July/August 2014

treasurytoday ASIA

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Understanding derivatives reform

Much has been written about reforms in the OTC derivatives markets in Europe and the US, but what is happening in the Asia Pacific region? We look at the latest developments and examine the implications for corporate treasurers who rely on derivatives to manage financial risks.

The Corporate View

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Treasurer, Group Treasury

True Corporation

Women in Treasury

Shelly Maneth

CFO

ConneXionsAsia

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Counterparty exposure management

Technology

MMF portals examined

Country Focus

Treasury in the Philippines

Is it your time to shine?

Nominations close at midnight on 12th September

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CFO
ConneXionsAsia

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TREASURY INSIGHTS

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

China to allow nationwide cross-border pooling

Two-way cross-border renminbi pooling may soon be a nationwide reality according to guidelines released by the People's Bank of China (PBOC) on 11th June 2014. While these are just guidelines they set the agenda and indicate further renminbi internationalisation and, once implemented, will allow multinational corporates across China to fully integrate their operations in the country into their global cash pool.

Under the new guidelines state, multinationals will be required to elect one of their legally registered Chinese companies to become the cross-border pooling entity. The entity will subsequently be able to centralise cross-border payments and collections, netting cross-border settlements. This will allow corporates to avoid having to seek approval from the State Administration of Foreign Exchange (SAFE) each time they transfer funds cross-border. "This is something that should make all treasurers very happy," says David Blair, Managing Director at Acarate.

The proposed changes will benefit the majority of multinational corporates operating in China. "Multinationals with significant deficits in other countries have a strong incentive to cover these with surplus renminbi liquidity they have accrued in China," says Vina Cheung, Global Head of RMB Internationalisation, HSBC Global Payments and Cash Management. "For these companies the effort to integrate China into their existing global or regional liquidity structures is worthwhile."

Future development

Currently the PBOC is in the process of drafting the full legislation. Despite the lack of information regarding the go live date, the central bank has made clear that the new scheme is being launched to support the real economy and that both corporates and banks have to ensure that funds are used for working capital. "The PBOC wants to facilitate multinational corporate cash management, without encouraging hot money flows that are likely to inflate bubbles onshore and drive economic volatility," says Blair. "This is not the full opening of the capital account." Blair also believes there are likely to remain some restrictions, for example which companies can take part in the pooling, and also quotas on the amounts. "There is also likely to remain some reporting which needs to be completed by corporates, although this is unlikely to be very onerous."

The general feeling is that the guidelines represent a big step for China; Cheung comments that "the ability for moving and sweeping renminbi funds between China and offshore entities definitely marks a key milestone on its internationalisation journey in the eyes of corporate treasurers." And while there is still plenty of room for development, the initial signs are positive, confirms Louise Zhang, Head of Product Management for Greater China, Global Transaction Banking, at Deutsche Bank: "It is certainly a great development for operations in China".

Asian treasuries struggling with risk hurdles

Given that managing risk is one of the fundamental roles of corporate treasuries, it is not surprising that getting to grips with this risk is a priority for most treasurers. What may be surprising, however, is how the scale of this risk, and how well it is managed, can vary significantly from region to region. Treasuries of companies operating in Asia, in particular, face much higher risks and challenges than their counterparts in other regions, according to research published in May. The inaugural PwC Asia Corporate Treasury Survey focused on a number of key areas for treasury, including treasury organisation, risk management, cash management and bank relationships.

One of the most striking findings of the survey was that 50% of those surveyed said they were not satisfied with their overall risk management practices. Despite this widespread dissatisfaction, 40% said their risk management practices would not change in the near future. The survey also shed some light on cash management practices among Asian corporates. 40% of the treasuries surveyed said they did not have even basic cash pooling structures in place, while less than a third had real-time information on their cash position.

Suppliers have nothing to fear from SCF

Supply chain finance is seen by government as a solution to the difficulties small suppliers face when dealing with large buyers. But experts are now warning that, after several years of rapid growth, take-up is being hampered, perversely, by difficulties in onboarding the very suppliers the schemes aim to help.

The nub of the problem is that some suppliers, when approached to participate in an arrangement, fear that they will be taken for a ride. Perhaps that's understandable. In the world of buyer-supplier relationships, it's quite rare to see the introduction of new financial arrangements leading to mutual benefits for all parties. Press coverage of SCF does little to temper these fears either; in fact, quite the opposite. Take an article on late payments published recently, for example. In this commentary, and many more like it, SCF comes across as nothing more than a pretext used by large corporate buyers to selfishly coerce SMEs into accepting longer and longer payment terms with little or no regard for the financial strain that places them under.

Too good to be true?

In fact, in many cases, suppliers are actually being offered earlier payment terms at attractive rates – convincing them that is really the case, however, is often the first hurdle in the onboarding process. "The initial reaction of suppliers is usually to wonder whether its buyer has gone soft in the head," remarks Anil Walia, Head of Supply Chain Finance at RBS. "Immediately they want to know where the catch is – because it sounds too good to be true."

Is there a catch though? Not if the schemes are being applied correctly. When a company decides to roll-out a SCF scheme, it may well be because of pressures to improve working capital metrics. But of equal importance to most corporate buyers is to mitigate the risk of supplier default and the ensuing disruption of the supply chain that would cause. Considered in this context, putting pressure on a supplier by forcing it to choose between extended payment terms or a discount on its sales it cannot absorb would be counterproductive. This is why today SCF schemes are carefully structured so that any discount option is reasonable and only applied where it is appropriate to do so. "To apply SCF schemes across the board can hurt both the corporate and the SME," says John Mardle, Managing Director at Cash Perform. "The margins of some SMEs are so small they cannot absorb a discount of any sort and, if included, they could go bust leaving the corporate without a critical link in the supply chain."

RBS's Walia says that corporate buyers did not always understand this fully in the early days of SCF and, as a consequence, the task of supplier segmentation was sometimes performed inadequately. He believes that this sort of mistake is less prevalent these days, however. "Now large buyers understand that uptake by suppliers is the measure of success when it comes to SCF," he says. RBS, he adds, has worked particularly hard on helping buyers to understand that they also need to consider the schemes in the external context too, rather than simply trying to maximise the internal benefits.

Making it work

SCF, one of the few SME financing activities that banks are still keen to involve themselves in, offers a potential solution to the decline in traditional bank lending. But for it to work, buyers need the approval of their suppliers and that is not always assured. Perhaps reassurance will come with experience and, as more SMEs use and feel the benefits of the schemes, suspicions will be allayed. But until that day comes, corporates and their banking partners must continue working to ensure the benefits of SCF are explained to suppliers clearly and in a language they understand. If not, then the scare stories appearing in the national press will continue to shape attitudes to SCF uncontested.

Longer versions of these articles are available at treasurytoday.com/treasury-insights

This much I know

Shelly Maneth

CFO

connexionsasia

Do you feel that women respond to the needs of treasury in the same way that men do?

No, I believe that naturally men and women will respond to almost anything differently; it's simply in our DNA. In general, unless a man's EQ is quite high, men tend to adopt a more direct approach when it comes to finance/treasury decisions while women tend to adopt a more inquisitive and lateral approach. Ultimately, we will more than likely reach a similar conclusion, but our approach can be quite different.

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

This balance between professional and family life is becoming more challenging for both men and women. Traditionally, it has been the woman's role to manage the family and if she could balance her career while doing that, she was a Super Woman. This traditional role for women still exists today. However, in companies and cultures where the equality gap between men and women is narrowing, roles and responsibilities have changed or have been forced to recalibrate, especially in dual-income households – although, admittedly, the woman still carries a disproportionate amount of the responsibilities!

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

Some of the business sectors I have worked in tend to be male-dominated, such as technology and consulting. I handled it by ignoring the gender aspect of my role. I truly believe the best qualified, most competent person should fill a role, regardless of gender, race, religion, sexual orientation and so on. I respect gender differences, but in the Finance sector, my view is gender has little bearing on performance or effectiveness, as long as the management and culture of a company truly support hiring the best qualified people for a role.

Do you see a day when we will have true equality in the workplace, at all levels?

Honestly, and sadly, not in my lifetime. I believe equality in the workplace is improving, but even in the most progressive countries, companies or cultures, there is still inequality on a variety of levels. However, this does not stop me from removing inequality within the organisations I work in, or in how I interact with others.

In pure treasury terms, which regulatory initiative is currently the biggest concern for you right now?

Having joined a start-up, my biggest concern in treasury regulation is currently dictated largely by investors in our company – whether locally or overseas. Having said that, and having worked with MNC's historically, a treasury regulation I find truly over-the-top is the US Foreign Account Tax Compliance Act (FATCA). It would behove the US Department of Treasury and the IRS to spend time with their counterparts in Singapore to understand the efficiency and simplification, yet transparency, Singapore achieves with much less administration and onus.

"It would behove the US Department of Treasury and the IRS to spend time with their counterparts in Singapore to understand the efficiency and simplification, yet transparency, Singapore achieves with much less administration."

ON THE WEB

To read all the interviews in this series go to **treasurytoday.com/women-in-treasury**


connexionsasi

"Finance and accounting was a natural path for me," says Shelly Maneth, CFO of Singapore-based employee benefits start-up, ConneXionsAsia (CXA). She may admit to being a "stereotypical accountant" to whom numbers come easy, but she feels her true strength lies with problem-solving and organisational management. Thus it is after more than 20 years working for firms such as Deloitte, Cisco Systems, Sony Pictures Entertainment, Oliver Wyman, AT Kearney and, currently CXA, she proclaims that "I couldn't be happier with my career choice". And there is still "immense opportunity" for career progression. Indeed, she notes, as part of a progressive start-up "infinite possibilities will avail themselves".

Positioning oneself to take advantage of such a broad scope requires a broad outlook. To this effect, Shelly considers some of the best advice she ever received was from an unexpected source. "My husband and I were so focused on the arrival of our first child that during one of our last appointments prior to the birth, our doctor stopped our conversation and said: 'You know, the birth is a moment in time. Whilst it is important, you should focus on your life as parents because this will last a lifetime.'" At first hearing this sounds far removed from career advice, but it does translate easily to Shelly's professional life. "When a key decision is being discussed, I look hard at the foundation on which that decision will be supported, because that foundation will need to support that decision for a 'lifetime'."

Of course, the doctor's advice still holds true as a parent; a role which can sometimes be very difficult to balance with professional life. In the Maneth household, Shelly and her husband have agreed both will be 'involved' parents, sharing the responsibilities for raising their children and managing the household. Much of the ability to balance life for many working parents, she feels, can be attributed to the adoption of technology. "In today's world, regardless of your role, there's more flexibility in terms of where and when we work. Technology, though, has also forced a change within traditional family roles, including our children's, who are now expected to be a bit more independent and knowledgeable of the world around them than I was at their age."

In her professional life, perhaps one of the most useful 'tools' Shelly would like is access to a simplified, common banking platform (as would most treasurers). Relationships with multiple banks, for example, typically means multiple login tokens. "Often the bank has to spend at least a couple of hours supporting your understanding of how their platform works. Then, as your needs or organisational structure change, you have multiple systems to update. This all seems unnecessarily challenging."

Of course, challenges are par for the course at the executive end of the corporate finance spectrum. With Shelly currently building the foundation of finance at CXA, having the opportunity to set it all in motion is a lot easier working alongside "incredibly talented and smart team members". The set-up is not without its challenges, though still "exhilarating". Having worked in a male-dominated role such as treasury as well as male dominated sectors such as IT and consultancy, Shelly has learnt to "ignore the gender aspect" and instead focus on her own belief that the best qualified, most competent person should fill a role, regardless of factors such as gender, race, religion or sexual orientation. CXA has a diverse management team, led by Founder and CEO, Rosaline Koo, and together they have cultivated "a great working environment, with minimal politics and bureaucracy".

When everyone is allowed their voice, treasury and finance is heard throughout the organisation. But Shelly knows this is not the case everywhere. "Treasury and finance people need to be able to clearly articulate the value of their role to the wider business, not necessarily by beating it into peoples' heads, rather making poignant statements subtly." With the common perception that treasury and finance are 'cost centres', she often takes the opportunity, in routine conversations or presentations "to sneak in a finance achievement that would otherwise be unknown to the organisation". Key to this is the art of establishing and maintaining relationships outside of the finance team, moving out of one's comfort zone and understanding other departments or facets of the business. "Basically, get out there and talk to people in your organisation!"

This sounds like a motto for Shelly but her guiding principles continue to evolve over the years. "Growing up, my father instilled in my siblings and me that 'if you're going to do something, do it right'. In my mid-20s to mid-30s, I lived to 'never regret' which is what brought me to Singapore. And whilst I still live by those two principles, I now strive to be 'respectfully genuine' in everything that I do." Inspiration, she adds, comes from living life "with an open heart, open eyes and an open mind, with my husband, children, parents and friends integral to the fabric of my being".

Shelly Maneth is the CFO of ConneXionsAsia (CXA), an employee benefits start-up based in Singapore. In addition to building a Regional Finance team with scalable systems and processes as well as supporting the integration of the Pan Group, Singapore's largest home grown broker and a recent acquisition for CXA, Shelly also manages investor funding for the development and expansion of CXA throughout the region.

Shelly's career spans 22 years, with 20 of those in the Asia Pacific region. During her career, she has taken on a variety of senior regional finance roles for multinational companies such as Cisco Systems, Sony Pictures Entertainment, PropertyGuru.com, Deloitte, Oliver Wyman and most recently AT Kearney.

Shelly is a US CPA, holding two degrees – BS in Accounting and Business Administration from University of Kansas. She is particularly passionate about education and has served on Boards and Audit Committees of various international schools in Singapore including United World College of South East Asia and the German European School of Singapore.

Women in Treasury: Asia Forum 2014

More than 130 attendees gathered at Raffles Hotel in Singapore on 8th May 2014 for Treasury Today's inaugural Women in Treasury Asia Forum. The lively and thought provoking event began with a networking reception during which an introduction to the Women in Treasury initiative and highlights of the Women in Treasury Study were presented by Angela Berry, Publisher, Treasury Today and Sophie Jackson, Associate Publisher, Treasury Today Asia.

This was followed by the lunch during which an 'all-star' panel discussion took place with four highly respected women from the treasury industry. The speakers were:

- Meena Dafesh, Director of Treasury, Asia Pacific and MEA, Ingram Micro
- Jeanette Chang, Treasurer, Asia Pacific, IBM
- Dianne Challenor, Head of Transaction Services, Asia Pacific, J.P. Morgan
- Anne Collard, Global Head of Corporate Product Management, ANZ

During the debate, four key topics highlighted by the study formed the themes for a lively and dynamic panel discussion. This was followed by a question and answer session, with challenging and interesting views raised from the audience. The topics were:

1. Job satisfaction.
2. Equality.
3. Mentoring.
4. Vive la différence.

Although each panellist certainly had their own personal views on these topics and on how women can add value to the treasury profession, there were several extremely noteworthy pieces of advice upon which all the panellists agreed. First and foremost, that women (and indeed men) must be forthcoming to get what they really want from their career. Whether they need greater support to be their best at work; require a mentor to help with their development; or they want to be considered for a promotion or a pay rise; treasury professionals should not be afraid to ask for what they want or need – they should not expect their manager to be a mind reader, or that opportunities will be presented to them on a plate.

Finding a sponsor within your organisation, someone to suggest you for a responsibility or project, someone to champion you in meetings, was another useful tip to emerge from the panel session. Aside from sponsors, role models are also extremely important in career development – be they men or women, within the organisation or external.

