treasury system, alongside treasury's own transactional data.

Linking current with historical payments information falls to effective data and document management. A centralised payments data and document view, drawn from both short- and long-term files, enables the treasurer to immediately access everything needed to deep-dive into a specific transaction – such as an underlying invoice or requisition – prior to authorising or investigating a payment.

Given the volume of traffic in this space, from a data volume management perspective, I believe that it is important to be able to control and archive according to need. Not least of the reasons for having accessible data where it concerns European clients is GDPR compliance, in terms of both understanding the relevance of holding that data and in being able to easily delete it when requested to do so.

What solutions are available that can help corporates achieve best payments practice?

At Serrala, we cover a range of technologies. We are still very strong on our FS² SAP-integrated solutions, drawn from our vast experience as Hanse Orga. But we have grown and today we also have a new cloud suite we call Alevate. Each solution set can be run independently but we know that businesses are often more complex than that and so we are seeing a huge market interest in the combination of these two worlds; we call this our Hybrid Cloud offering.

The Hybrid model allows our customers to decide where and how to work. Accounting and payments teams, for example, may be SAP-focused, running on an installed platform, but treasury may favour the flexibility of cloud-based work. With connected data in the Hybrid environment, both sets of needs can be met, with each 'view' being available to the other, as required.

We can also provide a solution to the banking sector, helping their own corporate clients to benefit from our treasury and payments experience. Here, we are offering the entire cloud-based functionality for order-to-cash, procure-to-pay, treasury and cash visibility, payments, and data and document management under the name of BCrest. I talked earlier about the back office solution that banks increasingly seek to offer in support of customers. This solution helps them to address corporate client needs along the entire financial supply chain, streamlining and automating their processes. But BCrest enables banks to offer corporate clients more than treasury functionality; it is a source of data analytics.

What advantages, other than solving immediate efficiency challenges, can or should the right integrated solution deliver to businesses?

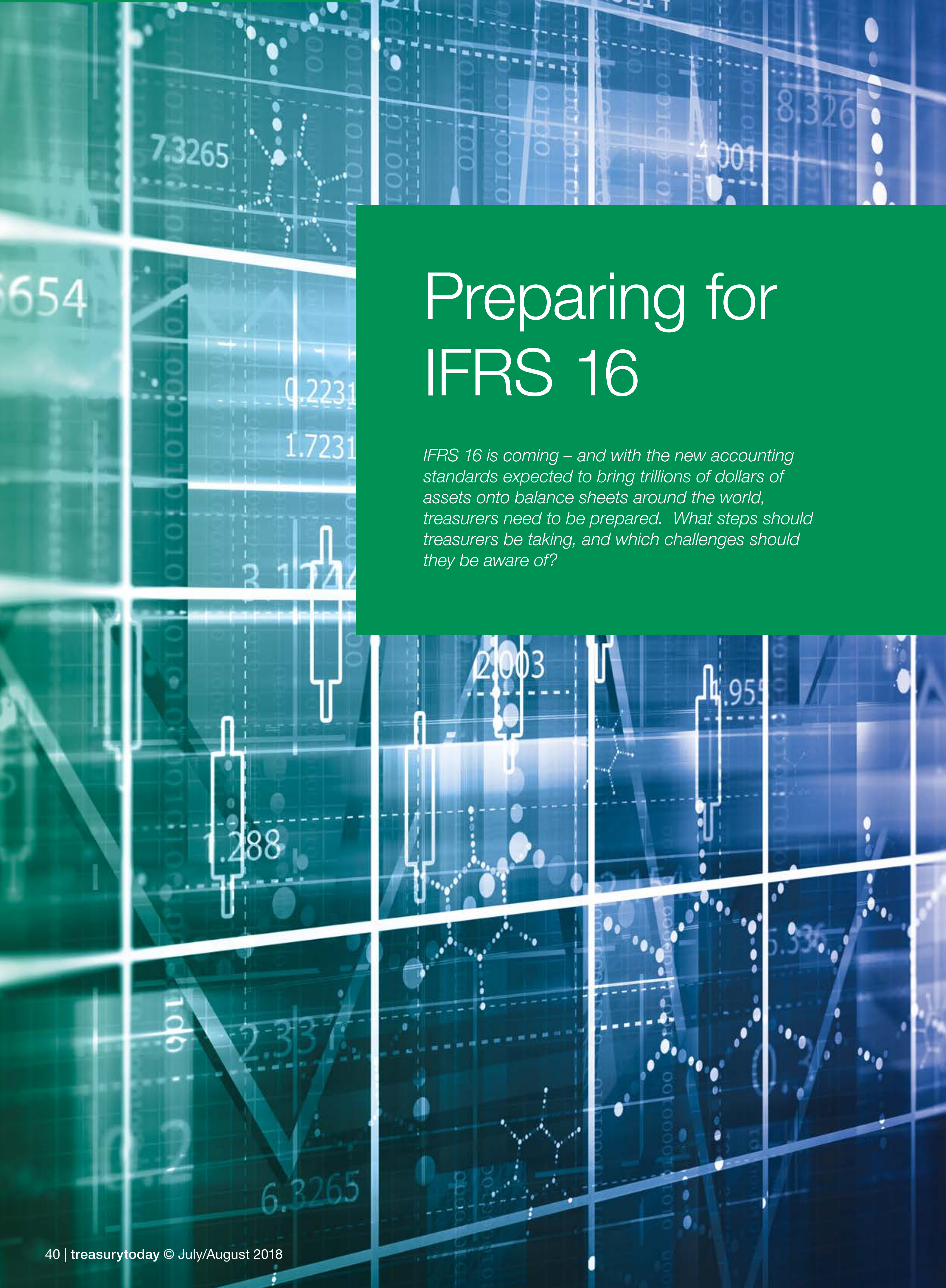
The main driver for most technology quests will be automation and efficiency. But today many requests are steered by fraud concerns, where authentication and access can create major issues for businesses. There is also a cost and resource savings imperative, not least from a working capital optimisation standpoint.

Often a project of this type is about preparing and strengthening an organisation for merger and acquisition or carve-out plans. The need for scalable solutions is therefore essential to allow data in- and outflows, to allow for the integration or divestment of entities with maximum speed and efficiency. The Serrala Hybrid approach is based on facilitating communication between the different parts of the business from day-one and, given the power of GDPR, ensuring post-carve out that all necessary data has left the seller's system.

What questions must a business ask of any potential vendor when seeking to automate some or all of these processes?

There are some very fancy solutions on the market today but few of them are true end-to-end propositions. When seeking the most appropriate solution and vendor, it is important to take up references, asking how many customers and live implementations globally it has, and in which regions and countries. Question the technology and its ability to integrate in a dual installed and cloud environment, and, if the corporate requires managed services, to what extent are these available.

Obviously it is vital to prepare questions around software needs, from an IT and a functional viewpoint, but equally so to probe the vendor's services, the relevance, breadth and depth of its knowledge of the markets, and how the corporate can be supported going forward because this should be a long-term relationship.



