2008/09 trends and initiatives in treasury

BEYOND THE STORM

Featuring

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Playing for strength in a downturn

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Foreword

Treasury mettle has been tested during the 12 months since we last published Treasury Perspectives. For the latest edition, industry thought leaders have been talking to our editors about weathering global financial market storms emanating from the banking sector, and responding to resultant regulatory belt and braces tightening.

Many lessons learned in the face of prolonged credit constraint and market dislocation revolve on risk identification, monitoring and mitigation in relation to cash flow, finance, investment and hedging. In the following pages, treasury professionals explain how to keep money safe, while making it work harder, as a result of reviewing policies, procedures, structures, systems and relationships.

Treasurers are taking a longer look at the credit-worthiness of clients, with whom they are in more frequent contact, and working increasingly closely with colleagues on reformulating terms.

Doors are opening ever wider to the colleagues and counterparts on whom treasurers rely for information that helps in reducing risks. By sealing relationships with their associates, treasurers are realising greater benefits from timely sharing of accurate information, without sacrificing protection of data from unauthorised prying eyes.

While some treasurers are making adjustments in response to market movements and revised regulations, others see the need for a regular rebalancing of the treasury wheels to help them get around an ever more bewildering maze of interrelated enterprise-wide risks. Regulatory initiatives should support risk reduction efforts, but they can also make treasury duties more complex and time-consuming. In some cases, regulations prevent treasurers accessing the very instruments on which they depend to mitigate, for example, foreign exchange rate risk.

After reviewing their risk-targeting arsenals, many treasurers are reconsidering how best to deploy weaponry. As some look to more exotic derivatives for protection from the impact of unusual market movements on rates and prices, others now shun them and seek comfort in the more familiar and plain vanilla instruments.

Those who warn against getting overly ambitious in using complex financial instruments for risk management, are joined by even more treasurers who exhort against using such instruments to turn treasury into a profit centre or, heaven forbid, some kind of derivatives trading hedge fund. Yet there are those who can overlay a traditional treasury investment portfolio with alternative instruments, and are happy to explain why and how.

Knowing how much to put out to work or borrow, and over what period, is helped by having the clearest possible view of cash flows. Treasurers everywhere are continually striving to gain the highest definition cash flow visibility. Those who have worked on this with colleagues and service providers, are finding their efforts particularly rewarding when it is hard to get financial markets in focus.

Treasurers rebalancing equity and debt finance need to be able to see beyond nearer term market movements. These days, they also have to work harder to access finance and help prove their company is worthy of an attractive rating.

In recognition of their contribution to treasury evolution, our research and EuroFinance events throughout the year, Treasury Perspectives is introducing some of the most enlightening, resourceful and innovative treasury professionals with whom we have been speaking about building all-weather treasuries. As a tribute to the efforts of one of the most outstanding treasurers, in the following pages we profile the winner of the EuroFinance Award for Treasury Excellence.

Patricia Ward
Managing editor
Treasury Perspectives

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Contributors

Leslie Holstrom
Leslie is a consultant to EuroFinance, responsible for editorial product of the company. She was previously a journalist working for a number of publications including Time and Fortune and was a director of a public relations and media company providing services to financial and consumer clients across Europe. She began her career as editor for special projects and research guides at Euromoney.

Tom Leander
Tom is editorial director of EuroFinance. He was editor-in-chief of CFO Asia and CFO China magazines, based in Hong Kong, from 2001 until 2008. He joined CFO Asia in 1999 as managing editor. Prior to this he was managing editor of Global Finance magazine in New York, and also worked as a vice president at Stern Steward & Co, a management consulting firm, in New York. He covered New England banking for American Banker, a daily newspaper, in the early 1990s. As a freelance, he has written for The New York Times and the Financial Times.

Julian Lewis
Julian contributes on a regular basis to EuroFinance, providing editorial guidance, writing and research for conferences and training. He is editor-in-chief of Strategic Communication. He founded the company in 2003 to provide advisory and editorial services. Recent clients include ABN AMRO, the African Development Bank, Bain & Company, the Daily Telegraph, Egeri Capital and mti. He had earlier worked in financial journalism and investment banking for 14 years – most recently as head of research services for Danske Securities. Julian began his career as a staff writer and head of research for Euromoney and was later deputy editor of EuroWeek, senior editor of International Financing Review (IFR) and news editor at Alfred Berg.

Randy Myers
Randy (www.randymyers.com) is an independent business and financial writer based in the United States. A contributing editor for CFO and Corporate Board Member magazines, he also has written for The Wall Street Journal, The New York Times, Barron’s, and other prominent business publications. Prior to launching his freelance career he was the founding managing editor of Dow Jones Professional Investor Report, a newswire for professional investors. His work has won awards from the International Federation of Accountants, the Certified Financial Planners Board of Standards, the New York State Society of CPAs, the American Society of Business Press Editors and the Society of National Association Publishers.

Patricia Ward
Patricia is a EuroFinance programming and editorial manager. Her early career includes teaching in Italy, Botswana and Oman. She began work as a journalist at the Boston Herald. Thereafter, she became European bureau chief for MAHedge, a news and research provider to the hedge fund industry. From there she joined commodity trading advisor Multihaven Capital Management as head of business development. Lately, she was a freelance writer, editor and conference programme developer.

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The future: a treasury agenda

FEATURE

CREDIT SQUEEZE

Trade finance – the risk shifts again

The credit crunch is subtly changing supply chain relationships, with vendors and suppliers now looking more wary at open account transactions. Banks are seeing this as an opportunity, shifting their services to provide solutions to greater client exposure.

THE SHAPE OF THINGS TO COME

SEPA and what to expect

A standard approach to an article on the Single Euro Payments Area (SEPA) is an apology to treasurers. Actually, SEPA deserves better. Despite formidable headaches, the prospects are good.

MORE RULES, ANYONE?

The coming regulatory changes

Treasurers anticipate with mixed feelings a new wave of regulation aimed at banks. They see reform as necessary, but wonder whether governments and regulators will get it right – or make things worse.

TRAINING FOR TREASURY’S FUTURE

Becoming better communicators

Life outside the ivory tower will require new approaches and attitudes, among them the ability to argue, present, persuade and influence. No wonder then, treasurers see so-called ‘soft skills’ as part of the key to professional advancement.

BEYOND THE STORM

Risk and treasury’s future

Is the credit crisis a disaster – or an opportunity? It depends on how corporate treasurers have guided risk management in the fat years leading up to the current global economic turmoil. Many companies are still robust, and see opportunities in funding, changing relationships with banks, and in the profile of treasury itself.

FEATURE

RE-ALIGNING ROLES, RESOURCES, POLICIES AND PROCEDURES

Guiding enterprise risk management

The job of designing and implementing of risk control frameworks that define monitoring and mitigation duties, processes and policies has increasingly fallen to treasurers, who are bringing a unique perspective to the role.

FEATURE

CONFRONTING BANK COUNTERPARTY RISK

How sound is your bank?

As banks suffer mounting losses, credit ratings downgrades and more, corporates are rapidly increasing focus on the risk of their exposures to the sector. Banks’ woes are driving treasurers to rethink their seeming impregnability – with both large and small companies implementing new counterparty policies and limits as a result.

FEATURE

SEALING RELATIONSHIPS

Treasury and the company

Treasury’s traditional isolation from company operating units meant that people from other departments had little awareness of its role. All this is changing as treasurers open doors to directors, members of tax and finance departments and business units, and service providers. Increased dialogue can mean reduced risks.

FEATURE

TO HEDGE OR NOT TO HEDGE?

The risk management portfolio

Treasurers are looking again at what they want to achieve by hedging and how different instruments can help in lowering risk. What are the obstacles to using risk mitigation instruments, and where do they fit into the balance sheet?

FEATURE

PRESERVE YOUR CAPITAL AND CUT YOUR LOSSES

Looking beyond the crunch in investing

Yield still matters. For treasurers with access to the right investment management expertise and tools, strong but secure yield can be predicated on highly sophisticated risk management.

FEATURE

THE PERFECT BALANCE

Rethinking capital structure

The need to optimise the proportions of equity and debt that finance an enterprise’s assets is constant, of course, and outweighs nearer term market convulsions. So what risks do treasurers face in implementing changes in this vital area and how are these best managed?

FEATURE

VIEWS FROM THE CASH-TRAFFIC CONTROL TOWER

Cash visibility comes into focus

Treasurers looking to strike the right balance between yearly liquidity and credit risk, while reducing some credit crunch pressures by exploiting short-term spare cash rather than using credit lines, increasingly demand clear currency, business unit, and bank account cash flow visibility.
Is there such a thing as model treasury strategy for all seasons? Ravi Jacob thinks there is.

The treasurer of Intel couches his style of running treasury as “conservative, but aggressive.” Jacob has been treasurer of Intel for three years, and one of his first moves as treasurer was to reinforce risk management. When he arrived, he found that, “we had a routine of reviewing credit lines periodically, but most of the traders who were assigned this job didn’t consider the task a priority. What they preferred to do was to call the brokers and do the deals – and rely on the rating agency actions as far as credit risk was concerned. But unless you fully understand the credit issues,” he recalls, “you will make a mistake one day. Some broker or dealer will make an offer without full disclosure and you will get stuck with the paper.”

Jacob worked through a transition with his staff. “All the traders now call in to a credit review meeting once a month,” he says. “We track financial and industrial companies that are not doing well. We look at individual companies, industry sectors and macroeconomic factors and put some intelligence into it. I constantly tell our people, ‘You can’t just point to the credit rating. I want you to do a credit analysis, make a recommendation.’”

The effect has been, says Jacob, that “We now have a system in which everybody takes responsibility for credit.” He adds, “That’s a comfort I have in the organisation.” That level of internal research kept Intel out of auction rate securities when that market collapsed at the beginning of 2008. It also reduced to a deminimus amount Intel’s unsecured exposure to Bear Stearns, the Wall Street legend that required a government-arranged rescue in March 2008. His system helped Intel heed the warning signals. Intel cut its credit lines and tenor to all broker dealers; with Bear Stearns they only invested in secured overnight repos (rated single A, they met Intel’s credit criteria) since mid-2007. The secured instruments allow the company to take possession and sell the collateral in the event of a default by the counterparty and thus avoid significant losses.

Risk taking and risk management, it seems, are an equal part of the job at Intel’s treasury. Jacob has a small team that “looks at lots of structured transactions, whose only job is to talk to bankers and evaluate structured deals. We have a couple of them which we may take to market toward the end of the year.”

“People get to work on interesting stuff,” he adds, “analyse and deconstruct complex structures. All of these things will go through a strict internal filtering process involving treasury, tax, legal and accounting. Nothing is a slam dunk.”

Whistling in the dark?

Jacob’s style deserves attention, because in the grips of a credit crisis many treasurers believe there will be life beyond the storm. They, like Jacob, say that it’s as much a treasurer’s job to weigh financial opportunity as to mitigate risk. Every treasurer of a major company is now intensely aware of the economic disaster that has rolled from the banking world into the real economy. Treasurers, in their own way, have had to become economists themselves – making a call on the duration of the credit and liquidity crisis now constraining global markets. They’re doing this because they advise CEOs and boards on whether to go ahead with investments. Meanwhile, they’re avoiding new funding programmes wherever possible and trying to obtain as much value as possible from existing cash flows. But the mentality of opportunity still persists.

It’s worth asking why. The banking system in the US witnessed the collapse and rescue of Bear Sterns, dramatic recapitalisations at Citigroup, Morgan Stanley

Why top treasurers are looking beyond the crisis and searching for opportunity amid the risk.

By Tom Leander
and others by China, Singapore and Middle Eastern sovereign funds, a rescue of Fannie Mae and Freddie Mac, the giant US home-loan organisations, as well as a major bank failure at IndyMac, a California bank. Britain entered the stakes early with the collapse of Northern Rock in September 2007.

Huge, global changes are in the air. The credit crisis may have started in the subprime loan market, but it emerged from the larger context of indebtedness of the world’s richest nation. The US trade deficit (despite some contraction at press time) is at historic highs and the dollar has had a rough downward ride. Global inflation has proved persistent. Though it may ease, its underlying driver – the emergence of heavyweight economies such as China, India, Brazil and Russia – it will sustain growing commodity demand and inflation.

Meanwhile, the banking system in rich countries is in deep trouble, and a global transfer of the source of capital is afoot – to China particularly, where investment of the nation’s foreign exchange reserves has financed the US deficit. China’s banks are now the richest in the world, while the colossal European and American banks of this generation have rushed to recapitalise via sovereign funds from Singapore, China, and the Middle East. New initiatives to regulate global banks are now just forming, and could lead, in the long term, to an upward repricing of risk. Everything in the world is changing.

So why the confidence? For one, the world’s non-financial corporations are not at the root of the current drama, and were not taken by surprise in the same way that bankers were.

The largest companies – ones whose finances weren’t hobbled by leveraged buyouts – had high levels of cash at the beginning of the crisis. The aggregate level stood at US$5.5 trillion in June 2007, having grown steadily since 1999, according to Treasury Consultants, a Chicago-based firm. The effect of the crisis shaved that figure by 5% by year-end 2007. The liquidity drain stems directly from more frequent use of cash holdings, tightening credit markets and the impact of illiquid markets such as auction rate and asset backed securities. But it’s worthy of note that a practice that found many critics during the boom (avoiding leverage and holding high levels of cash, which, business school professors argue, destroys value) has allowed companies a buffer now to fund projects, despite tightening credit and banker confusion.

Treasurers also moved quickly to shore up their liquidity profile, long before it became clear the market was dancing to a different tune. There are exceptions. Bristol-Meyers Squibb took a write-down after losses in the auction rate securities market. But many benefited from quick action. In the 12 months between June 2007 and June 2008, major US corporations placed three-quarters of their short-term investments in three safe and liquid investment vehicles, according to a study of members by the Society of American Financial Professionals (AFP). These instruments include bank deposits, money market mutual funds, and treasury bills over the last 12 months. The same group also greatly limited their use of commercial paper, repurchase agreements, and auction rate securities in short-term portfolios.

The stability of corporate treasuries amid the crisis so far suggests that strategies that have driven the evolution of treasury in recent years have given companies resilience. These include projects to wring greater efficiency from payments and receivables processes, improve monitoring and visibility of cash flows. The expansion of treasurers’ roles into non-traditional areas such as working capital management, commercial credit risk, commodity risk, and insurance have also added to corporate strength.

François Masquelier, head of treasury, corporate finance and enterprise risk management at RTL Group, a leading European media group, can attest to the value of upgrading treasury systems for a rainy day. RTL typically runs large cash balances which reach €1.2 billion, before dividends are paid. Pre-crisis, Masquelier, like many other treasurers, had been moving RTL’s cash into “enhanced” money market funds – funds that mixed their investment structures traditional instruments such as bank call deposits and investment-grade commercial paper and riskier bets such as asset-backed commercial paper. Banks were marketing these funds as the plain vanilla variety. But when the funds began losing value day by day the monitoring systems that Masquelier had been developing since 2002 sounded the alert and Masquelier confronted the banks. Despite assurances, he exited the funds.

Masquelier is more cautious now, preferring to base his portfolio with established managers such as J.P. Morgan and Goldman Sachs with long track records of stable growth. The experience has made him an activist on the subject of wolf-like money market funds in sheep’s clothing. As honorary chairman of the European Associations of Corporate Treasurers, Masquelier says he’s pressing for “tougher rules to prevent the abuse of money market funds, to stop using money markets funds for things that are not money markets.”

Changing bank relationships

As Masquelier’s quest implies, treasurers are expanding in influence, gaining more of a voice in the debate. In the process, their relationship with bankers is changing.

Treasurers are weighing up how to pursue opportunities despite weakness in the banking system. One such is...
Swiss-based treasurer Cristiano Pinchetti of Monsanto, the biochemicals and biofuels company. “We are growing like hell in biotech and feed,” he says. “We are expanding.” Monsanto is looking to invest and grow in South Africa, East Europe, and Asia. Pinchetti says that the crisis has affected his relationships with his bigger bank partners. “The majors, affected by the crisis,” he says, are not willing to take as much risk as they were. This, he confesses, “has affected us a little bit. We are basically looking for partners to finance our accounts receivable. Some of the banks that were previously interested, are not as interested as before.”

There’s irony here. Monsanto’s growth profile should make it a best customer for global banks. The company’s profit margins are a healthy 11%, and it has grown its revenue 17% year-on-year to US$8.5 billion in 2007 over the previous year. What’s more, growth in profits of 37% in the same period is more than twice the rate of revenue growth. Yet this blue chip is having trouble obtaining a standard product offered by global banks as part of their supply chain financing services for years because of reduced appetite for risk.

To date, prudent risk management, high cash flow, and aggressive reinvestment has freed Monsanto from excess reliance on banking partners. “We invest everything we can in R&D and major acquisitions, all with our own cash,” Pinchetti says. He admits that there are some projects that remain in the planning stages because of tighter credit. However, he says that a number of banks not affected by the crisis are “hugely trying to take the opportunity to grow with companies like us.” One of Monsanto’s main strategies is growth in China and India in the next ten years. The banks best positioned to take advantage of the weakness of their peers and knowledge of Asian markets could well be the large Chinese banks.

“If the Chinese banks are able to modernise, they could become global players as a result of the market changes now,” says one source who operates a global treasury centre based in Singapore.

**An upside to the crisis?**

David Blair, a treasury consultant based in Singapore and former global treasurer of Nokia, believes that the crisis may encourage faster development of supply chain financing systems. “The big banks are saving their money for the big corporates,” says Blair, “and the small multinationals and medium-sized enterprises must be facing a tougher picture. This is going to impact the MNCs too.”

Blair adds, “We’ve been talking about optimising the financial supply chain. Now it should be coming.” Optimisation would free up cash caught in the working capital pipeline, and reduce the need for credit. The whole spectrum of cash management products will likely get a boost during the crisis, as will bank advisory services on supply chain financing. For this to happen, however, “MNCs may have to intervene,” says Blair, “and be willing to go through the pain of reengineering. Forward-looking treasurers will be going ahead with this philosophy is that you should know inside out what the deal is, deconstruct the individual elements of the deal structure, understand the underlying risks thoroughly and price them appropriately.”

While banks’ cash management services may be strengthened, that side of the business which trades in funding innovation will be re-examined, perhaps at the regulatory level. Jon Moulton, founding partner of Alchemy, a UK private equity fund, and one of the most public and caustic critics of the banks’ role in the crisis, sees a shift coming away from the type of innovation that cannot be regulated.

“Perhaps a return to Glass Steagall is needed,” he says, referring to the US law that separated commercial and investment banking, and was repealed in the 1990s. He says that financial innovation would be best left to flourish in the hedge fund world, where investors are fully aware of, and are paid higher returns for, the risk.