Other key takeaways from the discussion included the need for all of us to be aware of our unconscious bias. We all are susceptible to unconscious bias and as individuals we need to put these aside when hiring or promoting – this should not just concern gender diversity, but all forms of diversity from age to race.

Interestingly, despite the significant amount of unconscious bias that exists in the industry, the panel largely agreed that quotas are not the answer to getting more senior women into the treasury profession. The consensus was that organisations can do more to encourage female treasury practitioners to think long-term about their careers and mentoring was cited as a key enabler here. Similarly, the panel felt that women should try to more consciously self-promote: often women are reluctant to talk positively about their own achievements or feel that they are not qualified enough for senior positions. Men, on the other hand, are generally better at self-promotion and self-belief, which can see them moving up the career ladder ahead of female candidates. As Patricia Lim, GTS Product Head Cash Asia, International Banking, RBS noted after the event: "if you believe in yourself, everything is possible."

Breaking down barriers

There is a still a need to remove the stigma associated with flexible working arrangements for both genders, the panel believed. This not only means educating managers on the benefits of remote working, for example, but also working to break down cultural barriers and perceptions. Often, employees feel they are made to feel guilty for taking time off work to look after their family. Similarly, there is often little done for women who are returning to work from a HR point of view. Organisations should offer guidance around how to re-adjust to being a working mother and guidance as to how to take your career forward, the panel felt.

But time outside the office shouldn't just be about family. As Lauren Oakes from Goldman Sachs who was in the audience commented: "the term work-life balance seems to have become synonymous with marriage and children and we need to change that. Everyone deserves to have an enriching life outside of the office and an opportunity to pursue their interests. For me, it is often when I am doing something completely unrelated to work that I am able to solve the most complex and challenging work related issues. Having time to reflect is critical."

Positive and progressive

The overall messages from the panel were extremely positive and highlighted the need for diversity in the treasury profession. Abed Islam from BNP Paribas, one of a number of men who also attended the event commented: "I was pleased to hear the panel members' perspectives on how women these days are increasingly capable of striking the right work-life balance, while simultaneously focusing on career progression and leading by example."

Nevertheless, there is still a great need for initiatives supporting women in the treasury profession. As Oakes noted: "There is an African proverb that says "If you want to go quickly, go alone. If you want to go far, go together". If we want to change some of the structural issues, namely having more women in the most senior positions, we will have to 'go together' and that everyone must play a part. These types of initiatives are a great starting point as they bring awareness to the challenges women face and also inspire others to get more involved with mentoring and sponsoring junior women within their organisations.

We would like to thank all those who took part in, attended and supported our inaugural Women in Treasury Asia Forum and would like to invite all other women and men in the industry who are interested or intrigued by the initiative to take part in our future events. The 2014 Women in Treasury Study, which is supported by RBS, is also now open. This aims to build up a global picture of the profiles and careers of women from junior roles to Group Treasurer/Financial Director/CFO positions. Simply visit treasurytoday.com/women-in-treasury to participate.

This year's inaugural Adam Smith Awards Asia are now open for nominations until 12th September 2014 and we are delighted to announce the category of 'Woman of the Year' as part of the awards. This award is open to any woman operating in the corporate treasury environment in the Asia Pacific region who can demonstrate real achievement and is an inspiration to others. Do you know someone like this? Someone who is a role model to others? Or is this you? Have you overcome real adversity? Have you had a career changing experience? Can you demonstrate real innovation? What have you achieved professionally and personally? Why do you stand out? Nominate yourself or another woman who inspires you at treasurytodayasia.com/adamsmith

Treasury Today Women in Treasury

Launched at the beginning of 2013, Treasury Today's Women in Treasury initiative recognises the importance of women in the corporate treasury profession and creates a means for women in treasury to communicate with one another; learn from each other and network in order to help each other.

Whilst the treasury profession remains largely male-dominated, there are remarkable women enjoying remarkable careers. The Women in Treasury initiative recognises female innovators in the corporate treasury profession.

Women need to be much more visible in their roles, both inside and outside of their organisation. While women are notoriously bad at promoting themselves, this initiative aims to help bridge the gap. We frequently profile female trendsetters in Treasury Today Asia. Each article looks at professional development and career-defining moments, as well as providing advice to those just starting out in the profession. We also host a Women in Treasury LinkedIn group – to join this group email sarah.arter@treasurytoday.com

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In-house banks

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

Stephen Hogan, Vice President, Regional Treasury, Asia Pacific, Deutsche Post DHL:

At Deutsche Post DHL we operate a global in-house bank based in Germany and its solutions have been deployed across Asia Pacific. This has offered many benefits, both financial and non-financial, to our operations in the region, especially in free-market countries such as Singapore, Hong Kong and Japan, where we have been able to deploy the full range of services the in-house bank can offer.

A key benefit of the in-house bank is that it complements our zero-balance cash pooling in the region's free market economies. The increased visibility which it offers allows us to effectively complete a two-way sweeping process on a daily basis from the subsidiaries to the in-house bank. We are then able to record the balances against the subsidiaries and pinpoint where these have come from, giving the group increased transparency.

The in-house bank also provides solutions for intercompany settlements which offers numerous benefits, such as removing the requirement of third-party banks when conducting intercompany payments. This creates cost savings for the subsidiaries as they no longer have to pay banks' transaction fees. Also, exchange rate risk is removed from any intercompany cross-border transactions as these are carried out within the in-house bank at a pre-determined exchange rate.

As well as cost savings, the in-house bank also helps streamline the intercompany payment process. Historically, we would have a large amount of intercompany payments and in some cases there were delays between payments. However, since the introduction of the in-house bank we have consolidated these and now run payments on a monthly cycle. In doing so we have alleviated the worry for subsidiaries, regarding any outstanding receivables or collection of payments from sister companies. The subsidiaries are therefore able to use their time more effectively and focus on collecting from their external customers.

The in-house bank also assists in limiting FX risk by centralising the group's currencies and offering the subsidiaries the ability to hedge any FX exposure from local third parties. In doing so the FX risk is passed on to the group at the central level through the in-house bank, thus protecting the local subsidiary.

Despite all the benefits there are a number of challenges which have to be overcome when implementing an in-house bank across the region. Key to this are the regulatory challenges posed in many countries, meaning that often the full range of solutions cannot be deployed. For example, in some countries we may be able to run the intercompany settlement process but will be unable to deploy the cash pooling process.

It is therefore imperative that the treasury recognises the local regulations in each country and appreciates that the region cannot be approached with a one-size-fits-all policy. A key requirement when implementing the in-house bank is to have flexibility and to have a detailed understanding of the nuances of each country. To obtain this information treasury should work with its tax advisors, legal advisors and banking partners to ensure that it has the correct local information to implement the in-house bank successfully.

Finally, the challenges posed when implementing an in-house bank in the region means that it is important that the whole group is committed to the project. This is particularly important at local level, where the project cannot be pushed through like a directive. The teams on the ground will need to understand the benefits they will obtain as they will be vital in providing feedback on local practices and regulations which will further assist in its implementation.

Martijn Stoker, Head of Liquidity and Escrow Product, Asia Pacific, J.P. Morgan:

Reducing your company's bank borrowing, reducing your cost of FX transactions, cutting interest payments on your debt and improving the yield on your investments: which treasurer wouldn't be interested? Centralising your treasury into an in-house bank can achieve all of this – and more – but it is not a quick fix.

An in-house bank can be best described as a centralised treasury organisation performing activities for subsidiaries that were traditionally performed by multiple banks. And, as with any fragmented and de-centralised operational process or platform, challenges are presented in the form of an inefficient business, stubbornly high costs and a lack of insight and visibility into a company's overall financial position.

To meet these challenges, treasurers and CFOs are increasingly establishing in-house banks with a view to:

- Bundling expertise in a single location to become a centre of excellence.
- Optimising liquidity via intercompany lending arrangements, netting and centralised payment/collections, thus reducing bank facilities and funds trapped in the clearing cycle.
- Improving pricing performance due to increased scale and volume, creating negotiating power for banking fees, FX dealing and rates products.
- Optimising the utilisation of a sophisticated treasury management system.
- Achieving cost efficiencies by creating pooled resources in treasury, finance and IT.

In essence, the basis of an in-house bank is to operate the in-house bank accounts, over which all funding, investment and hedging activities flow. Centralising these activities into a centre of excellence will enhance your control, visibility and risk management practices significantly.

Our clients in Asia Pacific who have centralised their investment management have seen an improvement to their overall yield and indicated that this has enhanced their counterparty risk profile significantly. The specialised team that oversees the in-house bank will be better positioned to determine the investment risks and can decide on the optimal allocation. Other activities that benefit from setting up an in-house bank are the FX dealings, whereby increased volume and improved expertise will result in more efficient hedges and improved pricing, thus optimising the firm's risk-return equation.

The benefit of an in-house bank operation is usually re-allocated proportionately across the subsidiary structure by sharing both the costs and the benefits from the improved yield, quality of cash and risk management operations.

The key for a successful in-house bank structure anywhere in the world is to get it right from the start. A trivial decision on the in-house bank entity's country of incorporation could have a negative knock-on effect further down the road.

Also, taking the control away from the subsidiaries can change attitudes and skills. When local management is less concerned about cash flows than at parent level you could end up with an issue. This is similarly true for changes in local regulations, especially in Asia Pacific. When the in-house bank is completely separated from local markets and industry developments, new opportunities might be missed, so one of the most important objectives when establishing an in-house bank is setting a clear and transparent operational structure that combines good regional governance with an appropriate level of in-country expertise

Setting up an in-house bank in Asia Pacific will still deliver all the above benefits. This, however, requires the full support from the top of the organisation and a dedicated and experienced in-house bank project team supported by the right partners.

Mohit Mehrotra, Executive Director, Deloitte Consulting:

As the roles and responsibilities of treasury have expanded, treasury groups in Asia Pacific have been focusing on gaining greater visibility into a company's funding needs, better deployment of internal liquidity sources and optimising working capital. Creating an in-house bank structure can be part of a strategy an organisation adopts to meet these demands.

Having an in-house bank allows an organisation to efficiently manage intercompany transactions between internal divisions and subsidiaries via internal virtual accounts. These accounts are used to automatically clear both internal and external cash flows. An in-house bank also enables the organisation to capture and centralise intercompany transactions, thereby reducing its foreign exchange transactions and resulting external banking costs. Another benefit of an in-house bank is that it increases visibility and control over functions such as cash concentration, cash positioning and cash flow forecasting, all of which may contribute to better liquidity management and improved decision-making around investments and funding requirements.

The typical goals for setting up an in-house bank include reducing financial transaction costs, reducing the cash collection time, increasing visibility to global cash positions, improving foreign exchange risk management practices and standardising bank communications.

As best practice, an in-house bank should have a centralised internal banking structure that can offer opportunities to rationalise bank accounts as well as relationships with banking partners across the organisation. Associated bank account administration activities can be consolidated and managed by one central group that can be located in the most cost efficient centres.

In-house banks should also implement efficient cash concentration structures. Cash pooling can be complex in Asia Pacific, due to jurisdictional, tax and legal restrictions. Therefore when establishing efficient pooling structures, various areas of the organisation should be consulted owing to interdependencies including tax, legal, accounting, account administration, accounts payable, accounts receivable and technology. ■

The next question:

"What benefits would greater ASEAN integration bring to corporates operating there - and to the broader region? Also, what progress is being made towards the establishment of a pan-ASEAN clearing and settlements system?"

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

Mark Greenhalgh

Director, Treasury

CSC

Computer Sciences Corporation (CSC) is an innovative, global, next generation IT solutions provider and a leader in offering technology solutions to solve every day operational challenges. Through an organisational transformation, the company recently centralised and relocated its Asia Pacific regional treasury structure and shared service centre (SSC) from Singapore to India. The project also included an upgrade to a new iteration of its SAP system within the region.

The CSC treasury team wanted to take advantage of the organisational transformation and launch an ambitious project of its own. The project included upgrading their banking connectivity and implementing XML file formats across its Asia Pacific operations. In doing so, the team wanted to create a robust, homogeneous banking platform to ensure an efficient migration to India, as well as seeking other benefits including the reduction of back office and banking costs.

Problem…

The SAP migration was scheduled to take place on 1st April 2013, to coincide with the new financial year. However, the old and new systems were unable to run in parallel, and all projects had to launch concurrently. As a result the CSC treasury team was faced with a number of challenges when implementing the solution. According to Mark Greenhalgh, Director, Treasury – EMEA and Asia, CSC, "the four-month timescale allowed little time to test payment files before the cutover, a factor made more difficult by the broad scope of the initial implementation, ranging across eight countries in Asia Pacific including Singapore, Japan and China." The treasury project also had to fit seamlessly with a number of other organisational changes. "Given these dynamics, it was a very ambitious project, both in terms of what we did and when we did it," Greenhalgh says.

…Solved

To successfully complete such a challenging project, CSC required a banking partner that could offer not only the products but also constant support and a deep knowledge base. For CSC, Citi ticked all the boxes in helping to address its transformational objectives. "Citi was already our primary operational banking partner across Asia Pacific," says Greenhalgh. "We therefore knew Citi would have the ability to support us and have products that suited our requirements."

Phase one of the project was launched in January 2013 as CSC began to implement host-to-host connectivity and Citi's ERP integrator solution. "The ERP integrator was a very useful tool for us because it takes the raw SAP information and converts it into XML format which banking platforms can understand," says Greenhalgh. "Without this product, we would have to use a number of different file format structures." With the time saved by the ERP integrator solution, the CSC team could focus on testing the host to host connectivity and refreshing its master vendor data so that countries could move into production testing as soon as the SAP cutover occurred.

Once established, Citi's integrated technology solution ensured CSC had a robust, XML-based, host-to-host solution to facilitate the operational processing move from Singapore to India. Despite the pressure, CSC was able to meet its 1st April 2013 deadline. "Citi was very supportive and assigned us an excellent project management team," says Greenhalgh. Frequent contact was maintained throughout the project between Citi, CSC's on-the-ground testing team, and its SAP experts based in Germany. "Citi gave expert advice on what issues they encountered and the areas they believed we should focus on," says Greenhalgh.

To date, CSC has achieved around 80% of its overall transformation programme including overlaying a liquidity management solution across its operational accounts, offering additional access to liquidity and harnessing greater financial flexibility. The company is also continuing work with Citi to roll out the technology and pooling solutions across the next phase of locations in the Asia Pacific region. Since the project began, CSC has undertaken an additional financial transformation project. "This initiative seeks to further standardise our processes across the world," says Greenhalgh. "The standardisation which has been established will assist with moving to a SWIFT based connectivity. The financial transformation project dictates that we have XML in place across the world. The fact that we have already established XML standards in Asia Pacific means we are ahead of the game."

Despite the initial challenges, CSC has achieved far-reaching benefits with its bold transformation vision and productive partnership with Citi. "We will change the way we interact with our banks as a result of the project and the host-to-host connectivity in place with Citi cements our relationship with them in Asia Pacific," says Greenhalgh. ■

Regulating derivatives in Asia

Dodd-Frank and EMIR have irrevocably changed derivatives markets in the US and Europe. What progress has Asia made towards the G20 commitments to shed more light on the market for hedging products? This feature evaluates the current state of play in the regulation of OTC derivatives in the Asia Pacific region and considers what implications these changes have for corporate treasurers who rely on the products to manage financial risks.