Preparing for IFRS 16

IFRS 16 is coming – and with the new accounting standards expected to bring trillions of dollars of assets onto balance sheets around the world, treasurers need to be prepared. What steps should treasurers be taking, and which challenges should they be aware of?

The new IFRS 16 lease accounting standards are due to come into force on 1st January 2019. Expected to bring over US$2.8trn of assets onto balance sheets around the world, the new rules will have a significant impact on IFRS and US GAAP reporting firms, affecting everything from financial metrics to debt covenants. So what are the implications for corporate treasurers – and what should you be doing to prepare?

Why change the rules?

In a nutshell, IFRS 16 Leases is being introduced to address criticisms of the current lease accounting requirements in IAS 17 Leases, as Victor Chan, International Director, Ernst & Young GS LLP, Professional Practice – IFRS Services group, explains. He notes that the current requirements have been criticised for failing to meet the needs of users of the financial statements – "particularly because IAS 17 does not require lessees to recognise assets and liabilities arising from operating leases". In contrast, IFRS 16 "addresses those criticisms by requiring lessees to recognise most leases on their balance sheets and providing enhanced disclosures".

While the new rules were published in 2016, the history of IFRS 16 dates back a number of years. "The standard was introduced as a response to the financial scandals of the early 2000s," explains Michael Keeler, CEO of LeaseAccelerator. He says that the IASB began investigating loopholes in the accounting standards that could potentially allow for accounting fraud – and that one of the biggest loopholes discovered by the IASB was that of off-balance sheet operating leases.

"Under the old lease accounting standard, IAS 17, leases classified as operating leases (rather than finance leases) could be reported in the footnotes of financial statements," Keeler says. "As a result, operating lease liabilities were omitted from a corporation's total liabilities. While professional financial analysts have always had their own methods of calculating a corporation's true liabilities, the average retail investor was typically left in the dark."

IFRS 16 closes this loophole by eliminating the difference between operating leases and finance leases. "Now, all leases, with limited exceptions for short-term and low-value leases, will be treated as finance leases and reported on the balance sheet as a right-of-use asset and corresponding lease liability," says Keeler.

What's changing?

Keeler describes IFRS 16 as "one of the biggest accounting standards changes in history". Indeed, the IASB estimates that over US$2trn of leases will move onto the balance sheet following the changes – and that half of all listed companies currently using IAS 17 or FAS 13 will be affected by the changes.

Chan points out that when the new leases standard becomes effective, an entity's financial statements "may look quite different", depending on the significance of its leasing activities. Where the balance sheet is concerned, Chan explains that IFRS 16 requires lessees to recognise assets and liabilities for most leases.

"Specifically, leases are accounted for based on a 'right-of-use model'," he says. "The model reflects that, at the commencement date, a lessee has a financial obligation to make lease payments to the lessor for its right to use the underlying asset during the lease term." As Chan points out, this is a significant difference from the current lease accounting requirements in IAS 17 for operating leases that are off balance sheet.

Also significant is the impact on the income statement. An Effects Analysis published by IFRS in 2016 explains that for companies with material off balance sheet leases, IFRS 16 "changes the nature of expenses related to those leases", replacing the previous straight-line operating lease expense with a depreciation charge for the lease asset and an interest expense on the lease liability. The document explains that "Although the depreciation charge is typically even, the interest expense reduces over the life of the lease as lease payments are made," which results in a reducing total expense as an individual lease matures.

The Effects Analysis does note that the difference in the expense profile between IFRS 16 and IAS 17 is expected to be insignificant for companies holding a portfolio of leases that start and end in different reporting periods.

Implications for treasurers

For corporate treasurers, the new standards bring a number of possible implications including the following:

- **Increased auditor scrutiny.** The new rules will result in greater auditor scrutiny over companies' leasing

Finance lease vs operating lease

Under IAS 17, lessees treated finance leases and operating leases differently:

- A **finance lease** is one which transfers substantially the risks and rewards relating to ownership to the lessee. For example, this would include a lease in which ownership of the asset is transferred to the lessee at the end of the lease term. Under the previous rules, finance leases were recognised as a liability on the balance sheet.
- In an **operating lease**, the risks and rewards remain with the lessor. Under the previous rules, operating leases had no balance sheet impact.

Under IFRS 16, both types of lease will be accounted for using a single, on-balance sheet accounting model. Lessors, however, will continue to differentiate between finance and operating leases.

The new rules do not require lessees to recognise assets and liabilities for short-term leases of 12 months or less, or for leases of low-value assets.

Getting ready for the new rules

George Dessing, Senior Vice President, Treasury & Risk

Wolters Kluwer

As a treasurer you are responsible for daily liquidity and compliance to debt covenants, which is where IFRS 16 will have an implication. So we're currently working on getting that secured.

IFRS 16 will also lead to certain efforts at work that will probably be demanded from your department in relation to the discount rate, for example – this is a number that probably comes from the treasury teams in order to assist the group accounting and reporting departments.

In fact, the group accounting and reporting departments are the ones who are leading this project here at Wolters Kluwer, although we do of course have a role to play. They are preparing various discussion papers and organising webinars to inform the whole group internally about the changes.

We are also seeing a new data collection effort for the different kinds of contracts, including real estate contracts as well as car leases – every car is a new contract in itself, so there are a high number of leases that will need to be evaluated. Another thing for us is looking at IT data centres and assessing whether such contracts include leases or not.

You can imagine that this is quite an undertaking – first of all getting the information from your business, but also the interactions with auditors, rating agencies and banks. Luckily we have acquired our own software provider, Tagetik, a leading global provider of corporate performance management software and services, which can help organisations get their lease requirements into their systems more effectively. So it's a great opportunity to use our own products.

As it relates to liquidity, I would say it's better to arrange this over the summer – don't wait until the moment when you're actually in need of your credit facility, but do it right now while it's still relatively early days.

processes and controls, so companies will need to track their leases more closely than in the past.

- **Financial ratios.** IFRS 16 is expected to impact financial ratios including the leverage ratio, return on assets, and current ratio which could impact agency ratings, existing debt covenants, and future debt arrangements. Keeler says that the effect on each company will vary – "so treasury should research and confirm how these metrics will change when the standard is implemented."

- **Data management.** Leases will need to be tracked more closely under the new rules, so robust data management will be essential.

- **Lessor relationships.** Keeler also points out that treasury often takes on the role of managing lessor relationships, which will be important under the new standards as a source of lease data "that companies need to track, but may not currently have access to." He points out that maintaining these relationships may allow companies easier access to this data in the future – "and potentially advantages in negotiation."

Keeler adds that achieving greater visibility into companies' leasing programmes can bring opportunities for treasurers to identify unnecessary costs. He notes that many companies have uncovered inefficiencies in their sourcing – "either from not conducting a lease versus buy analysis, or not competitively sourcing assets." He also says that end-of-term management can be associated with inefficiencies if companies do not stop payments on leases in a timely manner.