As for financial innovation in institutions that are regarded as fiduciaries, Moulton quips, “I’ve always been apprehensive of innovative airline pilots.” Moulton also sees change in the incentive system within banks that may, one day, lead to a return to more traditional relationship banking. “Bonuses blew up in the banking world. You’d sell them [corporates] a product, arrange the distribution. If it succeeded, the bonuses would be substantial. If it failed, it was a case of fire and forget. No one was actually worrying about the health of the customer.” He adds, “A reduction in bonuses may lead to greater attention to long-term relationships.”

This won’t be bad news to corporate treasurers. Until this happens, bankers will have to endure a little bit of scepticism. “Bankers are great,” says Intel’s Jacob. “They are the source of lots of deals. But our philosophy is that you should know inside out what the deal is, deconstruct the individual elements of the deal structure, understand the underlying risks thoroughly and price them appropriately.”

Jacob adds, “We hate to pay a premium for ignorance.”

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**How long will this be going on?**

Most observers believe the crisis will have to go on for some time. The rosiest prediction pegs the second half of 2009 as the beginning of a recovery. The magic question is: how long will it really last?

Looking for clues on the timing of a recovery, University of Maryland professor Carmen M. Reinhart and Harvard professor Kenneth S. Rogoff published a paper in early 2008 that compared 18 financial crises in rich countries in the second half of the 20th century. They calculate the average crisis shaves 2 percentage points off per capita GDP and takes two years for a full recovery. The worst crises take a full 5 percent off per capita GDP and growth remains below pre-crisis trend for three years. The duration of a crisis, the professors argue, depends on the policy response at the beginning of it.

The question remains where on the spectrum of severity the current US crisis lies. The professors argue that many of the common signs that emerge in the run-up to a crisis – public indebtedness and a large current account are two – are particularly severe in this case. “Given the severity of most crisis indicators in the run-up to its 2007 financial crisis, the United States should consider itself quite fortunate if its downturn ends up being a relatively short and mild one,” they write. TL
When the money has been paid, you want to be the first to know. From one single source, no matter how many banks you deal with, regardless of which currency you are expecting it in or from which country the money comes from. Answering such a simple question as ‘when?’ demands a very complex structure of technology, international agreements and indeed financial expertise.

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Here today. Where tomorrow?
While the banking sector continues to struggle, it has been a remarkably strong year for treasury. Amid the credit crunch – and against fears of economic downturn – the treasurers that stand out have positioned their companies for expansion despite these verities. They have done so by deploying ground-breaking solutions, systems, and strategies that have preserved value in volatile times. Many have taken risk management under their wing. The best have continued a long standing trend to expand the role of treasury and give it a broader role in corporate strategic initiatives. The list that follows is based on nominations from readers, delegates and our own reporting. By no means complete, it provides a representative portfolio of those individuals influencing treasury for a better future.

By Mariel Barclay, Tom Leander and Patricia Ward

The Americas

Brent Callinicos
Treasurer, Google (US)
A renaissance man of finance and treasury, Callinicos helped build a comprehensive, scenario-based risk management system at Microsoft when he served as the giant’s treasurer earlier in the decade. He also served as a CFO for Microsoft’s Platforms and Services Division, which encompassed the Windows, Server and MSN business groups. With a flair for taking on difficult jobs, he oversaw global licensing programmes and usage rights for Microsoft, one of the most nettlesome issues facing the company. In early 2007, he moved to Microsoft rival Google, where he integrated its treasury with its businesses to adopt a more strategic role.

Guilherme Cavalcanti
Corporate Finance Director, Vale do Rio Doce (Brazil)
Vale do Rio Doce occupies a sweet spot as the world’s largest iron ore producer, but is racing to expand production to keep up with the global steelmaking industry’s voracious appetite. This puts Cavalcanti and the treasury he oversees at the centre of the company’s growth bid. In the last three years Vale tapped the global capital markets, issuing US$3.8 billion in US bonds, US$1.9 billion in mandatory convertibles, and, as a coup de gras, a US$12 billion follow-on equity capital markets deal in July 2008 – the largest follow-on ever in the Americas. Cavalcanti has matched deft capital raising with substantial treasury upgrades, centralising cash management and enhancing enterprise-wide risk management.

Ravi Jacob
Treasurer, Intel (US)
With long experience in finance, acquisitions and strategic investments at Intel, Jacob’s remit as treasurer is to manage cash and investments, credit and collections, retirement assets and risk and insurance functions. He has made treasury a strategic force at the technology company, enacting a policy that requires the treasury team to be “conservative and aggressive,” meaning the ability to balance risk awareness and management with judicious risk taking. Jacob also rotates talented treasury staff throughout its main treasury centres – US, India, Europe – to expose them to different business dynamics in each region. His method has added value in the downturn, keeping Intel out of the auction rate securities debacle, in one of many examples.
Jon Moeller
Treasurer, Procter & Gamble (US)
Moeller is an advocate of scalability and standardisation of treasury via his position at one of America’s largest consumer goods companies and his podium as a lecturer on treasury at Cornell University. Knowing that the proof is in the pudding, Moeller will complete a standardisation of P&G’s treasury by 2010. He’s also introduced a quick and efficient system of absorbing treasuries of P&G’s acquisitions. With scalability and standardised systems, “We should be able to double the size without adding one more person,” says Moeller.

George Zinn
Treasurer, Microsoft (US)
Zinn has expanded treasury at the Redmond, Washington, software behemoth across a spectrum of activities crucial to the company’s future, including compensation, acquisitions and intellectual property licensing. Treasury has also become an important partner in sales efforts to financial services customers. Zinn’s previous role at Microsoft was as CFO of the Intellectual Property and Licensing Division, where he drove development, protection, acquisition and licensing of intellectual property. The experience (and earlier ones, such as a career on the floor of the Chicago Mercantile Exchange) has aided in his effort to simplify and bolster risk management at Microsoft.

Asia Pacific

Damian Glendinning
Group Treasurer, Lenovo (Singapore)
Chinese computer maker Lenovo bought parts of IBM’s business in 2006 to become the world’s third largest computer maker. The merged businesses had cash flows from 67 countries in a wealth of currencies, but it had no international treasury operation. Glendinning had previously worked for IBM as director of treasury operations in New York, and was a past president of the Association of Corporate Treasurers (Singapore). He put together Lenovo’s global treasury operations in Singapore in five months, with an accent on the basics – cash management, paying suppliers and managing currencies. Glendinning’s approach to treasury has given Lenovo an edge in Asia (the most promising region for future PC sales) against competitors based in the US. A frequent public speaker, he is a powerful exponent of better risk management at Asian treasuries.

Ashima Goyal
Research Professor, Indira Gandhi Institute of Development (India)
Mumbai-based university professor and author, Goyal is the go-to expert on economic developments in dynamic developing economies affecting treasury. Her work includes an influential book, *Developing Economy Macroeconomics*, and research on discovering real interest rates in fast-emerging economies. In India, her contribution to the policy debate tempered panic reactions to Indian market volatility in 2007. She has been an acolyte for sensible use of derivatives as risk management, arguing that with modern technology and regulation it is possible to distinguish between derivatives used for speculation and those used for hedging.

Topi Jokiranta
Regional Treasurer, Asia Pacific, Cadbury (Singapore)
Previously responsible for financial risk management at the Cadbury group treasury in London, Jokiranta became their Singapore-based regional treasurer APAC in July 2007. His treasury remit covers ANZ, Japan, China, India, Pakistan, Malaysia, Indonesia, Thailand, Philippines and Singapore – namely the nations in which Cadbury has grown like blazes (20% year-on-year) and targets for its greatest future growth. Jokiranta has supported Cadbury’s expansion with sound risk management, necessary in a region still hobbled by limited pricing power, political upheaval and currency volatility.

Peter Wong
Founding Chairman and President, IACCT China; Board Member of the International Group of Treasury Associations (Hong Kong)
Wong has been an invaluable resource for treasurers in the greater China region for over ten years. He is AIG’s regional director and treasurer for Asia Pacific (excluding Japan). A past president of the Hong Kong chapter of the Chartered Institute of Management Accountants (CIMA), Wong was the founding chairman of the increasingly influential IACCT China. He is also a member of the Treasury Markets Forum of Hong Kong. Wong has brought clarity to the debate over key issues facing treasurers in China - the impact of new tax law multinationals, supply chain visibility, and relations with China’s up-and-coming banking sector.

Sean Yu
Director of Finance, SPX Corporation Corporate Services, Asia Pacific (China)
Yu is, by default, an expert in retaining value and controlling risk amid astronomical expansion. SPX, a US-based auto parts company, went from under US$170 million in revenues in China in 2004 to over US$400 million by 2007. Yu kept a tight control on this expansion amid massive company development, by consolidating back office processes into a new centre in Shanghai and improving cash visibility in a market notoriously difficult to achieve this.

Europe

Tom Buschman
Chairman and CEO, TWIST
Buschman, previously with Shell Treasury, is founder, chairman, and CEO of TWIST, a global not-for-profit organisation that has worked tirelessly to eliminate paper-based processes in treasury and introduce standards that will connect the financial supply chain to the physical supply chain and release value locked up in automated systems. With Buschman as its spokesman, TWIST is also actively engaged with the EU Commission in its drive to harmonise and open up European markets for financial services.

Giuliano Giannessi
Corporate Finance Director, Prada Group (Italy)
Giannessi has had a range of top level treasury-related roles, including joining Prada as group treasury manager prior to becoming corporate finance...
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director. An advocate of a more active role for treasury, Giannessi has enacted a policy of open consultation with the CFO and the board on hedging issues. This, he says, “can help prevent treasury being tempted to get too clever in its use of complex hedging instruments.”

**Wim Lambrecht**
Corporate Treasurer, Multi Corporation (The Netherlands)

Lambrecht is treasurer at Multi Corporation, which carries out property development, investment and asset management in 20 European countries. He and his treasury team are responsible for diverse treasury-related activities, including cash and risk management and funding. It is on the subject of risk that Lambrecht distinguishes himself. He warns that being “seduced into applying the latest turbo-charged derivatives if there is a chance you could discover that you have taken on risk rather than reduced it.”

**François Masquelier**
Head of Treasury and Corporate Finance, RTL (Luxembourg)

Masquelier continues building his leadership profile in European treasury, in addition to running treasury and corporate finance at one of Europe’s leading television companies. As president of the Association of Corporate Treasurers of Luxembourg (ATEL) and honorary chairman and founder of the European Associations of Corporate Treasurers (EACT), he is an important lobbyist for the profession, ensuring the International Accounting Standards meet corporate needs, and an early critic of risky investment vehicles, such as ‘enhanced’ money market funds proffered by banks prior to the credit crisis.

**Anders Osberg**
President of Treasury and Group Treasurer, Volvo (Sweden)

Osberg and his treasury team have proven to be highly effective in diversifying funding sources for the truck and automaking giant. Osberg has negotiated numerous cross-border syndicated loan agreements with financial institutions around the globe, leveraging risk management know-how for the benefit of Volvo's investment portfolio and to retain the company's single A rating. Osberg frequently reviews “how other investors manage their portfolios and consider any innovations that may work well for us too.”

**Jean-Marc Wälti**
Treasurer, Nestlé (Switzerland)

Through holding positions in treasury and controlling, and then being CFO at various Nestlé operations around the world, Wälti has gained a deep understanding of how business, finance and treasury think and operate as a whole. He is now rethinking capital structure globally, fine-tuning risk management and making cash logistics more efficient. Another of his key strategies involves people development and bringing treasury to better serve the operating company’s needs.

**Tony de Caux**
The treasury profession has passionate advocates, but few more energetic than Tony de Caux, a director of BRC Consulting Services who died in 2007 of an illness shortly before Treasury Perspectives went to press. Since his untimely loss BRC has continued to flourish and has also recently acquired its first clients in the Caribbean and North Africa; testament perhaps to de Caux’s legacy.

De Caux was known in the business for his work with multinational companies, putting in place efficient cash and liquidity management structures in Europe, Asia Pacific, and North America. Equally, he was known as a writer for US and European magazines such as The Treasurer, Banking Review, and Treasury Management International. He also wrote the Association of Corporate Treasurer’s “Manual of Corporate Finance and Treasury Management.” But it was in the environment of public speaking and teaching that he particularly shone. Tony’s appearances were legion, conducting classes at events and seminars throughout the globe – from Hong Kong to Chicago to Helsinki. De Caux started his career at Lloyds Bank, and worked in Asia for HSBC. He also worked at Bank of America, where he was vice president and regional manager of its Global Treasury Services Division – Europe, Middle East, and Africa. He is well missed by EuroFinance – and the treasury profession as a whole.
SPONSORED INTERVIEW

Partnership, stability and growth in the eye of the storm

The slowing European economy and the impact of the global credit crunch are making it increasingly difficult for corporates to drive and protect liquidity. Three bankers at Lloyds TSB Corporate Markets tell Treasury Perspectives how their partnership approach can deliver growth and stability for corporates even in this testing environment.

Treasury Perspectives: So, what we are seeing here is a much more embedded approach to managing corporate customers, where does this start and how do you get away from a one-size fits all approach without draining the resources of the bank?

RD: Well it starts with a relationship management team that has a deep understanding of its clients and knows the banks product portfolio intuitively. This involves an approach that sees those clients as businesses with potential to grow, prosper and run more efficiently rather than vehicles for the bank’s products. Our teams are sector focused (our specialists are dedicated to the core corporate sectors), with managers and directors that have built strong client relationships. But by also recruiting from different disciplines – we have former group treasurers on board for instance – you get a much greater spread of skills to identify value added solutions for our clients.

CF: But before we take any practical steps we first encourage the client to look at cash management, funding and risk management in a much more holistic way – seeing cash inflows, cash outflows, risk management and capital structure as pillars that interact to create a much tighter liquidity and funding position for the company.

AC: Clare is right, driving efficiency starts by unlocking more working capital from the supply-chain. So, we will sit with the treasurer or FD (and in some cases with the supply-chain manager) to unlock as much working capital as possible. This often comes down to gaining more control of the information flows in its value-chain – that is a crucial factor in extracting value in trade.

Treasury Perspectives: But cash management is a mantra that most banks repeat, what makes the Lloyds TSB Corporate Markets offering any different?

RD: Firstly, our relationships are long-term and have great depth, in many cases built over years, meaning we really do understand the customers business and value-chain. Secondly, products like supplier, trade and invoice finance are just the first step in a much longer process – to build a platform for the management team to achieve its growth ambitions.

AC: Exactly, in the first instance, the key objectives are to maximise and protect the returns on cash by ensuring the company has sufficient liquidity to meet its obligations in the short term. We look at simple things like minimising cash shortfalls, using debit and credit balances to best effect, or minimising administration-related costs. Initially, we tailor the solution to complement the dynamics of the company’s structure and supply-chain. This could involve anything from rationalising treasury and back office operations, to cash concentration, pooling and centrally co-ordinated FX payments or something as straightforward as receivables repatriation.

Anne Collard
Product Management Director,
Transaction Services,
Lloyds TSB Corporate Markets

Richard Dakin
Managing Director,
Major Corporates and
International Corporate Banking

Clare Francis
Head of Financial Markets Sales,
Lloyds TSB Corporate Markets
Treasury Perspectives: That’s all fine and well, but what does this actually mean?

AC: Okay well take a recent supplier financing scheme we established for a major UK telecommunications company. The scheme offered the company’s suppliers attractive financing terms, priced on the superior credit rating of the telecoms company. Their terms of trade were considerably extended and cash to the suppliers could be made available immediately if required, on approval of their invoices. The telecoms company offered 2,000 of its suppliers — ranging from large multinational companies to small specialist companies — the option of continuing with their existing terms of trade or becoming part of the scheme. This specialist invoice discounting scheme gave suppliers cash immediately, at a finer margin than normally available to them, or the choice to receive full invoice value on settlement day. The scheme has raised tens of millions of pounds in additional cash flow for the telecoms company. It is also proving popular with many suppliers.

CF: And, you know, getting involved with a company to this extent lays the foundations for us to really add-value over the corporate life-cycle. While Anne’s team sit down and look at the company’s external position — looking at cash leakages in the value-chain — in our financial markets business we have a separate Asset Liability Management (ALM) team that looks in detail at the client’s internal capital structure and all aspects of financial risks inherent in the company’s operations. Liquidity is key too. During the current crisis we have seen liquidity move further and further up the corporate agenda — we no longer only have cash managers driving this but today many FDs are focusing daily on the creation and protection of liquidity. In order for banks to be able to look for more creative ways to help them they need to have a deep understanding of the client so that funding and risk solutions can be turned around swiftly which is no easy task in these current markets.

Treasury Perspectives: But risk management is predominantly about managing a limited number of asset classes mainly commodities, interest rates, foreign exchange. Surely there are only a handful of ways to skin that risk management cat?

CF: Think of it this way. On the one hand, we can look at a company’s capital structure and see how it compares to industry peers, how interest rates are managed, and we see exactly how FX risk impacts cash flows. And on the other, we understand the dynamics of the sector and the business — so coupled together both are very powerful tools to devise creative, and sometimes cheaper ways for the corporate to hedge its risks. Think of a major TV network which generates 85% of its revenues from advertising (60% of which is advertising from banks). If we can establish a direct correlation between the widening of bank credit spreads and a drop off in advertising spend at those banks then we will have a basis upon which to link bank credit spreads to the client’s debt payments. Thereby creating an economic hedge.

RD: That is just one example which goes to show how financial markets have evolved into a much wider range of asset classes such as inflation, credit, energy, property, to name a few. All of these are risks that most corporations have some exposure to but have traditionally been outside the hedging radar of most. Our deep understanding of the customer businesses helps us to structure solutions across multiple asset classes providing a whole new dimension to corporate risk management.

AC: I think it’s important to note again though, that the ALM team would simply not be able to apply these solutions as effectively if we did not have relationship teams that really understand the dynamics of their customers’ sectors. This is notwithstanding the product specialists that share the information they gain from, for instance, sitting with the FD or Treasurer to build efficient financial supply-chains.

Treasury Perspectives: So you’re saying it’s about information flows as much as anything. Surely that should be fundamental to every bank’s approach?

RD: Yes, but it depends on the level of detail you want to go to. I know other banks would probably say that it doesn’t take a huge leap to understand how a business in a given sector is run. However that is only a starting point. Understanding in detail how individual businesses run, their historical sector performance and about the internal workings (back office, structure of the finance department), not to mention the softer aspects like the strength of the management team takes an awful lot more effort.

CF: Yes, many other banks excel at product delivery too, but to tie them all together by blending fluid relationship teams and products in a sector driven way is something that very few can really say they offer. And as a Aaa-rated bank* — that has retained that top-level rating in one of the most turbulent environments this sector has ever seen – we know a thing or two about prudence. Of course liquidity and risk management in this environment also requires creativity but this is the exciting opportunity for the bank’s risk management coverage teams working hand in hand with colleagues from debt capital markets, cash management and the relationship teams.