European treasurers who thought their EMIR compliance projects were tough going should spare a thought for their Asia Pacific counterparts. After all, a pan-European corporate, with a footprint in every Western European country only had to deal with two sets of regulations, at most; the EU and Swiss regimes. For a pan-Asia corporate with operations in each of the 17 independently regulated Asian markets, the regulatory headache is inevitably going to be much more severe.

The market for OTC derivatives in Asia is small in relative terms, comprising as it does, a mere 8% of the current global turnover. But demand for risk management products is growing. In 2012, there was $42.6 trillion in notional outstanding in the Asian financial markets – a 25% increase from 2011 figures according to a Celent study published last year.

With derivatives now assuming increased importance to the treasurers of Asia-based corporates, understanding the changes required in the jurisdictions within which the company operates will be vital. In this article we will look at the current state of play in the Asian derivatives markets, how the changes will impact corporates, and how the regulatory environment might develop in the years ahead.

The state of play

So, where are we at the moment? As of July 2014, four of the major jurisdictions in the Asia Pacific region – Australia, Hong Kong, Singapore and Japan – have begun to introduce regulations in line with the reform principles for OTC derivatives as set out by the G20 committee in 2009. The general objectives of these regulations are broadly the same as under

Dodd-Frank and EMIR. However, each country is moving at its own pace and with its own priorities.

But some common trends can be observed. Already, we can see that Asia's regulators have each decided to take a more phased approach with different deadlines for different types of market participants. A majority of countries seem to be leaning towards an EMIR-like reporting model in which both sides report, and most have begun with the creation of trade repositories and reporting requirements before tackling centralised clearing. But, as we will see, that is more or less where the similarities end.

Australia, for instance, began by introducing mandatory trade reporting for registered swap dealers – typically large banks – back in October 2013, which was followed in April 2014 by a deadline for major financial institutions to begin reporting interest rate and credit derivative trades. The timetable for other financial institutions and corporates to begin reporting their trades has not yet been confirmed. An October deadline for other buy-side organisations to begin reporting is expected to be postponed by the Australian Securities and Investments Commission (ASIC), and it is also looking likely that Australia will follow the precedent set by Dodd-Frank and exempt end users such as corporates from the reporting obligation. Central clearing proposals are still in the consultation stage and a mandate is expected in 2015.

Reporting in Singapore, meanwhile, began around the same time as Australia but was restricted to interest rate and credit asset classes. At first, reporting was voluntary but it became mandatory for a prescribed list of banks in February; a list which was expanded to include most banks and dealer entities in on 1st April. A deadline for corporates to begin reporting – the first requirement that will be applied outside the banking sector – has been confirmed for September, but as yet there has not been any confirmation of the timetable for central clearing.

Japan was the earliest mover in Asia Pacific, and the only jurisdiction to attempt the introduction of reporting and central clearing in parallel. Yen-denominated interest rate swaps and credit default swaps that referenced Japanese indices came under mandatory clearing requirements in November 2012 and expansion of this mandate is currently under discussion. Reporting for banks also began at the same time for each of the main asset classes, with the exception of commodities.

Finally, in Hong Kong all the necessary legislation is in place but is, as yet, to come into full effect. Clearing mandates are expected to become effective later in the year – although, at the time of writing, a formal announcement from the Hong Kong Monetary Authority (HKMA) has not yet been made. A formal mandate for trade reporting, to replace an interim rule that requires banks to report interest rate and non-deliverable forward (NDF) trades to the Hong Kong Trade Repository (HKTR) is also expected to be in effect by the beginning of 2015.

Step-by-step

Taking a more measured, incremental approach to implementation does have certain advantages. We saw in Europe, for example, how onboarding bottlenecks, and a host of other problems, were created because of the need to do so much in such a short space of time. Even some of the banks who, unlike corporates, have vast armies of compliance experts, confessed to be struggling under the sheer weight of the regulatory burden during the implementation stage of EMIR. For most entities in Asia, however, the load should be more manageable.

"There is awareness of the fact that each of the segments have different challenges," says Peter Tierney, Regional Head, Asia at DTCC. "The large banks are quite sophisticated from a technology perspective, and also have experience reporting across jurisdictions. But at a corporate level, the sophistication – in terms of tracking and managing trades – is different. I believe that regulators in Singapore and Australia recognise these different states of readiness."

There are also signs that Asia Pacific countries are waiting to see more precisely what impact US and European regulation will have on the derivatives markets. Taking that approach, the regulators are able to learn from what has worked well and apply those lessons in their own jurisdictions. "We have spent a lot of time talking with regulators across Asia about trade reporting processes in other regions as well as provided insights on how market participants are already reporting elsewhere," says Tierney.

A regulatory 'patchwork'

Does the fact that the region is looking to learn from other regulators mean that, somewhere down the line, we will see the same level of regulatory consistency as in Europe or the US? That seems improbable, given that it would require each jurisdiction in the region to surrender some sovereignty over their domestic markets to a pan-Asian regulatory organisation. And with regulation bringing with it such great opportunities for arbitrage, that is difficult to conceive, says Zohar Hod, Global Head of Sales and Support at SuperDerivatives. "I do see some harmonisation," he begins. "But for some countries in Asia it is simply not in their interest. The whole point of China launching six different exchanges, for example, is that they want to become the centre for financial transactions. I think they are going to be taking an approach that says 'here it is going to be a bit different', in order to attract business to the Shanghai markets."

Might the lack of harmony undermine the push to shine more light on these markets which was, after all, the fundamental goal of the reforms in the first place? One expert who is worried that might be the case is Malavika Shekar, a Senior Consultant for the capital markets advisory firm GreySpark

Chart 1: Reporting requirements in Asia Pacific countries

Country	Reporting	Entities currently in scope	Asset classes currently in scope
Australia	Yes	Australian banks and financial entities	Credit, IRS, Equity, Commodities and FX
Singapore	Yes	Banks and dealer entities	IRS and FX
Japan	Yes	Banks	Credit, IRS, FX and Equities
Hong Kong	Interim	Banks and financial entities	IRS and NDF

who recently published a study on the regulatory progress which made in Asia's OTC derivatives markets. "A myriad of different regulations are cropping up across the region without one body having oversight of the big picture," Shekar says. "This certainly has the potential to undermine the G20 goals of making the global markets more transparent."

On the ground, it could pose a huge challenge for corporate treasurers and other end users. There will be some jurisdictions in Asia where both corporates and banks will be required to report, somewhere only the bank has to and some where all asset classes are subject to reporting requirements. Interpreting these rules will require some time. "Corporates will need to ensure they have read, interpreted and understood the laws and regulations correctly across a number of different countries," says DTCC's Tierney.

No escape

In the years ahead, hedging practices for Asia Pacific's corporates will clearly be shaped, enormously, by the G20 market reform commitments now being implemented. It is not just regulation from within that is going to drive change through the region's markets, wherever Dodd-Frank and EMIR apply in any jurisdiction in which US and EU institutions operate, and both require derivatives contracts to be cleared through central counterparties (CCPs) approved by the European Securities and Markets Authority (ESMA) or the US Commodity Futures Trading Commission respectively. What's more, even Asian market participants will find Dodd-Frank and EMIR rules difficult to escape from if they are dealing with US or EU counterparties, since they will also be required to comply with the respective regulations regardless of where their transactions are made.

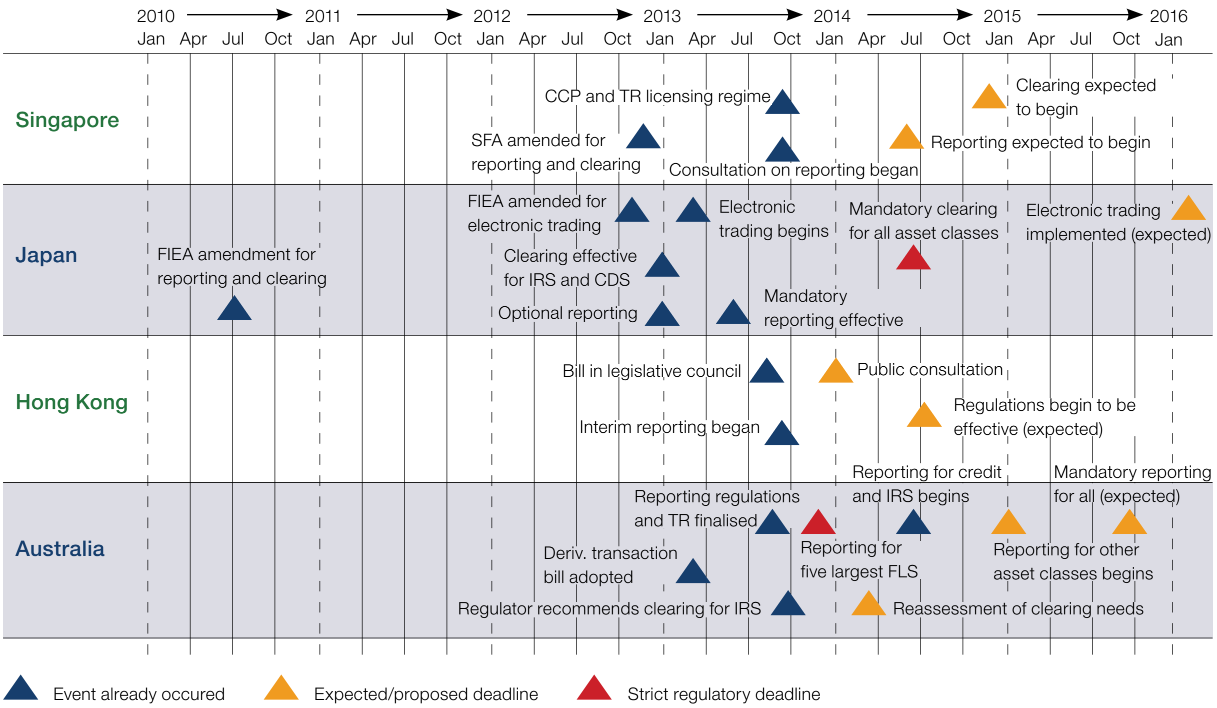
Clearly the regulatory framework in Asia Pacific remains in a state of flux. But with the extraterritorial reach of regulations elsewhere adding an extra layer of complexity to the web of new rules now emerging in the region, corporates really have no time to lose. Even in jurisdictions, such as Australia, where corporates may well find themselves exempt from trade reporting obligations – and clearing mandates too, if they keep below certain thresholds – the impact will still be felt. With trades shifting from bilateral trading and dark pools to clearing and electronic trading platforms, corporates end users may have to make the transition anyway to retain their access to liquidity.

Get ready

So what can treasurers do now to prepare themselves? The first step should be to perform a careful examination of the company's treasury technology and its capabilities when it comes to types of data that might need to be reported. "The biggest problem for firms reporting under EMIR was gathering all the right information and collating it," explains SuperDerivatives' Hod. Asian treasurers won't have to climb that same, steep learning curve if they begin their preparations now though. That might involve taking a report from DTCC or one of the other swap data repositories and then figuring out what, if any, gaps there are. "Perform an exercise to help you understand what needs to be reported," he says. "I would definitely do that in order to be prepared for any future requirements."

Corporates who need to begin reporting in Singapore in September should already have a good idea about where those gaps are, but treasurers elsewhere in Asia might need to wait a little bit longer before they can begin an evaluation. "For many countries, the necessary format to report in is still non-existent," adds Hod. "For that reason, I wouldn't worry about it for 2014 – but it is certainly something I would put on my future project list if I were a treasurer." The corporates in the region that do this might just find their compliance projects actually run more smoothly than those of their counterparts in Europe and the US did. ■

Chart 2: Regulatory timeline – important events related to Asian OTC regulations



Source: Cognizant internal research. Data as of 1st September 2013

The Philippines – a land of potential

Following independence from the United States, the Philippines fell behind other South East Asian nations economically. Recently however the Filipino economy has been on an upward curve and the country has become known as a rising star of the region. While numerous economic improvements have been made in recent years, the country still has some way to go to fulfil its true potential.

Known as the Pearl of the Orient Seas, the Republic of the Philippines is an archipelago, consisting of 7,000 islands, sitting to the west of Vietnam in the Pacific Ocean. Approximately 100 of these islands are inhabited, hosting a population of just over 100,000.

From 1521 the Philippines was a Spanish colony, until 1898 when the country was sold to the United States. Then, following World War II, the country was granted independence and, for a time, was regarded as the second wealthiest nation in East Asia. Subsequent political instability and economic mismanagement, however, caused the economy to stagnate and other Asian nations began to overtake.

The economy began to pick up again in the early 1990s, until the 1997 Asian financial crisis hit. Due to the conservative nature of Filipino economic policy at the time, the crisis had a lesser impact than it did on the nation's South East Asian neighbours. In fact, following the Asian crisis the Fillipino economy has boomed, expanding at an annual rate of around 5% since 2006.

Standing out

In 2013, the GDP of the Philippines increased 7.2% – its highest increase since 2010 – at a time when regional growth was largely cooling down. As a result, many analysts referred to the country as South East Asia's 'rising star'. A number of factors have contributed to the economy's growth, including an increase in exports, primarily in the electronics sector, and the country's expanding service industry which has seen it become the world's number one location for outsourced call centres.

Another key factor in the country's economic growth is domestic consumption, which in 2012 accounted for 70% of the economy. This has been fuelled by remittances from the legions of overseas Filipino workers (OFW's). In 2012 it was estimated that 11% of the population worked abroad and their remittances contributed around $225 billion, which according to Standard Chartered, constituted 8.6% of the nation's GDP. These remittances have also brought currency stability and allowed the government to build up healthy foreign reserves, permitting the nation to navigate relatively unharmed through global financial shocks.

With increased investment and industrialisation supporting domestic demand and the flourishing services industry, the Filipino government is aiming to achieve GDP growth between 6.5% to 7.5% in 2014. Both the World Bank and the IMF forecast that the Philippines will achieve the lower end of this target, projecting slightly slower growth of 6.6% and 6.5% respectively, primarily due to the damage caused by Typhoon Haiyan in late 2013.

Key Facts:

Land Area – 300,000 km2

Population – 105,720,644 (July 2013 est)*

Currency - Philippine peso (PHP)

GDP (official exchange rate - 2013 est.) $272.2 billion**

Exports (2013 est.) – $47.45 billion**

Sources:
**Index Mundi*
***CIA World Factbook*

Challenges

While the Philippines may be top of the class in South East Asia due to its economic growth, there are challenges that the country is yet to address. Unemployment is a key issue and skills shortages and a small, labour-driven manufacturing sector haven't helped the government translate the booming economy into jobs. For example, in 2013, 7.3% of the population was unemployed while the underemployment rate stood at just under 20%. These figures have caused large parts of the population to live in poverty; 24.9% in the first half of 2013, according to the Philippine Statistics Authority.

The nation's underdeveloped infrastructure also poses a challenge to the continued growth of the Filipino economy. In late 2013, the Philippine Institute for Development Studies claimed that the country's infrastructure was the second poorest in the Association of Southeast Asian Nations (ASEAN). This was further emphasised in the fallout of Typhoon Haiyan, as the lack of surfaced roads, ports and power lines, made it difficult for people to receive aid. Warnings have been given by economists who suggest that the Philippines must improve its infrastructure to sustain the economic growth it has seen in the last few years.

Investment grade status

On a more positive note, a further boost was given to the Filipino economy in 2013 as Fitch, Standard and Poor's and Moody's all awarded the country investment-grade status. Moody's, the last to upgrade the Philippines, reported that recent economic performance, improved fiscal management, political stability and improved governance all contributed to the upgrade.