What should treasurers be doing?

Naturally, the first step for treasurers is to understand the requirements under the new leases standards. "Compared with the existing accounting standard on leases, there is detailed guidance under IFRS 16 on the definition of a lease, identifying and separating lease and non-lease components, recognition and measurement of lease liability, and the right-of-use asset on initial and subsequent accounting, as well as presentation and disclosure requirements," says Chan.

> "Achieving greater visibility into companies' leasing programmes can bring opportunities for treasurers to identify unnecessary costs."

He adds that the second step should be to evaluate how the new leases standard would impact the financial statements both of the entity and of its peers, including the impact on financial ratios and credit profile. "Corporate treasurers also need to ensure that banks and other lenders understand the impact of IFRS 16," he adds, pointing out that it may be necessary to negotiate revised covenants with lenders if the impact from the implementation of IFRS 16 will be significant.

> Corporate treasurers also need to ensure that banks and other lenders understand the impact of IFRS 16.

The final step, Chan says, should be to evaluate how the new leases standard would impact the financial statements of the entity's customers, and to update the entity's model and process for evaluating the creditworthiness of its customers.

Overcoming the challenges

Treasurers should be aware of the challenges that may arise while adopting the new standard. Chan says that implementing IFRS 16 may require a closer look at the new standard's transition provisions. "For example, the standard allows for transition fully retrospectively or using a modified retrospective approach (with various practical expedients) that does not recast prior years," he explains. "Therefore, comparing financial statements may require carefully considering the transition-related disclosures to understand the impact of the new leases standard across a sector."

Data capture

Keeler observes that data capture is considered to be the largest challenge, noting that corporations will need to capture up to 100 data fields per lease, including information on payments, expenses and end-of-term options.

This may be not be a straightforward exercise, as Keeler explains: "At many large organisations, this data is scattered around systems, spreadsheets and file cabinets in different business units and cost centres around the world," he says. "Some of the information may not even exist in the corporation's records."

As a result, Keeler says that the project team is unlikely to focus on establishing long-term processes or controls, such as a lease versus buy analysis, or on optimising the use of capital and maintaining lessor relationships. "It will be up to treasury to explain the importance of these policies to the leasing programme and the company as a whole," he notes.

According to Keeler, this could include pointing out that a lease versus buy analysis control "not only helps optimise the use of capital, but also serves as a data capture point which can be used to prove completeness of lease data in an audit".

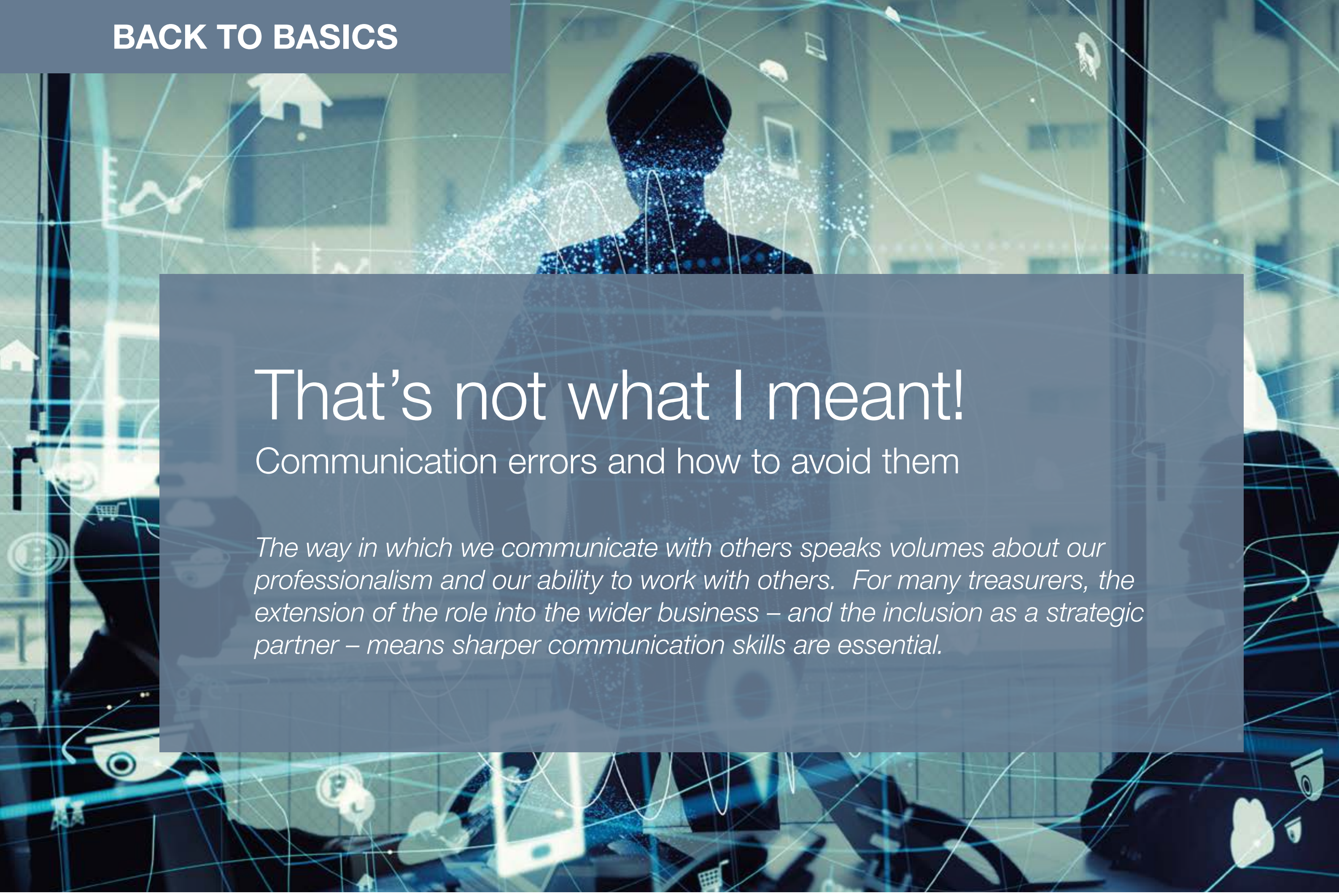
Positive lessor relationships

Finally, maintaining positive relationships with lessors can provide another way of tracking down lease data. Whereas many companies do not have access to all the data fields they need to properly complete the accounting under the new standard, Keeler points out that lessors "have built their business off tracking this information". He adds, "having a strong relationship with the lessors will allow the treasury group to reach out, should there be a question about a lease or a missing data field."

