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CORPORATE TREASURY

Treasurers shape up as new leaders

Liquidity fears, widespread regulatory change and market volatility have led organisations to expect more from corporate treasurers, changing their role in the company

◆ **OVERVIEW**

● **JOE McGRATH**

The global financial crisis of 2008 radically altered how businesses ran their finance teams. As a greater onus was placed on cash management, balance sheet monitoring and liquidity, the role of the corporate treasury team became more significant than ever.

Since the crisis, global regulators have introduced swathes of new regulations which stretch across business sectors and this has led to treasury teams becoming more influential in organisations around the world.

Most recently, the European Commission outlined a new set of corporation tax transparency measures, targeting those companies attempting to avoid corporation tax through transfer pricing techniques.

This follows extensive work by the Organisation for Economic Co-operation and Development (OECD) on transfer pricing and corporate base erosion to counter organisations seeking to restructure and thereby limit or avoid tax.

These recent examples are just two policy sets where global businesses have relied on their corporate treasurers to assess the impact and manage the risk. And, with the increasing speed of globalisation, their remit has arguably never been more important.

> In recent years, corporate treasury teams have transitioned from a standalone function to the role of strategic partner

David Stebbings, director of treasury advisory at consultancy group PwC, explains: "The role and the responsibilities of treasury beyond the 'departmental wall' have transformed beyond all recognition since the financial crisis.

"In the years following the crisis, treasury teams have expanded their influence more widely across the organisation, getting closer to business operations and allowing them to bring more insight into the risks facing the business as it grows and competes in evermore global markets."

Globalisation is a key reason why leadership teams consult corporate treasurers more than before. As businesses expand into new areas, corporate treasury teams can often be well equipped to offer advice on challenges arising from regulation, currencies and the need to work with new banking partners.

But globalisation of business is only part of the story. The financial crisis caused businesses to begin challenging the credit worthiness of their banking partners and the cost of the services they offer, and led to sustained volatility in the money markets.

"This has led to an increasing need for agility in managing banking partners, the management of excess cash, and the development of alternative sources of finance and cash services," says Mr Stebbings.

He says the increasing focus on value for money and cash management has meant many businesses, not just those with high gearing, are focusing on cash as a key performance measure.

"Cash is king. Therefore access to cash and ability to move and manage cash effectively has become more important," he says.

It's certainly true that recent exchange rate movements of the Russian rouble, Swiss franc and euro have meant businesses require vigilant corporate treasurers.

Bob Stark, vice president of strategy at treasury management group Kyriba, explains: "Expanding the business globally introduces significant risk to an organisation's cash flow and financial assets.

"Treasurers must protect against changes in currency rates, liquidity risk in each geography, regulatory risk heightened by the multitude of regions the organisation operates in, and of course operational errors and fraud that commonly increase as firms decentralise their processes and control internationally."

In addition, corporate treasury teams have found themselves having to deal with increasing volumes of regulation, particularly since the 2008 crash. What had predominantly been affecting financial services companies only, soon spread to most other sectors.

Accounting standards, European Market infrastructure regulation, Dodd Frank and BEPS (base erosion and transfer pricing rules) are just some examples of regulatory changes which have been a fixture on corporate treasurers' to-do lists in recent months.

Corporate treasurers' understanding of these changing rules and regulations are a major reason why their services are being called upon by board members. Niclas Neglen, chief financial officer at GE Capital UK, says: "In a volatile world, with changing external regulations... the boardroom should take an active interest in today's corporate treasury function.

"As a business unit, it provides strategic input into the key risks facing a business, including funding availability. It is an essential function that supports the growth agenda, helping prioritise capital across a business and maximising the potential of the balance sheet through the identification of multiple funding alternatives.

"In recent years, corporate treasury teams have transitioned from a standalone function to the role of strategic partner. For this reason, it is critical that the corporate treasury team understand the short-term tactical and long-term strategic goals."

While the transition period since the credit crisis may have been painful for many companies, it is likely that the corporate treasury teams of tomorrow will have a much more holistic view of companies' risk positions.

The level of detail that treasurers will be able to provide will be more comprehensive and far beyond the traditional boundaries of simple cash positions, according to analysts at consultancy Deloitte.

Karlien Porre, co-leader at Deloitte's London-based treasury advisory service, says: "Key performance indicators will focus more on the effectiveness of risk management strategy and treasury departments will become more proactive in managing regulatory changes.

"The treasury department of the future will rely heavily on treasury technology to operate as efficiently as possible and empower them to take on a more important role in the organisation."

Ms Porre says the emerging trend now is that real-time data management is likely to become commonplace in all businesses and not just in those with the largest budgets.

She says: "The increasing use of instrument portfolios and unintended consequences of regulation will play a part in driving tomorrow's treasury department to be far more focused on counterparty, liquidity and operational risk management."

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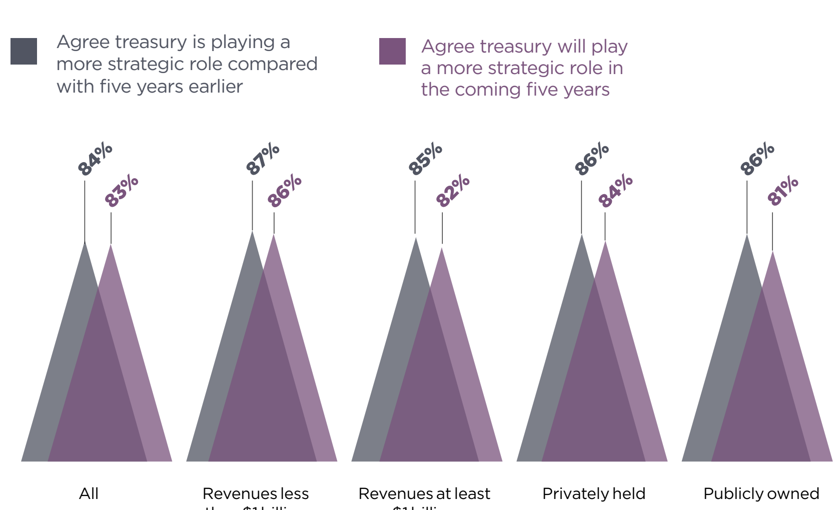
Getty Images

GREATER STRATEGIC ROLE PLAYED BY TREASURY
PERCENTAGE OF RESPONDENTS



Source: *2014 AFP Strategic Role of Treasury Survey*

CORPORATE TREASURER'S PRIORITIES IN 2015

1. Moving towards integrated financial risk management
2. Unlocking and communicating treasury value
3. Keeping up with ongoing stricter regulations
4. Managing increasing treasury impact of emerging markets
5. Closer integration between treasury and the business
6. Further centralisation, standardisation and automation

Source: Zanders

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Publishing Manager
John Okell

Managing Editor
Peter Archer

Head of Production
Natalia Rosek

Digital Manager
Jermaine Charvy

Design
Alessandro Caire
Vjay Lad

CONTRIBUTORS

RODRIGO AMARAL
Freelance writer, based in Madrid, he specialises in the international economy, emerging markets and insurance.

DAN BARNES
Award-winning business journalist, he specialises in financial technology, trading and capital markets.

REBECCA BRACE
Freelance financial journalist and former editor of *Treasury Today*, she contributes to a number of national publications.

ROB LANGSTON
Editor of *MENA Fund Manager*, the monthly title for the Middle East and North Africa asset management industry.

JOE McGRATH
Editor of trading and technology magazine *The Trade*, he also writes for *The Wall Street Journal* and *Financial Times*.

SALLY PERCY
Freelance business and financial journalist, she is editor of *The Treasurer* and former editor of *Accountancy* magazine.

RAYMOND SNODDY
Writer and broadcaster, he was media editor at the *The Times* and *Financial Times*, and presented BBC TV's *Newswatch*.

JONATHAN WATKINS
Editor of *The Trade Derivatives* magazine, he covers the exchange-traded and over-the-counter derivatives markets.

Keeping the cash flowing

Corporate treasurers have reinvented themselves in the face of a liquidity crisis which has changed the nature of company finance

◆ **LIQUIDITY**

● **JONATHAN WATKINS**

Accessing finance has become one of the most challenging aspects of a corporate treasurer's role as they are forced to adapt to a rapidly changing market.

This shifting landscape goes back to the 2008 financial crisis, but it has not taken its final form. New regulations, constraints on banks and shrinking liquidity continue to reroute the avenues treasurers once relied on to fund their businesses.

Navigating through this constant period of change has upped the pressure on corporate treasurers, chief financial officers (CFOs) and finance directors, as they look to secure the short and long-term futures of their businesses.

This wholesale change in this space begins with the banks. For both corporates and small and medium-sized enterprises (SMEs), they used to draw their lifeblood from banks in the form of loans to fuel growth engines, mergers and acquisitions or prop-up cash flows.

This was before the financial crisis and ensuing regulations effectively shut off this option to a large number of organisations as cash supplies dried up.

Loans, credit-card limits and overdrafts were scaled back as the banks became less willing and less able to lend to businesses. This was especially prevalent with SMEs deemed as being high-risk investments.

Regulations, such as Basel III, added additional barriers, essentially mandating that the riskier banks are, the more capital they need to hold in reserve.

"From a bank perspective as a lender, they have to think about how they allocate their capital and the risks associated with that," says Angela Clist, co-head of the financial institutions group at Allen & Overy.

"If you are an investment-grade company, I think it is fair to say that banks are falling over themselves to lend to you. If you are not an investment-grade company then I think it is perhaps more challenging."

> Corporate treasurers have had to evolve and become nimble in accessing finance – no easy feat in a market drained of liquidity

Corporate treasurers and CFOs have, therefore, had to evolve and become nimble in accessing finance. In a new environment, they have had to understand their full range of options in order to unearth the most appropriate sources of finance to fit their needs. This has been no easy feat in a market drained of liquidity.

While leaning on cash reserves during times of stress is often unavoidable, these supplies are not endless, especially after seven years of banks curbing their lending. The ability to access cash in a timely fashion is now an essential consideration when investing.

Corporate treasurers and CFOs have been forced to become savvy in their market dealings to react to a liquidity crisis and keep the business funded in both the short and long-term.

"You have to think about long-term liquidity and what happens if the markets are not open," says Mark Kirkland, group treasurer at aluminium producer Constellium.

"The decision comes down to what products are available, when you need the money and whether the markets are open. That is how you decide how and where to borrow."

The corporate-treasurer role has become increasingly demanding because of these new obstacles. Another aspect of their jobs that needed refining related to improvements around cash control and visibility as supply chains diminished. Firms needed a clear picture of where all their money was and the levels of their cash reserves.

"What was shocking for corporates, following the onset of the financial crisis in 2008, was that they lacked visibility of their own cash reserves," says Terry Beadle, global corporate treasury business manager at Bloomberg.

"They had cash deposits with multiple banks all over the world, but they couldn't actually see where those balances were held. Corporate treasurers and CFOs were relying on accounting systems to provide them with that information, but the cash was still sitting dispersed in remote locations."

Corporate treasurers have set about correcting this lack of visibility as one of their many tasks since the financial crisis. Most corporates reduced the number of banks they were dealing with, giving themselves much closer control over their accounts.

Pooling together and having oversight of all internal cash has also become a priority. Only then could treasurers fully comprehend their reserves and how to create a competitive advantage through investing on a short-term basis, allowing them to benefit from surplus cash.

"There are all kinds of reasons why corporates were trying to get access, control and mobility of cash. It was an issue for them then and it is still an issue for a lot of these firms today," says Mr Beadle.

Professional services consultants PwC argue that many UK firms actually have extensive cash reserves tied up in their own balance sheets, which they are unaware of.

While working capital provides a measure of a company's short-term health, if cash gets trapped within it, this can restrict a firm's ability to grow.

PwC estimate that between £125 billion and £167 billion could be released from working capital pools by corporate treasurers at UK businesses and redeployed in order to drive growth.

Martin Scott, finance director at brewers Hall & Woodhouse, described his firm as having "a balance sheet to die for" and very little debt, yet he had to completely revise his approach to raising finance after the banks made it difficult for his business to borrow.

He says: "After going through the banking crisis, when we were talking about renegotiating our facilities over the next year, our bank said 'We're not sure if we can do that', which came as a bit of a shock if you saw our balance sheet.

"We came to a conclusion that as a risk, we should actually diversify our borrowing requirements away from the banks, even if it costs us some margin."

Hall & Woodhouse, which runs around 200 public houses, ended up securing a £20-million ten-year loan from asset manager M&G. This has become a far more common trend as insurance companies, pension funds and fund managers fill the gaps left by the banks.

"The process wasn't that different," Mr Scott adds. "I think there is this big fear of it being a different process, but they used the same documentation as we had used with our banks. Once we had agreed to do the deal, the legal niceties and documentation wasn't that difficult."

Corporate treasurers are also becoming far more strategic with their capital-markets funding. Research by Allen & Overy shows that the value of bonds issued by businesses has increased by 70 per cent since 2007 to more than $1.5 trillion.

Equity finance has also been on the rise over the past few years. Despite being one of the most expensive sources of finance, with dividends being discretionary, this does allow firms the luxury of flexibility, which they do not get with other sources of finance.