The benefits which the upgrade may bring to the country include increased foreign investments, greater levels of tourism and lower borrowing costs. As the Philippines continues on its upward trajectory, the global research department at HSBC has predicted that if the country follows its current path, by 2050 it will rise 27 places to become the 16th largest economy in the world.

Financial sector

The financial sector of the Philippines is widely perceived to be in a stable and healthy position. This was confirmed in 2013, as the central bank of the Philippines, Bangko Sentral Ng Pilipinas (BSP), declared that it had seen a positive performance based on its KPIs. These include stronger profitability, firm liquidity positions, improved asset quality and higher capitalisation. Outside parties also recognised the strong performance of the sector, such as Moody's, who gave the sector a positive outlook and which has thus far been maintained throughout 2014.

The performance of the financial sector is beginning to offer benefits to corporates operating in the country. "We have seen the banks develop a strong appetite for offering corporate loans in recent months," says Robert Martinez, Assistant General Manager and CFO at Getz Brothers. "Corporates are now being wooed by financial institutions that are competing against each other to provide the best rates." Over the past year, interest rates on corporate loans have been steadily declining for corporates in the Philippines, from around 6% to 8% twelve months ago to currently around 3%. It is primarily the local banks which are most bullish in offering the best rates. "While this is still relatively high compared to Europe and the United States, this is a marked improvement for the Philippines," says Martinez.

The local advantage

Both local and international banks in the Philippines offer a range of services to corporates operating in the country, such as trade services and cash management products. However, as in many South East Asian countries, local banks tend to have an advantage when it comes to corporates' domestic operations because of their branch network.

For example, Getz operates a Post Dated Cheque Warehouse with BDO, one of the largest banks in the country. "We use this bank to pay our suppliers but also for collections customers across the country," says Roberto Velilla Jr, Assistant Financial Controller at Getz Brothers. "Thanks to the wide BDO branch network, which penetrates even the smallest municipalities, our sales team are able to collect the cheques and then deposit them into the local BDO branch." Foreign banks sometimes struggle to offer corporates the same network and therefore their use may be somewhat limited in this regard.

Rather, corporates rely on the international banks for the provision of outward facing products and services. These include remittance collection from any offshore operations and payments to overseas suppliers. Furthermore, international banks can offer support to foreign multinationals who are establishing operations in the Philippines. However, in May 2014, the Philippines House of Representatives approved a Bill which would begin to allow foreign banks full entry into the country, owning up to 100% of the voting stock and the ability to invest this into new bank subsidiaries and opening branches. Falling in line with ASEAN regulation, the aim of the bill is to consolidate the banking sector through encouraging foreign banks to purchase weak banks and strengthen the sector. The international banks are also expected to bring new technology and resources to assist with corporate operations and growth in the country.

Exchange controls

"PHP's convertibility has a direct impact on corporates operating in the country and certain restrictions can be an issue," says Johnson Sia, Head of Financial Markets, ING Bank Manila. Traditionally the Philippines have stood on a very conservative base regarding the management of foreign exchange. However, in recent years the BSP has taken steps to liberalise the foreign exchange controls which tie in with their commitments to the ASEAN 2015 Economic Blueprint.

Residents are able to purchase up to $60,000 or equivalent in foreign currency daily without supporting documents. However this does not include currency for servicing trade obligations, loan repayments or investments. "Because of this, whenever we purchase a foreign currency through the banking system, even a small amount such as $2,000 to pay off an import, we have to produce several supporting documents," says Velilla Jr. "These then have to be registered with the BSP who then either approve or reject the transaction."

Royalty remittances are also subject to regulation from the BSP – these are required to be completed on a quarterly basis. When completing these, the BSP requires the submission of all financial statements and several other tax documents before the remittance can be completed. The BSP requires this because the transaction essentially involves the purchase of foreign exchange.

Hedging

Hedging is common practice in the Philippines and there are a number of products available for corporates both onshore and offshore. "Currency hedging is available via both deliverable and non-deliverable forwards; options and other more exotic structures are also available, although these are much less liquid," says ING's Sia. "Deliverable, onshore forwards would normally entail underlying documentation as required by the Central Bank; while the offshore non-deliverable market offers an alternative hedging tool. However the pricing and liquidity conditions of both instruments vary according to market conditions."

"At Holcim we hedge against our imports," says Michelle Ann Palad, Treasury Officer at Holcim Philippines. "However, we are only able to use forwards on a percentage of our underlying trade documents, such as invoices and bills of lading. Therefore, we are only able to mitigate the risk upon this percentage, causing a loss from the inception of the trade until the time the handover is complete." This also means that corporates in this situation cannot hedge against their projected cash flow, meaning that only part of the exposure can be hedged, creating risk.

ING's Sia added that interest rate hedging is also available, although a commonly accepted short-term interest rate benchmark is still evolving. Most public issuances are at fixed rates, while banks could offer both fixed and floating rate for bilateral loans.

Treasury landscape

"The cash management techniques which are available to corporates operating in the Philippines are generally basic compared to neighbouring nations," says Holcim's Palad. For example, notional pooling is prohibited both domestically and cross-border, while cross-border cash sweeping is allowed – but not widely practised – due to the restrictions on transfer limits cross-border. This poses a challenge for multinational corporates who normally pool excess funds in other jurisdictions by swapping local currency into USD and visa versa, as they will not be able to do this.

Overdrafts are also prohibited in the Philippines and therefore corporates are unable to offset negative and positive balances. "The view of the Bureau of Internal Revenue is that if a corporate has an overdraft and also holds another account which is net positive, then you are effectively taking a loan," says Martinez. In the Philippines, every loan transaction is covered by a promissory note which is subject to the payment of documentary stamps, so in the eyes of the Bureau of Internal Revenue by doing this the corporate is trying to avoid tax. Corporates therefore use zero-balance sweeping as an alternative to notional pooling and this is a principal liquidity management technique.

As companies in the Philippines expand, there may soon be a drive towards implementing more sophisticated tools into the treasury. "I think we will begin to see the demand for more effective treasury services grow," says Martinez. "As we do, treasurers will have to look at more sophisticated cash management tools and technologies to provide value add and further enhance the businesses expansion and growth."

Bank account management

In the Philippines many of the large local banks are owned by groups of companies. For example, BDO is owned by the SM Group of Companies, a large Filipino conglomerate, with interest in retail, real estate and tourism. "If a corporate has dealings with these companies it will be required to open an account with their bank," says Martinez. Many corporates in the country therefore find themselves with a large volume of bank accounts, many of which are obsolete.

While many of these banks offer electronic banking services to corporates, there is no standardised platform and all banks have their own proprietary system. Corporates therefore have an issue with oversight and management of these accounts. "I am running out of passwords," says Holcim's Palad, "but more importantly the lack of a standardised platform makes it difficult to have full visibility over our cash. If we must continue this way then then it would be very beneficial if platforms could be standardised to allow for improved oversight and management of the accounts."

Payment Systems

Currently, cash is the primary payment method in the country, especially for low value retail payments. On the corporate side, however, cheques dominate the payments landscape and they are the most popular form of cashless payment countrywide. "Currently this is acceptable for corporate needs in the country," says Rafael J. Consing Vice President and Treasurer at ICTSI. Cheques drawn within the Greater Manila region are cleared within three days while cheques issued elsewhere take seven days to clear. "However most corporates have in place a credit facility, such as bills purchase, which allows them to obtain instant funding and not have to wait for the cheque to clear," says Palad.

"Cheques are a safe form of payment and there is little risk exposure when dealing with large companies," says Velilla Jr. "However there is some exposure when dealing with SMEs and we have encountered some instances of bounced cheques." Interestingly, being responsible for a bounced cheque is a criminal offence in the Philippines, which can lead to lengthy legal procedures.

Electronic payments is an area which many corporates would like the Philippines to develop, similar to the country's regional neighbours. While the ability to conduct electronic payments already exists in the country, the cost is too high for it to be a viable option for corporates. This pertains to the average daily balance which has to be maintained in the account – which can range from PHP 500,000 and above. While these payments are often waived for multinationals due to collateral business, it remains a burden for SMEs operating in the country.

"E-payments also pose a problem when looking to obtain official receipts from the supplier for the payment. Corporates are required to have these official receipts for VAT purposes and also as support documents when registering the payments with the Bureau of Internal Revenue," says Palad. "It would be beneficial if the cost was reduced," he continues. "Electronic payments would be more efficient, safer and also bring us in line with other countries in the region. However, the conservative nature of the Philippines and the fact the banks would lose a degree of profit means that it remains to be seen how long this transition will take."

The future

On the treasury side, more work is still to be done to bring the country in line with other developing Asian nations. "While we have some improvements in the country," says Palad, "we need to begin to streamline our operations and reduce our banking partners in order to make treasury a more effective tool for the business. More liberal regulations will also help with the development of treasury in the Philippines." This includes further liberalisation of the PHP which would allow corporates to work with external partners more efficiently and expand their operations. If these improvements occur, Martinez sees a positive future for treasury operations in the Philippines. "As regulations liberalise and companies grow more rapidly, the focus will move ever increasingly onto treasury to support this growth." ■

Faith in finance

Islamic finance has been around for a long time. Whether it is seen as an ethical alternative or a means of diversification in the capital markets, it has something to offer corporate treasurers across the globe.

The Islamic finance industry may have been slow to find its feet since the arrival in 1975 of Dubai Islamic Bank, now viewed as the first modern commercial Islamic bank, but it has nonetheless continued to evolve. Today it encompasses retail and commercial banking, equities, syndicated transactions, debt issuance and structured products in a number of Muslim and non-Muslim countries.

"In countries with a strong Islamic banking sector, such as the UAE and Malaysia, we see a whole range of businesses across a number of industries opting either wholly or partially for Islamic finance, from large corporates down to SMEs," says Tom Guest, Associate Director of independent investment management and advisory firm, Eiger Trading Advisors. The drivers tend to be diversification of their funding base and the option of tapping into an alternative pool of liquidity, but often the driver is investor demand, especially in Saudi Arabia for example where the majority of retail investors on the tadawul (the domestic stock market) may restrict their portfolios to Shariah-compliant companies. "If a company sees a larger potential market for their debt or equity issuance on a Shariah-compliant basis then it makes sense at least to explore the option."

Because Islamic finance has traditionally been focused on financing the production and trade of physical assets, it was much easier for these types of businesses, such as palm oil producers or cement manufacturers, to access Islamic finance. In recent years, however, as Islamic finance has developed and become increasingly sophisticated, we are seeing less obvious underlying businesses, such as telecoms companies, coming to market, and this trend looks set to continue as original and innovative deal structures become more commonplace.

It was historically perceived that Islamic finance is more expensive than its conventional counterpart. "It is now possible to secure cost of funding that is either equivalent or cheaper than conventional capital. The view from Vicky Jones, Of-Counsel, Norton Rose Fulbright (an international law firm that has handled many sukuk issues through its Singapore office) is that although the depth of liquidity in the

Islamic market is good, "I would not say it was so great that companies not using it for principled reasons would do so for the sake of it". She adds that, although the Islamic finance market represents an alternative pool of liquidity, the extra costs involved in executing Islamic finance transactions mean that some corporates will not be interested, or will not consider it worth their while, to tap that pool of liquidity. For example, a Hong Kong corporate is unlikely to look into entering an Islamic finance transaction unless it has another reason for doing so, such as diversifying its funding base.

Requirements

Although open to Muslims and non-Muslims alike, all Islamic finance products are subject to the interpretation of Islamic law, or Shariah, by Muslim scholars. All products must, for example, adhere to restrictions on investments in companies involved in gambling, pornography, alcoholic beverages or porcine food products. The application of interest is prohibited which means providers and consumers of Islamic finance must find a different route to reimbursement. Islamic finance also demands tighter integration between the sources and application of funds which almost inevitably introduces extra (but not insurmountable) complexity at both an administrative and legal level.

Each Islamic financial services provider will have its own Shariah board of scholars which will issue guidance on the suitability of specific products. This is often cited as presenting issues around product standardisation as each scholar may hold a different view. Bodies such as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) in Bahrain and the Malaysia-based Islamic Financial Services Board (IFSB) are making headway on this matter but to date, their proposals are neither mandatory nor universally accepted. However, the different interpretation of Shariah is "more talked about as an issue than it is an issue in practical terms", notes Noel Lourdes, Executive Director at independent global Islamic finance advisory firm, Amanie Advisors.

Indeed, many of the large Middle Eastern banks are active in Malaysia; if their home regulators had an issue with the difference they would simply not allow them to trade overseas. "Even on home territory, if these banks find a difference they will find a way of converging; they are not waiting for AAOIFI to find a solution."

The level of standardisation of products and governance is the main limiting factor to greater uptake, Guest believes, particularly in cross-border transactions. "National Shariah boards can help in this regard, and the UAE has recently announced a move in this direction, following Malaysia's example." The logical extension to this, he continues, is greater collaboration between these national boards, in concert with the international Islamic Financial bodies, such as IIFM and IFSB, to create a product set that is acceptable to Islamic banks across the world, or at least within each region.

The recent collaboration with ISDA in this regard, which led to the Tahawwut (Hedging) Master Agreement was a very positive step in the right direction. "Strangely, there has been a real lag in the market uptake of tools based on this document," notes Guest. "To a large extent I believe this is due to top tier banks, whose Islamic windows still typically lead the market in product development and execution, struggling to adapt the contract to the international legal, compliance and risk frameworks that they are required to follow internally." As a result, he feels that what started as a standard agreement, emerges as a heavily redrafted version suited to each institution. "It will probably be some years before we see a deep, liquid market in cross border Islamic hedging and derivative contracts.

Product development

The sukuk market has been a real success story for Islamic finance, notes Guest. Both issuers and arrangers have brought a huge number to market in recent years. "These range from plain vanilla structures to more complex offerings that, in most cases, are many times over-subscribed by investors in the primary market."

However, there is a shortage of high quality sukuk issuance, notes Jones, not helped by the fact that many investors hold their investments to maturity even though there is a secondary market. Expectation is also a drag on market growth; much of the current demand lies in the Middle East but, notes Jones, there is "a pricing gap" between what issuers have been able to pay in the domestic Malaysian market and what many Middle Eastern investors expect to receive in return.

What Guest sees though is a good pipeline of future issuance which has helped to free up secondary markets. This, he suggests, is because investors can feel confident that there will be enough supply of ongoing issues to meet future demand, slowly eliminating the 'buy to hold' mentality that has been prevalent in the market to date. An active secondary market helps borrowers to price their credit, and ensures a more accurate mark to market for investors. "In some ways, Islamic finance has suffered from an over emphasis on sukuk I believe, to the detriment of developing other products, especially for smaller companies, or un-rated corporates to raise financing."

Commodity murabaha financing is by far the most common structure, because of the pre-defined profit rate and the ease of execution, as well as clearly defined obligations of each party, in both Shariah and Commercial legal terms. Specialist brokers such as Eiger are usually involved because there is a need to source the underlying assets traded. A commodity murabaha wouldn't really be classified as an investment product per se; it is more a transactional contract that has been institutionalised by banks to serve the needs of corporate and individual clients. "It forms the basis of most of the innovative new hedging and derivative tools that we are starting to see in the market, profit rate swaps for example, or collateralised financing, such as the Islamic repo," explains Guest. "I think these products will be one of the next big growth areas in Islamic finance, as we are gradually seeing standardisation in the documentation used, within and across jurisdictions, and there is a huge appetite amongst both corporate and bank treasurers to use these instruments."