Taking action

Where specific actions are concerned, Keeler suggests a number of steps that corporate treasurers should take in the time leading up to the implementation deadline:

1. Help accounting develop a methodology for determining the Incremental borrowing rate or discount rate to use for calculating the present value of the lease payments.
2. Assist accounting with capturing key financial variables, including Weighted Average Cost of Capital (WACC).
3. Share the information that treasury has on file about the lease portfolio, including which assets are leases, the lessors, and the asset owners.
4. Leverage relationships with leasing companies to get the latest copies of leases or other critical data.
5. Advise on long-term processes, policies, and controls for the future state design of the leasing programme:
    a. Establish sourcing policies to optimise capital use in the leasing programme. One control could be requiring a lease versus buy analysis for every asset request to ensure that the best acquisition decision is made.
    b. Develop long-term lessor relationships. As the leasing process becomes more visible, relationships with a company's vendors and landlords will become more important. Strong relationships with lessors will give the company advantages in the sourcing and negotiation processes for equipment and real estate assets.
    c. Keep financial metrics up-to-date. Treasury can establish an internal process for their organisation to ensure that they keep financial metrics relevant to the leasing programme up-to-date in the organisation's lease administration software. These data points include the company's incremental borrowing rate and current market rates.



That’s not what I meant!

Communication errors and how to avoid them

The way in which we communicate with others speaks volumes about our professionalism and our ability to work with others. For many treasurers, the extension of the role into the wider business – and the inclusion as a strategic partner – means sharper communication skills are essential.

Good communication is just common sense isn’t it? Certainly, there are those amongst us who are natural communicators, apparently for whom no social situation is awkward, and no message ever misconstrued.

But admit it: most of us have at some time sent an email without checking its content then felt the sudden panic as we realise that we really should not have sent it. With the prevalence of social media tools such as Twitter and WhatsApp, the immediacy of messaging means it is even easier to make communication errors. These can sometimes come back and bite years after the fact.

Despite the view that ‘natural’ communicators walk amongst us, our communication skills are not always as sharp as we like to think they are. Everyone can benefit from a spot of revision from time to time.

Staying professional

There is a big difference between being talked at and being engaged in a conversation. For all forms of communication, and through all channels, this is true. Communication, by definition, is a two-way process, with every message requiring a sender and receiver. Being a skilled communicator is not natural; it comes with practice.

Some people are more adept (or rather, more practiced) than others but in business and everyday life communication is a necessary skill. It helps build trust and respect, and it forges deeper connections between people which, ultimately, gets things done.

In a commercial context, the idea that communication is easy if the recipients know who you are and why you are doing things, has some mileage. But failure to consider the nuances of effective communication runs the risk of alienating the intended audience.

Former AOL CEO Tim Armstrong (he is now CEO of a part of AOL parent, Verizon) made an unpopular decision worse back in 2013 when he tried to defuse staff tension around possible job losses. During a conference call with the 1,000 or so affected employees, he aimed to boost morale and move the conversation on. Instead, he fired the company’s creative director, Abel Lenz, in front of those employees for a perceived wrong-doing (he was recording the event). The public nature of the termination was described by an observer as “shameful and disgusting” behaviour.

Regardless of Lenz’s transgression, Armstrong turned what should have been a reassuring message into one of abject negativity and, in so doing, caused tremendous harm to his own credibility as a professional communicator.

This debacle demonstrates that although what Armstrong did was, in his own words, unfair to the former employee at a “human level”, even some senior executives can occasionally be prone to responding in an all too human way, lashing out in frustration. This is something that great communicators know not to do.

Everyone gets angry from time to time but reacting without taking time to form a rational response can prove disastrous. This is especially concerning where electronic channels enable unintentionally bad messages to ‘go viral’, helping to form the opinion that the individual lacks self-control and emotional intelligence and are not to be trusted. Respect goes out the window.

Improving communication

We've all had the experience of getting it wrong, so how can communication be improved? According to web resources such as Mindtools, Entrepreneur Europe and Lifehacker, there are several quite simple steps we can all take to improve our chances of getting our message across in a positive way.

Assertiveness not aggression

Being assertive means being able to stand up for your own or other people's views, needs or rights, but doing so in a calm and positive way. Assertiveness means having the confidence to say 'no' when necessary, yet still helping to maintain relationships on an even keel. In essence, it takes you closer to what you want to achieve whilst considering the views of others.

In the same way that confidence quickly becomes arrogance if left unchecked, over-assertiveness can morph into aggression. Aggression is all about getting your own way, regardless of other people's views or even rights. It might get immediate results but at what cost?

Assertiveness, as with all communication skills, comes with practice. Begin by confronting mildly tense situations where you perceive the threat as minimal yet worth tackling. Learn to set reasonable limits and how to say 'no'. Respect yourself and let go of the guilt of saying no. Practice getting to the point and clearly articulating the real issue; don't confuse people with the minutiae, or by taking a convoluted route to your point.

Tackling difficult conversations head-on

Avoiding an issue can allow it to take on a life of its own. Gossip and speculation are often rife in offices; the longer a problem is left, the more out of control it can become.

When communicating a difficult issue, such as when dealing with a problematic member of staff, using a tool such as the Situation – Behaviour – Impact (SBI) model can help focus the conversation and give it a positive direction.

Preparation is vital, but it helps the subject understand the context of the situation, it describes the specific observable behaviours being addressed, and it highlights the impact of the subject's behaviour on you or others without making assumptions. Rather than creating conflict, SBI offers the subject a clear and neutral view of the problem, giving them the opportunity to respond positively.

Keyboard warrior

Sacking someone in front of their peers has damaging consequences for all, as AOL's Tim Armstrong, referred to previously, discovered when his PR team hurriedly urged him to issue an apology to all employees.

The opposite of the Armstrong approach is hiding behind an email to deliver bad news. In 2017, the UK's Equality and Human Rights Commission were reported as having sacked several striking staff by email, giving them one day to clear their desks. In another case, back in 2014, Michael Laudrup was dismissed as manager from Premier League football club, Swansea, claiming he was sacked by email. In both cases, the action was subsequently denied by the accused but by then the damage was done.

> "I think more than ever it is imperative to have strong professional relationships in order to stay abreast of developments. Every treasurer should be able to demonstrate strong communication skills as the role becomes more connected with the business.
>
> Helen Hanby, Director, International Treasury, Biogen

These kinds of story make a big media splash because people recognise the inappropriateness of delivering bad news from a distance. Whether the old maxim that 'the truth should never get in the way of a good story' is one that applies or not, such events suggest weakness of management and cause employee outrage.

The fact is that written communication channels can fail to soften the blow of difficult messages because they cannot carry non-verbal cues, such as body language or tone of voice, that in-person communication offers. Furthermore, there is no opportunity for the message sender to deal immediately with any misunderstanding arising from that communication. The solution is easy: bad news should be delivered sensitively and in person.

Preparation, preparation, preparation

Any communication that is intended to have an impact should be subject to proper planning and preparation. Slide presentations, for example, need to suit the context. It sounds obvious but loading complex graphs and long strings of text may not suit an audience in a large hall where the back rows can't see them.