AC: It is vital that companies really appreciate what Richard means by ‘relationship’. It is a term we see banks tout a lot. Yet to get to a point where your bank is creating efficiency down your supply chain and using some of the knowledge gained at this stage to tighten risk management policies further down the line is something completely different. Looking to create value at one end with efficient cash management and ensuring the company retains it at the other end with watertight risk management.

RD: Yes, looking at an overall, and ever changing, solution that supports the growth of the business.

CF: And service is very important at every level of that journey. For instance, we have an in-house IFRS team that sits with corporate treasurers to overcome accounting issues. But the credit crunch has resulted in service delivery moving beyond that. Throughout the credit crunch we have seen corporates struggle to obtain sufficient funding from traditional sources, while at the same time they have faced extremely volatile financial markets across all asset classes. It therefore takes a dynamic bank to stay in tune with each individual’s liquidity and risk options – understanding each client’s short-term and long-term funding constraints as well as their sector.

To find out more about how Lloyds TSB Corporate Markets can support you, please contact Marcus Andrews on +44 (0)20 7158 2858 or at Marcus.andrews@lloydstsb.co.uk

*As at 18/08/2008
Centralisation where possible would be a 15-year sound bite for treasury as Vodafone embarked on an aggressive growth path. The late 1990s acquisition of AirTouch doubled Vodafone’s size and with the £112 billion hostile takeover of German Mannesmann in 2000 it doubled again. Today Vodafone is one of the largest telecommunications companies in Europe with around 260 million customers and a presence in over 25 companies. It is a highly successful growth story and treasury has been a strategic business partner along the way.

Treasury has had the unusual role of being active in all aspects of the company’s development from the start. From tax, M&A pricing and deal making, to insurance sales for mobile phone customers, “we involved ourselves with all aspects of finance” says Bacon.

“We spotted the opportunities as issues arose, and where treasury could help, we did,” says Phil Clark, deputy group treasurer, who has been with Bacon at Vodafone for 14 years. Bacon points to treasury’s current focus on pensions where one of their treasury team has spent “70 per cent of his time in the last 18 months developing the risk management side of this. It was something we felt we could help sort.”

Today treasury manages funding of the business, currency exposures and hedging as well as counterparty risk, cash management and investments. Treasury also runs group insurance and has dotted line responsibility for the treasury activity within each operating company and the new SSC. Although tax and M&A are now separate departments, they are intricately linked with treasury which is, says Bacon, “completely embedded in the process.”

Never a busy signal
There are plenty of examples of the team’s involvement outside what is considered the traditional finance and support functions of treasury. When treasury was setting up the group’s captive insurance, for example, it began working strategically with the business itself to better understand insurance risks and commercial opportunities. The end result was a new business for Vodafone Group, selling handset insurance to its mobile customers. “There are massive growth opportunities there,” says Clark enthusiastically.

Bacon attributes treasury’s ability to contribute to broader business objectives as a result of teamwork and a strong competitive streak. His treasury group recently won “Treasury Team of the Year” from the UK ACT, a professional association for treasurers, as well as a Vodafone in-house award for excellence from the group. Newbury, England, the Vodafone HQ is home to 17 of his treasury team.

Vodafone is the winner of the 2008 EuroFinance Award for Treasury Excellence
This year’s annual EuroFinance Award for Treasury Excellence went to a market driver in cash and treasury management that is transforming the approach to traditional treasury models. Vodafone is a worldwide industry leader with a large geographic reach in Europe and beyond, with large volumes of transaction and challenges that many other companies face. From their next generation SSC in Hungary to their forward thinking approach to supply chain issues and procurement based on one single ERP platform, this treasury is implementing many companies’ dream of an integrated treasury that drives business value.

By Leslie Holstrom

One of the largest telecoms companies in the world, Vodafone is undergoing yet another major transformation. Treasury is a strategic partner all the way.
people while another four are based in Germany and one in the US, both key markets to Vodafone.

He employs a peer benchmarking system amongst his staff. "Are my team as good or better than others – is there something we haven't picked up?" he asks. "We're quite competitive and driven by the pride of doing a good job."

Internal review is supplemented by meeting regularly with the CFOs of the operating companies to ask, "Are you getting the service you need?" says Bacon. "When people know it's interactive and have met you, they are comfortable in picking up the phone to ask for more."

Bacon is also a frequent visitor to external parties from banks to well-known Fortune 500 companies to compare and contrast their own systems, people and processes. "We are doing ok," says Bacon modestly in relation to benchmarking against the likes of Philips, HP and Cisco.

The forefront of capital management

Teamwork, open doors and a line into the business aside, treasury itself has a number of distinguishing achievements. The company is at the forefront of capital management being one of the few truly global multinationals to aggressively pursue local funding opportunities in its active countries.

The group carries around £25 billion of debt, targeting a low single A rating which it calls "most efficient" for its financing and has "a graph showing regular bond maturity from zero to 30 years," according to Bacon. "And we will raise finance wherever the cheapest funds are." The company raises as much in dollars and euros as it does in sterling, and when the price is right will raise funds much further afield, such as its recent forays into the Czech and Australian markets.

Vodafone too was a pioneer in the UK in self syndication on its bank facilities. Almost 10 years ago it made the decision to gather its own bank group when financing. "Initially banks thought it outrageous, but it really is quite sensible. We felt we knew our banks well enough to go direct and it gave us a better line of communication to update them on what we are doing," explains Bacon.

Their approach to banks has not changed in a decade, which Bacon says has paid off spectacularly during the recent credit crunch. In June this year, Vodafone saw over 30 banks, which Bacon says was an eye opener in reverse. This time Vodafone was able to make sure the banks were themselves communicating better over the credit crunch.

"We got a clear feeling about who was in trouble and so we didn't approach them for financing," he says.

Hanging on the end of a phone

Treasury's history of innovation and availability has paid off by placing the department in the thick of a hugely ambitious three-year business transformation programme on behalf of the whole group. Vodafone's long-term aims of customer and geographic expansion particularly in high growth emerging markets meant that it needed to rethink its structure going forward. In particular it needed to figure out how to align its 18 disparate and largely autonomous operating companies.

The resulting project, spearheaded by CFO Andy Halford, and nicknamed "Project EVO" will create a single operating model and a set of processes impacting HR, finance and accounting, and will move all 18 entities onto a single SAP platform. But it is much more than a migration of group businesses to one technology platform. It has been an opportunity for many parts of the company, including treasury, to rethink the core processes, operations and strategy.

Treasury has been one of the components in the design and implementation of EVO.

"Gerry and I made sure we were involved at the start which meant we could design the project from a treasury perspective as well," says Clark.

The end result will be an even more streamlined cash management operation, a centrally controlled supply chain with the introduction of a single procurement company, and a shared service centre based in Hungary to service that and the operating companies. Ultimately Vodafone are confident that this project, rather than relying on legacy technology and processes that many companies endure, will create a new business model for a modern world in which growth and expansion are catered for. The project will take on board existing best practices and more importantly, create new ones.

Traffic intensity

Although Vodafone says it is early days yet (the migration of the operating companies will take three years in total with everything live by 2011), most of the design work is done and "that was the hard part" says Thomas Light, treasury finance manager. The systems are built, the SSC and procurement company are up and running and the first operating companies are going live.

Vodafone is reluctant to put numbers to the project, both in terms of investment and return, but it does expect significant benefits. "It will give greater visibility in order to see all the management information—one version of the truth. This will enable us to make business decisions much quicker," says Bacon.

More specifically, it will "eliminate duplication of effort by centralising all the transaction processes in one location."

From a treasury viewpoint there will be a significant reduction in banking charges and one set of cash management processes. "Because of the improved transparency of payments and cash, there will be better opportunities for trade financing and discounting on a global scale. With one procurement company, we will be able to negotiate on behalf of all operating companies freeing them for more value added activities with our customers," says Clark.

The project will impact and improve not only cash, payments and compliance but bank relationships, FX, supply chain and inter-company funding.

"Vodafone worked very closely with Deutsche Bank on the design of processes. They have been very innovative and stepped up with resources to get over hurdles," says Light. One of the banking efficiency outcomes for Vodafone in the process has been the move to a master global agreement for its bank and operating companies. "Because we are consolidating to more meaningful bank relationships we have been able to negotiate this single global agreement with the bank. So as each operating company comes on board, rather than signing onto a raft of documents, they accede into one master agreement."

On banking relationships Vodafone believes that "for business continuity planning and to keep banks competitive we don't like all our eggs in one basket, so we have appointed a second bank on the payments side (Citibank), so the business awarded so far will be split. We will continue to tender on behalf of the operating companies for their payments business as they join EVO. That's an important message to our banks," he says.

FX management will benefit from centralising the majority of procurement into a single entity. Vodafone decided that the procurement company (VPC) will allow operating companies to purchase from it in their local currency leaving any external FX exposure responsibility with the VPC.

On the in-house banking angle, treasury will have real time, fully automated settling and reconciliation, and auto multi-currency loan management from short-term to long-term loans with commitment levels linked to bank mandate limits.

"In terms of complexity of design was one of the most challenging areas. There are so few people out there who know how to build this stuff and we are really pushing the boundaries on what has been done," says Light.
To promptly determine if the business is slowing, or if timing was out on checking receipts and disbursements.

To support cash flow forecast accuracy, Lenovo, which has an approximately US$16 billion turnover and operates in 67 countries, has daily cash updates. “Rather than wait for a financial crisis we regularly review cash flow targets to see to what extent they were met and why,” says Lenovo’s treasurer, Damian Glendinning.

As they want to be able to manage counterparty risk on a real time basis, for some treasurers even once a day is not enough. “Twice daily, our treasury system gathers information on our worldwide bank and investment balances,” says Richard Shaw, QBE’s regional treasurer AAP. “This allows us to monitor precisely our counterparty exposure.”

As integrated systems and good relationships with other departments help to enhance the liquidity of a company, the treasurer should communicate the importance of prompt sharing of information by all cash flow chain stakeholders. These include members of sales, manufacturing, customer services, logistics, procurement and tax departments who base daily decisions on inventory, productivity and production, which are not always directly linked to cash flow targets.

*Treasurers should be ready to advise stakeholders and help them link their targets and ratios to cash and financial targets,” says Jonas Slavinskas, manager of asset management in the EU for Kraft Foods Europe. “Once you get it right, you get better transparency and support from the relevant parties, and so you get better control of cash.*

To allow treasurers to see if anyone is sitting on cash that could be better put to work elsewhere, it is important to make it as easy as possible for people in diverse parts of the group to input and share cash flow information. This may mean implementing new procedures.

By reinforcing business unit accountability for offshore cash, Qualcomm treasury manager, Matt Post, has reduced risks of money falling through information gaps. He has also gained a better view of drivers of growth in offshore cash balances and how efficiently, or otherwise, cash is being used.

To achieve this, Post asked his company’s over 35 international entities to compile quarterly cash flow reviews and forecasts for the next 6-9 nine months. In order to help them do this he devised and implemented a cash-efficiency
While there are quite a few comparable off-the-shelf solutions providing good balance display and forecasting support available to treasurers, Microsoft Excel still remains a popular treasury tool. However, those who can afford more sophisticated cash visibility and flow forecasting solutions generally look for ones that incorporate automation of disparate account balance reporting and reconciliation, while making it easier to meet increasingly stringent compliance demands. Systems which upload data daily to treasury workstations and continuously update cash flow forecasts are popular.

Monsanto recently moved on from using multiple Excel files and now uses SAP for cash flow forecasting. This paved the way for Monsanto’s March 2008 launch of a cash flow management system (CFM). This uploads bank statements with MT 940 format directly to its SAP platform, which then reads and displays requisite information.

Monsanto’s CFM also supports timely, accurate, automated posting of treasury transactions; automation of FAS 133 calculations; debt and interest expense reporting consolidation; data analysis; bank account rationalisation; visibility across local and international accounts and greater cash flow forecasting accuracy. There is always news to share of someone rolling out a new off-the-shelf or bespoke system, or a combination of both, that better meets specific cash flow visibility needs. In 2008, CA’s treasury, for example, rolled out an internally developed system based on Hyperion to provide accurate, automated posting of treasury transactions; automation of FAS 133 calculations; debt and interest expense reporting consolidation; data analysis; bank account rationalisation; visibility across local and international accounts and greater cash flow forecasting accuracy.

There is always news to share of someone rolling out a new off-the-shelf or bespoke system, or a combination of both, that better meets specific cash flow visibility needs. In 2008, CA’s treasury, for example, rolled out an internally developed system based on Hyperion to provide daily snapshots of bank accounts and cash balances around the world. “This allows us to share details of our currency exposures and major exposures by counterparties around the world,” says vice president and assistant treasurer, Anthony Scaglione.

Despite everyone’s best efforts, it can still be difficult to get a view on potential effects of price, and exchange and interest rate movements on cash flows. Such efforts are, however, helping treasurers determine degrees of foreign exchange and commodity price exposure, and assess related hedging requirements. To get rolling detailed foreign-exchange flow forecasts Cadbury’s Asia Pacific regional treasurer, Topi Jokiranta uses an accounting-orientated system augmented with treasury tools. “To deal with such issues we look at long-term risk scenarios and conduct stress tests,” he says. “These help us make more accurate assumptions about risk levels and plan for their mitigation.”

For companies that cannot afford the more expensive options, internet-based cash traffic control solutions are becoming attractive. “The flexibility of internet-based systems also makes them popular with treasurers who can afford more expensive systems,” says Christian Children’s Fund treasurer, Sassan Parandeh. “Former concerns about their security are diminishing as encryption technology becomes more sophisticated.”

While confidence in internet security is growing, there are still concerns. “If the security is so good, why do the banks persist in requiring the customer to take all the risks?” asks David Adams, formerly group treasurer of Arla Foods UK. “Their agreements invariably place the onus on the customer to ensure that all the processes are secure including, by inference, those parts in the banks’ domain. I might risk the small sums I transfer through my internet accounts, but would I be prepared to risk the millions I might need to move for my employer?”

Then there are treasuries, such as Microsoft’s, that can have a solution to match unique requirements. Upon George Zinn’s promotion to corporate vice president and treasurer for Microsoft, he created a life-cycle of the dollar concept with a view to accelerating the speed at which dollars are collected, passed through the system and invested, thus optimising cash flow and allowing for earning incremental interest. “To do this you have to have perfect real time cash flow visibility,” he says.

Given that Microsoft had over 1,400 bank accounts and 84 banking partners, when Zinn was promoted over four years ago, achieving the kind of visibility he required was not going to be easy. As part of his push towards 100% electronic visibility, Zinn instigated a migration to solutions compatible with the SWIFT systems used by banking partners.

Cash flow radar
As cash flow visibility and management optimisation go hand-in-hand with systems optimisation, treasurers are continually comparing notes to see who may have solutions which could also work well for them, or be customised to cater to their specific requirements.

“Treasurers require solutions that indicate how much cash they have available, where it has come from and why,” says former treasurer Andrew Woods, who is now group vice president of Global Treasury Solutions SunGard, Ambit & AvantGard.

In response to this demand his firm has created solutions that enable treasurers to track an amount from the point it is invoiced up to the day of final settlement, and so have a better view of when the money will arrive in the bank account. “They are designed to help treasurers make the best informed decisions regarding how they utilise the cash,” says Woods.

“The business units are now more careful to ensure that funds allocated for capital expenditure are not just sitting around waiting for equipment to be purchased.”
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¹Source: Barclays Global Investors, as at 30 June 2008.
"We have been able to leverage Microsoft’s BizTalk Server and Microsoft’s BizTalk Accelerator for financial communication using the SWIFT format and network," says Zinn. "This has proved particularly beneficial as we rationalise banking partners and bank accounts following acquisitions, of which we made about two dozen in both 2007 and 2008."

He finds that enhanced electronic cash flow visibility has helped in optimising and fully exploiting cash concentration. Zinn receives a clear view of how much money to move from low interest accounts to higher rate investment accounts, and the best time to do this. "As we use interday MT940 and intraday MT942 SWIFT statements, we can sweep our concentration accounts more than once a day," he says. "If we are expecting a big payment, we can keep an eye out for it and move the dollars promptly through to the best place for them. Our SWIFTNet initiative has achieved a 326% ROI by an independent analysis."

"Today, access to global account information is centrally delivered to the desktops and PDAs of corporate practitioners to optimise daily cash utilisation and effectively manage liquidity with just a few clicks."

Bank to corporate communication via SWIFT, especially with reporting MT940/942 and payment MT101/103 message types, is become increasingly prevalent. "Gone are the days of logging into multiple bank systems to manage hundreds of bank accounts around the world in various time zones, and displayed in several foreign languages," says Wells Fargo’s international treasury division sales manager, Suzanne Gittus. "Today, access to global account information is centrally delivered to the desktops and PDAs of corporate practitioners to optimise daily cash utilisation and effectively manage liquidity with just a few clicks."

Clearance for cash landing
Increasing appreciation of the value of being able to see how easy or difficult it will be to adhere to cash flow timetables means electronic payments, direct debits and credits which reduce unwanted surprises regarding lack of liquidity, are becoming ever-more popular. "Seventy percent of our receivables are paid by direct credit," says Gruppo Alpitour treasurer, Enrico Rao. "Because we know in advance when we will be receiving inflows it is easier to plan supplier’s payments and related funding."

Procedures to support effective planning are also particularly important to the growing number of treasurers deciding how much money and when to move it across borders. This is the case for treasurers of companies that are increasingly active in, for example, Eastern European countries from which until recently it had been difficult to repatriate profits. Clear cash flow visibility of accounts group-wide is helping them decide how much operating liquidity is required for local needs. This includes which countries may have any unutilised tax capacity, how much of what type of debt is held where, and how much profit should be repatriated, helping to maximise free cash at the centre and identifying when the best time to do this.

Many companies have well established procedures to maintain only the minimum operational cash at each business unit. At General Motors, for example, excess cash balances are pooled into regional financial centres. "The pool is used to fund capital programmes or to finance global growth," says Eduardo LePori, treasurer of General Motors Chile. "The aim is to preserve capital and liquidity rather than to seek higher yields through risky instruments."

Legal and tax restrictions, however, can still often impede pooling. Two years ago Monsanto launched a Luxembourg-based in-house bank to receive deposits and make intra-company loans, but cash controls in some of the Latin American countries in which Monsanto operates mean not all entities have access.

As the Mexico arm of Monsanto does have access to the in-house bank, it makes deposits and receives working capital loans. "We deposit about 80-90% of our cash in our in-house bank and only leave in Mexico the amount we need on a weekly basis," says Monsanto’s treasury lead for Latin America North, Catalina Bonilla. "Each year we repatriate cash from our in-house bank savings to our US headquarters."