Islamic finance is a relatively young industry, and so the complete suite of products required by sophisticated corporates is still not there yet. The pace of development has gathered momentum in the past few years, "but there will always be a gap between the conventional and Islamic capital markets," Lourdes comments. "I do not see it ever compromising its principles to facilitate a certain class of borrower or investor who may need synthetic asset classes or instruments to enhance their return or hedge their risk." Indeed, new structures are typically built according to the needs of the investor or borrower rather than modelled for the sake of it. "A product has to be relevant and practical and Islamic finance has to innovate to meet those demands," he explains.

Certain solutions have a natural fit for business needs. According to statistics from the World Trade Organisation's Annual Report in 2012, about 90% of global trade is supported by trade financing. Given the strong trade links between Asia and the GCC (more than 35% of its total imports are from Asia), the Malaysia International Financial Centre (MIFC, part of Bank Negara Malaysia) said in its March 2014 Insights report that Islamic trade financing possesses "a strong potential for significant expansion in the region".

Indeed, Guest notes that the majority of Islamic financial instruments are trade-based contracts that have been adapted to accommodate the requirements of modern banking. The sector is still dominated by conventional and European banks, even for trade flows between countries with strong Islamic banking sectors. "We should see improvements in this area in the coming years, led by the excellent work of the Islamic Development Bank and its trade finance subsidiary, the ITFC." However, one of the mains barriers to uptake is lack of education amongst traders and importers/exporters. "Islamic bankers and market players need to do more to promulgate Islamic trade finance as an alternative and complementary source of funding and banking services."

Corporate understanding

The Islamic finance market is not necessarily well-understood amongst non-Islamic corporates says Jones, and in order to encourage Islamic finance among such non-Islamic market participants a process of education will need to be undertaken with respect to Islamic principles as well as the extra documentation involved. "But non-Islamic corporates are willing to explore it and make the effort to understand it," she says. "A lack of education in this space is not a barrier."

For Guest, education is the key. But in certain markets, Malaysia being the leading example, Islamic finance has really penetrated the greater economy, partly because of the investment in education at school and university level. "In other countries, where this holistic approach isn't practical, more engagement is required, and relationship managers at Islamic banks, or the Islamic windows of global and regional conventional banks, should be at the forefront of this push."

The different schools of Islamic thought can lead to differing approaches to structures and documentation in different jurisdictions, although the fundamentals remain the same internationally. It is more the requirements and the asset base of the issuer which dictate the Islamic structures used and as such requirements become more complicated to cater for particular issuers and as the Islamic finance market becomes more sophisticated so structures become more complex. For example, Jones observes, corporates with diverse asset bases are able to use more than one Islamic finance structure within one sukuk issuance. This obviously adds to the complexity of the documentation and adds to the cost. But at the same time, it is more appealing and allows greater flexibility to companies that have diverse portfolios of assets. The question of Shariah interpretation usually boils down to a case of negotiation. "In the end," she notes, "deals get done".

Contribution

According to the MIFC, the key Islamic finance marketplaces in Asia include Malaysia, Indonesia, Pakistan, and Bangladesh. Other Asian countries with a growing or niche presence include Singapore, Brunei, Philippines, Hong Kong, Kazakhstan, Azerbaijan and Thailand. In general banking terms, Malaysia is the leading Islamic banking hub in Asia, followed by Indonesia, Bangladesh and Pakistan.

MIFC reports that emerging markets in Asia experienced "robust real GDP growth rates" of 6.2% in 2013. These markets are expected to sustain real GDP growth of 6.3% into 2014. It further believes that Islamic finance will "contribute significantly" to the growing economies in emerging Asia, with the trade finance, infrastructure investment and wealth management sectors playing a key role.

In terms of growth potential, Indonesia could be a major player. It has the world's largest Muslim population (205 million or 88% of the country), which is starting to benefit from the country's growing economic strength. Indeed, Indonesia's economy is South East Asia's largest and is amongst the world's top ten says the IMF. However, Jones notes it will have to make up a lot of ground to compete with its neighbour Malaysia.

Jones notes there is growing interest in Islamic finance generally, helped by certain non-Islamic countries trying to position themselves as centres of Islamic finance, for example, Japan, Hong Kong and the UK recently drafting legislation to encourage Islamic finance and some speculation regarding countries such as the UK and Hong Kong investigating the possibility of issuing sovereign sukuk. She also notes a trend in non-Islamic institutions investigating the use of Islamic finance; accessing new pools of liquidity may appeal to certain corporates, whereas for others it will be the publicity value of conducting a more unusual debt issue.

Ultimately growth of Islamic finance will be sustained by the retail client base, especially in Indonesia. This base layer will provide a huge capital base with which to extend Shariah-compliant funding to corporations and entrepreneurs, says Guest. "As these investors become more sophisticated, and wealthier, we should see increased participation in stock markets, and indeed debt markets through pension funds and Takaful funds." This will in turn bring more issuers to market, and more companies exploring Islamic finance as a viable alternative or complementary option.

Clearly, it is instructive to differentiate between those companies who are fully Shariah-compliant because of their domestic market and their ethical religious choice, and for whom Islamic finance will be their only financial solution, and those at the other end of the spectrum – large regional or multinational corporates – for whom Islamic financing options will only ever be a small subset of their banking and capital raising needs. "In between those two poles are entities domiciled in markets with a strong Islamic financial sector that tend to view Islamic finance as complementary," comments Guest. "What will tip the balance is further development of the Islamic product set, as well as cost and level of service. Islamic finance is in a competitive market for this business, and for the most part the gap is closing as Islamic banks and windows invest in improving their infrastructure and human resources." ■

Counterparty risk: know your limits

In simple terms, counterparty risk is defined as the possibility that someone you do business with will be unable to meet their obligations to you. The higher the odds of a default are, the higher the level of counterparty risk. This is all well and good on paper, but as any treasurer knows, counterparty risk is far more nuanced in reality. It's a multi-faceted threat that is constantly changing and evolving. In this article, we re-emphasise the need for treasurers to keep on top of counterparty risks, examining both existing and emerging threats.

In the not so distant past, the majority of corporate counterparty risk management frameworks were based on credit ratings on the grounds that they provide simple and independent metrics of creditworthiness. There is no need to explain the negatives of this over-reliance on credit ratings, which have been well documented in the global press. One positive impact of this dependency, however, was that it functioned as a wake-up call to banks, ratings agencies and corporates alike.

Yet despite the significant progress that has been made post-crisis in understanding and managing counterparty risk, many corporate organisations still lack formal counterparty risk exposure policies or frameworks, not to mention the appropriate knowledge or tools to analyse and monitor these exposures. So how can treasurers stay on top of counterparty risk?

Start at the source

Effective measurement and control of counterparty risk starts with identifying the different sources of risk facing the organisation. The following table, while by no means exhaustive, provides a good starting point, outlining a number of traditional sources of counterparty risk.

In addition to these more traditional sources of counterparty risk, new threats are constantly emerging. One of these is the risk of working with corrupt or 'undesirable' counterparties. Indeed, there is a growing global trend for both regulators and consumers to hold corporates accountable for the actions of the third parties that they choose to interact with.

"As such, organisations cannot afford to neglect the non-financial due diligence they must now do to comply with US and UK anti-bribery laws," says Ian Barclay, Managing Director at investigations, intelligence and risk management specialist, Stroz Friedberg, Hong Kong. "Failing to adequately assess the counterparties that the company does business with can not only expose the organisation to reputational damage, but to operational risk, government investigations, financial penalties and potential criminal liability," he notes.

Newspaper headlines certainly provide plenty of evidence to support this. For instance, GlaxoSmithKline Plc (GSK)'s third-quarter 2013 sales of pharmaceuticals and vaccines in China fell 61% after an anti-corruption probe began. And now that the Chinese police have charged a number of GSK China personnel with corruption, the company is attempting to clean up its act by stopping payments to doctors who promote its products. While everyone supports the company's action against corruption, from a competitive standpoint, this bold move could prove very costly in what is a $1 trillion-a-year global industry.

The GSK China scandal also highlights the need to be aware of country risk when identifying and measuring counterparty exposures: bribery between sales staff and doctors is a well-documented challenge in China. Since the nature of business is only becoming more international, treasurers must ensure country risk is firmly on their counterparty radar.

Once counterparty risk sources have been accurately identified, it is time to consider the best way to measure and manage any threats. This helps the treasurer to ensure that undesirable exposures do not develop in the first place.

Measure and manage

To be clear, there is no silver bullet for measuring and managing counterparty risk. Companies will use a variety of tools and modelling techniques, largely dependent on their size and sophistication. These may range from quantitative approaches such as expected exposure and probability of default calculations, through to more qualitative measures such as assessing the strength of the counterparty's management team.

Despite there being no one size fits all tool or technique for measuring and managing counterparty risk, there are some useful rules of thumb that the majority of companies can follow. It might seem obvious, but ensuring that the full counterparty exposure is being managed and measured is one such simple, yet significant rule. The section below outlines some additional appropriate 'rule of thumb' responses to the major forms of counterparty exposure. It should be noted, however, that the correct method for measuring and managing counterparty risk depends on the particular circumstances of the corporation, and its counterparty risk policy (more on this later).

Source of risk	Threat posed	In particular, watch for …
Deposits	Potential loss of deposits in instances of bank failure.	• Large deposits. • Overexposure to any one bank/financial institution. • The bank/financial institution's credit rating.
Investments	Loss of investment – whether bonds, equities or another instrument.	• Maturity of investment. • The credit status of the company/institution/vehicle. • Market changes. • Sovereign credit rating downgrades.
Borrowing	Changes in bank lending policies could affect the level of your repayments and/or the ability to refinance.	• Mergers, acquisitions and consolidation activity by your lending banks. • Changes to a bank/financial institution's credit policy.
Trade financing	In trade finance arrangements, the supplier sometimes runs the risk of losing the balance payment.	• Changes to the credit status of the trade financier. • Legal recourse in case of default.
Leasing	In leasing agreements, if the leasing company were to fail you could lose the right to the use of the leased goods.	• Terms of the leasing arrangement. • Changes to the credit status of the leasing company.
Foreign exchange	Settlement risk – sending a payment to settle a foreign exchange deal but receive nothing or less than you were expecting in return.	• Market changes resulting in big fluctuations in exchange rates. • Large settlement exposures in exotic currencies.
Derivative instruments	If the other party fails to fulfil its obligations under the agreement you will have to meet the original payments.	• Settlement risk for derivatives is greatest in the over-the-counter (OTC) markets. Regulation is attempting to reduce this risk through the use of central counterparties (CCPs) but treasurers should be aware of the risk potential where derivative transactions are concerned as non-financial counterparties are often exempt from the mandatory clearing requirements being brought in under these new regulations.
Accounts receivable	Default or late payments.	• Late payments. • Changes in the payment behaviour of your customers. • Changes to your customers' credit status.
Suppliers	Delays in the supply chain.	• Changes in the credit status of your suppliers. • Late/incomplete deliveries.

Source: Treasury Today Best Practice Handbook, Managing Risk in Treasury

• Deposits and investments

The key to effectively managing the counterparty risks associated with deposits and investments is cash visibility. An accurate, up-to-date understanding of each of the institutions the corporation banks with is of crucial importance if a corporate is to correctly measure their level of market exposure. To accomplish this, some corporates remain committed to using traditional methods, such as spreadsheets, while others have moved to install specialist software that offers real-time updates and ongoing monitoring and analysis of all the corporation's counterparty exposures.

Diversification is ultimately the most effective way to protect deposits and investments from counterparty risk. Both should be spread out and held in multiple banks and institutions, geographical areas, asset classes and a variety of tenors to minimise the likelihood of a loss of capital in a crisis situation. Updating the company's investment policy is also critical here. Best practice determines that integrated risk metrics should be used to help formulate an investment policy that can adapt to the changing financial environment.

• Borrowing

The recent global financial crisis highlighted the importance of keeping a close check on the institutions the company borrows money from. In particular, corporates should look out for circumstances that could lead to financial institutions altering their lending policies and prices. While there should be no great risk to current agreements, banks which offer revolving credit facilities may, in difficult conditions or as a result of regulatory changes (such as Basel III), choose to increase the price of such a facility or perhaps not to renew it.

• Foreign exchange

The main concern for corporates when undertaking foreign exchange transactions is settlement risk. This risk is sometimes referred to by the name Herstatt after the German bank which failed during the 1970s leaving a number of unsettled FX payments to its various counterparties. It occurs when a payment to an overseas partner is sent but no corresponding funds are received in return.

The best way to eliminate this form of risk is through a service called continuous linked settlement (CLS). CLS uses a third-party intermediary to settle FX trades instantly, paying out in the respective currencies when each party confirms that they have the funds to proceed with the transaction. Then, should one of the parties fail to meet the terms of the deal, the amounts originally paid out would then be returned to the relevant parties.

• Derivatives

Despite regulatory progress towards central clearing, counterparty risk still presents a problem for corporates conducting derivatives transactions. It is of vital importance when conducting such deals that the counterparty with whom the agreement has been made is able to fulfil their side of the contract. To mitigate such risk a corporate needs to monitor all its derivative positions carefully and regularly carry out internal audits to prevent or detect systematic or fraudulent abuse of positions.

Within the derivative portfolio, corporates can also look to identify or create offsets to minimise aggregate counterparty exposures. As Andrew Bailey (AMCT, MSTA), National Grid Money Markets Team told Treasury Today: "Where possible, trading should take place on a collateralised basis (using bilateral credit support annexes (CSAs) with minimal thresholds, or trading on a cleared basis), while managing potential liquidity risks that may arise from mark-to-market volatility and resultant collateral requirements. Break clauses can be inserted in longer-dated instruments. Companies should also be cognisant of secondary effects of counterparty risk, such as credit value adjustment (CVA) charges, which can in part be managed using credit auctions and options."

- **Accounts receivable**

Accounts receivable, is a prime source of counterparty risk. If a company extends credit to its clients there is always some chance that they will not receive payment on time, or possibly not receive any payment at all, should the client end up defaulting on the debt. Either way, the end result is that actual cash flow will not match predicted cash flow – a scenario which left unchecked could potentially become a source of liquidity problems for the corporate.

All customers therefore should be checked thoroughly in advance of any extension of credit to identify those who pose an excessively high credit risk. Such careful checks should continue to be carried out on existing debtors too – paying particular attention to changes in payment behaviour which could possibly indicate that they are experiencing financial difficulties.

- **Trade financing and leasing**

While trade financing can actually be used by a corporation as a means of mitigating counterparty risk, it does not eliminate all the risk from a trade. Common risk management procedure for trade financing would involve assessing both the creditworthiness of the organisation providing the trade finance and the legal counterparty in the leasing agreement.

It is also important to be aware of the level of protection available in instances of default. Some trade finance providers and leasing companies belong to international banking groups, while others do not. It is therefore essential to carefully assess the balance sheets of any trade finance provider prior to conducting any business with them.

- **Supplier risk**

Supplier risk is an important, yet sometimes neglected facet of counterparty risk management. Disruption to the supply chain can have severe consequences, as the recent financial crisis illustrated. When suppliers began to go out of business during the credit crisis, many of their clients soon followed, unable to stay solvent without the necessary materials or funding to continue operating.