Similarly, offering interminably long talks to a post-lunch conference audience rarely gets the message across. Yet it happens. Be mindful too that because emails don't carry contextualising non-verbal cues, it is very easy for the message to be misconstrued.

When speaking publicly, rehearsal can bring more fluency to the nervous (and alert the speaker to expressions they may stumble on). Being terrified may require more work to overcome. For written work, always sense-check the appropriateness of content before sending, especially an email.

Communicators should plan what they are going to say and how they are going to say it. We can't all be great orators or writers, but we can all take the time to prepare a credible, intelligent, and hopefully compelling message. As part of the

> Well-developed soft skills are essential to keep staff motivated and happy. As CFO, I rely heavily on them. I want them to feel responsible and be part of the business because if it grows and does well, we all grow and do well! The ability to read people and make good judgements does not come from sitting behind a desk. It comes from travelling and meeting people.
>
> Dheeraj 'Raj' Chadha, CFO, TeleAdapt

preparation, it helps to understand and respond to the audience's likely emotional response as well as their intellectual take on your message.

The power of proofing

Where treasurers increasingly have contact with other functions and external partners, creating the right impression through the written word is important. It may be the first contact and, as the saying goes, first impressions last.

Grammatical errors and poor spelling are signs of carelessness for many people. Proof-read everything but don't rely on a spell-checker to bail you out; it may correct the word but is the word correct?

For important documents use a second pair of eyes prior to sending. If you have the time, once you have finished your work, walk away from it for a while. Re-reading it later can reveal some fundamental errors.

Everyone is different

Trying to deliver your message across multiple platforms and audiences without tailoring it to the different needs and expectations of your audience is risky. As a treasurer, you can use complex expressions and ideas related to the profession and safely assume that your audience will understand. Try using the same technical language with the board, CEO, or your procurement team, and you will spend much of your time explaining yourself. Or simply fail to communicate.

Jargon and the overuse of acronyms is a sure-fire way to lose the interest of a non-partisan audience. Explaining everything to a knowledgeable audience is patronising and a waste of their time.

Bear in mind too that in a globalised business, cross-border trade can mean cross-cultural communication. Don't make assumptions; learn about your audience. An understanding of the people with whom you wish to communicate may suggest a rethink of your message, tone and approach, timing and even expectations, to avoid mis-communication.

Learn to listen

Listening is a vital part of communication. The definition of listening offered by Richard Mullender, a former hostage negotiator, is the "identification, selection and interpretation of key words that turn information into intelligence".

The key to successful listening is to listen for the speaker's motivators, values and beliefs. Conversations should be used to learn from others, not as a platform to demonstrate your own intellect.

Sound specialist Julian Treasure advises people to adjust their listening 'position' according to need. Practice by listening to a speech, trying to focus on a different angle such as from a critical or empathetic perspective and comparing outcomes.

Treasury offers the acronym 'RASA' as a guide to better listening: Receive by making eye contact with and focusing on the other person; Appreciate by giving indications of acknowledgment through cues like head nods or short vocal replies; Summarise by getting the other person to clarify the point of anything that doesn't register; and Ask by posing follow-up questions on whatever you just learned.

Read it right

Correct interpretation of body language is vital if subtle clues are to be incorporated into the overall communication experience. The web resource, Learning Mind suggests successful communication requires the constant observation of the gestures, facial expressions and postures of the recipient to build a fuller picture.

Placing the entire communication – verbal and non-verbal – in context is vital if real meaning is to be derived. Although folded arms and crossed legs can convey a closed mind within the recipient, there may be a practical reason for this stance: they may simply be cold.

Individuals often display idiosyncratic positive and negative non-verbal signals too, such as a certain movement when in a certain situation (tugging an earlobe when nervous, for example). Distinguishing these from everyday movements can help understand their mood in future encounters. Some people are well-versed in body-language and could be deceiving you but observable contradictions may exist.

Although body language is not an exact science, humans will either display a state of comfort (satisfaction, happiness, relaxation) or discomfort (displeasure, stress, anxiety). The difference may not be obvious, or the individual may be trying to cover up their feelings. By correctly interpreting their state of mind, in context, it becomes easier to tailor the communication to match.

Don't go viral

Given the complex nature of communication, it is hardly surprising that mistakes are made. But with a little understanding of what is involved in getting a message across successfully, the chances of accidentally 'going viral' at your expense are minimised.

More importantly, understanding and applying the different elements of positive communication helps to ensure professionalism and respect are maintained and, ultimately, things get done.

Sanctions in the spotlight

Managing the risk of global sanctions is becoming increasingly important for corporates. The landscape is becoming more complex and the regulators are placing non-financial organisations under the spotlight. Is it time to put a best in class sanctions screening programme in place?

Bill North
Head of Global Sales
Pelican

Jesse Spiro
Global Head of Threat Finance & Emerging Risk
Thomson Reuters

Over the past decade, the global sanctions landscape has become increasingly complex as various countries and supranational bodies impose sanctions at an unprecedented rate – that very rarely align with each other. This has put all affected organisations in a difficult position, heightening the risk of them falling foul of sanctions somewhere in the world.

More than half of corporates, when polled during a recent webinar hosted by Treasury Today and Thomson Reuters, said they were either 'not confident' or 'very unconfident' about their knowledge of the current sanctions environment and the impact it is having on their organisation.

Given the complexity of the global sanctions landscape and how "narrative sanctions" are putting the onus on risk managers in the private sector to ensure companies are not falling foul of these rules, the results are unsurprising, said Jesse Spiro, Global Head of Threat Finance & Emerging Risk at Thomson Reuters.

Using sanctions placed on Russia and Iran as case studies, Spiro revealed the myriad complexity that risk managers face when trying to understand the sanctions that apply and whether their organisations and staff fall foul of these.

Indeed, complexity is the watchword when it comes to sanctions. Corporates, it seems, can no longer rely on their banks – and their outdated sanctions screening technology – to manage the risk. Bill North, Head of Global Sales at Pelican provided some practical guidance for corporates looking to put in place their own sanctions screening programme.

The ultimate goal of any sanctions screening programme is to prevent a company from undertaking any transaction, or working with any entity or individual, that would see it violate regulations. To that end, North believes that sanctions screening programmes must start with treasury determining precisely what it is going to scan – including customers, vendors, partners, and agents. Treasury will then need to decide what sanctions lists to scan these counterparties against, depending on the type of business it is and the geographies in which it operates.

The system must also do this in a streamlined and efficient manner so as not to create any extra work for the treasury team. For example, antiquated systems do not have the sufficient level of sophistication to recognise that a bank branch with the legitimate address of 128 Baghdadstrasse in Berlin is not the same as the sanctioned city of Baghdad in Iraq. The system will, therefore, generate an alert, stop the payment and create more work for the treasury.