Effective planning of how much to move where and when is especially important in times when funding is constrained and spare cash is in short supply. While two years ago the Dublin City Council treasury would have been carrying reserves, head of finance, Kathy Quinn doesn’t expect to have any spare cash for additional spending for a year or two. "Over 2008 our revenue budget of approximately £915 million has been dwarfed by our capital expenditure budget, which was about €1 billion," she says. "You may have got a previously agreed allocation in respect of, for example, roads, but you will get that and no more, even if you have a very highly regarded relatively inexpensive follow-on project lined up."

"Because we know in advance when we will be receiving inflows it is easier to plan supplier’s payments and related funding."

Since early 2008, Quinn has found construction and engineering project tenders coming in at about 20% below the amount quantity surveyors anticipate. "We have a situation where we can get exceptional value for money for building projects, but cannot get funding agreements approved," she says. "Even if we look to raise money by selling off assets such as land, in a liquidity squeeze this will take longer to do and we will make less than usual."

In addition to helping treasurers to perform all aspects of their everyday work more efficiently and safely, good cash flow visibility can put treasurers in the best position for taking any potential pain out of contingencies. It is not just adolescent offspring who assume the family treasurer holds a purse full of cash and all they have to do is call and say: "Help, I am out of money and need to pay a bill." Jokiranta reminds us that members of business units can make similar assumptions. "Having good cash flow visibility will help you deal with emergencies in the most cost effective and flexible manner."

But no matter how visible your cash becomes, you may never get a 100% accurate picture of how much is coming in, going out and when. "The more visibility you have, the more accurately you can predict how much funding you require and when, or how much you can repatriate or invest, and so reduce balance sheet risks," says Jokiranta. "So the important thing is to keep working towards greater visibility."
**SPONSORED INTERVIEW**

**The genesis and evolution of Sogecash Intraday Sweeping Service**

**PW** What objectives did Société Générale Payment Services set out to meet in developing the Sogecash Intraday Sweeping Service?

**AG** Sogecash Intraday Sweeping is designed to complement Sogecash International Pooling, which provides for end-of-day cash concentration with no loss of value on accounts held at Société Générale group banks and partner banks. Indeed, Sogecash Intraday Sweeping automates intraday centralisation of cash positions held in diverse currencies at banks in various countries. Not only does the intraday sweeping service support capturing available balances, forecasting with greater accuracy and making prompt investment or redemption decisions, but it also provides for easy centralisation of accounts held at third party banks. Together, Sogecash Intraday Sweeping and International Pooling provide a single pool leader for all accounts irrespective of location.

**PW** How can cash managers get the best out of this solution combination?

**AG** The first steps towards centralising cash should be to rationalise bank accounts and implement mono-bank cash pooling structures. Once these steps have been taken the treasurer is ready to implement the multi-bank intraday sweeping service, and so optimise cash concentration.

**PW** What prompted you to develop the sweeping service?

**AG** We aimed at developing this very attractive new solution to help customers who require information at midday, rather than at day-end. Once intraday transfer orders are calculated, a report is sent to group treasurers, who find intraday information allows for making more timely decisions on, for example, overnight lending and fund investment. While Sogecash Intraday Sweeping is a very flexible and efficient intraday service, it is also a multi-bank tool, of particular interest to customers who want to centralise cash, but are constrained by the fact that not all their subsidiaries can bank solely with Société Générale group.

**PW** How do you ensure the cooperation of other banks in implementing the service?

**AG** Société Générale has signed agreements with a significant number of local banks. There is no specific requirement imposed on the local banks. The implementation is, therefore, straightforward.

**PW** Do any clients face obstacles to implementing the sweeping service?

**AG** As countries have different regulations, we work with clients to identify which local banks can be included in the service. We will be able to include more countries and banks as regulatory regimes and banking infrastructure in less mature markets evolve.

**PW** In these days of heightened risk awareness, can Sogecash Intraday Sweeping allay concerns?

**AG** Liquidity risks can be reduced by centralising cash via solutions such as ours. In addition, we can help treasurers mitigate risks of any inappropriate use of cash pools by setting an upper limit on transfers. Applying such parameters ensures that the pool leader will not cover a debit position above an agreed daily limit.

**PW** How do you see the sweeping service evolving?

**AG** Sogecash’s intraday transfer orders will soon include treasury forecasts. Should a forecast be excluded from a local bank’s intraday statement, Société Générale can add it to the intraday transfer order. This ensures that at the end of the day a local bank account balance is closer to the treasurer’s target.

**Gaz de France’s choice: Société Générale**

Gaz de France, one of the largest players in Europe’s energy market, produces, transports, distributes and sells gas, electricity and other services to 14.7 million customers (individuals, companies, local authorities) throughout Europe, operating across the entire gas industry chain. With a turnover of more than 27 billion euro in 2007, Gaz de France has chosen to bank with local banks all over Europe, but recently expressed the desire to implement an intraday multibank solution. After contemplating different solutions provided by multiple banks, Gaz de France decided to choose Sogecash Intraday Sweeping from Société Générale.

Yves Gimbert, Group Treasurer at Gaz de France, affirms that “Société Générale was of great assistance when connecting every bank to the system, dealing directly with the local bank to adjust the details. Once connected and the adjustments made with every bank, the service is very easy to manage; we receive a report once a day (for example, at 1:30 pm for EUR accounts) with a list of intraday transfer orders.”
Reach your cash management goals worldwide, thanks to our extensive network.

Our fast-expanding network relies on specialists in Western and Eastern Europe, the United States and Asia, and brings you the very best local, regional and international solutions.
Treasurers are optimising the mix of equity and debt, avoiding short-term reactions to market convulsions.

By Julian Lewis

With equity markets treacherous and debt markets still struggling with post-credit crunch repricing, few treasurers would relish the challenge of reshaping their company’s capital structure just now. But the need to optimise the proportions of equity and debt that finance an enterprise’s assets is constant, of course, and outweighs nearer term market convulsions. So what risks do treasurers face when implementing changes in this vital area and how are these best managed?

Shareholder focus on optimal capital structure “has increased substantially in recent years”, notes Jennifer Ceran, vice president and treasurer at eBay. As a result, “every day, public companies with financial flexibility ask themselves if they should use this flexibility to lever up, while leveraged companies explore reducing debt to shore up their balance sheet.”

That might be a company making an acquisition but unable to efficiently repatriate the cash it holds offshore (a common situation for US corporates, according to treasurers). Some treasurers would also place a company seeking to buy back drastically undervalued shares with borrowed funds in this category. Others might see a debt-funded buy-back as an arbitrage with less justification from the operating business. The tax-deductibility of debt in many jurisdictions and its beneficial impact on weighted average cost of capital (WACC) and per share valuation metrics can make leveraging the capital structure attractive. Moreover, shareholder permission is not usually required.

But the demands of servicing a significant debt portfolio and the consequences of a lower equity ratio may not be appropriate for every business.

Addressing debt
More aggressive, debt-heavy capital structures were brought into focus by the relentless march of private equity (PE)-sponsored buyouts over the past decade. One of Europe’s largest transactions was the €3.9 billion (enterprise value) acquisition of Denmark’s ISS by EQT and Goldman Sachs.

The sudden addition of significant debt to a company’s balance sheet (ISS went from DKK7 billion to DKK25 billion) brings a host of new challenges, judges Christian Koføed Jakobsen, senior vice president and group treasurer at ISS. These include “a much more comprehensive package in terms of financing documentation” and “a very complex security package”.

“Now you’ve got subordinated debt instruments of different natures bringing inter-creditor issues. You must find out how the documents interact and work, and you must ensure that all countries in the group are adhering to the much stricter security conditions now,” says Jakobsen.

Accordingly, a treasurer in this situation must move beyond a traditional treasury approach. “Of course, you are supported by lawyers and auditors. But you have to get confident with the legal issues and understand the implications of a much broader capital structure,” he adds.

However, since the credit crunch the buy-out market has shrunk notably. Costlier debt and a more challenging operating environment have begun to erode the attraction and availability of very leveraged capital structures – though companies (even some buy-outs) are still borrowing to finance less aggressive acquisitions.

“We’re in a situation where it is getting increasingly difficult for companies to get credit from banks or the financial markets. In the past, companies were leveraging up for multiple benefits and that was perhaps the most logical way to go in a time of easy credit. But I really think it is changing now,” says Douglas MacKinney, corporate treasurer and financing director at Thomson.
"Obviously, the number of instruments available prior to the credit crunch has shrunk, and a number of more creative options inherited from the US such as PIKs and ratchets no longer exist – certainly not in the European market," agrees ISS’s Jakobsen. "We have to rely on more traditional bank and fund types of funding."

Citing more difficult operating conditions, weakened credit metrics and more conservative stances from ratings agencies, MacKinney expects companies to find it more of a challenge to add leverage. Back-up facilities are in place to ensure liquidity will probably win more positive support, though, even if their pricing is more expensive than before the credit crunch.

"More than in the past, you are going to need to explain why you need the money. Before, you might have got away with ‘general corporate purposes’, but now investors and lenders are being more selective."

"When you add debt, you add some level of risk – both the risk of whether the debt markets are going to be there when you need them, as currently, and the risk that when you lever up too much you reduce flexibility and are very exposed to economic shocks," notes eBay’s Ceran. "You don’t want a situation where the company is levered up to the optimal capital structure but cannot take advantage of new opportunities that provide greater long-term returns."

Indeed, Thomson is exploring ways of deleveraging its balance sheet. "We’re looking at just the opposite of leveraging the company up," MacKinney affirms.

The French technology company, which has said publically that it is looking to reduce debt, is considering a number of options. These include paying down borrowings from its cash flow and selling selected assets.

Capital restructuring case study: Atlas Copco
Atlas Copco recently undertook a very significant capital restructuring. Strategic transactions (a large divestment and a significant acquisition), a special distribution to shareholders, a series of major bond issues and both share and bond buy-backs took this major Swedish capital goods company (part of the industrial grouping around the Investor AB holding company) from a net cash position to one of net debt.

Excess capital lay at the heart of what group treasurer, Ken Lagerborg, terms the ‘redesign’ of Atlas’ capital structure. Even before it brought in an additional SEK24 billion by divesting its Rental Service unit in mid-2006, the company’s balance sheet was stronger than its A-credit rating required.

Its funds from operations (FFO) to adjusted debt ratio was about 105% in 2005, which Standard & Poor’s (S&P) assessed as "very strong for the ratings."

As a result, Atlas had significant capacity to make a special payment to shareholders. Besides the divestment proceeds and existing resources, treasury also factored in the company’s near-term cash generation and its lower post-divestment business risk when it made this calculation.

In addition, it determined the appropriate capital structure for maintaining the company’s credit rating and some future acquisition capacity. Its focus in this was on key ratios related to cash flow (net debt/EBITDA, FFO/debt, RCF/debt) and equity (net debt/equity, equity book value, net debt/equity market value).

Finally, it drew up plans to optimise the use of excess liquidity and fund the operation as effectively as possible.

One significant risk Atlas faced was of bond markets weakening after its annual general meeting in February 2007 approved the payment of its distribution to shareholders. This was to be financed through a series of large bond issues.

"We did everything we could to go to market as quickly as possible after the AGM," Lagerborg says. The company’s strategy also involved putting a committed back-up loan facility in place to ensure that funds would be available to make the payment.

The €2 billion-plus funding plan hinged on creating “competitive tension” between multiple debt markets, Lagerborg explains. While Atlas was unwilling to pay up for debt longer than 10 years (or more complex products like hybrids), it sought a staggered range of maturities to spread its redemptions across time.

This enabled it to draw on the relative preferences of bond investor bases in different currencies (Swedish krona buyers favouring the shortest tenors, US dollar investors the longest and euro accounts the intermediary part of the yield curve). By not defining the volume that it would raise in each currency, Atlas generated competitive tension between the three markets – and between the banks lead-managing its offerings in each market.

“They wanted to make us happy, and good execution of these high profile debt transactions was important to all of them,” Lagerborg notes.

Another risk factor was the response of the ratings agencies, given Atlas’ desire to retain its existing ratings. "We had a close dialogue with Moody’s and S&P. We were confident that they would agree with the plan," he adds.

More broadly, what conclusions does the company draw about the risk of capital restructuring? "When you restructure, and different jurisdictions and currencies are involved, you may fail to foresee the economic or accounting impact of the changes. Also, you have to keep track of the interest rate and sometimes FX consequences for the group, which might be quite complex," judges Lagerborg.

Atlas is pleased with its execution of the project and has not failed to anticipate any of its results, he stresses.

Drawing on a variety of experts, including tax and accounting specialists within and outside the company, was key.

"It is crucial that not only one person works through these things. You have to involve different competences to increase the chance of identifying all the implications of the changes."

Atlas’ project went beyond a straightforward leveraging of its capital structure. A significant further dimension was that it also executed an internal restructuring of the jurisdictions in which its capital is placed.

“That was a bigger exercise than just borrowing for an acquisition,” Lagerborg believes.

Taking care of ratings
Lesser-rated companies seeking to add debt now could also find that lenders or investors attach some form of pricing
Your business **success** is out there. Is your bank?

Commercial Banking
grid to their borrowing; this may shift up and down depending on their ratings or covenanted financial ratios.

“That’s not necessarily bad if it allows borrowers not to be weighed down by expectations,” notes MacKinney. He favours structures that are linked to objective financial ratios such as net worth, though. “Delegating the responsibility to ratings agencies is something that they don’t want and companies don’t want.”

Nonetheless, he argues that the agencies’ new trigger-happiness is exacerbating problems.

Other companies report more positive experiences. ISS, which S&P downgraded to B+ after its buy-out (from a previous investment-grade BBB+), was recently upgraded to BB-. “That is a very important signal in my world. There have been a number of criticisms of ratings agencies and some investors may now rely more on independent assessments, but we have

“When you restructure, and different jurisdictions and currencies are involved, you may fail to foresee the economic or accounting impact of the changes.”

More generally, the response of ratings agencies is one source of risk in capital restructurings. Although their work on corporate credits has not suffered the same loss of credibility as that on structured finance, particularly asset-backed securities, it has been impacted by fall-out from this embarrassment.

“They are tending to be more conservative than in the past. In their desire to be ahead of the curve, they are looking to downgrade or put companies on review at the smallest sign of problems,” says MacKinney.

He concedes that Thomson’s own ratings “are under pressure, unfortunately”. maintained a very positive dialogue with Moody’s and S&P,” reports Jakobsen at ISS.

However, the agencies would view any very large acquisition negatively, he acknowledges.

“Credit ratings cannot be taken for granted. To make an informed assessment, the ratings agencies need you to provide detailed analysis,” adds Ceran, who stresses the importance of building trust between the company and ratings analysts. Unexpected issues that may arise include the impact of industry or country ceilings and potential “haircuts” for some risks and exposures, she notes.

Auctioneer takes action

eBay is seeking to find its own optimal capital structure. Having entered a period of more predictable cash flow in recent years, it has begun to move beyond its largely equity-financed growth phase (a US$126 million synthetic lease was the main exception). While maintaining cash balances of US$3-4 billion, it has spent some US$4 billion of excess cash buying shares back.

At the same time, its US$2.6 billion acquisition of the internet telephony service Skype was made 50% in cash. This contrasted with the 100% equity financing of its most notable previous M&A transaction, online payments service PayPal.

In addition, eBay has begun to take on debt. Most recently, it doubled its line of credit to US$2 billion last year. “It gave us financial flexibility and the ability to plan for unforeseen events, which was very important,” notes Ceran.

Timing, in July 2007 just before the credit crunch took hold, was “very fortuitous”. “It’s so much easier to get it when you don’t need it,” she observes.

Underlining the less supportive current environment for borrowing, however, some members of the bank syndicate providing the line have been reluctant to permit eBay to exercise the option it held to extend the 5-year facility. Even very highly rated companies might struggle to match its pricing at Libor plus 20bp on new borrowings.

Accordingly, eBay has opted not to exercise its option for now, Ceran says. “We’re trying to be helpful and supportive in the hope of creating goodwill and gaining the flexibility to exercise the option when the market becomes sounder.” JL
The economic slowdown in Europe and North America has hit the cash flows and profits of many multinationals. Yet many emerging markets are still growing, including Brazil, Russia, India and China (the so-called BRIC countries) – keeping revenues and profits at healthy levels for multinationals operating in these countries.

A significant proportion of the cash being generated in emerging economies is trapped. Part of the reason, as group treasuries are well aware, is restrictive regulations, foreign exchange controls and tax laws. However, cash is often also trapped because treasury departments are using less sophisticated techniques, tools and processes than in mature markets, and because of fragmented banking arrangements.

Today, with credit conditions tight, there is pressure on multinationals to improve the use of internal liquidity right across the organisation. Releasing liquidity across disparate markets is difficult, but there are ways of making it easier, and leading treasuries are working with their internal and external partners to address these challenges.

**Challenge number 1: treasury department infrastructure**

Group treasuries have typically taken a decentralised approach to emerging markets. They often have limited remit and visibility, and no group staff working directly at local or even regional levels. But once treasuries start to exercise some central control – perhaps to ensure regular repatriation of excess cash from local subsidiaries – many quickly realise that a more systematic approach across operating units is necessary for lasting benefit.

The first step may be to establish group treasury’s unqualified remit over local cash and funding decisions, ultimately even on a daily basis. This requires the establishment of common policies, processes and practices across the firm for activities ranging from cash forecasting and investing to inter-company funding, usually without increasing staff headcount since most treasuries have constraints placed on how many people they can employ. It also requires investment in appropriate systems infrastructure, because without central visibility it is difficult to achieve centralised control.

Using global providers can make the task easier. The latest technology from leading IT vendors and banks can provide web-based global visibility over daily cash levels and investments, and workflow management over cash forecasting and funding processes, without costly outlays on hardware and software.

**Challenge number 2: the legal, regulatory and tax maze**

Many emerging markets have highly regulated financial systems and countless restrictions. Limitations on currency convertibility and transferability, high withholding taxes (or outright limits) on inter-company funding, and inability to gain right of set-off (impacting bank notional pooling structures) make effective cross-border liquidity management difficult.

However, the process of financial liberalisation continues across many countries. Brazil recently made the management of foreign currency offshore cash positions more flexible for residents; China’s Pudong 9 measures allow onshore foreign currency physical cash pooling, and even the ability to use surplus Chinese renminbi for offshore investment and inter-company lending; and last year Russia announced the movement towards convertibility of the rouble, although some restrictions on foreign exchange remain.