In order to effectively manage supplier risk a corporate should examine each level of its supply chain and identify at each stage the appropriate action to be taken should the risk posed become a reality. It may be useful to draw up a supplier risk intelligence checklist.

You can't beat them all

Finally, while every effort should be made to keep a lid on counterparty exposures, even the best risk analysis or tools in the world will still not prevent certain defaults. In addition to a robust counterparty risk management framework, therefore, controls and guidelines should be put in place for when the inevitable happens. ■

Counterparty risk management policy

An effective counterparty risk management approach should always include a clear policy. According to consultancy firm Zanders, basic items to cover in this policy should include:

- A list of eligible counterparties for treasury transactions, plus acceptance criteria for new counterparties – for example, to ensure consistent ISDA and credit support agreements are in place. This will also be linked to the credit commitment.
- Eligible instruments and transactions (which can be credit standing dependent).
- The term and duration of transactions (which can also be credit standing dependent).
- Variable maximum credit exposure limits based on credit standing.
- Exposure measurement guidelines – how is counterparty risk identified and quantified?
- Responsibility and accountability guidelines – who should have ultimate responsibility for managing counterparty risk?
- Key performance indicators (KPIs) to measure and monitor performance.
- A definition of reporting requirements and format.
- An overall framework for decision-making by staff, including treatment of breaches.
- Continuous improvement measures – what procedures are required to keep the policy up-to-date?

Source: Zanders

A true treasurer

Komson Kajorncheeppunngam
Treasurer, Group Treasury

true

Since he joined the company 17 years ago, Komson Kajorncheeppunngam has seen a raft of changes at True Corporation. But despite this transformation and meteoric growth – to the point where the group reported revenues of $2.95 billion in 2013 – True remains focused on its domestic market, and plans to grow its business into the AEC region in the near future.

One of Thailand's strongest and most recognisable brands, True Group is the only fully integrated, nationwide telecom operator providing services to over 29 million subscribers. The Group seeks to promote the development of the country through innovation and technology. It works to bridge the digital divide and build a sustainable knowledge-based society by delivering the possibilities and opportunities offered by digital technology to every household and especially the youth of Thailand. Four key brand values – credible, creative, caring and courageous – guide its work as True Group seeks to enhance value for shareholders, customers, the organisation, society and employees alike.

One of the most important skills a corporate treasurer can possess is the ability to adapt to change. Given the advances that have taken place in treasury practices and technology, and a rapidly evolving regulatory landscape, treasurers unable to evolve with their environment can find themselves in hot water. This ability to adapt is doubly crucial in high-growth industries. An organisation that has undergone rapid growth could be virtually unrecognisable now compared with how it was 20 or even ten years ago.

Komson Kajorncheeppunngam, Treasurer, Group Treasury of True Corporation and Treasurer of TrueOnline, knows precisely what it is like to have a business grow up around you to the point where it is virtually beyond recognition.

Rapid rise

Komson joined True Corporation in 1996, as a senior finance officer – his second job after graduating. When he first came to the company, its principal business was fixed-line telecommunications in the Bangkok metropolitan area. A great deal has changed since then, and it has been a busy time for True's treasury function.

"Since I arrived 17 years ago, we have undergone several transformations, as well as a few critical situations, including debt restructuring with local and international lenders," says Komson. "We have gone through mergers and acquisitions in the cable TV business, obtained a mobile operator licence, which allowed us to expand into the mobile business, and effected a leveraged buyout to re-acquire our cable TV business."

Indeed, from starting up as a Bangkok-focused fixed-line operator in the 1990s, True Corporation now has commercial interests in a variety of spaces, ranging from a mobile phone network operator to an artist management group; it even has an entity that operates and manages a football club. In 2013 the group reported revenues of THB 96.2 billion ($2.95 billion). Despite its growth over the years, True has continued to concentrate on its home market. "Our business is almost 100% focused on Thailand, and we are planning to grow our business into the AEC region in the near future" he says.

True Corporation's operations are essentially split into three main businesses: TrueOnline, including fixed-line telecommunications and internet services; True Mobile Group; and TrueVisions, its pay TV business. True Mobile Group is the biggest contributor to the overall group's revenues, recording revenues of around THB 63 billion (approximately $1.9 billion – 65.5% of overall revenues) in 2013. TrueOnline contributed around THB 23 billion (approximately $704 million – 24% of overall revenues), while TrueVisions made up around THB 10 billion (approximately $306 million – $10.5% of overall revenues).

Triple treasury

The group's treasury function is also separated into three distinct groups, one for each business segment. Each business section has its own treasurer and CFO, who in turn report to the group treasurer and CFO. Komson has a dual role within this structure – he is both Treasurer of the Group Treasury, as well as the Treasurer of TrueOnline.

"The role of treasurer is a crucial one in our company," he says. "Decisions made in the treasury at a group- and business segment-level can have a huge impact across the company. The treasurer needs to rely on other finance professionals for support, and that support is really important for a business as highly dynamic as ours. In treasury and the wider finance function, adaptability and the ability to learn quickly are key to thriving in this dynamic environment."

One of his key responsibilities is to ensure that the group's cash is utilised efficiently and appropriately, and that its cash flows run smoothly and without interruptions. He also procures and prepares sufficient sources of funds, on both the debt and equity side, as well as seeking out short-term investments with competitive terms when True has excess cash.

On top of this, his role requires him to oversee the day-to-day operations and transactions of the treasury and from his position in the treasury, Komson has a high-level view of the greatest threats to the group. One of the key threats True faces is that of competition.

True competition

Thankfully, True Corporation was not hit as hard by the global financial crisis as some other firms during the period. This was more down to the fact that the company operates in a high-growth sector, rather than any resistance of the Thai economy to weakening global conditions.

Indeed, True is fortunate to be operating in a sector that is currently undergoing rapid growth, with mobile data usage in particular rocketing in Thailand. According to combined data from Thailand's mobile operators, the total mobile phones in use in the country rose from 61.8 million in 2008 to almost 90 million in 2013. To put this figure into perspective, Thailand's population is around 67 million.

But with a high-growth industry comes intense competition. Competition has particularly intensified in the Thai telecommunications market, as a result of liberalisation in the space. "It's fiercely competitive in all three of our core markets, and this is one of the biggest threats to our business," says Komson.

It is financing this growth that is one of Komson's biggest financial concerns. "We need continuous funding, from both internal cash and external sources of funds, to finance our growth and stay one step ahead of our rivals, and we need to make sure that every baht is utilised in the most efficient way

Key financials

(Unit: Baht million)

	2013	2012	2011 (restated)
Consolidated financial results			
Service revenues	66,291	61,865	56,802
Total revenues	96,214	89,382	71,938
EBITDA	16,385	16,738	17,104
Operating profit	(3,343)	1,600	4,074
Results from ongoing operations	(13,069)	(6,632)	(5,399)
Results from ongoing operations before deterred income tax	(11,831)	(5,354)	(3,200)
Net profit (loss) to equity holders of the Company	(9,063)	(7,428)	(2694)

Source: True Corporation's Annual Report 2013 and the cash we do have is secure. "What is more, laying the groundwork of infrastructure for growth in the fixed and mobile telecommunications industries can be a costly business. "Investing for the future is an ongoing challenge as we have to seek new funding every year. There are a number of expansion projects going on at any one time as this is a growth space. One of the biggest challenges for me is ensuring we have sufficient credit facilities and financial resources to enable that growth to continue," he says.

As it pursues new business opportunities, True Corporation's search for funds is likely to be more equity-focused in the future. Komson says the company could well issue shares this year to tap institutional and retail investors for its financing needs.

Treasury processes

In terms of day-to-day processes, Komson says that analysing the group's cash flows is the part of his job that consumes the most time. However, he adds that this is the aspect of his role that he enjoys the most. He is also a big believer in the benefits of close collaboration, and dedicates part of his schedule to providing individual support to members of his treasury team.

Komson believes that the faculty of analysis can be trained. His advice to young people who aspire to a career in corporate treasury is to focus on developing the basic skills that are key to the profession. "Firstly, you need to work on your standard of financial intelligence – the ability to analyse financial reports and cash flow statements, for example. After this, communication skills are important, as you need to clearly communicate what you have analysed," he says.

In order to be able to spend more time on this analytical part of his role, he would like to further leverage new technology. Like many treasurers, Komson is often on the move. He says one way technology could make his life easier would be the ability to approve payments on his mobile device, which his team does not currently have the capability to do. He would also like to have improved integration between True Corporation's online banking system and its internal ERP, SAP. Indeed, he and his team are already looking into whether this would be possible.

"Technology has an important role to play in the treasury function," he says. "It should be exploited so we can work more efficiently and focus our efforts on the areas where we can really add value."

Despite the transformation the group has undergone since its inception, True Corporation is a firm believer in the value of continuity in its banking relationships. Since the company was established in 1990 (it was originally called CP Telecommunication Co.), it has kept the same primary relationship banks. "Our banks provide us with the service and support we need at a price we feel is reasonable," says Komson.

In addition to managing True's relationship with its banks, another of Komson's key responsibilities – indeed, of almost any treasurer – is the management and mitigation of risk.

Risk management

From a risk management perspective, True Corporation is in the enviable position of having minimal foreign exchange risk. Although in the past the group had been subject to exchange rate fluctuations, that is no longer the case. In 2011 the company repurchased its outstanding USD bonds, significantly reducing the group's foreign exchange exposure and refinancing risk. At 31st December 2013, less than 3% of the group's consolidated non-current borrowings were denominated in foreign currencies.

Furthermore, given that the vast majority of True's operations are currently within Thailand, provided it does not issue more foreign currency debt, this FX risk is likely to remain low.

The company is subject, however, to a certain amount of interest rate risk, given its balance of floating- and fixed-rate debt. At the end of last year, around 54% of True's consolidated debt (THB 47.2 billion, around $1.4 billion) was subject to floating interest rates. A significant rise in the interest rate in Thailand would therefore have a significant impact on the group's cost of debt.

Future

Going forward, Komson would like True Corporation's treasury to continue to implement technology solutions that can make the function more streamlined and efficient. He also feels that should True seek opportunities beyond its core home market, its treasury department would do well to also add an international dimension, by becoming more diverse in its make-up and striving to attain best practices set by its contemporaries abroad.

And it is with contemporaries in mind that Komson offers his parting word of advice – about the importance of combining knowledge and collaboration. "In order to be successful, you need to know how to use your knowledge in the most effective way," he says. "But first and foremost you need to think about your company and your colleagues; you should think of giving, and helping them, before expecting something from them." ■

Not just any portal in a storm

Instead of trading separately and directly with a number of money market funds (MMFs), treasurers looking to optimise short-term yield on their cash holdings are increasingly turning to the single platform/multi-fund MMF portals made available by banks and independent providers. What are they and what do they offer corporate users?

Money market funds (MMFs) are gaining ground in the short-term space as bank deposits typically remain low or zero yield. The method of accessing funds is changing to meet investor needs and the online multi-bank portal is becoming an increasingly attractive proposition for busy treasurers. The third annual cash management study issued at the end of 2013 by technology vendor, SunGard, collated the responses of 160 corporates globally and found a reduction in the use of telephone transactions for short-term investments from 51% in 2012 to 30% in 2013, in favour of web-based portals.

The attractions of largely automated trading platforms are many, not least being that some also enable other products to be traded too (such as short-duration bonds, separately managed accounts and certificates of deposit). In the MMF space, in addition to the facilitation of trade and settlement across multiple funds and providers, portals typically offer a range of pre- and post-trade services including market intelligence, consolidated reporting, trading access and authorisation, limit setting, position and risk analysis (from counterparty to country risk). By providing market and counterparty intelligence, trading and monitoring all under one roof, treasurers seemingly have access to a one-stop MMF shop. But are all portals created equal?

Portal differences

Multi-fund MMF portals may be offered either by international banks such as Citi and BNY Mellon or by independent providers such as MyTreasury, ICD and SunGard. This is the first great divide – and users seem to be swinging slowly towards the independents, having favoured bank platforms since they first arrived a decade or so ago. Of those that now use portals, the number of treasurers working with independent providers over proprietary bank offerings is rising, according to the SunGard survey. It shows that 35% of all portal users now prefer the independent option, an increase of 15% over the previous year.

Independent providers will always argue that they are cheaper for investors to use but banks will often bundle together their offering with other services such as custody, cash sweeping or asset management, which can create certain operational efficiencies. Whilst this tends to make the true cost of the portal easier to absorb, the flipside is that actual cost is less easy to discern.

The range of fund participation in a bank portal may be limited compared to an independent. This may influence a treasurer's decision where there is a need for portfolio diversification, although a portfolio of around five to ten is typically used. Banks often have distribution agreements with their fund participants which may be seen as encouraging partiality where advice is offered. Of the independents, ICD and SunGard are permitted to offer investment advice, and are thus regulated, whereas MyTreasury is concerned mainly with (and therefore earns its keep through) transaction processing and execution.

> Independent providers will always argue that they are cheaper for investors to use but banks will often bundle together their offering with other services such as custody, cash sweeping or asset management, which can create certain operational efficiencies.

Banks typically offer 'omnibus' trading portals, which means the provider will set up and manage accounts on behalf of its users allowing trading and settlement (through a central clearing agent) to take place en masse and anonymously. As independent portal providers, both SunGard and MyTreasury offer 'fully-disclosed' direct trading platforms, which allow treasurers to trade directly with each fund on the platform – their independent competitor, ICD, provides a mix of direct, clearing bank facilitated and omnibus trading which clients can use in combination.

With direct trading systems the fund provider knows who its client is. For treasurers, maintaining visibility of 'share of the wallet' may be important. For other traders, particularly hedge funds, anonymity may be preferred. If using a bank portal, it may be perceived by other institutions on the treasury's bank panel as giving that bank preferential treatment; conversely it may be the intention to overtly give that bank the business.

Broadly, the omnibus model offers simplicity and ease of use but trading authority is given away with an omnibus account. Direct trading is more transparent and controllable. The investor opens one account with the portal provider and the portal provider opens an undisclosed account with all of the funds, doing all the admin such as account opening and settlement on the investor's behalf. Fund providers do not have access to their investors. A disclosed nominee account may be opened in the investor's name, but this account is still owned by the portal provider. If something happens to the portal provider or an intermediary, such as a clearer, if the client is an undisclosed nominee its anonymity means it will not be able to approach the fund providers; as a disclosed nominee the issue remains that the trading account actually belongs to the portal provider and unless the client is a signatory on that account, return of funds is unlikely until the problem has been resolved. Most omnibus portal users do not have delegated trading authority on their own accounts.

Background movements

At the front end, the look and feel of portals will be quite similar; the difference is all in the set-up where, depending on which portal is being used, trades may be routed through a clearing partner or direct to the fund provider.

Case study

Honeywell

Honeywell is a US-based Fortune 100 diversified technology and manufacturing business which in 2013 reported global sales of $39.1 billion. Globally, Honeywell manages over $7 billion of cash and investments and a component of that is invested in MMFs. All MMF trades in EMEA and APAC today are executed and managed using the MyTreasury MMF portal.

The in-house bank which centralises the cash and provides funding to the affiliates is located in Belgium and overseen by the firm's Director of Treasury, EMEA, Séverine Le Blévennec. In 2009, when a European regulatory shift ended the in-house bank's Coordination Centre status, investment in MMFs became possible. With the cash balance notably increasing and the "investible universe of banks" decreasing, it led directly to the implementation of ICAP's MyTreasury MMF portal. Although Honeywell's treasury team had been part of a panel of investors that two years prior helped the vendor develop its platform, it still made market comparisons before selecting.