Selecting a technology that can best meet these objectives in the most efficient manner is the next step. North suggested that picking a system that understands the context of the payment should be a key driver as this can eliminate the type of issues experienced when sending payments to the aforementioned Baghdadstrasse. Another way to reduce false positives is to leverage AI and machine learning so the system can learn from "clean" transactions and not flag the same data in context twice.

The technology also needs to detail clearly why it has created an alert. North explained that best in class technology should be able to offer a single view of the data or text that caused the alert and the source of conflict. This will dramatically shorten the time taken to start the remediation process.

Furthermore, North argued that treasurers need to think about adopting a system that integrates with existing systems and processes easily. He added that treasury should not have to change a payment file in any way to be able to scan it, and that the system should be flexible to enable users to choose at what point in the process they want to do the scanning.

How confident are you on the current sanctions environment and the impact on your organisation?

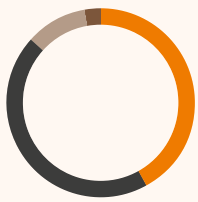
Very confident – **0%**

Quite confident – **42.1%**

Not confident – **44.7%**

Very unconfident – **10.5%**

Not sure – **2.6%**

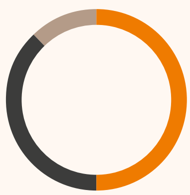


To the best of your knowledge has your organisation had payments stopped by its banks?

Yes – **50%**

No – **38%**

Not sure – **11.4%**



If you missed the webinar and would like to hear the full recording this is available at ***treasurytoday.com/webinar/previous-webinars***

Payment fraud prevention

"The latest AFP Fraud Payment Survey found that 80% of companies had at least one instance of payment fraud occur in 2017. What can treasury do to stop this?"

Katja Franz
Treasury Consultant
BELLIN

Anton Wahl
Treasury Consultant/Payments Specialist
BELLIN

Cybercrime is a huge and universal issue that affects companies around the globe. Treasury can and must play a role in tackling it. Corporate treasuries are best placed in a company to act as "gatekeeper", and treasury management system providers and consultants have a duty to provide the solutions – both in terms of technology and in terms of processes – to empower them.

With cybercrime being a multi-layered issue, treasury also needs to approach this subject from several angles. Technology, processes and users are the main vulnerabilities and there are a number of ways in which treasury can make a difference. As for technological solutions, a treasury management system offers multiple opportunities for preventing fraud. This starts with access controls to the system that ensure that only those employees can access and/or process data – including payments – that should. Ways of implementing access control in a TMS are for example SSO, IP restrictions or two-factor authentication. Equally important are secure and viable password conventions and password policies. All of these measures should be joint efforts by the treasury and IT departments.

These access controls should go hand in hand with sophisticated rules and mechanisms for permissions and roles. By assigning permissions to perform certain operations to specific roles – and in turn assigning specific roles to every user – treasuries can exercise much better control and considerably boost security. You can ensure that users can only perform tasks that they should be able to perform. Ideally, the system settings allow you to administer this centrally. Treasury should clearly advocate segregation of duties, for example, a clear distinction between responsibilities for master data maintenance (and approval when a dual approval process is in place) as well as authorised signatories. In addition, multiple approval levels for payment authorisation can be a useful measure. For example, the person who has entered a payment should not also be allowed to approve it. Also, of relevance in this context is two-factor authentication for the signing of payments, again tackling the issues of access control and password security.

Treasury should also use process design to promote fraud prevention. Automation can be a powerful security measure that prevents manipulation. Streamlined and automated bulk file processing, eliminating single payments and using templates and SSIs for treasury payments are some of the options. In addition, the technological set-up should be embedded in a process that spells out clear rules and workflows. Everyone needs to be aware of these processes and training is crucial to make sure they're enforced. Other topics such as supplier account verification and whitelisting, blacklisting and sanction screening should also be on the treasury security agenda.

Overall, treasury can lend support in tackling all three main vulnerabilities: technology, processes/governance and people. Treasury system providers must make their customers' security their business and help them with sophisticated tools and process consulting.

James Richardson
Head of Market Development – Risk & Fraud, Bottomline Technologies

Being proactive in identifying fraud by using the right technology to monitor transactions in real-time is the best way to secure payments.

In line with the findings of the latest AFP Payments Fraud Survey, our recent reports have also found that it can be incredibly difficult for treasurers to recover funds stolen by fraudsters, whether this is internal, for example, when an employee updates a supplier's account and diverts payments to their own account; or externally, such as a business email compromise scam where the fraudster imitates an email from the CEO to deceive employees into making payments into fraudulent accounts.

Treasurers can only make and receive secure payments if they have full confidence in a system that identifies and notifies suspicious transactions in flight, as well as monitors the behaviours linked to these transactions.

With the rise in immediate payments, it's becoming even more critical for treasurers to block transactions before they hit the payment networks. The pressure is being squeezed to solve the issue upstream.

Our own recent survey, Treasury Fraud and Controls 2018, commissioned in partnership with Strategic Treasurer, highlights that financial decision-makers feel they are now better equipped to identify cyber fraud within their organisation. If we look at previous years, treasurers and organisations made significant improvements to protect, prevent and respond to fraud, with the report noting that 26% of corporates are planning to spend more or significantly more on treasury security compared to last year. This increase in fraud prevention has largely been driven by advanced technology and the use of automation which has allowed them to continually improve their capabilities over time.

But while organisations now have better control and are better equipped to respond to payment fraud, the persistence and number of breaches are on the rise. Consequently, the number of corporations impacted and unable to recover from fraud losses has increased significantly in the past year and continues to grow. Having the right technology solutions in place for preventing payment fraud is paramount for organisations to mitigate the risk.

While the technological component of security is critically important, the human component is equally vital. Providing employees with the right training and awareness is an area all organisations need to address. Some corporations may have the most robust technology infrastructures, but they will still be vulnerable if they don't get the human component right.

It's a strange scenario we face; organisations currently feel more secure because they've made an investment, yet they still admit seeing fraud rise in their organisation. This is a classic 'Perception versus Reality' wake-up call which shows that investments are not being made in the right area.

Sungmahn Seo

Managing Director, Head of EMEA Payments & FX, J.P. Morgan

Fraud prevention should be at the top of any corporate treasurer's agenda. With growing volumes of online payments, increasing digitisation within the industry and evolution of new payment types, firms are more susceptible than ever to fraud. Concurrently, fraudsters are becoming ever more sophisticated; they are turning to AI to identify vulnerabilities to maximise their success rates and surreptitiously increasing fraud attempts using smaller amounts to avoid detection. Frankly, instances of payment fraud are multiplying at an alarming rate.

Payment fraud can have devastating consequences for businesses, both in terms of their finances and reputation. In October 2017, US$60m was stolen from an international bank through fraudulent transactions, resulting in lasting financial and reputational damage. The impact is cross-industry; no firm is safe.

Treasury staff play an important role in protecting the business. As corporate treasuries become targets of fraud attempts, there is an urgent need for the uplift of systems, training, detection and verification. The introduction of real-time payment types creates a need for real-time detection methods and proactive monitoring at the point of payment initiation.