Bonds are not without their challenges either. The liquidity risk surrounding bonds means CFOs and corporate treasurers need to understand and closely monitor the high-yield bond market. Fortunately with interest rates low, investors are likely to chase this high yield, which is unobtainable from banks at present.

The biggest uptick for sources of finance has undoubtedly been alternative finance, which now accounts for 41 per cent of funding among European corporates, according to Allen & Overy.

For SMEs that have run a gauntlet of challenges throughout the crisis and recession, alternative finance has become a substitute for the overdrafts, credit cards and loans they once turned to.

Recognising the growth of this space, the government is set to introduce a mandatory referral system whereby banks will direct businesses towards alternative finances if they cannot provide them with their own funding.

"What the government has done is recognise they need a more diversified financial services sector and this is where alternative finance has come in," says Louise Beaumont, head of public affairs for alternative finance provider GLI Finance.

"Banks have a monopoly on SME lending and it's a monopoly they don't really want anymore. We are not trying to do anything the bank wants to do. We are looking to do the business they don't want to do."

The corporate treasurer's duties and methods have changed drastically in line with the new world of financing. Those who have altered their approach to meet the new requirements will be the ones keeping their business well-funded, while others will have fallen by the wayside.

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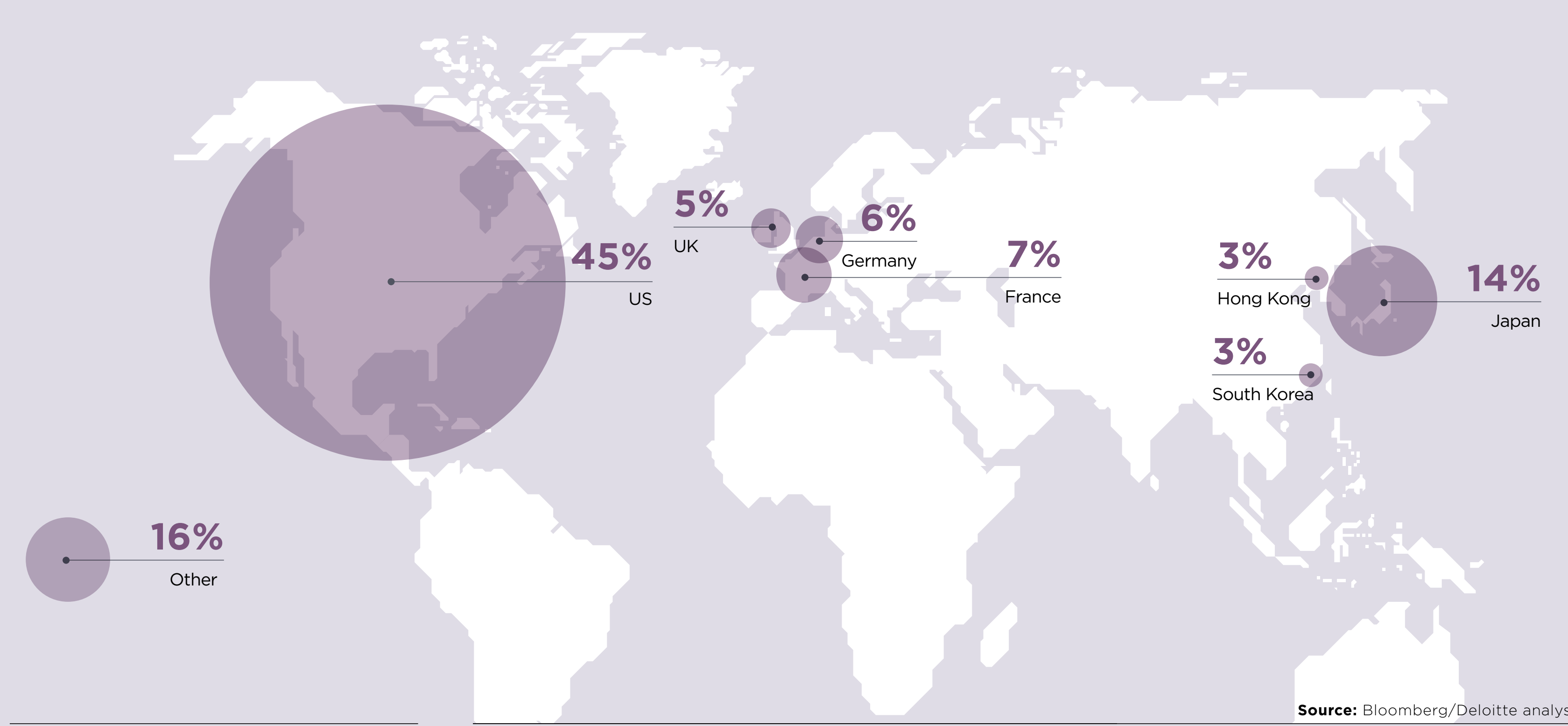
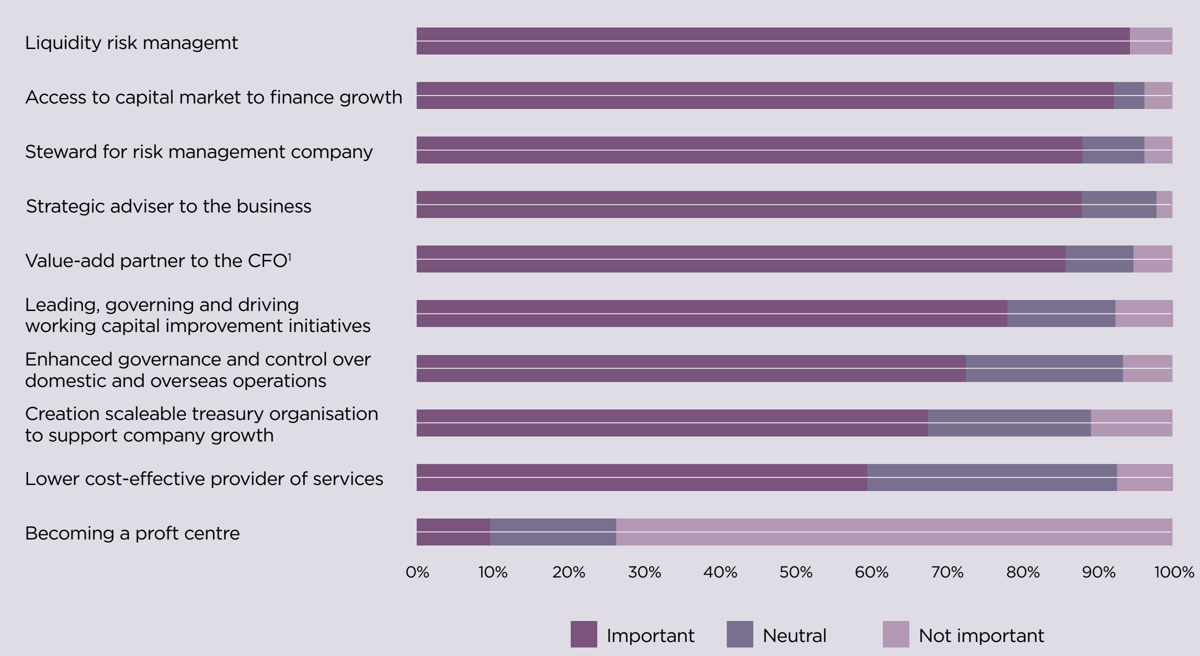
Corporate treasury outlook

$3.5 TRILLION GLOBAL CASH HOLDINGS: BY GEOGRAPHY 2013



Source: Bloomberg/Deloitte analysis

STRATEGIC ROLE OF TREASURY



[1] For example, support or drive M&A activity

Source: *2015 Global Corporate Treasury Survey*, Deloitte

FUTURE TREASURY RESPONSIBILITIES
ORGANISATION BASED ON COMPANY REVENUE

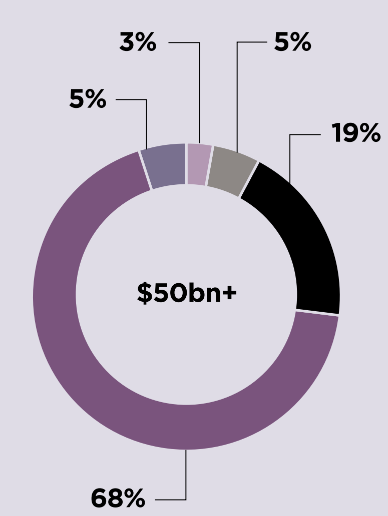
Shared service centre

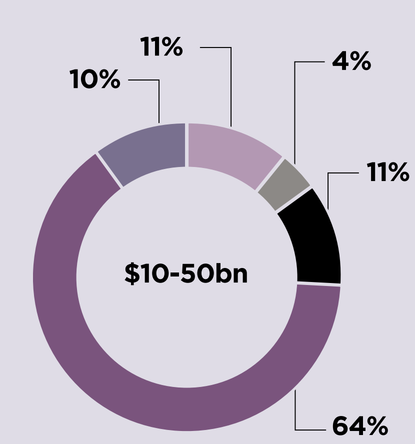
Outsourced to third party (bank, service provider)

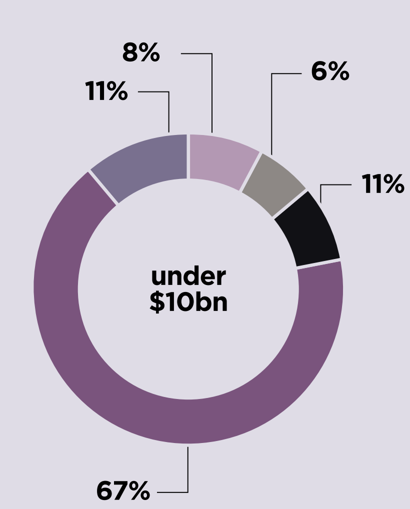
Centres of excellence/ in-house bank

Corporate treasury

Decentralised (generally performed locally)







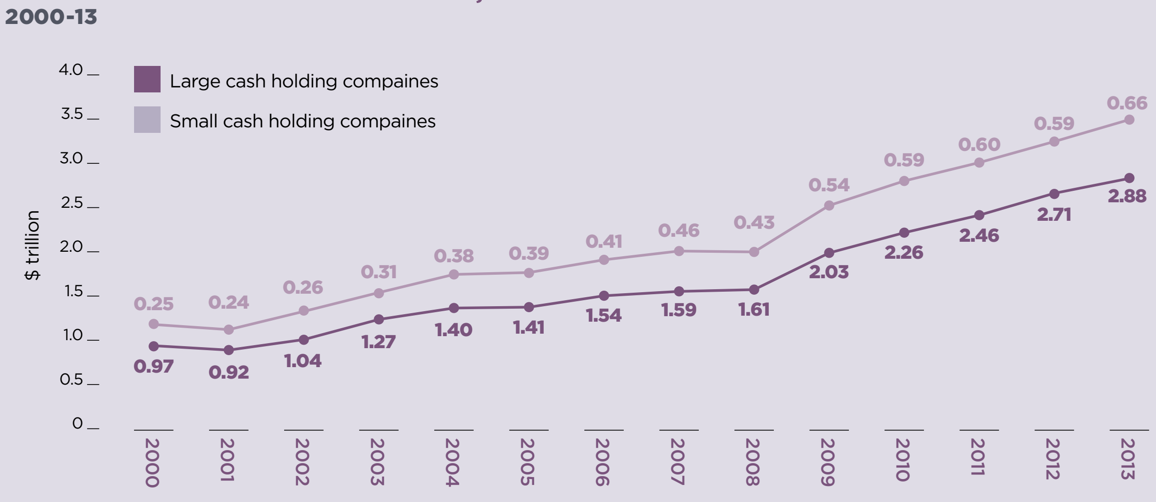
Source: Bloomberg/Deloitte analysis

GROWTH OPPORTUNITIES AVAILABLE ACROSS FULL RANGE OF TREASURY PRODUCTS

TREASURY PRODUCT	OVERVIEW	STRATEGIC DIRECTION AND OPPORTUNITIES
Cash management and liquidity	• Cash management tools (national pooling) to monitor and consolidate global cash • Short and long-term investment options	• Global cash management combined with payments to make best use of available cash
Payables and recievables	• Electronic invoicing and working capital optimisation • Connectiong buyers with suppliers across settlement network	• Early payment discount optimisation • Integrated payables, recievables, payments and invoicing
Payments and cards	• Payments via ACH wire and other methods • Visability and control over payments via purchasing cards, T&E cards, single-use cards	• Payments integration with accounts payable/accounts recievable/liquidity • Regional/global market card programmes • Purchasing cards and single-use cards
Trade finance	• Managament of physical and financial supply chains through integrated cross-border trade and logistic solutions (letters of credit and commercial trade documents)	• Letter of credit-related revenue accounts (largest fraction of trade revenue) • End-to-end supply chain financing products
Information and reporting	• Consolidated, up-to-date views of account balances and demand deposit account services • Global cash investment positions	• Cross-product information • Risk management via forecasting and scenario analysis

Source: Booz & Company

CASH RESERVES OF S&P GLOBAL 1,200 NON-FINANCIAL COMPANIES
2000-13



Source: Bloomberg/Deloitte analysis

CASH INVESTMENTS

Nothing is more important on the part of a corporate treasurer than ensuring there are ample amounts of day-to-day cash to keep the business running smoothly.