The set-up and integration of the portal was a fairly straightforward process, says Le Blévennec. The project started with the in-house bank and then rolled out to the UK before taking in the Asian markets. Honeywell sent documents to its existing fund providers explaining that beyond a specified date it would only be dealing through the portal. Where existing funds were not already on the platform the invitation was extended to join it, Honeywell having insisted that if the fund was not on the platform it would not deal with it at all. Only one agent (not the fund itself) declined the offer. For those that did, the terms and conditions of trading remain the same or better, she reports.

Le Blévennec notes too that the visibility and transparency that the platform provides over management fees has enabled her to negotiate rebates with various fund managers; in total it has amounted to a return of around $1m, although the low rate environment has seen some euro funds subsequently cancel their rebates.

One of the key features of MyTreasury for Le Blévennec is its workflow system and ability to set up investment limits in the system. This means there is no need to monitor sub-limits of certain funds. "The platform gives us a view of the aggregate position of all money invested in the same fund. We can set limits and if a new deal would breach one of them, the system sends a warning message. A further control sends an e-mail message in case post trading, the fund AUM decreases causing us to be in breach."

Honeywell helped MyTreasury develop a feature for reporting underlying exposures, aggregated across all of its funds on the system. This is downloaded as an Excel workbook enabling, for example, a view of the exposure to a specific institution or country across all 68 accounts. Given the volatility of some markets this is a welcome insight. "We could not have done it manually. With this function, if I have any doubts I can download the data and quickly take a decision to rebalance my funds."

Today, the Group invests in six of the main currencies and has in the region of 40 active funds globally across the 68 accounts (different investors in the group can invest in the same fund). The only countries where Honeywell invests in MMF and where the MyTreasury system is not available yet are China, India and Japan, although the latter is in the pipeline.

Following geographical extension of the system's use Honeywell worked on portal integration with its SunGard Quantum TMS. This has enabled a high degree of straight through processing, with all transactions being entered automatically for exposure management and settlement for the in-house bank. The interface to the TMS was also further developed to automate the booking of dividend (or rebate) distribution as well as day-to-day accruals on outstanding funds. MyTreasury has also developed an auto-settlement process for Honeywell where each trade automatically generates a SWIFT MT101 payment instruction.

For any treasurer considering using an MMF portal, Le Blévennec advises close inspection of the potential for platform customisation, particularly for reporting. Platform scalability is also important, as is user-friendliness and the ease of integration with existing technology. "I would also ask for references from a number of customers with a similar or more complex business profile who have been using the system extensively." As a final point she expresses the need for a pro-active and open approach from the provider. "It is easy to deliver a platform where you just execute deals, but the devil is in the detail; when it starts to get more complex you will start to see the difference."

Background processes such as clearing and settlement vary according to portal type. Omnibus platforms may offer auto-settlement or direct settlement. Auto-settlement platforms do away with manual processing and payment and settlement requests. Automation will make all the trades across all accounts for the client and will net off all investments and redemptions before calculating what is owed. This does present an element of risk; whilst the money is in transit, if the clearing bank being used by the portal to facilitate the movement gets into financial trouble then the investor's payment will be locked into the system until such time as the clearer emerges from administration. Bear Stearns was such a clearer, rescued by J.P. Morgan. Auto-settlement is now optional rather than mandatory for most providers.

An alternative omnibus model will execute trades for the client, the client settling directly with each fund, going through the normal payment process for the business as if it was trading outside of the platform. Reference to direct trading on an omnibus account does not mean trading directly with the fund; it refers only to the settlement process. Settlement through a fully direct trading portal typically uses the same direct settlement process as for omnibus although MyTreasury offers an auto-settlement feature developed with Honeywell (see case study opposite).

Added-value

By building in compliance features such as trader limits, counterparty limits and maximum holdings, for example, a portal can automatically monitor every transaction. Electronic portals consolidate huge amounts of investment data and so reporting functions have notably improved in the past few years. ICD's offering, for example, allows users to import external investments (such as bank and time deposits) into its exposure analytics component to give a broad picture.

In addition to consolidated views of exposures, counterparty, currency and liquidity positions, a host of management information may be made available to users, depending upon the provider. These tools may show levels of activity and risk by country, asset type, maturity and so on and may be used to inform asset allocation. Market research, intelligence (including counterparty metrics such as stock price trends, CDS spreads and capital adequacy ratios), market price and news feeds are also typically delivered.

Cost

The explicit cost of using a portal as an investor is zero because the cost of providing a portal is borne by the fund providers. However, for an investor it is important to ask each fund it is already using – or intends to use – whether trading on a portal will alter its terms of trade compared to direct trade. Some funds operate a 'portal' share class, using this to effectively charge investors as an offset against the fees it pays to the portal provider.

The valuation debate

The ongoing discussion about MMF valuations, systemic risk and the various proposals for reform put forward by the EC and, in the US, the SEC, will have some impact on the way in which portals operate. The key requirement, if the shift is made to floating Net Asset Value (VNAV) funds will be how the portal provider will get information from the fund transfer agents in a timely manner. The agent, usually a bank, looks after records of investors, account balances and transactions and will provide the actual share price required for daily valuation. With constant NAV (CNAV), investors know the value is 'one' (dollar/pound/euro) and for accounting purposes this makes life relatively easy. VNAV brings uncertainty to valuation. On a daily basis portal providers will have to get the price in good time. It may be that cut-off times for investment may have to be brought forward, which for investors is going in the wrong direction. The decision is yet to be made.

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Even if floating NAV is the way forward, the focus by almost all portals on prime institutional AAA-rated CNAV funds is unlikely to shift by any great magnitude (assuming the regulators' proposal to abandon fund ratings is dropped). However, whilst treasurers will not necessarily want to have to seek permission to invest in new funds, if the reforms are accepted some portals may open up to a broader range of fund-types, even exchange-traded funds.

Firstly, this will require significant technological development on the part of the portal providers to accommodate the different fund processing models. And secondly, it would change the risk profile of MMFs. CNAV funds are sold on the back of their perceived robustness but when the US-based Reserve Primary Fund 'broke the buck' back in 2008, it cast a long shadow over CNAV money markets everywhere. The SEC stepped in with Rule 2a-7 requiring MMFs to restrict their underlying holdings' average dollar-weighted portfolio maturity to 60 days or less, and for credit ratings no more than 3% of assets must be in securities falling below the top two ratings. If the sanctity of MMF fund robustness is to be maintained, for all the discussion it may just be business as usual for most providers.

Integration

Treasurers are now able to source market, trade and position data, with most platforms at least offering market views, size of funds, current and historical yield, portfolio information and analytics, and account balances. The discussion about which data is required, when and in which format, should be ongoing and reflective of the changing needs of treasurers and the need to integrate data with existing treasury systems. The closer the integration the more likely straight through processing can be achieved, eliminating the need to re-key daily rate and trade confirmations, for example. ■

Asia Pacific Corporate Treasury Benchmarking Study 2014

Treasury Today's Asia Pacific Corporate Treasury Benchmarking study offers you a means, today, of assessing the performance of your treasury function. Compare your key issues and KPIs with others. Be part of the programme to create industry-wide best practices.

You operate in the Asia Pacific region and many of you have already participated in our pioneering Corporate Treasury Benchmarking programme. If you have introduced key performance indicators (KPIs) into your treasury function, completion of the KPI module in this year's study will enable you to see how your performance measures compared to the total study universe and, importantly, with your peers within the same industry sector.

Even if you haven't yet deployed KPIs, participation in the study will identify the metrics other companies are using. This may assist you to start to use KPIs to measure your treasury processes. It will also offer you the opportunity to compare your key issues and treasury priorities with other corporates operating in the region.

Furthermore, you can register your views on how the banks in your region are performing in the areas of cash management, trade services, foreign exchange, customer service, product innovation and technology. We also analyse the key factors you employ when ranking the banks against these six key disciplines.

Benchmarking in action

Here is what Manish Kapoor, Head of Airtel Centre of Excellence (ACE), Cash and Banking Operations at Bharti Airtel had to say about benchmarking when we spoke with him about our 2013 Asia Pacific Corporate Treasury Benchmarking Study.

"Benchmarking is a process which helps us to compare our business processes and performance metrics to best practices from other industries. The evaluation measurements of industry benchmarking are: time, cost and quality. The process of best practice benchmarking helps us to identify the best firms in our industry, or in another industry where similar processes exist, and then compare the result and processes of those to one's own results and processes. This helps us to learn how well the targets perform and, more importantly, the business processes, which also help us to be more successful within the industry".

Benchmarking and the introduction of key performance indicators (KPIs) have delivered some impressive results for Bharti Airtel as the following metrics illustrate:

- More than 97% accuracy in fund forecasting.
  - Releasing working capital of $30m.
- Increasing payments on time by 82%.
  - Reduction in customer queries by 83%.

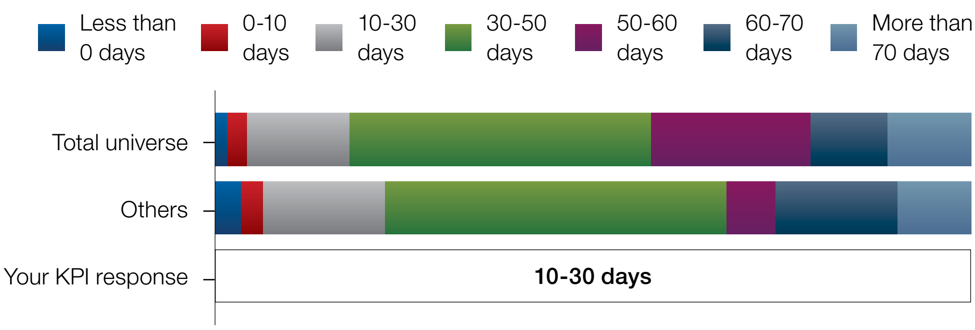
Treasury Today's Asia Pacific Corporate Treasury Benchmarking Study provides unique insight into the corporate treasury universe in the Asia Pacific region, letting you know how your organisation – and your peers – are performing.

It should take no more than 15 minutes of your time to complete. We guarantee 100% anonymity to all who participate and you will not receive any 'follow-up' sales calls. You will only receive a copy of the results if you complete the study.

Five reasons why we think you will benefit by taking part:

1. Determine whether your challenges and priorities are the same as your peers.

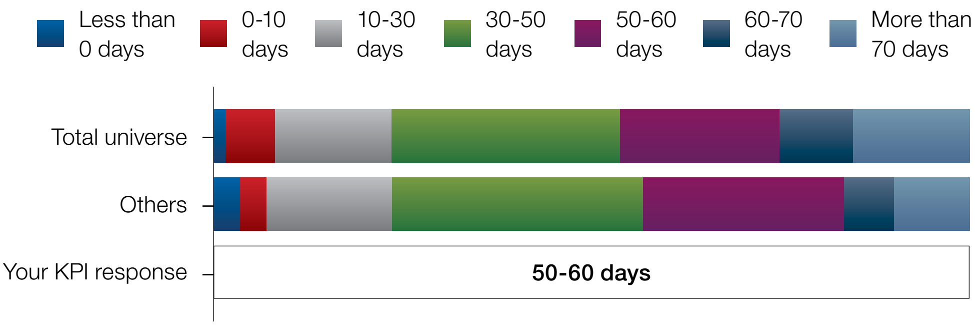
Chart 1: Days payables outstanding (DPO)



Source: Example response from Treasury Today's Asia Pacific Corporate Treasury Benchmarking Study 2013

The findings and individual benchmarking results are exclusively available to participating corporates.

Chart 2: Days sales outstanding (DSO)



Source: Example response from Treasury Today's Asia Pacific Corporate Treasury Benchmarking Study 2013

2. Benchmark your KPIs against the respondent universe and your industry.
3. See which banks are 'best in class' and find out why.
4. Have your say on the key issues affecting corporate treasury. Banks analyse the survey to understand where they can do better.
5. Receive a complimentary copy of the findings, including a personalised KPI report.

Here are some of the treasury areas we benchmark:

- Cash visibility.
- Cash pooling structures.
- Transaction error rates.
- Straight through processing (STP) rates.
- Cycle time taken to establish end-of-day cash positions.
- Cash flow forecasting accuracy.
- Working Capital Management.
  - Days inventory outstanding (DIO).
  - Days payables outstanding (DPO) – see Chart 1.
  - Days sales outstanding (DSO) – see Chart 2.
  - Days working capital (DWC).
- Short term investment benchmark returns.
- Risk management (VaR).
- Extent of FX hedging.
- Balance sheet management.

Why benchmarking matters

"We now tend to review our days inventory outstanding (DIO), days payable outstanding (DPO) and days sales outstanding (DSO) on a monthly basis," says Priyanke Perera, Head of Group Treasury at Brandix in Sri Lanka. "But that is not all. We go beyond that, particularly when it comes to tracking how early or how late our suppliers provide inputs to manufacture a garment (on-time tracking) based on the dynamic production plan we have to support our buyers. This is a great indicator for the company's working capital management."

"Given the importance of cash pooling to the business, minimum cash holding serves as a key performance indicator," says Tan Lee Thong, General Manager, Group Finance at International SOS in Singapore.

Key performance indicators (KPIs) allow businesses to define and measure progress towards their overall business objectives. They have taken on a new importance in the Asia Pacific region, with more treasurers turning to them amid efforts to boost cash management efficiencies.

We appreciate KPIs will vary from corporate to corporate, and sector by sector – but we are not suggesting that every corporate should be achieving the best in class measure(s). Several factors will influence the relevance of a KPI to a particular company. Nonetheless, the results of our benchmarking studies provide some interesting data against which we are able to benchmark your organisation and offer some interesting insights as to where treasury is going in your region.

For more information please contact our Research Director, **john.nicholas@treasurytoday.com**

Take the time to participate in the 2014 Asia Pacific Corporate Benchmarking study programme which is now live. To participate please go to treasurytoday.com/benchmarking/participate

ISO 20022: SWIFT does Chinese

It is frustrating to hear people say that SWIFT cannot do Chinese (or other non-Roman) characters. Treasurers who believe this find their payment factories cut from many large markets – unnecessarily. The truth is that SWIFT can handle any character set, writes our independent treasury insider.

SWIFT messaging

SWIFT runs two messaging systems. The old system is called FIN with messages many are familiar with like MT101/3 and MT940. FIN's age means it was designed as a single byte system, which does not have capacity for large and diverse character sets.

The newer (more than ten years old now) system is ISO 20022 XML or MX messages like 'pain' (payment initiation equivalent to MT103) and 'camt' (customer account statement equivalent to MT940). Being more recent and XML based, ISO 20022 messages use double bytes and support a practically unlimited number of character sets.

What this means is that ISO 20022, pain and camt messages can handle Chinese, Japanese, Korean, Cyrillic, Arabic, Sanskrit, Hebrew, and any other character set you can think of. Of course they also handle Roman character sets.

If you need proof, consider that almost all countries either have recently implemented or are in the process of implementing ISO 20022 for local clearing. That includes several non-Roman character sets in my back yard (Asia), such as China (CNAPS2), India (ACH), Japan (BOJNet), and so on. Incidentally, many are also immediate payments systems too – the beneficiary is credited immediately and the banks do an end of day net settlement through their central bank, so a bit different from the high value RTGS clearing systems.

To achieve end-to-end straight through processing (STP), we need all parties to be able to handle whatever character set we need to use.