A strong multi-layered approach to fraud prevention gives the greatest chance of success, using a combination of best practice and external services to mitigate risk. The three key strands we suggest treasury departments consider are:

Make fraud-checking a priority

The traditional lifecycle of payment involved limit checking and sanction screening. Fraud-checking is now an integral layer of this process. We recommend that treasury departments work with banking partners to ensure effective fraud-checking measures are in place. For example, J.P. Morgan continues to explore various tools to assist customers in fraud deterrence and adding further security to payment flows. Additionally, treasury can consider implementing controls including web-filtering and registrations, daily reconciliation, segregation of duties, payment limits, user entitlements and key authentication.

Other suggested steps to protect your firm include engaging an experienced company for an independent assessment of vulnerabilities. Making use of industry forums and establishing a clear engagement model with governing authorities can also aid understanding of the latest threats.

Invest in education and training

Treasury departments need to see fraud as an area of collaboration and work with trusted advisors to adopt best practices. J.P. Morgan regularly partners with clients to deliver fraud webinars as well as awareness and prevention sessions, which provide a useful control environment.

It is vital that internal staff and external partners (eg vendors) are trained regarding payment fraud and related safeguards. Examples of threats include social engineering, malware and email spoofing. Simulations and drill scenarios help staff recognise common practices used by fraudsters and underline the importance of following key validation procedures.

Update treasury practices and bank account management processes

In addition to the hygiene factors identified above, treasury could consider greater centralisation and standardisation of processes, compliance, payment platforms and monitoring. Updating outdated practices, such as moving to e-invoicing, presents an opportunity to combat fraudulent instructions by introducing authentication within the workflow.

Defending against financial fraud requires both financial institutions and their clients to understand the risks. Vigilance is paramount, as the question of a payment fraud attempt on any organisation is simply a matter of time.

Next question:

"How do I manage treasury when it looks like rates might rise?"

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

Financial markets gripped by political rather than economic developments

What does rising populism mean for the future of Italy, the European Economic Union and global markets?

Central banks addressed the credit crisis by printing vast amounts of money (quantitative easing) and keeping interest rates at 0% or below for a long time. This strategy was intended to accelerate economic growth and boost employment by promoting more corporate borrowing. This would cause unemployment levels to fall and wages to increase, allowing consumers to spend more without having to borrow.

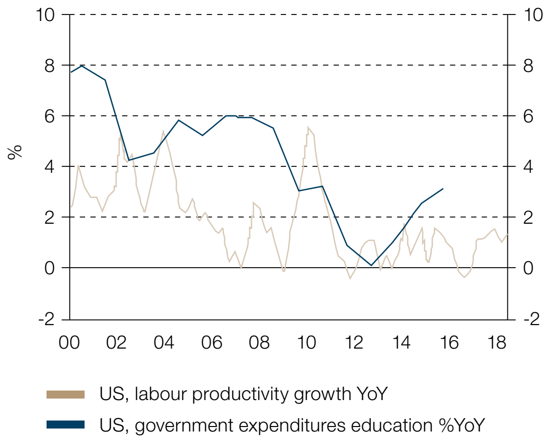
A decade on, the US has nearly realised this objective and Europe is close as well. However, at the same time, concerns around deflation are shifting to concerns about inflation. If inflation occurs, economic growth will have to be pushed back to potential growth (potential growth is the sum of the increase in the workforce and productivity growth). Otherwise, inflation and/or trade deficits will rise.

Presently, potential growth is at 1.75% in the US. Hence, it is quite odd that the US economy receives fiscal stimulus – as this boosts growth to 3%. Incidentally, potential growth in Europe and Japan is not much higher than 1% and 0.5% respectively.

A substantial increase in the potential growth rate requires far more investment in areas that improve competitiveness. However, the question is where the governments will source the necessary funds, as most governments have maximised borrowings.

How about printing additional money? This is not an option once concerns about deflation shift to concerns about inflation. In other words, cutbacks on social security would be required – expenditure on social security has been driven up to ever higher levels in order to absorb/obscure the loss of competitiveness. However, it is virtually impossible to find a political majority for this anywhere.

More spending on education is needed in the US to stimulate productivity and economic growth



Source: Thomson Reuters Datastream/ECR Research

Fertile soil for populism

This situation creates an ideal breeding ground for populists. Indeed, since the credit crisis and the introduction of increased competition, globalisation and modern technology, the personal situation of half of the world's population has barely improved. The top layer, on the other hand, has certainly seen an increase in incomes and the value of assets they hold. This brought Trump to power in the US. He promised lower taxes for everyone as well as economic stimulus to the extent where the labour market would tighten to the point where everyone would enjoy wage increases. Trump promised he would create a climate conducive to corporate investment, resulting in productivity growth.

However, he overlooked the fact that the Fed would not tolerate growth exceeding potential for a long period of time. Furthermore, he had a simple solution to excessive foreign competition: raising import tariffs and forcing other countries to lower theirs. Whilst this strategy may improve the US trade balance, the potentially positive effect on US exports will soon be cancelled out by a higher dollar exchange rate. Moreover, higher import tariffs will result in higher consumer prices.

Italy likely to get the upper hand

In Europe, the appeal of populist solutions has also increased, resulting in Brexit and the swelling popularity of populist parties across the continent. However, there is a major difference for European Monetary Union (EMU) countries: central banks in the US and the UK are able to absorb heavy blows. This is also possible in Europe provided most countries move in the same direction.

Italy is a case in point. Italy has an outdated legal, social and economic system. In addition, it has a complex political structure, born out of efforts to prevent a figure like Mussolini from ever rising to power again. The end result is that Italy has lagged behind most other European countries for decades. The lira was always being an important lightning conductor, and the currency was devalued many times. However, after the introduction of the euro this was no longer possible.

The rise of international competition has therefore resulted in stagnating or declining incomes among large groups of the population. In addition, public finances have been deteriorating for a long time, to the extent where it is not possible to borrow much more.

This means that any additional borrowing should come from the private sector. The central bank is supposed to stimulate this. However, this is not possible in the current circumstances because the ECB focuses on the average of the EMU countries. It should actually tighten its policy based on the average. The fiscal route is therefore the only remaining option, but this would only be possible if Italy were to violate the Maastricht rules.

Wishful economic thinking

The two major populist parties in Italy that have formed a new government have stated they want to increase public spending and lower taxes but have no intention of leaving the EMU. Although their fiscal plans will, according to many economists, breach the Maastricht rules, Lega and the Five Star Movement (M5S) expect higher economic growth will increase tax revenues to such an extent that the budget deficits will remain below 3%. This reasoning is very similar to that of the Trump administration.

In other words, we will be dealing with an Italy that wants to stay in the EMU, but which does not want to comply with the associated rules. As there are no rules in place to oust a country from the EMU, the question is how the other EMU countries will react to the developments in Italy. We assume they will accept a great deal for the time being because a European crisis and the collapse of the EMU would entail far greater drawbacks.