The process is sometimes “two steps forward, one step back”. A few countries are actually going against the prevailing trend of liberalisation (Venezuela, for example), and although most countries are liberalising they are doing so cautiously. New rules and regulations need to be carefully interpreted and applied, and changes can initially create greater complexity.
As each country is different, group treasuries can make the process of interpreting local regulations easier by building close working relationships with their in-country, local teams and also by using global banking partners for information and guidance. The company’s local teams should also be encouraged to engage with the global banks’ local teams and their contacts with local regulators.

**Challenge number 3: fragmented banking arrangements**

When corporate treasuries review banking arrangements in emerging markets, they often find their companies are using myriad local banks. The result is fragmented liquidity and inefficient cash management processes even at the local level. Additionally, cash and investment positions may be held at banks that are lower rated than corporate policy allows, increasing risk.

Many companies are now consolidating banking structures at country, regional and global levels. At the local level, consolidation of payments, collections and concentration banking bypasses many hurdles (from inefficient local clearing arrangements to bank account debit taxes) that create inefficiencies and make it hard to move cash around.

At the regional or global level, using a global bank ensures consistency of service, visibility, pricing, and people across markets. In combination with the approaches highlighted earlier, this allows the company to leverage its banking relationship and get the support it needs.

**Increasing cash efficiency – practical approaches by Citi**

Different countries require different approaches based on the local environment. Through its presence in more than 100 countries, a common global infrastructure, and the expertise of its local teams, Citi is helping multinationals manage their cash and liquidity more effectively across emerging markets.

As markets undertake significant liberalisation, such as Mexico and Dubai, new opportunities arise for improved cash efficiency. For example, Mexico allows residents to transfer local currency offshore and participate in pooling structures. The newly created Dubai International Financial Centre (DIFC) has been granted the right to set its own commercial laws. Citi closely follows any such developments and helps clients seamlessly incorporate local cash and liquidity management structures into the company’s global structures for pooling and investment.

In countries that limit local currency convertibility and utilisation for inter-company funding purposes, but foreign currency is less restricted, such as Indonesia and Malaysia, hybrid structures are used. Local currency cash and liquidity management is optimised locally, while foreign currency positions are swept offshore to facilitate centralised investment and funding decisions for improved yield. Cross-border and cross-currency interest optimisation structures improve overall yield for cash positions that cannot be included in physical or notional pooling arrangements due to regulations.

Finally, for countries that have strict controls, Citi helps clients through local optimisation structures - such as centralised cash concentration and entrust loan structures in China. Citi can also help corporates address cost barriers that would otherwise be prohibitive. For example, subrogation structures in Poland allow companies to concentrate liquidity without incurring stamp duty associated with direct intercompany loans.

In all cases, Citi delivers common tools and capabilities, and applies its experience to devising the most optimal local and global solutions, to enable treasury to enhance cash efficiency.

**Using technology to unlock trapped liquidity**

Citi TreasuryVision is a web-based service enabling corporate treasurers to manage global liquidity more effectively. It provides visibility and analytics over global cash, investments and debt positions; and management over cash forecasting, intercompany funding and risk management processes. TreasuryVision also incorporates Citibank Online Investments, the award-winning global investment portal that enables clients to place investment trades and manage portfolios in 17 currencies and 19 countries. The TreasuryVision client base is currently managing liquidity in over 100 countries and over an average of 50 bank relationships each.

For example, one client that recently implemented TreasuryVision can now align its cash accounts, analyse cash management data and aggregate bank information in 68 countries, in over 300 legal entities and across 1,200-plus accounts in 85 banks. The solution has allowed the client to close over 600 accounts globally, effectively manage risk, reduce excess cash, increase interest income, and reduce interest expense.

**International best practices**

The financial and regulatory environment in emerging markets is constantly changing, often for better, but sometimes for worse. Infrastructure, regulatory and tax implications are still significant barriers to the globalisation of treasury management. With the credit crunch still being felt, better use of internal cash is an imperative for most companies.

So, what are the best practices that should be followed to release this trapped liquidity? First, it is important to adopt a flexible approach, taking the time to understand each local environment, and establish global disciplines around treasury policies, practices and processes. By doing this, companies can make significant headway towards improving liquidity management in emerging markets.

Second, put your bankers to work. Use them as key resources to help keep you informed of the latest regulations, market practices, and other changes. Regionalise or globalise banking operations and use your global banking relationship to get the support you need.

Finally, think local, but think global. Build close working relationships and communications with your local teams and encourage them to put your global banking partners to the test. Transfer best practices from one region to another, and provide incentives to staff to generate good ideas.
To hedge or not to hedge?

Across the board, treasurers are re-visiting policies for hedging the increasing array of risks facing them.

By Patricia Ward

Since mid-2007 it has been repeatedly shown that risk can never be over emphasised for companies challenged by wide-ranging exposures. As a consequence, many treasurers are revisiting policies for hedging the increasing array of risks with which they are faced. They are looking again at what they want to achieve and how different instruments can help in lowering risk. So what are treasury professionals saying these days about the why, what, how and when of hedging? What are the obstacles to using risk mitigation instruments, and where do they fit into the balance sheet?

The risk roundtable

In cases where treasurers are involved in corporate planning and execution they can help identify, manage and eradicate potential risks before decisions are made, rather than being called on afterwards to hedge them. Conversely, when it comes to choosing instruments for liquidity, exchange rate and interest rate risk management, treasurers can benefit from consultation with diverse parties.

Treasurers increasingly consult with the CFO and board of directors on the manner of calculating exposures, the characteristics of acceptable hedging instruments, and the timing for their implementation. “This can help prevent treasury being tempted to get too clever in its use of complex hedging instruments,” says Prada Group’s corporate finance director, Giuliano Giannessi.

Volvo’s treasurer, Anders Osberg finds it helpful that a company such as Volvo, headquartered in a small European country with its own currency, rather than being part of the Eurozone, has a history of people on the board of directors who have a good understanding of how treasury can manage exposures. “As a global company we have considerable currency, commodity price and interest rate exposure,” he says.

It is not just top management who need to have an understanding of the workings of treasury in relation to hedging. “People tend to perceive treasury as some form of dark art,” says Frances Cavanagh, European treasury manager at Kellogg Europe Trading. “This can be remedied if you work with business units to demystify subjects such as foreign exchange.”

After many months of working on this, Cavanagh’s team is seeing the benefits.

A good understanding by group treasuries and overseas entities of each other’s requirements and ways of operating can help to ensure exposure risks are managed cost effectively. “We had a global client with approximately one thousand outstanding external FX contracts in their Australian operations, while their UK central treasury had a significant number of transactions with their banks in equal and opposite directions,” says Deloitte’s director of treasury and capital markets, Michelle Price. “There was a clear case here to net the exposures going forward and enter into fewer FX transactions with their banks.”

Worldwide business units, such as those of KLM Royal Dutch Airlines, hedge currency exposure at market price via the central treasury. In KLM’s case, central treasury calculates the net balance of short and long exposures before any transactions are made on external markets. This allows for economies of scale, while giving central treasury an accurate insight into company exposure.

On market watch

Good interaction between diverse business arms and central treasury also helps a treasurer to get a clear picture of what is going on in the financial community, and so better prepare to absorb business cycle shocks. To stay on top of business cycle issues, it is important to gain insights into potential risks that cover the whole period of a business plan.
"You have to be alert to financial and economic risks, but also aware of geopolitical risks which can affect your operation," says head of KLM Group treasury desk, Vijay Panday.

KLM retains a strong cash position as a buffer for periods when adverse market conditions render banks less able to finance its capital expenditure. "Investment of that cash is based on integrated asset and liability management," says Panday. "To achieve a natural interest rate hedge, we fully match our floating debt position to that of the floating cash position."

The interest rate for almost 100% of KLM's debt portfolio has been fixed with interest rate derivative instruments. This process takes account of the KLM board's strict guidelines on counterparty risk.

During periods of extreme market turbulence, when interest rates can spike quite unexpectedly, it is essential to have appropriate debt hedging arrangements. "You should ensure, for example, that interest rate swaps are well structured so that swap reset dates are synchronised with the underlying debt to which they relate," says Simon Neville who has responsibility for all aspects of treasury and risk management at private equity firm Klesch & Co. "If a treasurer doesn't have appropriate arrangements in place he might find himself having to explain large unexpected increases in a group's interest cost."

"If a treasurer doesn't have appropriate arrangements in place he might find himself having to explain large unexpected increases in a group's interest cost."

Don't get overexposed

With the approval of the board, KLM's central treasury has set up a currency planning format for business units, which each month provide 12-month rolling currency forecast numbers. "Because oil, which we pay in dollars, is very expensive, and we do not have much income in dollars, we have a very big net dollar short position," says Panday. "Our expert traders use sophisticated systems and all types of hedge-accountable derivative structures to hedge risks safely, cost effectively, and in accordance with IFRS rules."

When it comes to FX translation risk, many companies appear to leave this unhedged as they see it as an accounting risk, rather than a transactional risk that affects the underlying business. QBE's regional treasurer AAP, Richard Shaw questions whether this is advisable. "For us at QBE, FX translation risk is significant due to the large size of our balance sheet," he says. "This gives rise to material adjustments through the balance sheet and profit and loss."

Shaw capitalises on his firm having the systems and expertise to accurately quantify FX translation exposures across a wide range of currencies, and to implement and monitor associated hedges. "The results of the hedges are passed back to the accounting system where they offset the underlying exposures," he says. "The overall result is that we are able to cover materially all of our FX translation exposure."

Where possible, treasurers look to make the most of natural FX hedging opportunities. "Treasury should be forecasting its foreign exchange exposures on a frequent basis, and covering an appropriate future period to identify the net exposure in each currency by a process of multilateral netting," says Christie's international group treasurer, Dominic Bennett. "If this is not done, the hedging decisions could be wrong and actually increase exposure by eliminating natural hedges."

The derivatives discussion

When natural hedging is not enough, treasurers have to consider applying hedging instruments such as derivatives. Current concern about the impact and prices of more exotic derivatives is leading some treasuries to return to the familiar vanilla variety. Honeywell, for example, generally uses the more plain vanilla instruments, which means usually excluding options. However, they would consider options if this made sense. "For hedging currency exposure we typically use forwards and swaps," says Marie-Astrid Dubois, treasurer of EMEA and Asia for Honeywell, "and for hedging commodity prices we use forwards."

Like many other treasurers, Buzzi Unicem's group treasurer, Luis Rauch has been recalibrating risk measurement and management tools in the light of market developments since mid-2007. "The subprime crisis has caused quotes for credit default swaps to skyrocket, and as a consequence their prices do not reflect real corporate risk profiles," says Rauch. "We have returned to using less complex and less costly hedging instruments."

Going forwards, however, some treasurers are looking to implement more innovative instruments. Cassio Calil, managing director of J.P. Morgan Structuring and Solutions Group, finds treasurers are increasingly interested in risk-transferring derivatives alternatives that hedge, and protect the value of the accounts receivable and trade claims exposure. The attraction lies in their potential for giving companies the flexibility, and confidence to sell more to a specific customer than they would otherwise be inclined to do because of perceived increase on risk of default.

Whether such instruments will take off is debatable, because even in the most favourable market conditions it can take some time for new offerings to gain popularity. "You should not be seduced into applying the latest turbo-charged derivatives if there is a chance you have taken on risk rather than reduced it," warns Multi Corporation's treasurer, Wim Lambrecht. "You have to be really careful to ensure hedging instruments meet your needs before you buy."

While remembering that what suits one company will not necessarily suit another, many treasurers compare notes with their peers before looking further at new possibilities. "You can use whichever hedging instruments best meet your needs, irrespective of whether they are exotic or vanilla, so long as you understand how they work and how to price, administer and account for them," says Lambrecht. "If a simpler structure will work as well as a more complex one, then my advice would be to implement the vanilla hedge."

Treasurers generally consider it important to use the most straightforward instrument available that meets objectives. "There is no virtue in making things complicated," says Bennett. "There are plenty of examples where treasurers have lost money by using instruments that they did not fully understand."

Many treasurers hold the view that the more bells and whistles added, the more expensive the deal, and often with little
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extra gain. However, tried and tested plain vanilla instruments should not be perceived as wholly good, and the latest and more exotic instruments all bad. "Problems arise when derivatives are inexpertly selected and applied," says Giannessi.

In order to maximise their risk mitigating properties and prevent unpleasant surprises, it is necessary to fully understand how all types of derivatives can work for or against you when markets move. When their local currency began to appreciate against the dollar, some treasurers in India who traditionally hedged foreign exchange exposure using forwards began to find it more beneficial to use options. However, changing policy in reaction to market dislocation is something about which treasurers have to be very careful. While treasuries usually have fairly firm hedging policies, when markets are exceptionally volatile treasurers tend to revisit strategies to ensure they can lock into favourable rates. This is especially so for companies whose majority of costs are in one currency and most of their revenue is in other currencies.

How best to hedge risks inherent in projects financed in one currency when costs are in another, is a continual topic of interest to companies where local currency volatility is exceptionally high. Lambrecht, who hedges foreign exchange and interest rate risks, finds cross-currency swaps helpful. "Because currency swap interest payments are not netted, they can work better than a simple interest rate swap," he says. "We use instruments whereby notional are swapped and interest is fixed until the original amounts have to be given back."

Irrespective of whether they are simple or complex it is advisable to stick to instruments for which a daily mark-to-market valuation can be readily obtained. "Executing a trade is easy; it is getting access to good underlying data that treasuries sometimes struggle with," says CA’s vice president and assistant treasurer, Anthony Scaglione who uses forwards, derivatives are sometimes perceived to be complicated as IAS 39 or its American equivalent FASB ruling, FAS 133 and FAS 159, is that for all practical purposes the most effective tools of risk management become the exclusive domain of very large corporations," says Christian Children’s Fund’s treasurer, Sassan Parandeh. "Treasurers at small to mid-sized global organisations frequently get push-back from their controllers due to inadequate expertise in this niche field of accounting."

Many small and mid-sized global treasury departments have to either handle hedge accounting within their own treasury methodology for?” questions Parandeh. “In the worst case scenario, treasurers at smaller organisations are forced to give up on hedging entirely.”

Many treasury professionals agree that accounting considerations for hedges should not be underestimated. "Financial reporting for derivatives, rightly or wrongly, often drives the hedging decision," says Wells Fargo’s head of foreign exchange risk management, Dave Napalo. "Whether the reporting environment is IAS 39 or FAS 133 for US entities, the more complex the derivative, the more challenging it is to achieve accounting."

The fact that IAS 39 and FAS 133/159 can erect intellectual barriers to hedging in a very large sector of the economy is seriously concerning. Help, however, could be at hand. "The International Accounting Standards Board has recognised the need for change and has recently published an Exposure Draft aimed at reducing complexity of accounting for financial instruments," says PwC’s corporate treasury group partner, Yann Umbricht.

In addition to the intellectual barriers, some treasurers have psychological barriers to overcome. Ashima Goyal, professor of economics at the Indira Gandhi Institute of Development Research, highlights instances where people are more comfortable with an uncertain outcome than the sure cost of hedging. “They are willing to forgo hedging and undertake more risk than is rational,” she says. “But proper framing sensitive to psychological attitudes can make firms more willing hedgers.”

These barriers are compounded in countries where, in order to curb use of derivatives for speculation, regulators restrict access to derivatives that also facilitate hedging. With modern technology and regulation, however, it is possible to distinguish between hedging and speculative foreign exchange activities. “Hedging transactions are charged lower margins on modern exchanges and their tax treatment also differs,” explains Goyal. “If it is possible to monitor the use of derivatives, then it is not necessary to ban them.”

Although there are still many places where diverse hedging obstacles need to be overcome, attitudes are changing. “While in the past deployment of derivatives was considered to some kind of financial wizardry for solving all problems, nowadays derivatives are sometimes perceived to be devils,” says Giannessi. “Despite this, over the last 5-6 years there has been increasing interest in using derivatives as hedging instruments.”

As exposures evolve in line with market dynamics, treasurers need to constantly re-evaluate their hedging policies to ensure they remain fit for purpose. Where new tools are offered to meet the demands of new circumstances, they need to look at these from the standpoint of their individual corporate requirements, and then discuss them with peers and counterparties to render the best outcome for the balance sheet. ■
Confronting bank counterparty risk

Banks’ woes are driving treasurers to rethink their counterparty policies and limits.

By Julian Lewis

As banks suffer mounting losses, credit ratings downgrades and even forced sale or nationalisation, corporates are rapidly increasing focus on the risk of their exposures to the sector. Reflecting both write-downs on ill-judged mortgage investments and the impact of weakening economies across much of the developed world, banks’ woes are driving treasurers to rethink their seeming impregnability – with both large and small companies implementing new counterparty policies and limits as a result.

Traditionally, corporates’ thinking about credit risk focuses on their commercial counterparties – particularly the risk that buyers and distributors of their products will fail to make full and timely payment due to financial difficulties or even bankruptcy.

Over time, a broad suite of techniques and instruments has emerged to help companies manage this risk prudently – credit insurance, credit control, credit ratings and, most recently, credit derivatives.

But at the same time, treasurers often generate substantial exposures in dealing with their banks. Examples include deposits and investments (including securities held by a custodian), and market transactions such as foreign exchange, interest rate and other derivatives (most notably when these instruments are in-the-money). Despite this host of risk areas, however, little similar infrastructure has grown up to support risk management of bank counterparty exposures.

This is unsurprising, perhaps – banks are typically large, stable credits, especially compared to many companies’ commercial counterparties. “Banks are a very small part of overall enterprise risk management because of the very low probability of default,” notes Petter Kapstad, head of enterprise risk management at StatoilHydro.

Crunch changes perceptions

But the credit crunch has impacted this perception. After the past year’s miserable litany of write-downs, losses, downgrades, recapitalisations, sales and closures among banks, corporates in every sector now appear to be focusing more than previously on the sector as a source of risk.

“Within our organisation bank counterparty risk is becoming more obvious than one year ago,” says George Dessing, vice president and corporate treasurer at Wolters Kluwer. Characterising counterparty and credit risk as “one of the four main financial risk management items that we have,” Dessing reports that it is an increasingly normal topic of discussion among treasurers and with their banks.

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Still, having to meet the post-credit crunch challenges may have benefited treasurers, Ceran believes. “It has been an interesting market. When triple-A ratings can’t necessarily be relied on, it has made the treasurer’s job a little bit more elevated in the company.”

Prudent management of bank counterparty risk hardly began with the credit crunch, of course. The standard approach was summarised in a EuroFinance presentation last year by John Thomason, group treasurer at Valex: “manage within ratings limits and amount/concentration limits”.

For example, Wolters Kluwer discloses its A (Standard & Poor’s)/A2 (Moody’s) minimum ratings level for treasury counterparties publicly. The Dutch publisher measures its exposures every quarter and publishes the weighted average in its annual report (AA in the 2007 report).