There can be reserves sitting on strong balance sheets and corporate treasurers are tasked with making efficient use of this excess cash by utilising short-term investments and generating some extra income. There are a number of considerations around this, however.

Risky investments for the sake of potentially lucrative returns are out of the question and there must be an option to convert back to cash at short notice. Therefore, the investments generally end up being low yield with minimal risk in highly liquid markets.

The obvious route is to deposit back into the banks, in a low-risk, simple and stable move if the agreement is through an existing banking relationship.

The rates offered by banks for such products can be low, however, forcing corporate treasurers and chief financial officers to look towards different products.

Because of this corporates are increasingly turning to money market funds, which also provide a low-risk alternative with slightly higher interest rates.

Money market funds are portfolios of short-term securities, usually liquid debt and monetary instruments, often carrying low fees and possible tax benefits. These two investments are also likely to keep the accountants happy in some businesses, which consider anything other than bank deposits and highly liquid money market funds under three months not to be "cash".

Commercial paper also presents a short-term debt solution with better rates than a bank deposit. These are often issued by major institutions with expiry dates of around a month and not usually more than a year.

Ultimately, the credit risks associated with these funds need to be analysed by those in senior finance roles and do not carry the same simplicities as depositing with a familiar bank.

Other short-term investment options, which can trump bank deposits in terms of yields, include bonds near maturity dates, certificates of deposits or repurchase agreements.

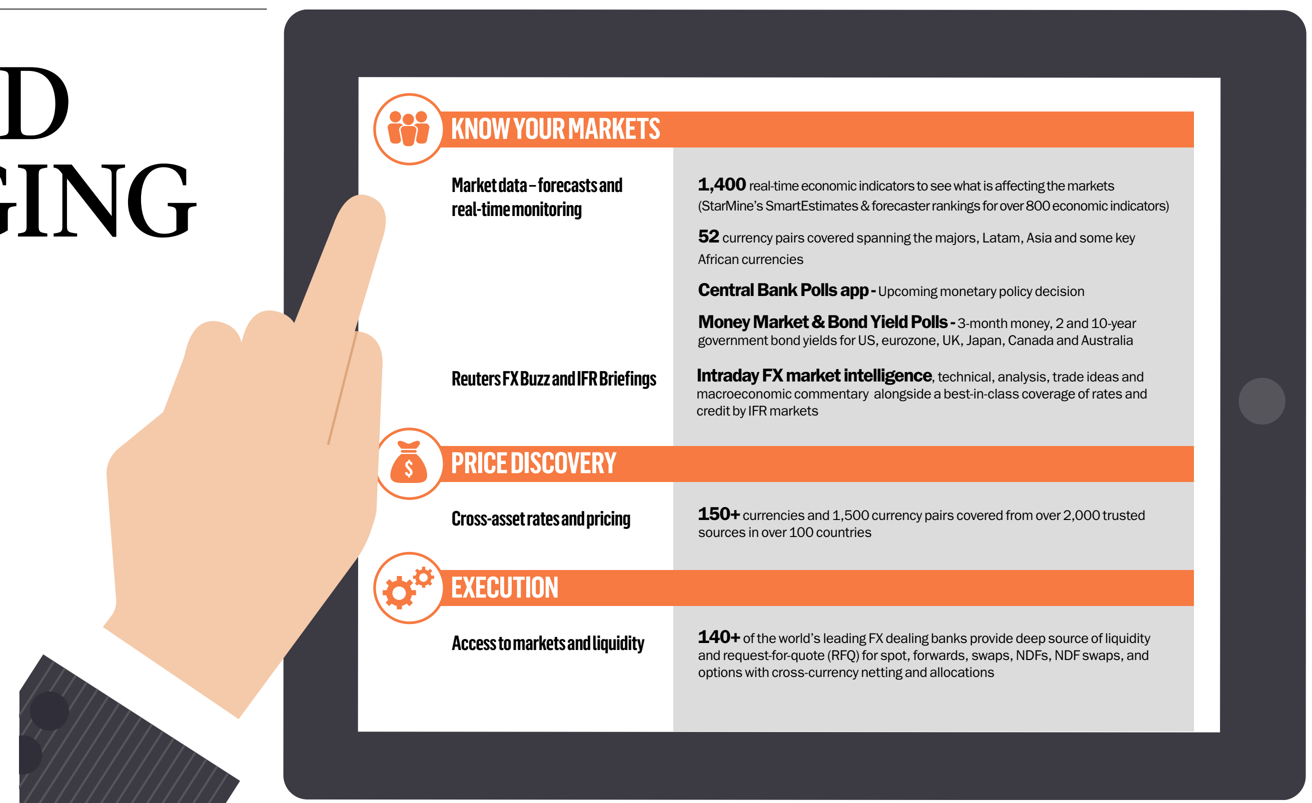
With an eye on a lower-risk, highly liquid short-term investment to optimise cash reserves, easier alternatives include paying bills, creditors and suppliers off earlier in order to receive discounts, which will be considered as profit. The same benefits apply to paying off debt to avoid paying interest.

COMMERCIAL FEATURE

AVOIDING AN UNEXPECTED EARNINGS SWING: MANAGING FX CURRENCY RISK

With global uncertainty presenting major challenges to corporate treasurers, having the right information available to implement a foreign currency hedging strategy is essential

THOMSON REUTERS



This image includes some examples of the broad range of capabilities available in Thomson Reuters Eikon and Thomson Reuters FXall for a corporate treasurer

As the dollar strengthens against the euro and emerging market currencies, both European and American companies are finding that movements in the currency markets can disrupt earnings. Without effective management, revenue from export markets and costs from foreign suppliers can fluctuate, undoing the potential benefits of operating in a global market.

This volatility seems set to continue, according to Ron Leven, head of FX pre-trade and economic strategy at Thomson Reuters. "It's no coincidence that the upturn in volatility we've seen since the middle of last year has paralleled the market pricing-in of rising interest rates," he says. "It's probable that if higher interest rates in the United States continue, we'll see high volatility and a stronger dollar.

"This creates credit-related risks because much of the world, particularly the emerging world, is dollar financed. It would also potentially put pressure on currencies that are pegged to the dollar and will therefore strengthen, thanks purely to that link rather than anything in their own economies."

Major uncertainty and volatility in the eurozone is being caused by a possible "Grexit". However, Mr Leven points out that even if Greece remains within the euro, managing its transition to a better functioning economy will still create pressures possibly leading to a re-pricing which will affect other countries.

Set against the backdrop of these European and wider global challenges is a renewed focus on foreign currency risk management, in particular an increased pressure to optimise working capital and ensure efficient cash management. Given these factors, how can corporate treasurers look to leverage the latest technology to manage their foreign exchange (FX) risk effectively?

The first step, says Neill Penney, head of FX workflow at Thomson Reuters, is for companies to recognise the inherent risk and develop a strategy for managing it. "A company's corporate treasury department will need to identify the extent to which they can tolerate currency movements, as well as identifying when the earnings forecast they presented to their investors starts to look at risk," he explains.

"That can drive strategic decisions, such as where to locate factories, in order to create natural hedges where income and costs are in the same currency. It also affects more transaction-oriented solutions, such as whether they're hedging out particular payments or revenues."

The simplest strategy for corporate treasurers is to lock in rates for their expected foreign currency payments and receipts. "For example, if they know that in three months they'll receive approximately $1million-worth of foreign sales, they might decide to exchange those receipts 'forward', locking in the rate today for the currency exchange in future. This means that whatever happens to currency rates over the next three months, they'll know the rate they'll receive and hence the amount in their home currency," he says.

To benefit from this and other foreign exchange strategies, more and more corporate treasurers are relying on technology to access essential data from which they can make more informed decisions about their foreign currency hedging.

Faced with the need to achieve greater efficiency and automation, they are on the search for desktop and mobile solutions with tools that provide easy access to trusted news, data and analytics, all filtered by relevance to the user's needs and displayed in a highly visual way that's easy to understand and act on.

As an example, corporate treasurers may look to solutions that provide a better understanding of the fixed rates available for hedging their FX exposures at different time horizons. "This is the so-called forward curve and it's determined by the difference in interest rates between the two currencies, rather than the market's view of whether a currency is going to go up or down in the future," says Mr Penney.

"A corporate treasurer studying the curve may decide that certain maturities on it look particularly cheap or expensive, depending on their own view of the currency risk. Our trading tools let corporate treasurers refine their views by asking for tradable prices from their FX brokers. These prices will depend, of course, on a company's credit rating, the size to be transacted and the broker's appetite for that currency at that time.

"The trading tools then let the treasurer move seamlessly from comparing prices to trading with the broker of their choice and finally to automatically booking the trade in their treasury management system. Our system also captures prices from the other brokers, as well as the original indicative price, so the treasurer can subsequently establish 'best execution' in line with their company's trading policies."

However, increasingly, corporate treasurers are now opting for a more sophisticated approach using options, according to Mr Penney. "The dollar is getting stronger now, so if you're a US company that's selling abroad, you'll find the same number of euros earned in an export market generate a decreasing amount of dollar revenue. A corporation might decide that it can tolerate a general rise, but at a particular level the situation becomes critical because the company's earnings forecast is now at risk," he explains.

> **The corporate treasury department will need to identify the extent to which they can tolerate currency movements and when their earnings forecast starts to look at risk**

"Options enable the company to craft a hedging strategy around that particular rate. They'll be able to ensure the company achieves its target level under a much wider set of market conditions than using forwards to hedge. But in return, they have to give something up. This might be, for example, accepting a worse exchange rate than a forward-based hedge should the market not move as far as the target level. Overall, they have a more effective hedge because it's tailored explicitly to their critical levels and holds under a wider range of market movements."

Mr Penney adds: "Usually, rather than a single option, customers will want a strip of options that match the various payments and receipts they're expecting. Designing a hedging strategy is best done by experimenting with different what-if scenarios. It involves finding a balance between the different market risks the treasurer is concerned about and the cost of neutralising those risks."

With accurate information and modelling tools to hand, corporate treasurers can work more effectively with their FX brokers. Many of them find electronic trading platforms further help them by automating the execution and booking of the selected hedging strategy.

It seems as if global economic and political uncertainty will continue, with the effects on foreign exchange markets presenting serious challenges to companies trading abroad. In this volatile world a proactive, forward-looking hedging strategy, supported by accurate, timely information, is essential for corporate treasurers.

Thomson Reuters offers a comprehensive range of solutions for corporate treasurers. For more information visit financial.thomsonreuters.com/corporate-treasury

Widening the risk management net

Managing and analysing risk is a fundamental part of a corporate treasurer's job – and the most time consuming

◆ **RISK MANAGEMENT**

● **REBECCA BRACE**

Treasurers are now managing a far wider range of risks, including liquidity, regulation and shareholder risk, which might include activist shareholders demanding excess cash is used for dividend payments or share buy-backs.

"Historically, risk management commonly referred to financial risks – in other words, mitigating gains and losses to financial assets that the company holds on the balance sheet due to fluctuations in market rates," says Greg Person, vice president, global presales and strategic value, at proactive treasury management advisers Kyriba.

In some cases, treasurers are currently being asked to manage additional risks as they gain greater involvement in strategic business decisions. Karlien Porre, co-head of Deloitte's treasury advisory practice, says treasurers are increasingly becoming involved in the planning of mergers and acquisitions earlier in the life cycle of a deal.

"They are getting involved in the due-diligence stage, planning funding arrangements and possibly putting in place deal-contingent foreign exchange and interest rate hedges," she says.

Managing all these risks is no insignificant task, but while treasurers may be looking at a wider range of risks than in the past, they are well equipped to do so.

"Traditionally, treasury may have deployed its capabilities for the chief financial officer to control revenue uncertainty caused by foreign exchange volatility, in the implementation of a forward rate hedging programme," says Jennifer Boussuge, head of global transaction services, Europe, Middle East and Africa, at Bank of America Merrill Lynch.

"Now these same risk tools can be used to help the company assess areas such as the desire for inorganic growth versus the balance sheet capacity and brand impact."

The more risks a treasurer has to manage, the more important it is to have a clear view of what those risks are. In order to achieve this, many treasurers are adopting an holistic approach to risk management.

Holistic risk management in treasury is distinct from enterprise risk management, whereby a clear framework is put in place to manage all risks across the organisation. Companies which practise holistic risk management in treasury do so by focusing on treasury-related risks, but with a clear understanding of how those risks interact with each other.

"In my mind, this is about looking at all your risks together," says Dino Nicolaides, co-head of Deloitte's treasury advisory practice. "For example, you may have an obligation to pay $10 million in the UK in six months' time. At the same time, another part of the business in the United States may be due to receive $6 million in six months' time. If you look at these risks holistically, you may be able to net off some of these exposures such that you only need to hedge $4 million."

Ms Porre adds that the accounting and tax treatment of this approach may be more complicated, but netting off exposures in this way may still be beneficial.

An holistic approach to risk management also takes into account the interaction between different categories of risk and the actions taken to hedge those risks. A fuel hedge, which is denominated in a different currency to the functional currency of the company, for example, may mitigate fuel costs while generating a new foreign exchange risk which then needs to be understood and managed.