> "To achieve end-to-end straight through processing (STP), we need all parties to be able to handle whatever character set we need to use."

Corporate connectivity vs clearing | Holistic STP

Assuming a corporate to corporate payment, we have to consider multiple parties.

Payer

↓

Payer's bank

↓

Clearing system

↓

Payee's bank

↓

Payee

Logically when you pay CNY onshore, all parties can handle Chinese character sets so there should be no loss of information. Likewise, any local payment will go through parties who are all onshore and therefore adapted to the local character set.

Be aware, however, that not all clearing systems support all ISO 20022 functionality. A key potential issue for treasurers concerns data payloads. Corporate to bank pain messages allow 1MB or more of data to be transmitted as part of the message as beneficiary information – typically remittance advices and invoice details. Not all clearing systems, even those based on ISO 20022, support this feature, so alternative arrangements (typically bank to bank transfer of data payloads) must be made. The central banks and clearing houses seem to feel they are in the settlements business not the data carrying business. We, as a profession, have failed to communicate to them that cash is nice but cash we can apply is even nicer.

ERP connectivity

Of course, even when all the connections described above are aligned, corporate ERPs have to be able to handle the required character sets. I will illustrate using SAP as an example.

Assuming your SAP is primarily in Roman characters, and using Chinese payments as an example, you will set up alternate vendor master records for Chinese characters including the beneficiary and bank names that will be used in CNAPS2. Chinese characters from these alternate records will be used when you run the payment proposal to create a payment file. This is what will generate the ISO 20022 pain records in whatever tool you use to communicate with your banks.

FIN workaround

For those who are congenitally opposed to XML, a handful of FIN workarounds were developed 20 years ago, before XML caught on. The three most common workarounds are:

- Use a modified FIN protocol with double byte characters. This can work fine between corporate and bank. It will require tweaking the software at both ends, since these are non-standard FIN messages. And of course they will not work across SWIFT itself.
- Put your vendor code or number in the beneficiary field after separately uploading your non-Roman vendor bank details to your bank. Your bank can then substitute the non-Roman characters for the vendor code and process the payments. First this is non-standard, the messages will go across SWIFT but the resulting payments would be gibberish. Second, you have to make sure the non-Roman vendor bank details at your bank are up to date and have not been tampered with.
- Agree some kind of double byte layered on FIN's single byte character set that can be used between you and your bank. This will be hard work.

Since many have to work with ISO 20022 anyway for SEPA and increasingly other payment infrastructures, XML just feels like the path of least resistance. But there are (inconvenient) alternatives.

As an aside, let me dispel another SWIFT myth. "ISO 20022 is for bulk payments. You have to use FIN (MT) for high value urgent payments." Although FIN interpretation is built into the SWIFT network, whereas XML normally goes through FileAct (a different SWIFT service), the speed and the repudiability of both types of messages are the same. I base this statement on extensive testing with three banks when I faced this myth during a SWIFT implementation.

Conclusion

SWIFT can do Chinese and any other character set. FIN cannot but XML most certainly can. FIN is a 40 year old standard based on telex. XML is the standard of the future, already used in your ERP, the internet, and so on. And its reliability has been established over more than ten years. Which would you rather use for your corporate to bank messaging? ■

David Blair, Managing Director

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

Clients located all over the world rely on the advice and expertise of Acarate to help improve corporate treasury performance. Acarate offers consultancy on all aspects of treasury from policy and practice to cash, risk and liquidity, and technology management. The company also provides leadership and team coaching as well as treasury training to make your organisation stronger and better performance oriented.

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The views and opinions expressed in this article are those of the authors

Treasury reporting

If there is one unifying theme running through nearly all the changes seen in the world of corporate treasury since the crisis it is that of transparency. For evidence of this trend, one needs to look no further than the growing reporting burden. Boards and senior corporate management, concerned about their companies' financial health, have begun to demand increasingly accurate and timely data on their companies' financial health. But that is not the only driver. Reporting requirements have also been at the centre of a number of the regulatory changes introduced in recent years. In this article, we return to the fundamentals of treasury reporting and look at the ways in which the practise has changed.

Nobody likes nasty surprises, least of all corporate treasurers. That is why, for the treasurer, having the proper data and intelligence is vital. Treasurers need to be able to view and report on a wide range of business intelligence data including exposures, hedging positions, cash forecasts and debts. The board demand it, external regulators demand it and, increasingly, treasurers themselves are demanding it.

Of course, without the help of a TMS, making sense of the data can be hard work – but any treasurer would agree that's more preferable to the shock of discovering a financial exposure after it is too late to doing anything about it. With an effective, cohesive reporting framework in place the treasury team should be able to quickly identify, quantify and manage the various financial risks that their companies face.

Opinions often differ on precisely what should be reported and in what way, but there are some basic elements to consider. In this article, we will return to these basics, outlining the fundamental areas that should be reported and how they should be reported.

How to report

Each company is unique in its structure, size and nature of operations. While all these factors influence the format and scope of treasury reports and result in a variety of potential reporting styles, several features and guidelines are applicable to all treasury reports. Perhaps the most important aspect to remember is that any report produced, must be used – whether internally, or as part of an external management process. In order to be used, it needs to be usable. This means producing a report to the required timeline. The report should also be in a user-friendly format, so the relevant information is easily accessible.

The format of management reports

Information should be supplied in a clear, concise and reliable format. Certain features help to achieve this:

Reliability

- Senior management must be able to rely on the accuracy of the information given.

Brevity

- The level of detail needs to guarantee that all relevant information has been given, but details are only important to senior management if they are crucial to general decision-making. Whenever possible, the focus should be on key issues, presented in the form of rules and principles, rather than a list of details. A summary of the key points can help to focus on the relevant information.

Language

- It is vital to present key information using clear and understandable language. Whenever possible, the use of mathematics and calculations should be avoided and their meaning and effects should be expressed in plain words. Management commentary is an essential element of reporting and increases the accessibility and usability of management reports.

Illustration

- Showing is often more convincing than merely telling. Therefore reports can often benefit from graphs and illustrations to emphasise or explain important points.

Expert opinion on what items should be reported, and in what level of detail, will often vary to a certain extent. However, there are a number of fundamental areas for reporting that are common to most treasuries.

Cash flow forecast

Cash flow forecasting aims to increase the visibility of cash and liquidity positions of a firm. By predicting future cash surpluses or deficits, cash flow forecasts enable treasurers to gain a picture of investment options or borrowing requirements in advance. For a comprehensive picture a range of timescales – yearly, quarterly, monthly, weekly – should be covered. Longer-term forecasts are most useful for acquiring notice of potential financing requirements so that the extension or renewal of debt facilities can be coordinated in a timely manner. Short-term forecasts, on the other hand, tend to be used more for managing day-to-day liquidity.

The first step, logically, is to collect the required data – recurring outflows and inflows and accounts payable (AP) and accounts receivable (AR) – usually via a TMS, ERP, or bank feed. Once these figures have been collected the next job is to analyse and make sense of it. Analysis can take various forms. It might be simply moving averages – the identification of future cash flow positions through historical data – or exponential smoothing, which is a similar process but with a variety of weightings added to the data, and finally, distribution modelling, which uses previous data patterns to extrapolate future trends. Technology such as a TMS can do a lot to simplify this stage of the forecast through the conversion of data into easy-to-read graphical forms such as charts and graphs. However, for a majority of treasuries manual input through Excel spreadsheets continues to be the main tool for executing such tasks.

Foreign currency transaction exposure reports

Reports that combine currency cash flow forecasts with an analysis of hedging transactions should be compiled for each country where the company has significant exposure. This can help to identify the firm's net outstanding exposure over the relevant time period. For each period, the maximum expected loss from adverse currency movements should be estimated using a calculation of the level of net exposure, the duration for which the position is open and, lastly, the historical volatility of the currency pair in question.

Of course, when it comes to foreign exchange exposures it is the net gain or loss that really matters to the corporate treasurer. This is why more sophisticated treasury operations will often apply what is called a portfolio approach when calculating currency risk. The rationale of a portfolio approach is that while exchange rates can move in different directions on a daily basis, some currencies move in one direction and others in the opposite, thereby altering the cumulative level of risk. This is called 'portfolio effect.' In order to quantify and reveal the net exposure of a portfolio of foreign currency denominated assets and liabilities, an analysis of statistical correlations between changes in one rate and that of another using historical data needs to be performed. For the purpose of reporting, the results are usually set out in a correlation matrix displaying the correlation between all the exchange rates within the portfolio.

Debt summary

Management will naturally want to be regularly updated on the total level of debt the company has on the balance sheet. A debt summary will normally be prepared monthly. Details, by currency, are provided on the split between committed and uncommitted debt facilities. Debt maturity profiles of each facility are also compiled in order to highlight significant refinancing risks that might arise in the future. Corporates who do not use derivatives to hedge interest rate risks should also detail the split between fixed and floating rate debt to show the company's exposure to adverse changes in interest rates.

Covenant reports

Lenders will sometimes impose covenants when extending borrowing facilities to exert some control over the activities of the borrower. A covenant is essentially the setting of minimum financial performance standards that the borrower must achieve, for instance, the net worth of the company compared with its total debt. Since breaching any restrictions could result in the company being called into default, it is imperative for the corporate treasurer to frequently report on covenants internally and externally.

Interest rate gapping

An 'interest rate gap' report is a measurement of a company's exposure to interest rate risks that is often used by the treasurer to help formulate hedging positions. Interest rate gap reports present an analysis of the company's interest bearing assets and liabilities apportioned into future time bands when rates are reset.

The gap report table should be accompanied by a commentary outlining different interest rate scenarios and the various hedging strategies that could mitigate the impact of such exposures. A comparison of the company's average weighted interest rate against current market rates or a measure of the performance of actual debt cost against current market rates or actual debt cost against a risk-neutral benchmark might also be included

Derivative reporting

Derivative products serve as useful tools for treasurers to manage their financial exposures, but can also carry significant risk if used inappropriately. It is very important, therefore, that the treasury monitors and manages not only the underlying exposure that they are hedging but also the instruments – futures, swaps, options and forwards – that they are hedging with. Regular reports should be compiled detailing all valuations, position balances and market exposures by product type, and any unhedged exposures also need to be noted. The importance of derivatives to the company should determine the frequency of this evaluation. For example, a large petrochemical multinational using a vast portfolio of different derivative products would clearly need to produce derivatives reports more frequently than a corporate that hedges less regularly. Naturally, regulation is also having a huge influence on external derivative reporting - see the article on page 16 for more information.

Counterparty credit report

As the financial crisis reminded everybody, counterparty credit exposures can sometimes put the financial health of a company – its survival even – in serious jeopardy. Managing this risk means applying, and regularly monitoring, limits for each counterparty. All deposits and any derivatives contracts that are in place should be included in the scope of these reports and any change to a counterparty's credit rating should precipitate a re-evaluation of the exposure limit attributed to that particular counterparty. There are two commonly used measurements of counterparty risk, value-at-risk (VaR) and earnings-at-risk.

VaR first emerged as a distinct financial concept in the years following the 'Black Monday' stock market crash in 1987. In basic terms, VaR is used by some companies to measure the worst-case scenario for their assets or liabilities. Market trends and fluctuations over certain time periods are analysed and, using the data accumulated, estimates of the largest loss that could be incurred under normal market conditions – or a 95% probability – can be determined. The longer the specified period, the greater the value (or earnings) at risk will be. Since the price movements of assets and liabilities are netted, the VaR associated with a given portfolio is likely to be less than the sum of its individual constituents.

VaR is a useful concept for financial reporting since it allows the treasurer to combine a range of financial risks faced by a company into one single measurement. There are some notable drawbacks which the treasurer should keep in mind, however. Firstly, VaR only accounts for financial risks. Since operational risks such as those in the supply chain are not included in the calculation, treasurers need to be aware that the metric does not provide a complete overview of the risks that a company faces at any given moment. Nevertheless, VaR is a useful tool for treasurers, particularly when it comes to establishing hedging strategies. Once the VaR associated with each hedging strategy has been determined, the treasurer can use the data to ensure the level of risk associated with the favoured strategy is acceptable.

An alternative to measuring VaR is to measure the company's Earnings-at-Risk. This technique will produce similar results to VaR, but in the form of corporate earnings, rather than shareholder value. This is more valuable than VaR for measuring the impact of counterparty risk arising from customers. For example, a company with a small number of large value customers will find that a higher proportion of earnings are at risk should one customer either default on their obligations or fail to pay on time.

In addition, as this measure focuses on earnings, it is potentially of more immediate use than VaR for the treasurer. This is because it can assess the inflows at risk at any particular time.

The key to effective reporting

Even now, nearly six years after the collapse of Lehman Brothers and the ensuing market chaos, the demand for enhanced reporting shows little sign of abating. In fact, given the large volume of new regulation affecting what companies need to report externally – FATCA and EMIR, for example – one could argue that the necessity for improvement is as strong as ever.

One thing that would improve the quality of most treasury reporting would be some careful consideration of what actually needs to be reported, rather than simply relying on previous formats. This will depend upon:

- What the treasury needs to show management.
- What the treasury needs to provide to other departments.
- What information the treasury itself requires.
- What analyses the treasury would like to do that have not been possible in the past.

Conducting a thorough analysis of what is required from a report and subsequently conveying those requirements to others can help reduce the reporting problems that often plague treasurers. It can also encourage a more open and effective attitude towards reporting throughout the company. ■

CORPORATE FINANCE

Tapping the debt capital markets

With debt issuance in some regions reaching record levels in 2014, the debt capital markets promise to be an interesting space for some time to come. This article looks at the key trends and explores what corporates need to know to successfully tap the market.

CHINA PRACTICE

Payments and settlement systems

The rapid development of China's payments and settlement systems has helped drive the country's growth, both in economic and social terms. However, there remain challenges to overcome. This article looks at the progress made so far and what to expect next.

TECHNOLOGY

SWIFT for corporates

Corporates using SWIFT can access a number of financial services, including payments, reporting, treasury and securities orders, via a single communication platform. Here we explore how corporates can benefit from these services and address the associated issues of visibility and automation.

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

Andrew Bailey, Treasury Manager, National Grid; **Ian Barclay**, Managing Director, Stroz Friedberg, Hong Kong; **Rafael J. Consing**, Vice President and Treasurer, ICTS; **Tom Guest**, Associate Director, Eiger Trading Advisors; **Zohar Hod**, Global Head of Sales and Support, SuperDerivatives; **Stephen Hogan**, Vice President, Regional Treasury, Asia Pacific, Deutsche Post DHL; **Vicky Jones**, Of-Counsel, Norton Rose Fulbright; **Komson Kajorncheeppunngam**, Treasurer, Group Treasury, True Corporation; **Séverine Le Blévennec**, Director of Treasury, EMEA, Honeywell; **Noel Lourdes**, Executive Director, Amanie Advisors; **Robert Martinez**, Assistant General Manager and CFO, Getz Brothers; **Mohit Mehrotra**, Executive Director, Deloitte Consulting; **Michelle Ann Palad**, Treasury Officer, Holcim Philippines; **Malavika Shekar**, Senior Consultant, GreySpark; **Johnson Sia**, Head of Financial Markets, ING Bank Manila; **Martijn Stoker**, Head of Liquidity and Escrow Product, Asia Pacific, J.P. Morgan; **Peter Tierny**, Regional Head, Asia, DTCC; **Roberto Velilla Jr**, Assistant Financial Controller, Getz Brothers.


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