“A minority of our banking group is close to our ratings borderline. It’s something that we monitor closely, particularly in the context of closing new or longer duration instruments,”

It also requires bank derivatives counterparties to sign International Swaps and Derivatives Association (ISDA) agreements documentation. Trading under ISDA agreements should provide a significant agreements documentation. Trading under counterparties to sign International measures its exposures every quarter and publishes the weighted average in its annual report (AA in the 2007 report).

Tightening up

These measures indicate how the current challenging environment for banks is leading companies to tighten their approach. Treasurers in every type of company and sector are re-examining their portfolios and relationships to flush out potential counterparty risk problems.

Already Swedish blue chip Atlas Copco has stopped dealing with some of its banks. “We have taken away a couple we don’t consider appropriate. But we have kept almost all of them with the same limits,” Lagerborg notes.

As banks suffer more downgrades, companies’ ratings-based counterparty limits are becoming stretched. Bergmann points to the recent loss by one of Eneco Energie’s main banks of its double-A rating. The Dutch utility’s former limit of €50 million no longer applies; it must now decide what maturities are appropriate for future exposure.

“A minority of our banking group is close to our ratings borderline. It’s something that we monitor closely, particularly in the context of closing new or longer-duration instruments,” adds Dessing at Wolters Kluwer.

New policies implementing

Moreover, greater scrutiny of the counterparty risk that banks pose is driving companies of all sizes to reconsider their treasury policies in this area. “We definitely are thinking more about bank counterparty risk and are making some changes in that regard,” acknowledges a risk manager at Swedish telecoms equipment giant, Ericsson.

Equally, Eneco Energie is planning to update its treasury statutes to bring its ratings-driven approach to deposits to bear on derivatives exposures too, notes Bergmann. The company’s treasury statutes allow it to invest up to a defined ceiling with each of its counterparty banks according to their short-term credit ratings. Its limited volume of interest rate swaps (all denominated in euros) are not covered yet.

Resisting temptation

eBay’s share buyback programme has provided an unexpected benefit, Ceran believes. Since the company has used a portion of surplus cash to buy its stock back, it has not been accumulating greater balances – and credit exposures as a result.

“That has helped us navigate the current challenging markets,” she says. So too has the company’s lack of exposure to troubled investments such as auction-rate preferred stock and Fannie Mae/Freddie Mac paper.

Some Icelandic and other banks with very limited liquidity have pursued customer funds aggressively by offering very attractive rates, reports Bergmann.
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However, even where Eneco Energie’s ratings-driven approach to counterparty risk would have allowed it to take advantage of these offers, “we said we would certainly not focus too much on returns compared to security.”

This echoes the strong case made by Thomason at French automotive supplier Valeo for focusing on bank counterparties of high credit quality. He contends that there is “little to gain from moving down the [credit] curve”, which he describes as “like picking up pennies in front of a steamroller”.

Like other businesses with cash balances that vary significantly during the year, Eneco Energie’s counterparty risk is notably seasonal. It faces little risk in the first half of the year as it is typically short of cash there, only in H2, when it has less need to buy energy in the wholesale market (and its retail customers continue to make their monthly payments), does it have invested surpluses at risk.

As the company begins to diversify its short-term investments by buying into triple-A money market funds, its priority has been “to avoid overnight default”, Bergmann notes. Accordingly, it has sought to define limits in its tolerance of the funds’ holdings – particularly of mortgage securities.

“We’ve been thinking how we can order counterparty to inform us if the percentage in a certain area goes too high, so that we have a chance to step down.”

Checking out CDS
The generally slow corporate adoption of credit derivatives to date is reflected in approaches to bank counterparty risk. Atlas Copco, for one, sees no scope for the instruments. Lagerborg views them as more suitable for bank-to-bank trading than for use by a corporate treasury.

Some companies have thought seriously about using credit default swaps (CDS) and other instruments to modify or manage their risk, however. Tesco is one.

“Post-credit crunch, the thing that concerned me was where I had indirect credit exposure in the event of a counterparty failing,” says Mourant. An example would be future payment streams on an in-the-money interest rate swap.

In cases where it would be unwilling to novate the transaction to a third party, a CDS might have provided an alternative solution. In practice, however, it has traded no swaps on bank counterparties. “We were comfortable that the exposure was appropriate,” he says.

eBay has also considered using credit derivatives in this area “from time to time”, Ceran reports. The “pretty expensive” cost has inhibited their adoption.

Eneco Energie too has considered using CDS to help manage its counterparty exposures. In view of the very high prices for credit protection on banks now, it chose not to go ahead. The short-term nature of its exposures, and its confidence that there will be no ‘domino effect’ even if one bank fails, also contributed to this decision.

But the high default probabilities factored into the CDS market currently suggest otherwise, Bergmann concedes.

Not for everyone
For some corporates, particularly those without net cash to invest, the souring environment around banks makes relatively little difference. Take Elekta, for example – as a net borrower, the Swedish med-tech firm looks at any way to keep its liquidity balances with banks as low as possible, notes the group treasurer, Johan Adebäck. Accordingly, “we have taken the view that they have more exposure to us than we have to them,” he says.

Even so, Elekta generates counterparty exposures through the limited group of banks it trades derivatives with. While most of these providers have been fairly unscathed by post-credit crunch fallout, “at least one” has been affected. The company’s approach is to seek to limit its exposures to individual institutions and require a minimum credit rating of A.

However, this is not always feasible in some countries, Adebäck reports. He dismisses requiring lesser-rated banks there to pledge collateral (“asking a bank for collateral is not going to work”) and emphasises instead “active” efforts to minimise such exposures.
ENTERPRISE RISK

Re-aligning roles, resources, policies and procedures

How treasurers are supporting wide-ranging risk reduction.

By Patricia Ward

Irrespective of how well all bases appear to be covered, treasurers always need to be ready for the unexpected. That’s why they no longer look at risks merely in terms of the most immediate and direct, but rather in terms of all risks that could negatively impact corporate assets. To prepare for all eventualities they are creating risk control frameworks to identify risks, and define monitoring and mitigation duties, processes and policies.

Roles and responsibilities

Risks inherent in treasury operations are being reduced through increasing segregation of duties, more clearly defining boundaries, and ensuring the best people are in the right places. “I advise clients to clearly delineate and segregate front, middle and back office duties and be quick to make enquiries if people go beyond their remit,” says Dimos Dimitriadis Corporate Treasury Consulting A&A Financial Services Deloitte & Touche. “These days if you are a trader then you are not involved in settlement or reporting.”

However, what works in one market where a company operates, might not in another. In the US, generally the corporate VP and treasurer is a signatory on every bank account and thus has joint responsibility for all account activity with local staff. If a US company has operations in, for example, Mexico or Belarus, then the VP and treasurer cannot be a signatory on bank accounts there, because he is not locally based and so would need to delegate responsibility to local staff.

Establishing formal segregation of duties, and developing signing arrangements to match, can lead a small head office to involve non-finance staff in the process. “There is always a need for a second signatory, or approver, who is neither the dealer nor involved in the accounting for financial transactions,” says treasury consultant Christof Nelscher, who was formerly head of treasury at Fiberweb.

Why, then, could it not be the company lawyer, or the HR Director? “That may look good on paper, but begs the question of how individuals outside the finance team can satisfy themselves that they are approving legitimate transactions,” says Nelscher. “The solution that I have seen work is to create a process based on standard Treasury Management System reports, which show an easily followed and intuitive logic to non-finance staff acting as signatories.”

To get the best out of a TMS, a treasurer needs to be fully conversant with all its functions. “If a Treasury Management System is not appropriate or used ineffectively it could add to rather than diminish risks,” Dimitriadis warns.

As well as being friendly to diverse users, systems also have to be friendly to other systems. Interfacing solutions that allow input from the trader to flow all the way to accounting are increasingly popular.

As responsibilities evolve in line with increasing systems sophistication, treasurers need to ensure that related risk management frameworks remain appropriate. Over the years companies have developed frameworks that best fit traditional banking, but with the evolution of electronic banking and related systems, increasingly treasurers are spelling out the new standards and duties that apply.

Some US companies operating in remote areas have to utilise “Mom & Pop Banks”. This can create the need for an electronic banking policy that assures the systems operated by such banks meet critical control standards. On discovering that a bank system in a developing country allowed employees to set up wires and approve their own work for fund transfers, and did not provide for dual review or proper controls, one company had to disallow use of the electronic banking system out there.

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As the decision on this was due in March 2008, at a time inauspicious for being in the market for a new and inexpensive back-up liquidity facility, Glendinning drew down the facility. "We were able to swap the facility from floating to fixed rate," he says. "If the situation improves over the next three years, we can revisit the way we are doing things and possibly work on a new liquidity back-up facility."

On the lookout for legal trip wires
While mid 2007 continues to resonate as a time when liquidity risks hit the top of the treasury risk agenda, other periods are remembered for generating risk priorities less obviously treasury-related.

The events of 9/11 heightened focus on treasury in its international legal context. Since then questions about terrorist funding channels have put all organisations that move money around under the microscope. This has led many to review corruption and anti-embellishment-regulation compliance policies.

"These regulations have been around since the 70's and we have always adhered to anti-corruption and anti-embellishment policies," says Christian Children's Fund's treasurer, Sassan Parandeh. "However, only since 9/11 has the US Department of Justice focused on evidence of their being followed, not just by US companies operating globally, but also by overseas-based employees of US organisations."

High profile instances of respected companies falling foul of the Foreign Corrupt Practices Act (FCPA) have highlighted the need for treasuries to bolster, or implement new final money-movements filter policies. As some bogus humanitarian organisations have provided a cover for the collection of funds and redistribution to illegal operations, there is increased pressure on bona fide operations to implement policies that increase treasury transparency and prevent their legitimacy being called into question.

"Treasurers have had to become increasingly proactive in ensuring and showing that payments will be appropriate before money is allowed to go out to the field," says Parandeh. "The Christian Children's Fund always verifies who is being paid through Corporate Treasury; absolutely no exceptions are made on this point."

Even after treasurers have shown they have adhered strictly to verification procedures, governments can still intervene for reasons a treasurer might not expect.

In early 2008 an organisation in Taiwan sent the Christian Children's Fund a wire made out for the benefit of tsunami relief in Sri Lanka," says Parandeh. "Unbeknownst to us, the US government had black-listed an organisation called Tsunami Relief Sri Lanka, which was in no way related to us or the Taiwanese organisation, and seized the funds."

As a result funds were delayed in getting to where they were badly needed, until Parandeh and his colleagues could furnish detailed explanations to their commercial bank that would satisfy the US Treasury Department's Office of Foreign Asset Control.

To reduce the risk of getting into legal wrangles, treasurers are taking an increasingly active role in driving procedural enhancements. For example, they have to ensure they have robust plans for ensuring vendors have passed appropriate background checks before payments are made to them. However, it is not just a case of ticking clearly outlined boxes. Under certain circumstances, some exceptions to the normal application of standards can be made.

In countries with developing infrastructure the wait for power-supply connection, for example, can last years. A multinational organisation may feel compelled to expedite their work via a Standard Norm payment as provisioned under the FCPA.

As regards, the Standard Norm, treasurers need to have access to legal council to verify the legality of the payment under both US and the foreign country's laws. Furthermore, any such payments must comply with a board-approved Standard Norm policy that treasury must enforce along with other departments. If either legal council or a written policy is not available, then all standard norm payments should be completely prohibited.

Treasurers should check all international funding requests and try to understand the nature of the funding. They should look for red flags and try to assure treasury is a filter that catches suspect items.

Even companies that generally operate under more regular conditions are increasingly conscious of the virtues of reviewing and fine-tuning procedures. Reviewing legacy structures, resources, policies and procedures and identifying new ones consumes a considerable amount of a treasurer's time. However, if this done in tandem with thought leading counterparts, the result should be effective management of all risk that changing markets and geopolitics can throw at the treasurer.
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Preserve your capital and cut your losses

With access to the right resources, treasurers can predicate strong but secure yield on sophisticated risk management.

By Patricia Ward

Treasurers are continually fine-tuning capital markets sentiment antennae in order to make the safest allocations, whatever the economic environment. They also need to ensure portfolio risk detectors are highly tuned so alarms trigger rapid responses, and investments are sufficiently liquid to allow for prompt action. Yield, however, still matters. With access to the right resources treasurers can predicate strong but secure yield on sophisticated risk management.

On entering treasury, Christie’s international group treasurer, Dominic Bennett received an investment guide that has stood him in good stead ever since. “The guide’s three fundamentals are security, liquidity and yield — in that order,” says Bennett. “If these principles are followed, one is unlikely to run into problems, but if the order is reversed, then sooner or later disaster could well strike.”

Security

Typically treasuries find security in investing cash via highly rated institutions, but these days there is heightened concern about the risks of investing via counterparties susceptible to bankruptcy.

Events since mid-2007 have led many treasurers to re-evaluate investment vehicle counterparty credit quality, and in some cases divest and rebalance portfolios to better spread risks. “Counterparty limits are a way of ensuring that security is reinforced,” says Bennett who spreads investments across highly-rated counterparties.

To get diverse perspectives on the security of potential investments, many treasurers discuss the tenor of these investments with colleagues in sister departments and company directors, as well as with external consultants.

While in the past it appeared enough that a fund was AAA rated, now, like many other treasurers, Lenovo’s Damian Glendinning asks more questions about underlying investments. “As it can turn out that a money market fund invests in asset-backed securities, some of which are mortgage-backed, before we buy our credit team assesses the underlying portfolios,” he says.

Many treasuries only consider AAA rated vehicles, but some consider less highly rated options if they meet requisite criteria. For investments over a period of one day to a year KLM, for example, requires products to be at least AA– rated. “For our longer dated two to ten year investments, we look for government or government guaranteed counterparties, in addition to continuing to make investments in US treasury bills and European government bonds,” says KLM’s group treasury desk head, Vijay Panday. “We do not invest in the kinds of innovative products such as special purpose vehicles, like collateralised debt obligations and other mortgage-backed or asset-backed securities that have been offered to KLM many times over the last five years.”

The comment is typical of those who have become allergic to illiquid structured products generally, and specifically to investment vehicles connected with the subprime mortgage market. However, not all asset-backed instruments get a bad name. “Asset-backed debt issue remains a safe and perfectly legitimate financing instrument,” says Glendinning. “You have to make sure you understand what you are buying into.”

Like many other firms, CA finds reasonably conservative investment policies beneficial during market volatility. However, CA’s vice president and assistant treasurer, Anthony Scaglione is now also looking at deploying excess cash more strategically. “As we primarily invest in money market deposits, we really haven’t been caught up in any of the underlying paper that, since mid-2007, has created issues for other corporates,” he says. “We are now reviewing longer term deposits in line with a broader asset liability management strategy.”

Liquidity

In the light of market developments, treasurers are rebalancing portfolios.”We have
substantially reduced our equity exposure, and instead we are making more defensive plays by putting spare funds into very short-term money market instruments," says Buzzi Unicem's treasurer, Luis Rauch. "Also, as banks have reduced their liquidity provisions to companies and increased charges, so we have reduced our usage of bank credit lines, and now we are optimising the use of short-term spare cash."

Making more of cash is at the forefront of many treasurers' minds. Real estate developer Multi Corporation does not make short-term investments, because as soon as cash becomes spare it is used as working capital. "These days instead of selling all the shopping malls we build, as we did in the past, we are retaining them," says treasurer, Wim Lambrecht. "As a result, we have created our own investment portfolio comprising property."

In addressing the need for cash to be available in the right amount as and when required, treasurers are leveraging cash flow forecasts for deciding on maturity of investments, some of which are very long term. "To provide for buying aircraft at the end of leases, our investments can have up to ten year time frames," says Panday.

Liquidity concerns are prompting some treasurers to take pre-emptive measures that lead them to hold more cash than is customary. After drawing down a liquidity facility on the credit crunch kicking in, Lenovo has a larger than usual amount of cash. As a consequence there could be temptation to enhance yield by moving along the risk/reward curve. "If such a move is to be made, it must be as a result of rational discussions and a carefully thought through process," warns Glendinning.

The risk/reward scales weigh differently in each company. Aware of a tendency to confuse risk management and risk avoidance, Glendinning says, "Rather than shy away from risks at all times, treasurers should have a balanced judgement of different types of risks."

**Yield**

Some treasurers are well placed to exploit risk management resources for the benefit of investment portfolios. Microsoft, for example, can leverage its own solutions for measuring Value at Risk (VAR), stress testing and enhancing visibility of counterparty risk and credit exposures. "We run daily, computationally intensive, Monte Carlo VAR using Microsoft's High Performance Computer Server," says the corporate vice president and treasurer, George Zinn.

Application of such solutions gives the board and oversight functions a clear picture of risks, and of the benefits of a more diverse portfolio of instruments than treasuries generally have at their disposal.

"As a result of our having a very advanced financial risk management function, utilising Windows 64-bit functionality, the board has become comfortable with our taking incremental investment risks for the incremental returns associated with the diverse asset classes, which my previous experience in investment management has made me familiar," says Zinn.

Most treasuries are environmentally not profit centres. However, those with significant structural excess cash and margins appropriate to handling volatility, can hive money off and pursue yield more aggressively. The number of companies in this position is very small. Microsoft is one such company.

The ability to leverage its own technology to thoroughly examine and assess the risk/reward potential of a wide range of shorter to longer term strategies, means Microsoft's treasury can consider more diverse investment styles and time frames than most other treasuries would entertain.

"As a result of leveraging our technology to refine risk management processes, and combining that with the use of Windows BizTalk Server and BizTalk SwiftAccelerator to enhance cash flow visibility and forecasting, we have a very clear view of investment time horizons appropriate to our liquidity requirements," says Zinn.

He also leverages knowledge of how to unlock value in commodity price trends, gained during his time on the Chicago Mercantile Exchange floor. To gain better risk-adjusted returns and partially diversify away from fixed income to some alternative strategies, in 2005 Microsoft began allocating to commodities. "This has really helped our investment portfolio perform strongly, despite 2007-2008 fixed income market dislocation," says Zinn. "We aspire to be innovative and go beyond the latest financial risk management iterations for the benefit of our treasury, and leveraging our high performance 64-bit Windows server helps us to accomplish more with less."

When it comes to more customary types of treasury investments: "We only invest in external funds that will provide us with security level visibility and in nothing that we cannot price ourselves," says Zinn. "For example, money market funds that can provide us with liquidity later in the day than we can provide ourselves are a good option."

Zinn looks for diverse opportunities to capitalise on his company's ability to take incremental risk relative to its policy benchmark guidelines. Such an opportunity occurred about three years ago when the SEC clarified guidance on Auction Rate Securities (ARS). Some investors sold the reclassified short-term securities in order to remain within their investment policy parameters and financing covenants. "As this sale was not based on economics, it provided us with an opportunity to purchase Auction Rate Securities in the billions at a very good price," he says.