86%

of financial professionals expect their ability to forecast risks to earnings to remain or become more difficult three years from now

92%

believe their executive management teams consider risk assessment important or extremely important

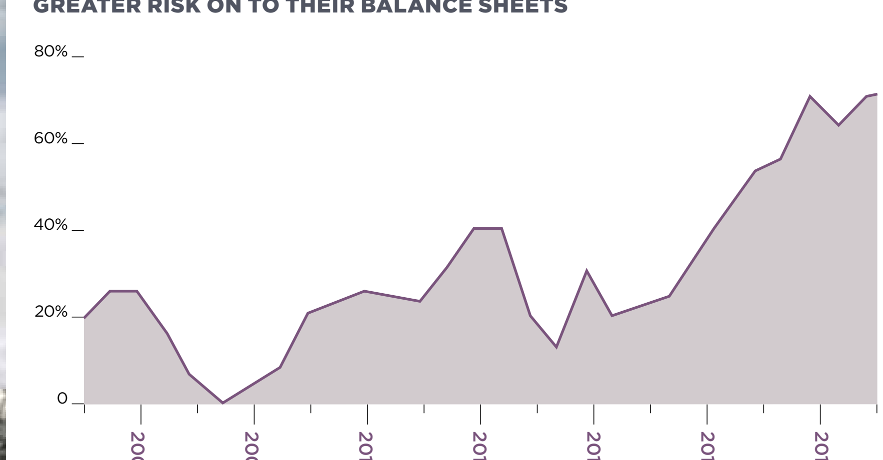
Source: *Association for Financial Professionals Risk Survey*

Vita Group, a producer of cellular foams and industrial polymers, manages risk in an holistic way. Chris King, the company's group treasurer, says Vita Group's risk management strategy "attempts to take an holistic and balanced approach to risk management, trying to recognise the interaction between the various categories of risk". The risks managed by the group include liquidity, refinancing, interest rate, foreign currency and counterparty risks, as well as wider financial risks, such as its defined benefit pension scheme, supply chain credit and insurance.

Mr King says an holistic risk management approach allows greater comfort for the board. "If executed correctly, it should also enhance shareholder value by applying cost-effective processes and solutions to reduce volatility, while allowing for a level of commercial and balance sheet risk appropriate for each organisation," he says.

RISK APPETITE

PERCENTAGE OF CFOs WHO THINK IT IS A GOOD TIME TO TAKE GREATER RISK ON TO THEIR BALANCE SHEETS



Source: *CFO Survey*, Deloitte, Q3 2014

However, holistic risk management has its challenges, such as ensuring that all the relevant risks are captured and all the interdependencies are adequately understood. "This is a dynamic process, and the balance of those risks changes as the organisation grows or shrinks and as the external markets change," Mr King explains.

> **The more risks a treasurer has to manage, the more important it is to have a clear view of what those risks are and many are adopting an holistic approach**

In some cases, the role played by the treasurer is expanding to encompass other types of business risk. Around 18 months ago, smoothie maker Innocent Drinks began to strive for a more joined-up way of thinking about risk across the business. "We're a reasonably small company, so we don't have an enterprise risk management department or any kind of extra resource to look at group-wide risks," says treasurer Alison Wilson. "Having shown some interest in this, I said it would be great if I could extend my remit and think about risk across the group."

The focus of the project has been on introducing a standard risk management language across the business, as well as creating standardised processes and supporting the business units in the use of the relevant tools. These include risk registers, whereby business leaders identify the top risks faced by their business units, by likelihood and impact. As well as financial risks, these might include operational risks, talent risks and trading risks.

"The goal is to think about the consequences for the business unit you're managing," says Ms Wilson. "So an event might be unlikely, but it could have very significant consequences, such as drawing senior management time away from running the business."

By obtaining impact and likelihood scores across different risks, the treasury is able to compare and consolidate those risks to gain a better understanding of the overall risk profile. Ms Wilson points out that risk management is not about avoiding risk. "Our focus is on improving risk management capabilities across the business – identifying, assessing and responding to risk – in order to improve our opportunity to succeed, and limit our potential to fail," she says.

Ms Wilson says she wouldn't describe this approach as enterprise risk management. "There are more sophisticated ways of managing risk than what we are doing," she concedes. But the company has taken a first step towards recognising there are different types of risk across the group which need to be understood in aggregate. "If you don't do this, you're going to miss something," she concludes.

COMMERCIAL FEATURE

WORKING CAPITAL: FROM FUNCTIONAL TO FUNDAMENTAL

A top treasurer will seek continuous improvement and get working capital management into the DNA of their business

Ian Fleming
Managing director
HSBC working capital advisory

What distinguishes a competent corporate treasurer from a true master? It is a profound question. If there is an answer it would have the power to improve the way finance departments are run, and have implications for entrepreneurs and senior managers too.

In fact there is a straightforward distinction. Basic treasurers stay in their own departments. They think about products and tools. They run projects to upgrade their finance software to faster, broader packages. They use finance products to boost cash flow, such as invoice discounting. And they strive to improve contract terms. All of which are valid.

But in order to evolve to the next level, a shift needs to occur. The focus must move to a new mindset.

"Nirvana is reached when the company is generating working capital improvement naturally," says Ian Fleming, managing director of Working Capital Advisory at HSBC UK. "It isn't a one-off project, which stops when it hits goals or runs out of time. The real end-point is where you have an organisation with the right disciplines embedded within it, adapting perpetually. There is a continuous search for improvement."

Mr Fleming adds: "I can tell you, it is pretty rare to find this."

And how do you achieve this state? Fortunately Mr Fleming has some concrete advice.

> **The treasurer must be perpetually thinking of new ways to highlight the need for better working capital management**

It starts by realising that the treasury can't simply focus on its own affairs. It needs to educate all departments in good working capital management. "I make people an offer," he says. "I say I'll buy their product priced at £100 for £120. Then I ask if my proposal is a generous one. They say, 'yes'. Then I mention that I'll pay them in 50 years. Ah! Not such a great deal."

The point is that transactions are not good or bad in terms of pure cash figures. They are always tied to a timeline. It is the role of the treasurer to make sure all executives grasp this concept.

Then comes the idea of performance. What does the word mean? "If you don't benchmark against your peers, you won't really know. One of the first things I advise companies do is to study performance against peers," says Mr Fleming.

It is a common error to suppose there is a standard method. Only by understanding the nature of work the business is engaged in, the margin levels, the growth levels and the economic conditions the company will experience, can a verdict be given on working capital levels. An elite treasurer will factor in all these unique variables.

Comparisons must be done with companies with a comparable business model. Different sourcing or selling strategies may have a significant effect on working capital metrics. Treasurers need to be alert to point out potential glitches in benchmarking. Companies that are using financial products such as invoice discounting will have different working capital profiles.

When there is clarity in benchmarking, then lessons can be drawn. Mr Fleming says: "You can start by looking at the basic metrics, such as days inventory outstanding, days payable outstanding, days sales outstanding and a combination of those, which is the cash conversion cycle."

Then the perspective widens. "Equally, there is a broader context," he says. "Things such as margin – how much flexibility does the business have? It is clear that with a smaller margin, the more important it is to use working capital to manage the free cash flow you are driving from the business."

Business with a more generous cash situation may need a renewed focus. Mr Fleming warns: "To some extent the larger the cash pile, the less inclined that company will be to have a cash culture. If you are sitting on a cash pile, arguing that working capital can be improved and used can just get a shrug. Other executives will ask 'What for?'"

A neat trick when benchmarking is to segment a business by sectors or geographies. This allows for more accurate and informative analysis.

Also don't just compare with competitors. It can be helpful to look at your top buyers and suppliers too. Look at their days payable outstanding and days sales outstanding. This information can be leveraged when negotiating with these partners. How do your current terms compare? Are your payment terms significantly shorter than your suppliers'.

Companies hungry for liquidity may be anxious to seal quick deals, with quicker payment terms, for a reduced price. This is just one reason why treasurers will find it useful to conduct benchmarking regularly, not merely when warning lights start to flash.

Treasurers must investigate incentives. If executives are not rewarded or evaluated on their approach to working capital, their focus may wander. "If the incentives are wrong, you will stay as an organisation which only improves working capital practices when a crisis occurs or there is a top-down directive. Fix incentives, fix key performance indicators and you'll move to a state of constant improvement," Mr Fleming says.

The treasurer must be perpetually thinking of new ways to highlight the need for better working capital management. He adds: "One technique is to imagine where you would find cash if you wanted to expand into another sector. Can you? What can you unlock from your balance sheet?"

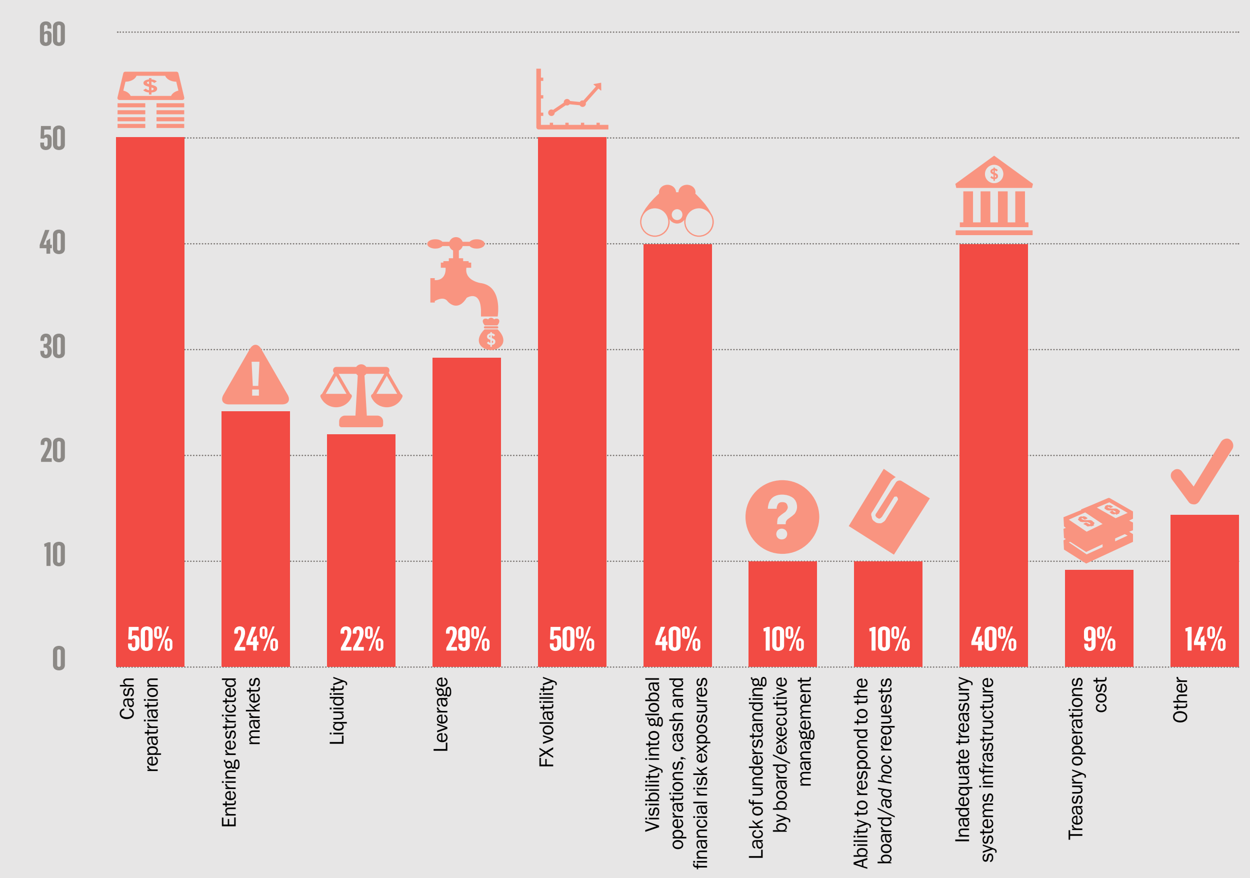
Outstanding treasurers are visible outside their departments, driving improvements in every corner of their companies. And they are not afraid to bring in outside help. "Suppliers and buyers will need to negotiate. A third party can bring in products and the ability to resolve differing objectives. A bank or financial institution can add value to that process," he says.

Above all the treasurer takes responsibility for ensuring the whole company's mentality. It even extends beyond the firm's borders. "Treasurers ought to be looking at their eco-system of suppliers, even to third-tier suppliers, to make sure it is optimised and stable," says Mr Fleming.

This conception of a corporate treasurer is a long way away from the narrow, restricted spreadsheet-fixated character found in the text books. "You need to get working capital management into the DNA of the business," he urges.

It is quite a challenge. But one with huge rewards for anyone prepared to take it on.