At a time when China is on the rise, Russia is becoming more aggressive and the US wants to leave Europe to its own devices, Europe will have to stick together if it is to amount to anything on the world stage. If necessary, the stronger countries will simply have to foot the bill.

This situation carries the following major risks:

- Europe reaches the point at which concerns about deflation shift to concerns about inflation. In this case, European economic growth would have to be pushed back to approximately 1%. In this scenario, the soaring debts and massive public deficits would be increasingly difficult to sustain.
- It cannot be ruled out that Italy's policy will be adopted by other European countries – not that this policy will provide any solution in the long run, but it is initially very appealing to large sections of the population.

Market coercion?

An important question remains: will the markets force Italy back in line? We believe the ECB will continue to gear its policy towards the average of the EMU countries and not towards that of Italy. This average will not change due to problems in Italy, as rising tensions will push down interest rates in the stronger EMU countries and weaken the euro.

This will boost growth in the stronger EMU countries. Consequently, Germany and the other stronger EMU countries would actually require higher interest rates in this case. This is why we ultimately do not expect the ECB to come to Italy's rescue to any great extent, all the more so because the majority of ECB members are quite willing to impose sanctions on Italy for violating the rules.

This brings us back to the question as to whether or not the markets will bring Italy back in line. Indeed, it is not nice to have to pay a higher interest rate in a situation where the public debt is 130% of GDP. The higher interest rates will also affect Italian economic growth. We believe this will indeed be the reason why Italy will have to make concessions in the long run. However, we do not see this happening any time soon:

- A large proportion of Italian government bonds are held domestically. In addition, the average term to maturity of the public debt is approximately seven years. As a result, rising interest rates are not immediately tangible.
- The populists use this as an argument to say that the rules from Brussels should be amended rather than their policy. This reasoning appeals to many Italians for the time being. The market movements only make the Italians more militant for now.

We think tensions in the EMU will increase in the coming months and these tensions will not be easily addressed, as the causes are rooted in developments in the last decades. Other Western economies are, or will be, affected by this too, but the biggest problems will likely occur in the EMU due to the lack of flexibility the ECB has in addressing problems in one country. Despite some very sound fundamentals of the EMU (lower government deficits and a positive trade balance), the euro will be under downward pressure in the coming quarters.

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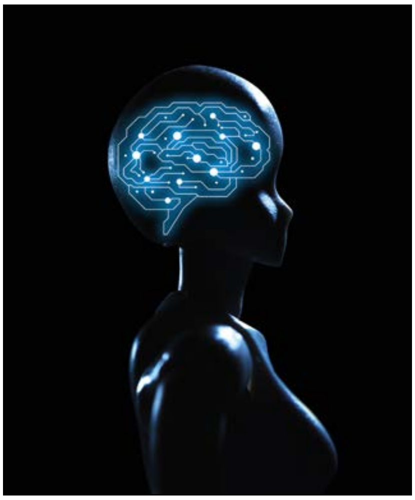
COMING NEXT ISSUE



INSIGHT & ANALYSIS

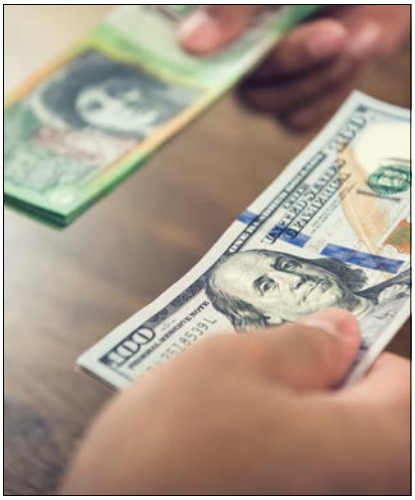
AI and treasury: friends or foes

Artificial Intelligence (AI) is slowly reshaping how we work. Whilst there are many positives to this, there are concerns that AI will eventually take over many roles, leaving humans as mere overseers of the machines. In this article, we explore some of the ways AI is helping treasury to achieve its goals and find out the long-term impact it will have on the role of the treasurer.

BANKING

Will Google be your next transaction bank?

Traditional banks are being challenged and disrupted from all angles. This is forcing the industry to fundamentally rethink its role in the 21st century. Treasury Today takes a look into the future to see what it holds for traditional banks and whether corporates may find themselves using a company like Google as their next transaction bank.



CASH MANAGEMENT

The politics of cash repatriation

Capital controls are a function of both political and economic policy over which corporates have little or no say. However, the economic and political environment is always changing, meaning that opportunities to bring cash back home open and close. Treasury Today investigates the politics of cash repatriation with a particular focus on the new US tax regime and what it means for companies around the world.

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

Fulvio Barbuio, Board Director of the Finance and Treasury Association Australia; Jonathan Bewes, Vice Chair, Corporate and Institutional Banking, Standard Chartered; Laurie Brignac, Managing Director, Head of Global Liquidity Portfolio Management, Invesco; Anthony Callcott, Head of Pan European, Liquidity, Aviva Investors; Victor Chan, International Director, Professional Practice – IFRS Services Group, EY; Gunjan Chauhan, Managing Director, Head of EMEA Cash Business, Global Cash, State Street Global Advisors; Vina Cheung, Global Head of RMBI, HSBC; Vincent Couche, Asia Sales Sector Head of Industrials, Treasury & Trade Solutions, Citi; Royston Da Costa, Assistant Group Treasurer, Ferguson; George Dessing, Senior Vice President, Treasury & Risk, Wolters Kluwer; Jennifer Doherty, Head of Innovation, Asia, HSBC; Manoj Dugar, Head of Core Cash Products, Asia, J.P. Morgan; Katja Franz, Treasury Consultant, BELLIN; Guillermo Gualino, Vice President & Treasurer, Agilent Technologies; Sam Hall, Managing Director, Rainmaking Singapore; Michael Keeler, CEO, LeaseAccelerator; Richard King, co-head of Global Corporate & Investment Banking, UK, Bank of America Merrill Lynch; Raof Latiff, Group Head of Digital, Institutional Banking Group, DBS; Sven Lindemann, CEO, Serrala; Beccy Milchem, Head of International Cash Corporate Sales, BlackRock; Bill North, Head of Global Sales, Pelican; Paul Przybylski, Head of Global Liquidity Product Strategy and Development, J.P. Morgan Asset Management; Vasu Reddy, Treasury Leader SSA, GE Africa; James Richardson, Head of Market Development – Risk & Fraud, Bottomline Technologies; Sungmahn Seo, Managing Director, Head of EMEA Payments & FX, J.P. Morgan; Jesse Spiro, Global Head of Threat Finance & Emerging Risk, Thomson Reuters; David Stebbings, Director, Head of Treasury Advisory, PwC; Anton Wahl, Treasury Consultant/Payments Specialist, BELLIN.