As the ARS markets settled in 2006/2007 and Zinn's team saw liquidity risks starting to outweigh incremental returns, Microsoft began exiting its ARS positions. "We had exited substantially all of them by the beginning of 2008," says Zinn. "Our visibility into these securities, and the requisite in-house resource's expertise to price them individually, allowed us to measure their credit and liquidity concentration risks."

Zinn finds many of his counterparts outsource balance sheet investment management, and as a result are unaware of underlying holdings. "We only invest with managers whose strategies are sufficiently transparent to allow us to get daily pricing for our separate front and back office Excel and Windows 64-bit pricing models," he says.

To be able to put the most effective investment strategies in place some companies hire investment specialists, as in the case of Volvo. To reduce talent turnover risks, Volvo gives such specialists interesting investment challenges. "We look at how other investors manage their portfolios and consider any innovations that may work well for us," says Volvo's treasurer, Anders Osberg.

In line with many other treasuries, Volvo's eschews investment in equities and instead goes to long interest rate and fixed income products. To retain the level of reserves needed to cover M&A activity, Volvo maintains a stable and liquid portfolio of AA rated securities including treasury bills and mortgage certificates. However, unlike many other corporate treasuries, Volvo can also opt for short interest rate and fixed income products.

Volvo capitalises on diverse specialist expertise for the benefit of its portfolio. "As we have to understand how derivatives work for hedging purposes, we leverage this knowledge for the benefit of our investment portfolio," says Osberg. "This allows us to overlay the portfolio with risk diversifying, volatility limiting and return's enhancing derivatives, including futures."

Once parameters are defined, investment teams have to remain within them, while being receptive to innovative strategies that best exploit evolving markets for the benefit of safe, liquid and rewarding portfolios.
Sealing relationships

For the benefit of risk control and efficiency, treasurers are developing strong ties with sister departments and business units.

By Patricia Ward

Finding treasury in its own room with a keypad lock on the door used to be commonplace not so long ago. Treasury isolation meant that classified information did not escape, but not as much data as might be desirable could get in, and people from other departments had little awareness of the role of treasurers. All this is changing as treasurers open doors to directors, members of tax and finance departments and business units, and service providers. As they welcome their associates, treasurers are finding increased dialogue can mean reduced risks.

“Treasurers stand in between the business and the banks,” says QBE’s regional treasurer for Australia and Asia Pacific, Richard Shaw. “With knowledge, expertise and experience built up through internal and external relationships, they can add value to all concerned.”

Many employees, however, still have a vague idea of treasury’s raison d’être, and service providers have varying notions of treasury priorities. This is not surprising when treasurers find the roles of their counterparts at other companies can differ considerably from their own. Even in departments closely related to treasury there can be uncertainty about what treasury does. A newly appointed deputy treasurer who had just moved over from her company’s finance department commented that she was unsure what her new role would entail.

These days, it is generally accepted that for the benefit of risk control and efficiency, treasury should develop strong ties with sister departments and business units, rather than hold them at arm’s length. “Treasury should not be a silo!” emphasises Marie-Astrid Dubois, treasurer EMEA and Asia for Honeywell. “In order to consolidate and access cash across the group, enhance fund raising and minimise associated risks, you have to work closely with people.”

Many treasurers, including Luis Montesinos, treasurer at Alcatel-Lucent Iberia and Italy, would agree. “Having the best internal relationships is extremely helpful in reducing cash flow and liquidity risks, boosting efficiencies and capitalising on synergies,” he says. “It is therefore essential to ensure treasury is well integrated with the rest of the company.”

In order to best serve the business units, the treasurer will have certain information sharing requirements. If cash flow information remains with business units, treasury will struggle to improve forecasting accuracy. Hence treasury has to ensure business units fully appreciate the value of prompt communication of information. “If the business units are made aware of the consequences in terms of money flows of their different activities and policies, they are...”

Business unit buddies

To earn the trust of business units, treasurers have to clarify their roles and ensure colleagues are fully aware of the diverse ways in which treasury can help them save time and money, and manage risks. “In a real estate development company such as ours, treasury has to take account of evolving risks related to different stages of a project, that is, from project inception to selling the finished development to investors,” says Multi Corporation’s treasurer, Wim Lambrecht. “Over this period the treasurer acts as a consultant, and sometimes saviour, as he identifies, measures and manages varying risks.”

As treasurers integrate, they increasingly contribute to business decision making and influence strategy. “If, for example, treasurers participate in negotiations of contracts before they are finalised,” says PricewaterhouseCoopers’ UK partner, Yann Umbricht, “there will be less of a need to hedge certain risks afterwards because they were managed as part of the negotiation process.”
Over the past few years, the financial markets have been a willing source of funding for companies with working capital needs. However, this environment has – for the time being at least – changed dramatically. For example, volumes of asset-backed commercial paper (ABCP) – a vital source of short-term funding for daily activities – are down dramatically. In Europe, the total volume of ABCP is less than half what it was last summer, despite some signs of improvement. In short, it is more difficult – and expensive – to raise money in this way.

The struggle to gain funding comes at a time when the entire supply chain is under pressure from increased fuel costs and other rising expenses. This combination of factors adds up to a significant squeeze for corporates – and hence a drive to find other ways of raising funds and wringing out every last drop of group liquidity.

**Receivables discounting**

Clients are scrutinising their balance sheets and processes to see what they can leverage to raise funds. This hunt for alternative sources of working capital is reflected in our trade finance and supply chain business, which has seen increased demand for receivables-backed finance structures. For example, if a company has a portfolio of receivables with payment terms of perhaps 60 or 90 days, one way to turn this portfolio into cash faster is to discount these receivables, with the bank agreeing to purchase them and provide immediate funds on a discounted basis.

As working capital tightens, clients are focusing on speeding up the sales-to-cash cycle via stricter targets for days sales outstanding (DSO). That provides another impetus for taking receivables off the books. If a company’s DSO target is 40 days, but a handful of well-rated customers pay in 120 days, it can monetise these receivables by discounting them and thereby eliminate their impact on its DSO target.

Receivables discounting is also increasingly popular with commodities companies. With the rise in commodity prices, their receivables portfolios have massively grown in value – in some cases beyond the level of credit they are happy to extend to a customer. Receivables-backed structures can monetise these revenues and, importantly, mitigate risk.

**Supply chain finance**

Supply chain finance can help ease the pressure imposed by the credit tightening on suppliers. Here, a well-rated corporate uses its credit rating to make financing available and attractive to suppliers. In the current environment, some companies understandably want to safeguard credit facilities for their own use – rather than ‘share’ them in this way – but many other businesses feel an increased need to support key, strategic suppliers. As SMEs or mid-market enterprises, these suppliers are often the first to feel the impact of more expensive funding. Their potential inability to deliver represents a major risk to the supply chain, which many corporates are keen to mitigate.

**Optimising balances**

Making your cash work hard for you is vital at the best of times, but current conditions are focusing treasurers’ minds like never before. To that end, they need improved control, visibility and optimisation of balances so they can better manage risk, liquidity and return. They want to mobilise the cash available in their organisations and gain greater control over their liquidity. This is encouraging greater centralisation of liquidity and investment management.

Today’s automated liquidity management tools – including sweeping, multi-bank cash concentration, cross-currency notional pooling and cross-border cash optimisation – are improving visibility of the net cash position and enabling treasuries to invest surplus cash centrally or reduce their dependence on local finance.

**Maximising yields**

Netting cash balances against debts both removes the cost of bank interest margins and improves a company’s balance sheet. Deficits across the organisation can be self-funded in a timely way through access to global surplus working capital. Meanwhile, the yield on short-term excess cash can be maximised and the core funding positions for increased-term investments can be built up.

In addition, our experience indicates that clients are increasing their focus on risk and compliance. This is leading to further centralisation of balances in order to improve control and insight, as well as driving the development of global liquidity and investment solutions. These global solutions enable companies to sweep cash to strong, well-rated institutions and take advantage of investment vehicles that minimise risk and generate attractive returns.

At RBS, we are well placed to deliver innovative ways for corporates to optimise working capital. We established our Global Transaction Services division to bring together the domestic market strengths of RBS and the international expertise of ABN AMRO. The result is a top five global transaction bank with wider product capabilities and an extended geographical reach. In an age when optimising working capital demands a global approach, we can provide technologically advanced solutions that span all elements and geographies of an organisation’s operations and supply chain.

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**Capital ideas**

Companies are always keen to optimise their working capital, but rarely can that ambition be more important than it is now. In the current environment, businesses are looking at alternative sources of funding and seeking ways of maximising cash resources – RBS is equipped to deliver, says Brian Stevenson, Chief Executive, Global Transaction Services.
more likely to help the treasurer get a better view of cash flow dynamics,” says Prada Group’s corporate finance director, Giuliano Giannessi. “Getting timely input from the business units can facilitate treasury, creating a cash flow picture that supports making optimal company decisions.”

To ensure people come forward with the right answers at the right time, timetables with daily deadlines should be shared and applied by everyone.

It is also important for the business units to feel they can share answers that they fear may put them in the wrong light. “The role of the treasurer can be compared to that of a priest during confession; people have to feel that they can tell you everything, be they sins or good practices,” says Gruppo Alpitour’s treasurer, Enrico Rao. “Sharing a coffee with a colleague at the vendor machine can help build the required trust.”

The corporate brotherhood

While many treasury networks for sharing corporate liquidity and risk management objectives include all commercial units, they traditionally have especially strong connections with finance, compliance, accounting, purchasing and tax. Given the generally broadening remit of treasury, these connections are being reinforced. “As we combine our traditional treasury management with credit and risk management, insurance, and trade and project finance, we have comprehensive interface with all stakeholders within our company,” says Montesinos. “We often work through internal committees, which meet regularly to work on specific projects and provide feedback to all concerned.”

He finds such interface helps in creating an understanding and respect for the work of each part of the network. “We are now used to teamwork and sharing a negotiating table with our purchasing legal and compliance sections. “Over the last 20 years, Volvo’s treasury has fine-tuned relationships with risk control, tax and legal departments,” says Volvo’s treasurer, Anders Osberg.

In addition, he finds the fact that the current and previous two Volvo chief financial officers have worked in the Volvo treasury has helped to ensure treasury is well-understood and supported.

Counterparty cousins

Working closely with the chief financial officer, the capital markets team and potential financiers is particularly important for treasurers involved in project funding when credit is tight. “Having good relationships is especially important in difficult markets when credit committees can become more demanding and negotiations more complicated,” says Lambrecht. “The treasurer and his team have to work harder to get funding on terms that meet everybody’s requirements.”

“...the role of the treasurer can be compared to that of a priest during confession; people have to feel they can tell you everything, be they sins or good practices.”

From the public sector perspective, Kathy Quinn, head of finance for Dublin City Council, points out that when purse strings are tied particularly tightly, it is essential to work more closely with central government. As about a third of city council funding comes from central government grants which are made retrospectively, she finds it important to streamline funding processes and cut quickly through red tape to boost cash management efficiency.

There are, however, benefits of a tighter market on which treasurers can capitalise. This may mean swapping old relationships for new ones with service providers keen to get increased transactional through-put in terms of payroll and other business. “Historically we would have had one main cheque account with one bank and one main payroll account with another,” says Quinn. “Around the end of 2007, beginning of 2008, we tendered for revised banking arrangements and subsequently received far more competitive quotes than would normally be the case, thus allowing us to make very considerable savings.”

When confident that a new bank can offer the same quality of service and relationship as an old one, it would seem to make sense to switch providers if savings could be sufficiently substantial. “Current market constraints make it very important to get bank services at the best price,” says Quinn. “However, you cannot compromise on the quality of those services because it is all the more important to optimise cash management efficiency.”

In difficult times many treasurers prefer to retain established relationships with banks that owe them the extra effort if there is a problem. This is the case for Osberg. “While we allocate some business to regional and specialist banks, we focus on a core of about 25 banks that we find serve us particularly well.”

Maintaining a relationship over a long period will help the treasurer to ensure their company’s banks understand their corporate treasury philosophy and remain aware of trading results, acquisitions, divestments, new business activities, and any other matters that might affect the relationship. “The treasurer should be as open as possible in discussions with banks,” says Christie’s international group treasurer, Dominic Bennett. “Banks should understand that treasurers look for a relationship that goes beyond the mere level of dealing transactions and is there through the good times and the bad.”

Banks with which a firm has long standing relationships can help in gaining introductions to potential new counterparties, in locations where the firm is not so well known. “Good relationships can lead to more good relationships in places where a company is looking to expand,” says Lambrecht.

New overseas entities, as well as those at home, are often brought into the corporate fold following a merger or acquisition, and in such a situation it is important for treasurers to quickly build relationships with new colleagues. “Don’t wait for people to come and introduce themselves,” advises Rao. “IT solutions providers, banks, insurers, shareholders and colleagues at home and abroad all have different personalities and cultures. It is therefore important that the treasurer is readily approachable and is as good with words as he is with numbers.”
Credit squeeze

The credit crunch is changing financial relationships across the supply chain. Treasurers are learning new ways to reduce their risk exposure.

By Randy Myers

MEMC Electronic Materials has roughly US$1.5 billion in cash on its balance sheet and virtually no long-term debt. Last year, the US-based maker of silicon wafers increased its sales by 25 percent to US$1.9 billion, converting a stunning 45 percent of sales to net income and generating US$641 million in free cash flow. Despite these sterling financials, MEMC treasurer Jairaj Chetnani is increasingly being asked by vendors to post letters of credit to backstop the company’s accounts payables. He routinely declines, and unlike some treasurers, has the muscle to make it stick. “We just point to our balance sheet,” he shrugs, “and they say okay.”

With the global economy slumping and the credit crunch squeezing access to capital, it is no surprise that vendors are more concerned today about the credit risk posed by their customers than they were a year or so ago. Still, it is a measure of how nervous they have become that even financially strong companies like MEMC are being asked to post payment guarantees, a practice that, except in emerging markets, has been largely abandoned over the past decade and a half in favour of less costly open account trading.

“Companies are certainly worried,” says Marilyn Spearing, global head of cash and trade for Deutsche Bank in London, who reports seeing a modest upick in corporate clients asking banks to serve as intermediaries between buyer and seller. “I am seeing the beginnings of this in the auto sector, as you might imagine, and in certain markets in Asia, such as India and China.”

The wrinkle, of course, is that banks are reeling from massive losses linked to the collapse of the sub-prime mortgage market and have become stingy about lending money or otherwise committing their balance sheets. So even though bank-issued letters of credit only have a 20 percent risk-based capital weighting, Steven Nichols, head of global trade services for Wachovia Bank in Hong Kong, says some banks aren’t unhappy when companies opt for risk-mitigation strategies that shift the risk to someone else, perhaps by purchasing credit insurance on their accounts receivable or shifting the risk to end-customers higher up on the supply chain.

Finding solutions to trade finance risk is important because it has such broad ramifications, especially when, like now, the usual fallout from a sluggish economy is compounded by a credit crunch. If customers become slow to pay, it ties up working capital that could be better spent growing the business, and may even drive increased borrowing. If financially struggling vendors are unable to secure financing against their accounts receivables, they may find it difficult to fill orders, jeopardising the corporate supply chain. Those same vendors may try to impose more onerous sales terms, too, albeit mindful that they risk losing business by doing so. Michael Verrier, group treasurer for UK-based Wolseley, a US$32.8 billion distributor of heating and plumbing supplies, notes that his vendors haven’t asked him to post letters of credit, but they have attempted to rake in money faster by offering more attractive discounts for early payment of invoices.

Fortunately, treasurers have numerous ways to mitigate trade credit risk beyond demanding that customers post letters of credit. On the accounts receivable front, they can lessen the risk of getting stuck with unpaid invoices by more carefully vetting customers’ financial strength, collaborating more tightly with sales and marketing personnel when crafting financing terms, staying in more frequent contact with customers to head off late payments, and purchasing credit insurance on portions of their receivables portfolio. On the supply chain front, they can issue written guarantees of the payables of their suppliers, at least as it relates to their own purchases, supply bank-issued letters of credit, or, if they have an
impeccable credit rating, even issue their own letters of credit.

Riding herd on customers

Ensuring the health of the A/R portfolio is a bread-and-butter imperative for treasurers intent on minimising trade finance losses. At MEMC, Chetnani says that while he’s not particularly worried about his customers’ ultimate ability to pay, “we certainly are seeing more customers attempting to delay payments, and some are getting pretty creative about why they can’t pay on time.” He cites one customer that “always seems to have customs, legal and banking issues right around quarter end,” and another who routinely reports that the check for MEMC is sitting on his boss’ desk but hasn’t been signed. “We had to sit down with that customer,” he recalls, and say, “Look, we understand what’s going on, and we are not your bank.”

Today, Chetnani and his team review their customer accounts twice a week rather than once every one or two weeks as they had in the past, and at a finer level of detail. When large invoices are at stake, they’ll call their customer a few days before the due date to confirm that the customer has initiated a wire transfer or written a cheque, and that it’s going to be delivered. “We keep an open dialogue with them,” he says, adding that where warranted, MEMC will ask for cash in advance. “If they can’t provide that, we will insist on some very short terms, for example, seven days.” In some cases — more so than in the past, Chetnani concedes — MEMC will forfeit a sale rather than take what it considers an untenable credit risk. Deciding when to take such harsh measures is always a judgment call, he says, and always made in concert with the company’s sales and marketing personnel.

United Plastics Group, a privately held OEM sub-assembler and contract manufacturer serving the auto, consumer, electronics, industrial and medical markets, is also riding tighter herd on its customers. Bob Gold, chief financial officer for the US-based company, has made a member of his staff responsible for a rigorous and ongoing review of the A/R portfolio, and for reporting any suspicious developments to him on a weekly basis. When one customer starting missing payment deadlines on a routine basis, Gold went to the customer’s ultimate customer, an OEM, and convinced the OEM to provide a written guarantee covering the intermediary’s bills. Today, such transfers of risk aren’t extraordinary. “Buyers are showing a greater willingness lately to use their balance sheet to help improve the working capital management of their global suppliers,” confirms Chris Baker, head of trade finance for the Americas, Europe, the Middle East and Africa for Bank of America.

Where companies can’t be confident that their efforts to bird-dog creditors will sufficiently mitigate their credit risk, some, including United Plastics, are buying credit insurance on portions of their A/R portfolio. “The insurance pays off in the event a credit becomes uncollectable, and for a very low cost provides a tremendous amount of security,” says Gold. He pegs the price of that protection at less than half a percent of annual sales, and says he’s been buying it since he joined United Plastics at the beginning of 2007.