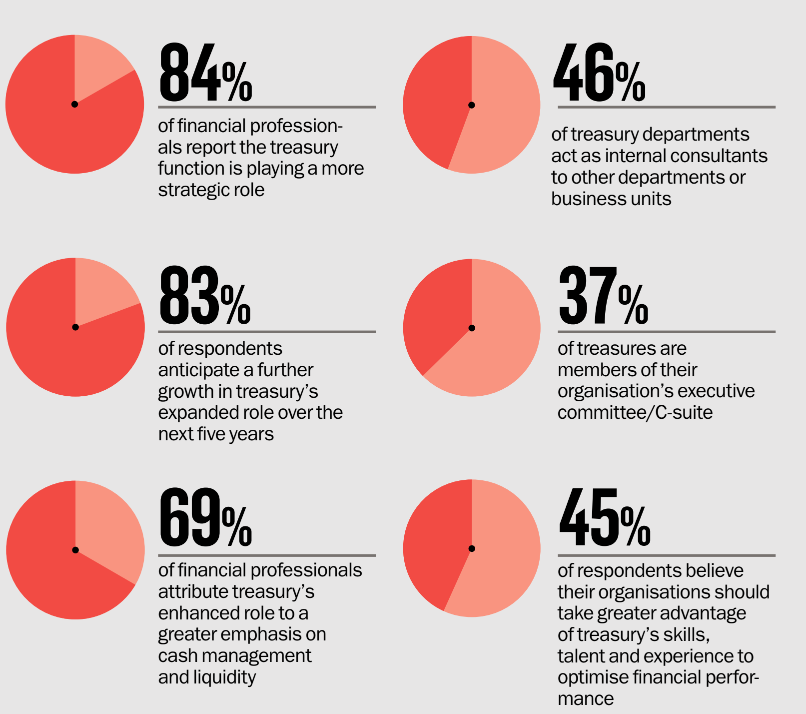
Strategic challenges for treassury organisations (percentage of respondents)



Source: *2015 Global Corporate Treasury Survey*, Deloitte

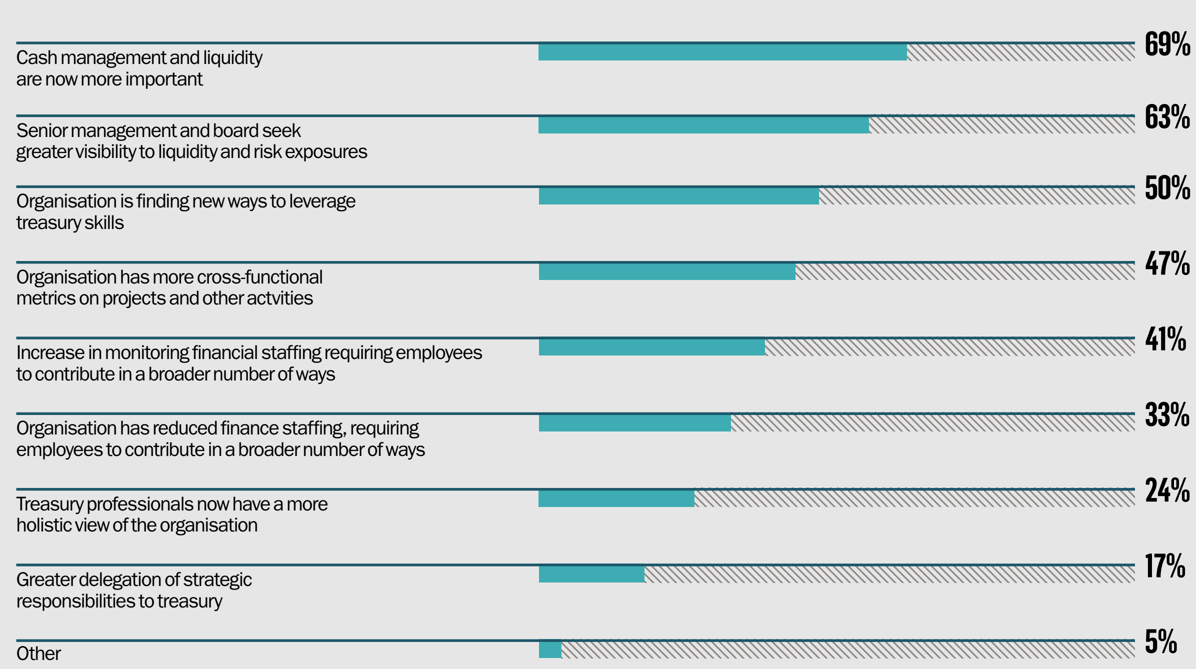
Key highlights

2014 AFP Strategic Role of Treasury Survey



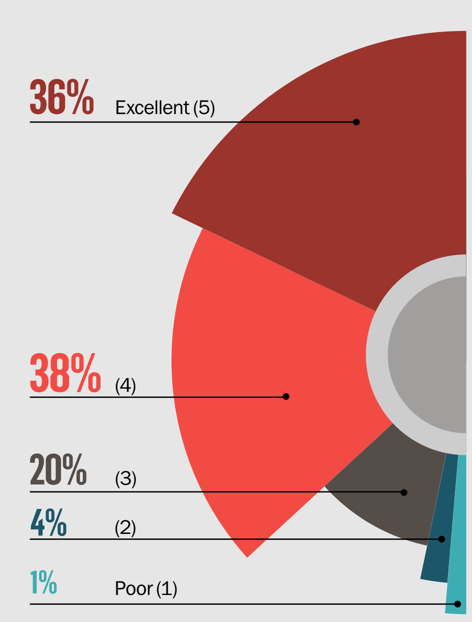
Key reasons for treasury's greater strategic role

(percentage of respondents indicating treasury is playing or will play a greater strategic role)



Treasury's access to executive management/C-suite

(percentage distribution of organisations)



Source: Association for Financial Professionals (AFP)/Oliver Wyman, 2014

Q&A

with Bart Ras, global head of business development, Global Trade and Receivable Finance HSBC

> **It is no coincidence that successful companies have treasurers who have broken down the silo mentality**

Q Most corporate treasurers stay in their own department. What is wrong with that?

A An effective corporate treasurer can be an agent of change in sales and procurement. I will go further. The treasurer must get involved in those departments to change their mindsets. At first the reaction of sales and procurement teams might be, "Are you lost?", but when the treasurer demonstrates his value, the questions will stop.

Q What can treasurers bring to sales and procurement?

A They can bring a new perspective. In the traditional model, sales guys want to sell more, and procurement teams want to pay less. It seems contradictory. A treasurer can help both parties in the transaction see that their goals are not so mutually exclusive. For example, it may not be true that the sales teams want to sell at a higher price.They might want to sell at a larger volume. There may be an issue with payment terms. The treasurer can help both sides negotiate.

Q Can all firms benefit?

A I think the involvement is compulsory. In a company, both sales and procurement need to understand the needs of the finance department in order to know what the company is trying to achieve. You can't start to think about pursuing external goals without having everything aligned internally. The treasurer can ensure companies have that internal alignment.

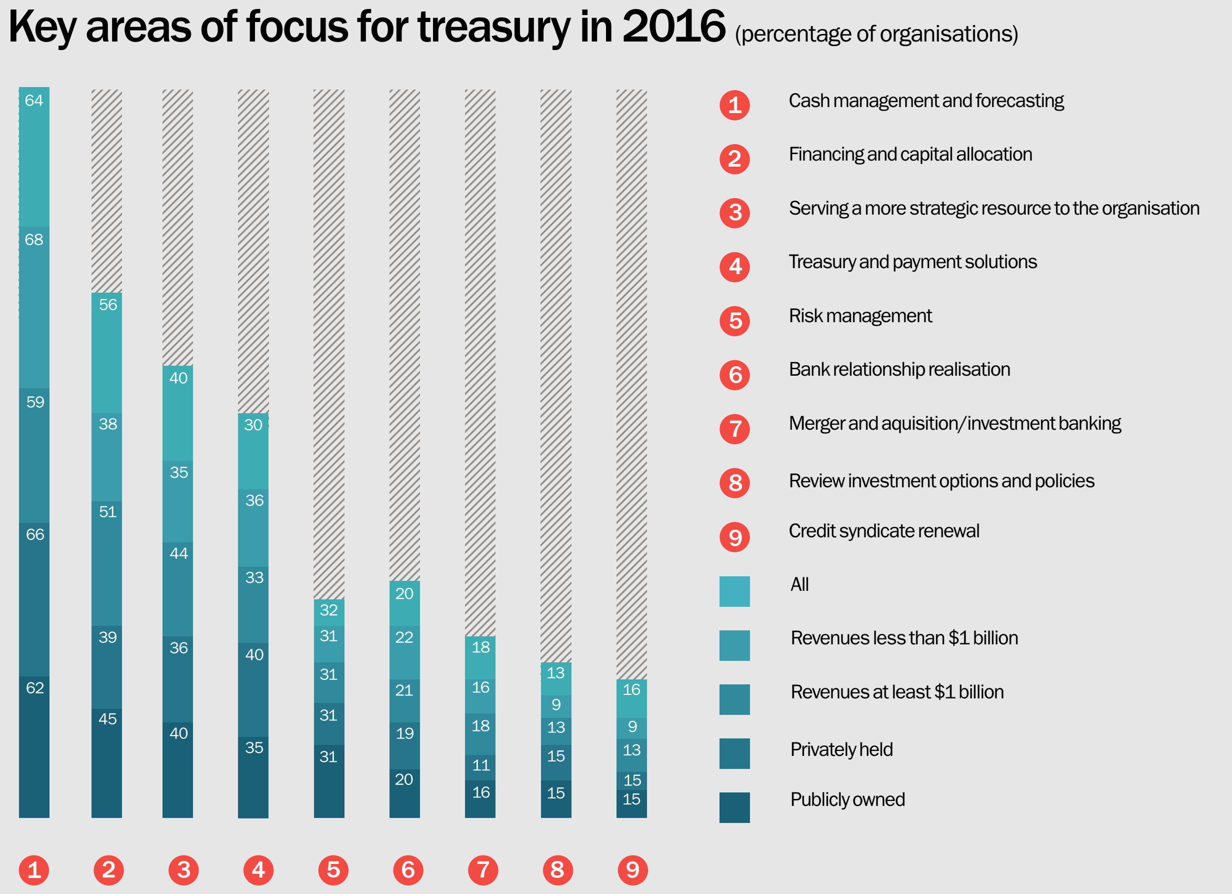
Q What about other departments?

A The treasurer can have a huge impact on supply chains. There is no doubt that supply chains can offer a genuine competitive advantage. Treasurers can bring their insight into issues such as just-in-time delivery. Companies ordering goods from China are now looking to have back-up supply chains from Turkey or even close to home. Treasurers can help the supply chain team develop a strategy that improves customer service, optimises inventory and maximises working capital.

Q What advice do you have for treasurers?

A You need to engage with colleagues across your company. It is no coincidence that successful companies have treasurers who have broken down the silo mentality. It really is a pre-condition for strong business performance.

Key areas of focus for treasury in 2016 (percentage of organisations)



Source: Association for Financial Professionals (AFP)/Oliver Wyman, 2014

◆ INTERVIEW

● RAYMOND SNODDY

Life is sweet for head of computer giant's finance

Dell's chief financial officer Tom Sweet tells how his role in the multinational computer company is evolving under private ownership

Michael Dell's decision to take the company he founded private in a $25-billion leveraged buy-out transformed the outlook for the computer and digital services group. It also had a marked effect on the career of 55-year-old accountant Tom Sweet, who has spent 18 years at Dell in roles such as chief auditor and chief accounting officer, and even head of sales.

After the buy-out was complete in October 2013, there were a number of changes at the top and Tom unexpectedly found himself appointed chief financial officer (CFO) 15 months ago.

"I was surprised because I did not expect our former CFO Brian Gladden to decide to leave because he wanted to do something else," Tom says.

"On my first day I thought, 'Oh boy, this is going to be interesting', but I was looking forward to the challenge."

The scale of the personal challenge, and indeed the ever-expanding role of CFO in many multinational corporations, can be seen in the broad range of his responsibilities.

Apart from obvious things, such as tax and treasury, Tom is ultimately responsible for industrial relations in the computer technology company which has more than 100,000 staff worldwide.

"I have the corporate development team under me that focuses on and helps drive our mergers and acquisitions activity and our joint ventures fund," he says. "We also have a strategic planning team under me, a small team of professionals, who help us think through the longer-term vision of the company, working with Michael and the business leaders."

There are a lot of grey areas in his responsibilities, which adds to the interest, he believes.

But the biggest challenge of all, both in strategy and culture, has come from the very manoeuvre that led indirectly to Tom getting his big opportunity – the changes flowing from the move to private ownership after 24 years as a public corporation.

"We've clearly had to pivot from a large US multinational public company to a large US multinational private company, with different rhythms, metrics and key performance indicators, no longer so strongly geared to a 90-day public company external reporting cycle," the Dell CFO explains.

It's also about trying to get everyone in the company to think longer term, invest longer term and become more entrepreneurial, which is of course the company's history. Dell was founded in Michael Dell's university dorm and the buy-out, with the help of Silver Lake private equity and a consortium of lenders, gives him greater freedom because he again owns 75 per cent of the enterprise.

Apart from longer time frames and concentrating on maximising cash flow, Tom explains that what has changed is "the pace and depth" of investment decisions.

He concedes that in the public-ownership past, short-term pricing initiatives would sometimes be used to get a transaction into a particular quarter. You might even have to hold back on certain investments, depending on how the quarter was going.

Tom is also involved with senior colleagues in trying to empower people throughout the organisation to contribute new ideas through "creative avenues".

> We are all struggling with driving efficiency, how do we add value to the overall business, and how do we make sure our finance functions and capabilities are evolving?

"We want to be thoughtful, but we do want to take some risks and make some bets on technology trends, and we know that some are not going to work. Bring your ideas forward and we will reward you and fund you," is the mantra.

A new cyber-security service, for example, is showing strong growth and the team have been told they will be funded regardless, for now, of operating income.

"What I told them is generate $1 of positive cash flow," says Tom, who likes sport, particularly skiing, golf and scuba – his most recent dive was off St Thomas in the Virgin Islands.

Obviously he has to think a lot about capital allocation and finding the appropriate balance between paying down debt from the buy-out, currently $14 billion – $3 billion down from going private – and investing in research and development, as well as setting money aside to back small startups in Silicon Valley.

The company, based in Round Rock, Texas, plans to stay loyal to its computer heritage, while as an integrated group, unlike a number of rivals, spreading out into higher margin end-to-end technological service provision.

"I think the CFO role is evolving across the industry and across the large multinational space. CFOs are more involved in company strategy and perhaps even day-to-day execution than the traditional, strict definition of a CFO," says Tom, who is part of a numerate family. His wife Kathy is a retired accountant, his son David is in data analytics, first daughter Elizabeth is a financial analyst and daughter Emily an engineering student.

When he goes to chat with counterparts at other large multinationals, the conversations and focus, Tom notes, are remarkably similar.

"We are all struggling with driving efficiency in the organisation, how do we add value to the overall business, and how do we make sure our finance functions and capabilities are evolving as our businesses are being transformed?" the Dell executive adds.

"I think more of the CFOs I talk to are very involved in the strategy of the company, and influencing and shaping that strategy alongside the other partners they are working with," he says.

Because of the nature and origin of Dell, the relationship between top management and the restless, entrepreneurial billionaire founder, who is chairman and chief executive, is key.

"I work pretty closely with Michael. He's my boss and chief executive, and we interact very, very regularly. No matter where he happens to be in the world and what he happens to be doing, he's reachable. We try to talk live at least once a week," Tom says. And then there are the e-mails, and the flow of thoughts and comments.

Unsurprisingly, Tom is optimistic about the future of the company, considering what they have been able to achieve in the last 18 months, and dependent on "the opportunities and challenges of the cycles of technology".

It is equally likely that Tom's role as Dell's chief financial officer is destined to become more, rather than less, significant.

TOM SWEET'S CAREER

Tom is responsible for all aspects of Dell's finance function, including accounting, financial planning and analysis, tax, treasury and investor relations. Additionally, he is responsible for corporate strategy and development.

He was previously vice president, corporate finance, controller and chief accounting officer, with responsibility for global accounting, tax, treasury, investor relations, as well as global financial services. He was responsible for Dell's external financial reporting for more than five years when the company was public. Previously he served in a variety of finance leadership roles, including vice president, finance, responsible for the overall finance activities of Dell's corporate business, education, government and healthcare business units, and has also served as the head of internal audit. In addition, he worked in a number of sales leadership roles in the education corporate business units.

Before joining Dell in 1997, Tom was vice president, accounting and finance, for Telos Corporation after 13 years with Price Waterhouse in a variety of roles primarily focused on providing audit and accounting services to the technology industry.

Tom received a Bachelor's degree in business administration from Western Michigan University and is a certified public accountant.

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Paying China is no small change

China's response to the SWIFT international payments system should bring good news for corporate treasurers with lower costs and more efficient settlement of transactions in renminbi

◆ CHINESE PAYMENTS

● RODRIGO AMARAL

The launch of the China International Payments System or CIPS is expected in the second half of this year. If things go according to expectations, it will make the settlement of transactions with China-based business partners a much more straightforward affair than it is at present.

"CIPS will be a game-changer," says Andrew Mitchell, the Hong Kong-based head of the Asia Capital Markets practice at Linklaters law firm. "It will boost the ability to settle renminbi internationally so that it will be much easier to access and use the currency outside China."

If that is indeed the case, treasurers should hope that CIPS arrives sooner rather later. The growing importance of China as a trade and financial power means companies and their banks have to deal with evermore transactions in offshore renminbi.

According to the SWIFT international payments network, the Chinese currency is already the fifth most used in payments globally, amounting to 2.17 per cent of all transactions by December 2014. More important than that, the use of the renminbi is growing fast, as in January 2013 it ranked 13th with a meagre 0.63 per cent of the total.

> The main advantage of CIPS is that it should cut some corners and make the settlements of payments in renminbi a less cumbersome process

The main advantage of CIPS is that it should cut some corners and make the settlements of payments in renminbi a less cumbersome process. In the current set up, companies that want to make or receive a payment in the Chinese currency need to empower their financial partners to set up accounts with authorised clearing banks in jurisdictions, such as London, Frankfurt, Singapore or, especially, Hong Kong, which have been approved by the People's Bank of China to make renminbi settlements.

The system works well, but it creates delays for the conclusion of transactions, which could be faster if settlement was made directly with the Chinese central bank. And there are also issues related to the standards of messaging employed by SWIFT and the local Chinese clearing system, which make the whole process riskier than it should ideally be.

CIPS could help to deal with such issues by adopting messaging standards that are adapted to the SWIFT system, although it is not clear yet whether this will actually be the case. It could also provide solutions to more pedestrian problems, such as the times of the day when the settlement process will take place, which is another source of delay.

"If CIPS is implemented properly, which is what we expect, the new infrastructure itself should be invisible to corporate treasurers," Mr Mitchell says. "But they should see the benefits of more streamlined processing and settlement."

Jürgen Lutz, head of cash management Asia-Pacific at UniCredit, adds: "CIPS will allow for more clearing options for banks to organise their renminbi settlements, and more choice and competition might lead to lower bank costs and eventually cheaper pricing for treasurers.

"There will be costs to using CIPS, such as making the payment system fit for CIPS format requirements, and the commercial viability of this will depend in part on the volume of international renminbi business a company does.

"We should be cautious about raising expectations as once CIPS goes live, some banks may adopt a wait-and-see approach while they consider all the details, and it will take years to build and develop the network."

COMMERCIAL FEATURE

DOING BUSINESS IN AFRICA: WHY CORPORATE TREASURERS NEED A BANK WITH LOCAL PRESENCE AND A GLOBAL REACH

Africa is one of the most exciting and dynamic economies in the world, but for corporate treasuries to manage risk effectively in the continent, they need a banking partner with substantial local presence as well as global reach

Neil Surgey
Head transactional products and services

Hasan Khan
Head of sales / head of transactional products and services, Africa

Standard Bank

Neil Surgey and Hasan Khan are very passionate about Africa and the rapidly growing economic opportunities that it presents for companies around the world.

"Africa has caught the imagination of investors and corporates around the world," says Mr Surgey, head of transactional products and services (TPS) at Standard Bank. "Despite the recent sell off in emerging markets, multinational corporates still want to have an interest in the continent." According to the IMF, sub-Saharan Africa's economic growth remains strong and should accelerate to 5.8 per cent this year.

But Mr Khan, head of TPS in Africa and head of sales for TPS at Standard Bank, which has been working on the continent for more than 150 years, is very aware that after the 2008 financial crash, and with the current unstable global political and economic outlook, risk management is very much top of mind for the corporate treasurers of companies looking to do business with fast-growing African economies.

The continent's economy is diverse and complex, as are its politics. "People now want a bank that is not just a service provider, but a partner – a trusted adviser," he says. "Companies operating in or expanding into Africa are increasingly looking for a bank with the legitimacy and track record of operating in African markets."

He points to trade finance. "What you need when you have a maturing trade obligation is a commitment from the bank to say they will make the payment. The challenge that countries such as Nigeria and Angola are currently facing is a lack of foreign currency in the market. That's not something that you, as a corporate treasurer, want to deal with on a day-to-day basis. You need someone who knows the system locally and can handle it and manage the risks for you," he says.

The banking reforms introduced post-2008, although aimed at reducing risk globally, are being implemented throughout Africa at varying speeds and have created new complications that foreign companies have to navigate.

Working with a bank that is deeply rooted in the continent is vital, Mr Surgey believes. "Most of the countries have adopted Basel III, but are at different stages of implementation. Also, a lot of countries have exchange controls, so it's not a simple matter of being able to sweep and pool into a consolidated account. Getting 100 per cent visibility of your currencies and cash position in all countries that you're in is not as simple as when you're dealing with Europe," he explains.

> **Having a bank with a strong presence on the ground brings huge competitive advantages and helps manage risk, as a growing number of corporates are discovering**

This is where having a bank with a strong presence on the ground brings huge competitive advantages and helps manage risk, as a growing number of corporates are discovering. "As well as the ability to operate in multiple markets each of which are very different and therefore carry their own risks, our clients like the fact we can also offer them a regional perspective. That gives the operating consistency you wouldn't get from six different banks in ten different markets. This means we can compete regionally as well as domestically with large local banks," says Mr Surgey.

Payables and receivables management is one of the biggest areas of risk to be managed. "If you're a corporate treasurer, you're thinking about three distinct areas of operation – receivables, managing liquidity and payments," says Mr Khan. "Having the geographic reach to collect and pay is incredibly important for companies working in Africa."

The continent is still quite a way off sweeping multiple markets into a single currency, he points out. Adding to the complexity is the great diversity between payment and transaction facilities between countries. "We've seen M-Pesa, the electronic payments system, take off in Kenya, but there's also a strong bricks and mortar presence there. Companies often have to select from a myriad of options to get an optimum working capital model," he says.

But it's not just about being firmly rooted in countries and regions across Africa, says Mr Khan. Corporate treasurers from global companies need a banking partner on the continent that also has an international perspective. It's for this reason that Standard Bank has established five Origination Centres in London, New York, Dubai, Hong Kong and Beijing.

"They integrate our clients from outside Africa," explains Mr Khan. "It's sometimes difficult to understand business culture in Lagos if you're based in Mombasa, but try to do that if you're thousands of miles away in Beijing.

"We've had a number of multinational clients expressing an interest in operating in Africa for years. Their home bases are in very diverse countries and they don't want to open bank accounts in 12 countries across Africa, so our Origination Centres act as strategic corridors where our investment bankers, corporate coverage and product specialists can help these companies link into our Africa proposition. They find that this seamlessness and access to our experts also reduces risk. The process is a two-way street, facilitating exports from Africa as well as imports."

A factor that often doesn't get talked about is people, says Mr Surgey. "With the economic expansion in all these areas, there is a paucity of talent, which is further complicated by the difficulty in getting expatriates into these markets. Corporate treasurers have to think very carefully about where their next in-country treasurer will come from. Finding someone with the right knowledge, experience and cultural understanding helps to manage the risk, so clients find Standard Bank's network of experienced people on the ground in its 1,200 branches invaluable," he says.

As the economy of the continent evolves, the nature of trade is changing, bringing with it new challenges. "What is surprising is the low level of intra-Africa trade," says Mr Surgey. "The World Bank estimates it at approximately 15 per cent, while according to SWIFT, the payments system, it's about 23 per cent. Predominantly, Africa has exported raw materials overseas with relatively little internal manufacture, but now that's starting to change. Governments are trying to make trade easier by putting into place pan-African payment systems, which are themselves moving towards smaller denominated payments."

It's another exciting development in this dynamic, emerging economy with all its variables and idiosyncrasies which requires risk management from a banking partner that has knowledge, influence and a long-standing presence on the ground as well as a global reach.

ABOUT STANDARD BANK

1,233
branches and 8,623 ATMs across the continent

49,000
employees

$165bn
Standard Bank Group assets at December 31

$20bn
market capitalisation

Treasurers can navigate abroad

With the economic recovery well underway in the UK, firms are looking abroad for opportunities to expand into previously untapped markets

◆ **GOING GLOBAL**

● **ROB LANGSTON**

Much of the leg work involved in global expansion and international growth is now being done by corporate treasury departments.

In its *2015 Global Corporate Treasury Survey*, professional services firm Deloitte found that more than 70 per cent of corporate treasurers saw enhanced governance and control over domestic and overseas operations as an important part of their role.

Overseas growth can provide UK firms with a new outlet for products and services and increase sales, but can also add to the complexity of the business, providing corporate treasurers with new challenges.

While Deloitte's survey found that international treasury support was one of the functions most likely to be outsourced, corporate treasurers need to be aware of the issues facing a company with global expansion plans.

The addition of new responsibilities, such as oversight of overseas operations, is part of the evolving role of the corporate treasurer, which has radically changed in recent years.

"The role of corporate treasurer itself is undergoing a bit of a transition, with merged functions and job descriptions increasingly the norm at large organisations," says Dennis Gannon, senior director at advisory company CEB, which works with more than 10,000 organisations across 110 countries.

"These merged roles allow the organisation to leverage the treasurer's unique perspective on cash and capital in areas where they can have a greater impact on shareholder value creation.

"It is far more important in the role today to be a finance and business leader, rather than a technical treasury expert."

John Bloor, head of practice, finance at interim management services firm Alium Partners, says the corporate treasurer's role has become increasingly sophisticated and multi-faceted more recently, with treasury departments expected to be able to navigate new markets and regulatory landscapes.

"Since the financial crisis, what we've found is that the role of the treasurer, which used to be, to some extent, a back-office function, is now a much more visible role," he says.

"An understanding of global treasury operations, and the different fiscal and commercial practices that exist outside the UK, is critical in an international group to ensure the efficient management and pooling of cash."

As well as adapting to a more internationally focused business model, corporate treasurers will also have to deal with more local issues. Indeed, finding corporate treasurers with experience of managing a company's expansion abroad can often prove difficult for firms with a more global outlook.

"There isn't a big pool of good quality treasurers that have significant large corporate experience and have worked in a complex global environment, and it can be quite a challenge finding somebody who meets all the requirements," says Mr Bloor.

According to a 2014 survey by the British Chambers of Commerce, 43 per cent of UK businesses planned to expand overseas, with the European Union the most popular export destination for an overwhelming majority.

But chief executives are looking further afield at the developing economies around the world. Africa, Asia and Latin America have all been regions of interest to expanding UK firms. However, recruiting staff with specific local market knowledge or experience is often difficult.

"As companies become more complex, this leads to more centrally managed ad-hoc work to support country-specific issues and satisfy local market needs," says Paul Dennis, senior director at CEB, highlighting the challenges modern corporate treasurers face in expanding into developing markets and the additional complexity.

> **An understanding of global treasury operations, and the different fiscal and commercial practices that exist outside the UK, is critical in an international group to ensure the efficient management and pooling of cash**

Global professional services firm TMF Group's annual *Global Benchmark Complexity Index* reveals that South America was the most complex region to operate in last year, while several Asian countries were also near the top of the list. In contrast, the UK emerged as one of the easiest markets in which to operate.

Developing countries with overbearing bureaucracy can often make expansion a much more difficult process. While familiarity with local laws and ways of doing business can make the process more painless, it is an added challenge for UK firms.

Whether expanding to a developing or a developed market, much of the role will remain the same wherever expansion happens. While becoming a more global treasurer will entail many challenges moving to new markets, it also highlights the need to rely on strengths built within a thriving UK-based business. The traditional corporate treasurer role, expanded to include different markets, continues with daily cash management, risk assessment and financing duties.

"A big issue facing treasurers is corporate-to-bank connectivity, making sure the company's systems sync effectively with the banks," says Alium's Mr Bloor. "The challenge facing a lot of treasurers is having to manage different systems that banks use to make sure there is not an impediment to the transfer of funds around the world."

Knowledge of different tax regimes is a significant issue for treasurers of expanding UK firms, particularly in the current environment where tax issues have become a politically sensitive subject.

"One of the biggest challenges treasurers face when internationalising is ensuring compliance with different VAT regimes," says Claudio Cassanmagnago, VAT expert at international consulting group Lowendalmasaï. "The time to register and the rules that apply in every jurisdiction can vary significantly, so companies need to take advice when expanding their operations overseas.

"Since non-compliance is a major legal and reputational threat, it's very important for companies to get this right," he adds. "It's worth remembering that VAT rules also apply to those looking to internationalise their business using e-commerce and other distance-selling initiatives."

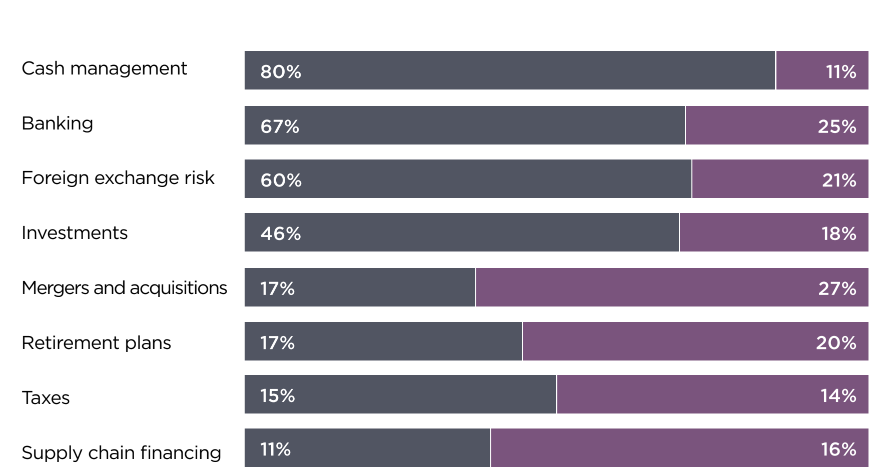
With British businesses continuing to look abroad for growth outside of the home market and new revenue streams, the corporate treasury department is likely to play a key role in facilitating expansion.

GLOBAL BENCHMARK COMPLEXITY INDEX

1	Argentina	15	Ecuador
2	Bolivia	16	Romania
3	Peru	17	Brazil
4	United Arab Emirates	18	Venezuela
5	Indonesia	19	Chile
6	Thailand	20	Dominican Republic
7	Poland	21	Guatemala
8	China	22	Ukraine
9	Nicaragua	23	Honduras
10	Kazakhstan	24	Vietnam
11	Japan	25	Switzerland
12	Turkey	26	El Salvador
13	Philippines	27	France
14	Korea		

Source: *Global Benchmark Complexity Index*, TMF

IMPORTANCE OF TREASURY'S ROLE IN GLOBAL OPERATIONS
PERCENTAGE DISTRIBUTION OF ORGANISATIONS WITH GLOBAL OPERATIONS



Source: *Strategic Role of Treasury Survey*, 2014 AFP

New rules force up price of money

Reform of the financial services sector was essential following the 2008 crisis, but how is new regulation affecting corporate treasurers?

◆ **REGULATION**

● **SALLY PERCY**

The torrent of financial services regulation unleashed since the 2008 banking crisis may not have been directly aimed at corporate treasurers, but it has still rocked their world.

"Regulation features high among treasurers' concerns because banks, effectively, are being restricted in what they can and can't do," says Michelle Price, associate policy and technical director at the Association of Corporate Treasurers.

The string of rules that banks – and therefore treasurers – have to contend with relate to derivatives trading, money laundering, tax and sanctions, among other topics.

But, ultimately, the regulation that will probably have the greatest impact on banks and their corporate clients is the infamous (in the financial services world, at least) Basel III accord, which has already transformed the banking environment that treasurers operate in on a day-to-day basis.

As Bob Stark, vice president of strategy at treasury software provider Kyriba, puts it: "No one is immune to the direct or indirect effects of Basel III."

Basel III, implemented in the form of Capital Requirements Directive IV in the European Union, requires banks to hold capital of at least 8 per cent of their risk-weighted assets. But not all capital is ranked as equal and banks are under particular pressure to hold so-called high-quality capital such as common shares and retained earnings. The idea is that, if necessary, this capital can be used as a buffer to absorb unexpected losses and to fund the bank's ongoing activities.

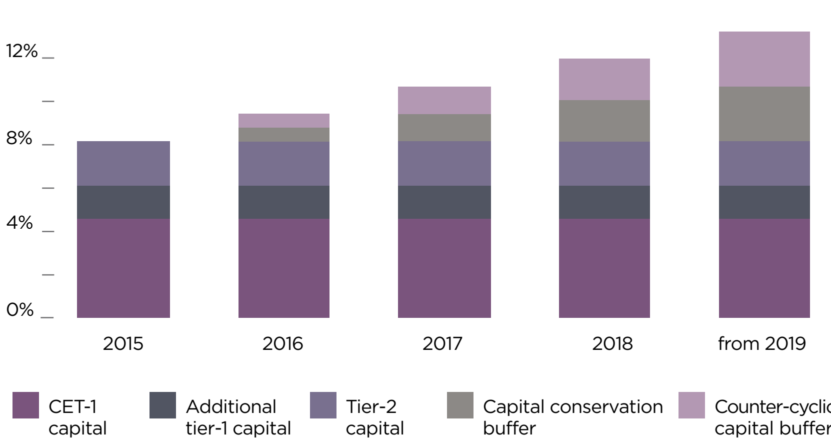
Unfortunately, keeping capital on balance sheets is expensive for banks so they have started to pass this cost on to businesses. Already, companies have had to pay more for certain products, such as the derivatives, that they use to hedge financial risks.

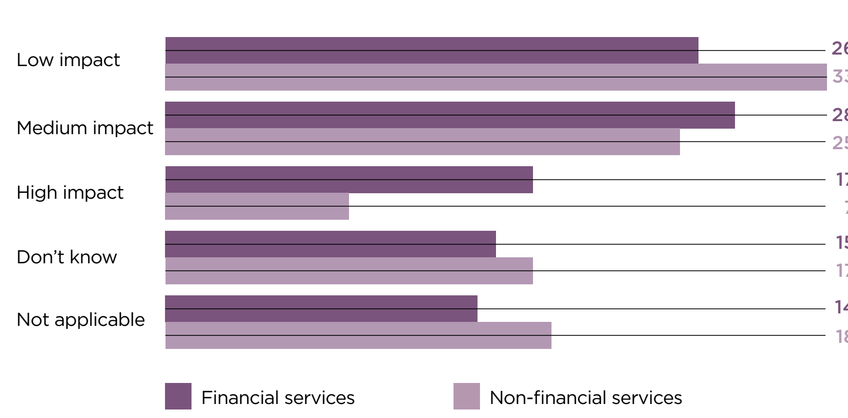
Financial software provider Misys has encountered business challenges as a result of the capital ratios. "We're highly levered," explains Angela Clarke, the company's head of treasury. "When the banks apply their ratios, they apply a credit charge. So what might be the right thing to do from the point of view of managing the organisation becomes prohibitive as a result of the costs that are being applied."

Higher capital requirements have also had an impact on the availability of trade finance across the globe, according to Ruth Wandhöfer, global head of regulatory and market strategy at Citi Treasury and Trade Solutions. "A lot of trade finance is provided by the large banks, which have to hold more capital," she says. "As a result, there is a risk that trade finance is starting to become restricted to those businesses that can afford it."

It's not just capital that banks have to worry about under Basel III. They will also have to meet its requirements in relation to leverage, liquidity and long-term funding. The accord's leverage ratio sets the amount of capital that a bank needs to hold as security against its financing commitments. Meanwhile, the liquidity coverage ratio is intended to ensure that banks have enough eligible liquid assets to withstand a 30-day stress scenario. Finally, the net stable funding ratio aims to secure the bank's long-term stability by forcing it to match the duration of its stable funding with the duration of its long-term assets more closely.

Offices of the Financial Conduct Authority at Canary Wharf, London





KEEP AN EYE ON EMIR

It's not just Basel III that has proved to be a headache for treasurers. In 2014, many of them were thrown into a tailspin by the requirement under the European Market Infrastructure Regulation (EMIR) to report their over-the-counter derivative trades to newly established trade repositories.

The regulation, which affected every company that had one or more derivative, was a compliance nightmare for many corporate treasurers. This was mostly because there was a lot of confusion about the process and the approved trade repositories were announced at a late stage.

"We were a bit disgruntled by how it was rushed in," says Pedro Madeira, assistant treasurer of Heathrow Airport, which has a £10-billion derivatives portfolio. "It was a long time in the offing, reviewed multiple times and then implemented before anyone was ready for it, which caused a mess."

Unfortunately for treasurers, the nightmare isn't entirely over since some of them will be affected by further rules that take effect in December. Those affected are likely to be treasurers who work for large energy companies that use derivatives to trade risk, rather than just hedge risk. Companies that exceed the clearing threshold will be obliged to clear over-the-counter derivative contracts through central counterparties and apply risk mitigation techniques, such as portfolio compression.

Mr Madeira acknowledges that EMIR has helped to improve the confirmation process for derivatives. But he says treasurers need to keep a close eye on how the regulation develops. "If you see something that's going to affect you, talk about it," he says. "Don't expect everyone else to speak for you."

Meanwhile, Angela Clarke, head of treasury at financial software provider Misys, questions what the reporting of derivative trades will ultimately achieve. "We have no insight into what is going to happen to that data," she says. "It seems to be going into a black hole."

The leverage ratio and the net stable funding ratio are not due to be widely implemented by banks until 2018. But businesses have already started to feel some side effects from the liquidity coverage ratio, which was introduced at the start of this year. Banks now prefer to hold operational cash rather than investment cash on behalf of their corporate clients since operational cash is considered less of a flight risk in stressed conditions.

Indeed, such is the banks' demand for "stable" capital that even large, well-established corporates can find it hard to put their cash on deposit for less than 30 days at present and some have had to accept negative interest rates. "A number of companies are very cash rich, but they are having difficulties finding the right investment options," says Ms Wandhöfer. "The Basel liquidity regime has meant the liquidity value of deposits from corporates is not as high as it used to be."

Meanwhile, the net stable funding ratio will disincentivise banks from making long-term loans since they will need to have long-term funding in place to support them. In the not-to-distant future, then, banks may end up becoming little more than providers of bridging finance for large companies that may predominantly have to secure longer-term funding from other sources, such as the capital markets.

Aside from the potential problems that this situation poses for smaller businesses that don't necessarily have the knowledge – or the credit rating – to successfully tap the capital markets, it also relies on the capital markets themselves functioning well. Yet, as Ms Wandhöfer points out: "Financial markets don't always act rationally – this is a risk that cannot be controlled by regulations."

Although the world of financial services is changing around them, treasurers do not have to be victims of circumstance, however. They do have alternative sources of funding available, such as the corporate bond and private placement markets as well as peer-to-peer lending platforms. They also have alternative investment options, such as repos or repurchase agreements, corporate commercial paper and government bonds. A further possibility is making more use of their organisation's own cash resources.

"Treasurers are increasingly looking to optimise their internal working capital rather than relying on external borrowing," says Kyriba's Mr Stark. "They can employ cash forecasting to get predictability of cash flows and greater visibility of what's coming. They can look at intra-company structures, and use cash pooling and netting so the company uses its own liquidity to fund the business."

The Association of Corporate Treasurers' Ms Price believes that, while businesses have seen some of the impact of Basel III, they haven't felt the full force of it yet. So she emphasises that treasurers need to be "reading up". She adds: "They need to be asking their banks, how is this impacting you and what is the knock-on impact on business finance and risk management?"

Ultimately, regulators are hoping to make the financial markets safer. But is this the outcome that treasurers are seeing in practice? "It's not all bad," Misys' Ms Clarke concedes. "Maybe when we'll look back later, we will see the benefits. I hope that's what happens."

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It's real-time tech treasury operation

How are banks responding to increasingly complex relationships with global corporations and their demands for better financial support? Through technology of course

OPINION COLUMN

CHRIS SKINNER
Chairman
Financial Services Club

"For many years, banks have supported companies through in-depth relationships based upon people. Subject matter expertise and intellectual capital are important ingredients of these relationships as the core of any company's needs from its bank is that they understand their business.

But understanding the company's business no longer cuts the mustard in this increasingly dynamic, globalising world where multinational corporations need trade finance, working capital and supply chain support across regions in multiple currencies, and across many complex jurisdictions. This is where technology is making a difference.

A great example is the work that Deutsche Bank has put into their Autobahn App Store. Like an iTunes for corporate treasurers, the app store provides an app for anything and everything a company could need from foreign exchange (FX) netting and pooling to cash flow forecasting.

The key to this is that the almost 200 apps on offer allow a treasury operation to deploy apps based on staff needs. Therefore, the more junior treasury members may deal with just 15 or 20 apps that are appropriate to their level of operation, while more senior staff members get 40 or 50. The point here is that these are not just any old apps, but they are the ones specific to each company's trade flow needs.

> The almost 200 apps on offer allow a treasury operation to deploy apps based on staff needs

This is where things have changed dramatically in just the last decade. Ten years ago, providing a large FX balance sheet movement from Asia to Europe would take place in a batch overnight. Today, this can be done in near real-time, and hence companies are looking for treasury operations that can be managed in real-time.

The Deutsche Bank app store goes some way towards delivering this but, in another example, the API services (application programming interfaces) offered by Ukrainian bank PrivatBank also impresses. In this instance, the bank has analysed their customers' needs and broken down the bank's operations into many discrete API components.

APIs allow anyone to take these pieces of code and plug them into their own operations. Therefore, you can consider a requirement for using FX hedges in any investment in orders from one country, let's say China. Bearing in mind that the price of renminbi may change between your order date and delivery of goods, an auto-hedge against such currency fluctuations is a criticality in your trade flows and the ability to just plug the code into your order process to provide the auto-hedge is what these APIs allow you to achieve.

In other words, you have easy-to-use front-end corporate apps to allow the accounts payables and receivables operation to be supported more efficiently, with APIs layered over these apps to make the processes completed tailored to your treasury needs.

These are just two examples of key developments in bank technologies to corporate customers that are changing the game. There are many others, such as the data analytics being provided for corporate operations by banks such as JPMorgan. Here, the bank has worked hard to provide information enrichment of messages to their clients, so they are more informed about monetary movements.

An illustration is that most of the time, when you receive a payment, all you get is the stripped-down message of who it came from and when. In the case of banks that are using data analytics effectively, customers receive all the information trail of any payment received or made. So if you need the detail of exactly what was being paid for by whom, it becomes a pure drop-down from the basic payment information, rather than a call to the bank.

This is not a static process though. After all, we are nearly of an age where the internet of things arrives and everything has a chip inside. In this world, information enrichment becomes even more interesting, so consider this scenario, just a few years from now.

You make the order to China with your renminbi-hedge, and your apps and APIs show the processing of that order, its fulfilment and shipping all in real-time. But, crucially, every component of the goods you have ordered is now communicating its position and location through the internet of things. This will make manufacturing just-in-time in real-time globalised, and banks are already working on how they can provide the transactional and informational capabilities to make this a reality today."

Tech to take care of business

Corporate treasurers in growth companies must invest in flexible technologies that can expand with the business without creating a fixed-cost base

◆ TECHNOLOGY
● DAN BARNES

Online firms have an enormous capacity to grow in terms of customers and geographies, but that requires them to be as flexible as possible. For music streaming giant Spotify, which handles around 200 million transactions a year, the right technology has been fundamental to its treasury function as the business expanded.

Johan Bergqvist, Spotify's group treasurer, says: "For us the pressure has been to keep up with the business. Over the last few years we have grown from 800 employees to 1,500, with revenues doubling or tripling. In 2013 alone we entered 32 markets. The treasury has to align with everything that comes with that growth, handing the foreign exchange part, the transactional part, financial risk and infrastructure for payments."

More traditional firms with legacy infrastructure need to compete with new entrants by lowering cost and complexity. At the same time operational pressure is growing within treasury functions as their financial services partners step away from certain business lines and less profitable customers. For example, at the start of the year RBS announced it was closing its non-UK/Ireland wholesale cash management and trade finance operations.

Corporations are engaging in shadow banking activities themselves to fill in gaps in funding for partners or counterparties, and supporting parts of the supply chain. Small to medium corporates may also find they are no longer profitable enough to be taken on by banks for low-margin activities.

Bob Stark, vice president of strategy at treasury platform provider Kyriba, says: "Corporates are in some cases going to provide financing to their own supplier base to avoid disruptions due to lack of cash or liquidity. If you are a growing company, you are relying on a growing supplier base and you need them to be uninterrupted otherwise you have a problem yourself. We have seen large organisations providing finance to their own customers for some time in industries like aeronautics."

With pressures to push down costs, increase flexibility and provide evermore complex facilities, treasurers need to acquire the systems that will allow them to function.

Paul Bramwell, senior vice president of treasury solutions at software and services provider SunGard, says: "Even if you have a very basic treasury function these days, you can pick up technology that will automate a significant amount of the processes you have, achieving straight-through processing for dealing, confirmation matching, filing and reporting."

The adoption of new technologies is gaining momentum. In a recent survey by the Association of Corporate Treasurers and Kyriba, just a third of treasury professionals said that they still used spreadsheets as their tool for treasury management. More sophisticated systems were used by other respondents, with 35 per cent using installed systems, 16 per cent using a function of their company's enterprise resource management system and 10 per cent using a software-as-a-service (SaaS) cloud-based platform.

The growth of cloud-based platforms reflects the need to reduce the complexity of firms' own technology infrastructure, either through investment in new systems or by pushing the complexity to system providers to manage.

Hubert Rappold, chief executive at TIPCO Treasury & Technology, says: "In the payments area, traditionally you had a treasury management system and then connections with the 20 banks that you had worldwide for banking. Now cloud-based technology providers are getting a strong hold. They take the data and take care of all the connections with the banks. So the complexity is still there, but the corporate doesn't need to worry about it."

Beyond the reduction in cost that this provides, it also creates flexibility for the treasurer. Firms that are growing will often place some treasury functions in overseas offices, but wish to operate centralised controls and reporting.

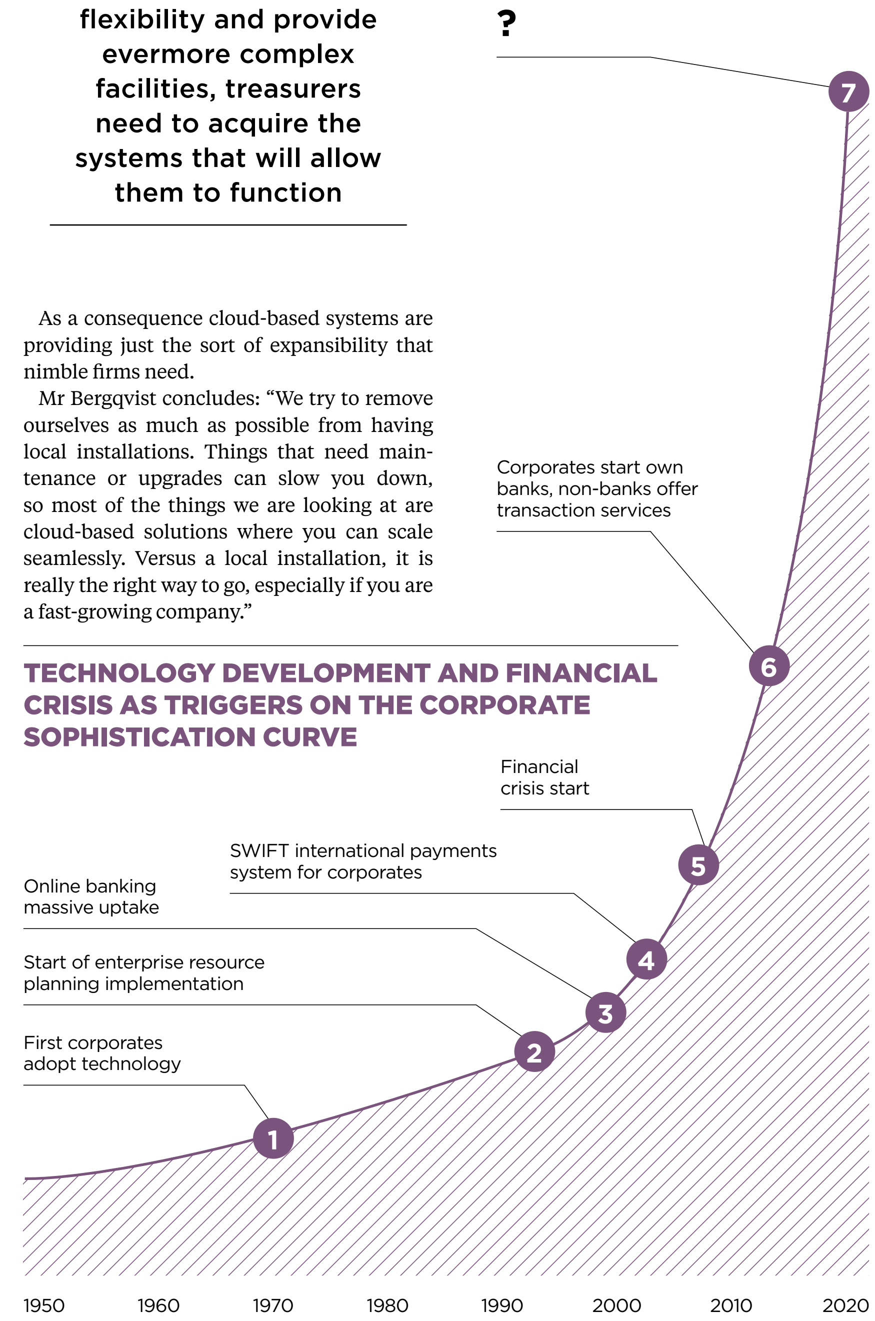
Mr Stark says: "You can never let go of central visibility and control of treasury cash flow. If the technology to manage that is complicated to implement, it doesn't really help. You need one system that everyone can use regardless of where they are in the world."

> With pressures to push down costs, increase flexibility and provide evermore complex facilities, treasurers need to acquire the systems that will allow them to function

As a consequence cloud-based systems are providing just the sort of expansibility that nimble firms need.

Mr Bergqvist concludes: "We try to remove ourselves as much as possible from having local installations. Things that need maintenance or upgrades can slow you down, so most of the things we are looking at are cloud-based solutions where you can scale seamlessly. Versus a local installation, it is really the right way to go, especially if you are a fast-growing company."

TECHNOLOGY DEVELOPMENT AND FINANCIAL CRISIS AS TRIGGERS ON THE CORPORATE SOPHISTICATION CURVE



Source: *The Irresistible Rise of Corporate Sophistication*, CAPCO

CONSIDERING THE CLOUD

A vendor providing a service or software through the cloud can gain substantial economies of scale; offering a single solution to multiple clients can mean their price goes down

Security concerns in the cloud should reflect risks; if a payment file is lost that is one thing, but if your complete cash-flow forecast becomes public, it is a bigger issue

There are local rules and regulations that affect the ability to use cloud-based systems; being aware of restrictions around data transfer is crucial particularly across borders

In some European jurisdictions components such as payments or reporting may be operated in the cloud, but not an entire treasury management system

As an organisation the provision of remote software will mean you do not need to worry about how much processing is being undertaken or how many resources are required

Internal IT resources can be reduced as they are no longer needed to manage system implementation and integration when new functionality is needed