Wolseley also purchases credit insurance on some of its foreign receivables, and then factors — sells — some of them to its banks. Insuring the receivables, Verrier says, yields the side benefit of opening up some off-balance-sheet financing opportunities. “We find that factoring these receivables, which has not been a cheap form of financing in the past, has become relatively cheap,” he says. “And by packaging it around credit insurance, you can get it off-balance-sheet.” Verrier says Wolseley has factored “a couple of hundred million pounds sterling” of its receivables, a relatively small portion of its overall portfolio but more than it would have done a few years ago. “It’s just a way of increasing the liquidity in the group,” he says, “and a way of picking up financing facilities at a cheaper rate than we could with an unsecured facility.”

Open account still intact

Through all of this, bankers say the trend towards relying on open accounts rather than letters of credit or similar documentary guarantees remains intact in most of the developed world, perhaps only slowing a bit in the wake of the credit crunch. “Companies, particularly American importers, are unlikely to default on their trade exposure because they need to continue receiving those goods into their operations,” observes Howard Bascom, head of trade finance services for Bank of New York Mellon’s treasury services business. Steven Nichols, Hong Kong-based head of global trade services for Wachovia Bank, adds that large US importers continue to push their overseas vendors to phase out open accounts. Failing that, he says, some push for the right to issue their own letters of credit, a strategy that Wachovia helped pioneer several years ago after realising that in some cases, companies buying letters of credit from banks had higher credit ratings than the banks themselves. Corporate-issued letters of credit offer documentary guarantees similar to traditional letters of credit, Nichols says, but at significantly lower cost.

In developing markets, by contrast, letters of credit and other documentary guarantees remain a fixture of the trade finance scene. “While the movement has been toward open terms, we continue to see growth in the use of confirmed letters of credit and bankers acceptance financing in Asia and elsewhere,” says Bank of America’s Baker, “both to mitigate risk and provide for extended financing for large dollar transactions.”

Alternative trade finance strategies

Risk in the current environment has, in some cases, put the brakes on “reverse factoring” programmes, in which banks offer to pay their customers’ vendor invoices early. The banks recoup these advances, plus a commission, when their customer pays them according to the original terms of the sale. Wolseley’s Verrier says banks are not pushing this service nearly so hard today as they were a year ago, having realised that it concentrates all of the risk on one party — their customer — rather than spreading it out over many parties as a conventional factoring arrangement would. But Deutsche Bank’s Spearing, for one, says her bank is continuing to offer the service, though she doesn’t particularly like the term “reverse factoring,” since it can be applicable to a broader array of situations than factoring. “I’m not surprised to hear that some banks may be pulling back, particularly when it involves lending to smaller suppliers on a non-recourse basis, given that we are entering or are in a down economic cycle,” she says. “However, we are doing this. We are signing and implementing new programmes this year. Clearly, the buyer/supplier relationship is critical in these transactions, and they are not for everyone. But where it works – where we’ve been able to build a track record with suppliers – it helps them through the credit crunch by giving them ready access to capital.”

The heartening message in all this isn’t that banks have come up with a way to solve everyone’s trade finance issues amid the current credit crunch; as Spearing hints, no single solution is going to be right for every company. But programmes like these demonstrate that even in the depths of a credit crisis, time-honored solutions are still holding water, and creative treasurers have more than one way to work through a difficult economic environment.
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Despite setbacks and a lack of corporate enthusiasm, SEPA holds great promise.

By Tom Leander

A standard approach to an article on the Single Euro Payments Area (SEPA) is an apology to treasurers. So boring the topic is meant to be, that the word count must be justified by a discreet “sorry”, before plunging in.

Actually, SEPA deserves better. It may not be as exciting as the Beijing Olympics or as flashy as a Madonna tour. It falls under the classification of an enterprise of great promise. So much ink has been spent on talking about SEPA’s potential stumbling blocks that it’s easy to forget the city on the hill that it could well be.

Imagine a Europe, then, fully in tune with implemented SEPA. Date: 2012 (accompanied by fanfare). Scene: European treasury centre of a global manufacturing company. Goodbye to those legacy systems applying to each country. One payment infrastructure rules. This allows for improvements on straight-through processing. Reason: SEPA messages are more data rich and more highly standardised, with a better chance at getting through without manual intervention than the existing system. Like all efforts at simplicity, it yields benefits of scale. Companies will be able to wipe away costly redundancy and gain visibility across the system. Grasp of where working capital improvements can be gained is an immediate advantage. Larger companies will have an easier time setting up payments factories. Smaller companies have one less obstacle to cross-border expansion within Europe. The same applies to overseas companies expanding within the Eurozone. Banks gain too in applying services that improve straight-through processing (STP) and services that upgrade working capital performance. The once illusive dream of better management across the financial supply chain is now within reach.

From the bank point of view – and remember that banks were required to adopt the system – it’s a win-win, “SEPA will give us a better infrastructure, better reconciliation, better STP, and will release working capital to our clients,” says Anne Boden, head of Europe and CEEMEA, global transaction services, at The Royal Bank of Scotland. “That's the starting position. Then it's all about offering creative services.”

Many corporate treasurers also look forward to the benefits. Michel Verholen, director of international treasury at Greif IP&S International, sees a breakthrough in “everything in the area of connectivity. It’s going over to one format, and only one interface, like working with one user. Big advantage is that you don’t have to worry about the internet version. It increases the flexibility and visibility.”

So what’s the problem?
The advantages are clear. So why is there something of less than a high five when the subject of SEPA emerges?

As one banker put it, “Quite a lot of work needs to be done.” A key reason that SEPA was launched was that the European Commission wanted banks to be more competitive, by having one way of doing things across the whole of Europe, one set of standards, levelling the playing field. Therefore, all banks were obliged to provide the infrastructure on day one. That’s a lot of work for the banks – 4,000 of them. There are two major milestones for the establishment of SEPA. On 28 January 2008 an important milestone in the SEPA migration process was reached, with the official launch of the first SEPA payment instrument for credit transfers. Direct debits and debit cards will be available later (before 2011).

But there have been stumbling blocks. Regarding direct debits, the first milestone has been missed due to delay in the implementation of enabling legislation, the Payment Services Directive (PSD) in the European Parliament. Direct debits will not be available until 2009, which will put severe pressure on a second milestone, which stipulates, according to the original plan, that “At the end of 2010, all present national
payment infrastructures and payment processors should be in full competition.”

A working paper by the European Associations of Corporate Treasurers (EACT) and TWIST (Treasury Workstation Integration Standards Team), a global not-for-profit organisation that forms part of the management of ISO (International Standards Organisation) standards for financial markets, spots the obstacles that have emerged. TWIST is actively engaged with the EU Commission in its drive to harmonise and open up European markets for financial services.

The paper raises the nettling question of limited current interest of corporations in SEPA. According to Tom Buschman, chairman of TWIST (UK), despite lengthy discussion with bankers and much ink spilled on SEPA, corporations are saying that they don’t know what kind of services will be offered by their banks and at what price under SEPA. They also don’t know what changes they will have to make to their systems, organisations and procedures to adapt to these services. Then there’s the issue of lack of concrete deadlines. Corporate treasurers do not know when individual countries will move to SEPA and when old payment systems will be dismissed. Finally, companies would like to know whether – and if so, how – bank migration costs will be transferred to multinational corporations.

Buschman says that these questions don’t indicate disenchantment with SEPA. Corporate treasurers see it in their interest to accelerate the development of industry standardisation of financial supply chains beyond payments and to adapt their organisation and procedures to the new payment services. They do not, however, see themselves as working with banks on an equal footing in the design and implementation of SEPA and having a say on important decisions.

A limited mission?
One glitch in the procedure so far is that the European Payments Commission (EPC), the group overseeing SEPA implementation, may be limited in its mission by a mandate that restricts it to the design of inter-bank payment processing. This means that when the resulting full SEPA solution emerges, that end-to-end straight-through processing as corporate treasurers understand it – from the payer to the payee or vice-versa – is in danger of not becoming a reality. It may very likely stop at either one of the payer’s or the payee’s bank, the TWIST and EACT working paper warns in one of its caveats. This could make SEPA much less attractive than anticipated.

Another problem seen by TWIST and EACT members is that some banks see SEPA as a compliance issue, and therefore one that should be put to work at the lowest possible cost. This could lead to banks doing the minimum that is necessary to comply with the new rules. Finally, some fear a potential weakness in the Payment Services Directive. The PSD is by its nature a deliberately flexible document that must be transposed into national codes to complete its adoption as a legal framework. Says the working paper, “The result of this flexibility is that on a number of important points the PSD is vague or silent. It is therefore vital that the industry keeps a close watch on how these points are translated into national laws. Different interpretations will lead to confusion in the market, possibly harming the SEPA implementation and re-creating the fragmented payments landscape we have today.”

Ray of light
These are formidable challenges to overcome. Will it be possible? There is, in fact, encouraging news. Many large corporations are taking a more active engagement in SEPA now than they were last year.

Cristiano Pinchetti, group treasurer for Monsanto, the biochemicals and agri-business company, says that he is looking forward to full implementation of a SEPA system for Europe. “The main benefit is that we currently have some issues depending on which country that you are operating cash pooling. We try to do it for multi-entities all over Europe. Some have troubles, like Spain and Italy, which need two or three days depending on where you are in the country,” Pinchetti says the advantage will be speed and transparency.

Verholen is looking forward to the ease which complete implementation of SEPA will give to the payments factory he’s developing at Greif. Because of the timing, Verholen will set up separate accounts in each of the countries where Greif has subsidiaries in order to have access to the clearing methods – essentially hedging his bets against a SEPA delay. But he plans to embrace SEPA when the full system finally emerges.

Since Verholen is positive about SEPA, it’s worth examining where he has reservations. “There is an incentive to make the shift,” he says. “The banks certainly are making a lot of investment. At the same time, some of our customers like some legacy products, particularly in direct debit situations.”

Verholen’s hesitancy stems from his view that “not every bank is consistent in the way that they approach SEPA.”

He adds, “As long as banks have not really understood or provided solutions that will allow a SEPA payment to be generated more easily than today, we’ll see hesitation. The banks must develop better systems.”

Verholen is also looking for a concrete end date for the old formats.

Buschman says the situation boils down to a call for “real cooperation” between banks, corporations, and the European Union Authorities. Corporations don’t expect that all their requests will be accepted and executed in a short period of time… It is much more important for corporations to see that their requests are taken seriously: that they are discussed and filtered at a “European level,” that they are compared with alternative solutions and that decisions are made in a transparent way.

The transparency argument may have some grounding in the progress of SEPA so far. The European Payments Commission (EPC), the body charged with designing and operating SEPA, also regulates itself and settles disputes. EACT wonders whether this is a good idea, and goes on to say if, for political and practical reasons, the EPC is left to regulate itself, that it ensures adequate participation by other stakeholders and absolute transparency in all internal procedures. The EACT also notes a lack of transparency regarding the other vital object of SEPA – realising change and innovation. It notes that end-users can submit proposals to the European Payments Commission, but are not part of the evaluation and development process. It comments that stakeholder forums are the only form of cooperation envisaged and that “experience has shown that the current approach is focusing more on the broadcasting of – and consultation on – finished products rather than on joint development of solutions.”

The Brazilian factor
But there is an example of cooperation and a way forward. On the important subject of e-invoicing, there have been signs that major stakeholders in SEPA can work together. A European e-Invoicing steering committee made up of, among others, representatives of banks, TWIST and the EACT, has presented draft recommendations for building a common framework to help harmonise the current fragmentation of e-invoicing all across Europe.

Momentum may be gathering, if only because treasurers themselves see the progress towards SEPA as inevitable. Pinchetti, a Brazilian, recalls shock when he arrived in Europe to begin his job at Monsanto. Payment systems weren’t as sophisticated as those in Brazil. “Europe is supposed to be a mature market,” he says.

In the end, Pinchetti feels Europe will want to be competitive at more than just football.
The years 2007 and 2008 may well mark a reputational nadir for financial regulation, particularly of banks. Wide-ranging regulatory initiatives aimed at financial institutions were introduced in recent years, yet they failed to forestall a credit crisis, which in the end must be attributed to a lack of internal governance and slipshod supervision.

At press time, the crisis still primarily affects the health of the banking system, although a downturn has begun to ripple through the global economy. The corporate sector worldwide, however, has been remarkably resilient, which is why treasurers anticipate with mixed feelings a new wave of regulation aimed at banks. They see reform as necessary, but wonder whether governments and regulators will get it right – or make things worse.

At the onset of the crisis, the banking industry had just begun its implementation of the biggest revision of the industry’s regulatory infrastructure in recent years, the Basel II Accord on capital adequacy (US financial institutions began in 2008; European ones begin in 2009). That accord, universally regarded as more flexible and better structured than Basel I, at least provides a framework for responding to intensifying risks and a way to make it harder for banks to game the system. Some critics say that Basel II actually made the crisis worse; supporters say it has helped mitigate risk. The more likely story is that the implementation of the accord was hit with bad timing, and that it’s impossible to tell its optimal effect, because of the extraordinary events that emerged. Experts now are debating its revision. Few, however, have suggested redesigning it entirely. For corporate treasurers, the reshaping of Basel could lead to a higher cost of credit.

Other regulatory initiatives concerning banks continue to exact a toll of time, money and effort in corporate treasuries. Governments are stepping up enforcement of anti-money laundering policies through banks, thus giving treasurers an extra level of bureaucracy in the form of heightened security checking (see box p51). Outside regulation directed exclusively at banks, the measure with the greatest impact has been the Sarbanes-Oxley law (SOX) in the US. SOX’s five-year anniversary in 2007 was marked by sharp criticism that the law had pinned the competitiveness of US markets by putting an undue burden of cost and accountability on companies listed there. Many chief financial officers and their treasurers still see the law as a stringent tax on corporations. Measures were proposed in the US Congress to take some of the sting out of SOX’s provisions. This has died down since Congress shifted to a Democratic Party majority in 2006 (Republicans usually play the role of making life easier for corporate initiative). Meanwhile, SOX has been catching on elsewhere. Japan’s Financial Services Agency is overseeing a rollout of the Japanese version of the law, known as J-SOX, a code that mirrors SOX, but without some of its most controversial provisions.

Sweet Basel?
All of these initiatives have caused corporate treasurers to shoulder new procedures, documentation and systems of verification and security. But the initiative with the widest ranging impact on the banks also has the greatest potential impact on corporate treasurers.

Basel II requires banks to have more sophisticated methods of calculating their risk. It also grants banks greater flexibility in their pricing of risk, by allowing them to adjust according to the risk profile of their corporate customers. Fears among corporate treasurers that the system will give rise to a higher cost of funding, as banks price more aggressively for risk, have not played out – yet. “If anything,”
says Sander van Tol, a partner at Zanders Treasury and Finance Solutions in the Netherlands: "The cost of credit for highly rated corporates should be lower under Basel II because there is now a more sophisticated way of calculating the risk and the credit spread."

But the re-examination of Basel II amid the crisis will lead to the revision of some of its provisions. Basel II has three main components, dubbed pillars. The first pillar calculates, via mathematical formula, the amount of risk capital a bank must keep on hand to cover credit risk. This is the portion of Basel II that has drawn the most attention so far, as the capital adequacy of so many major institutions has been thrown into doubt. As the crisis progressed, a discussion of preventative measures emerged, and it is the second and third pillars that have gained the closer attention of regulators.

The second pillar concerns the types of risk exposure that have emerged in the crisis – such as reputational risk, a factor in the collapse and rescue of Bear Sterns. It also allows regulators more leeway to take decisive steps in the event of a crisis, such as requiring additional capital for a particular bank, if needed. The third pillar requires greater disclosure from banks.

Since the crisis, more attention has been devoted to possible fixes to Basel II. The Basel committee, for example, has said that it plans to require higher capital charges on credit assets held on bank balance sheets, and on structured products. Another area due for reform is the treatment of liquidity risk. This type of risk, so prominent in the credit crisis, was hardly covered in the Basel II accords. The committee is due to release an updated, amplified version of liquidity standards by the end of the year. One focus will be on measures to protect against liquidity problems at a particular bank, or set of banks, leading to a systemic collapse, such as deposit insurance and central bank funding. But it will also focus on how liquidity is managed within banks. Some banks, for example, manage liquidity through their treasury departments, while others hand it to the risk management desk to oversee. Some bankers argue that the risk desk is the best place for it.

Another area up for scrutiny concerns the timing of capital allocation for risk in business cycles. Current value-at-risk models assume that risk subsides after a long period of financial stability and growth. This defies common sense, because the onset of crises tends to emerge after the peak of a long expansion. The idea would be to examine how to allocate risk capital at times when credit standards are looser, as they historically become amid a long period of expansion. Underlying this debate is the question of when to apply regulatory measures – as a reaction to a downturn, or amid an expansion, to counterbalance the effect of business cycles before downturns set in. Yet another initiative to revise Basel II's current incarnation will be how to allocate capital against risks that have been transferred off the balance sheet. It had been assumed that off-balance-sheet vehicles transferred risk completely, a view that has been undermined time and again since 2007.

All of these initiatives will lead to a more stringent approach to liquidity and capital. The question for treasurers will be whether, when it ends, the result translates into higher credit pricing. The answer is a qualified yes. As van Tol implies, banks' best customers, those with high credit ratings and long relationships, may actually see the pricing on credit decline. But a cost may be exacted on unrated, mid-size companies or new companies without a track record. Some analysts challenge the very notion of crafting changes to Basel II that may lead banks to impose higher credit prices on sound businesses. They say that such a course is in essence targeting the wrong issue. Basel II, in their view, is not broken. It was lax and inept regulators that allowed banks to spin out of control. These critics point out that the condition of Northern Rock, the UK financial institution that required a bailout in 2007 was transparent long before the issue ballooned into a crisis.

"Every fact on Northern Rock was on the web site," says Jon Moulton, founding partner of Alchemy, a private equity fund, and a leading critic of financial institutions supervision. "The disclosure was unreadable," he says. "It was 200 pages, involving 11 types of debt, in three currencies – it might as well have been written in Ancient Greek. But the regulator had access to all that."

Tighter supervision may well emerge. Regardless, some elements of Basel II will ultimately be sharpened. Regulators will have to ensure that the revisions don't fail prey to the law of unintended consequences – allowing an upward repricing of risk to place an added burden on sound, mid-size or entrepreneurial companies that comprise the very section of the economy that provides growth and vitality.

Big load in anti-money laundering

Any treasurer that has recently had to open a bank account will have been subject to the increasingly stringent identification and security checks in place for new customers as a result of anti-money laundering regulations. According to Lars Cordi, treasury director of Carlsberg in Denmark, banks are now far stricter when it comes to checking the identity and credentials of the person and company opening a bank account. "We definitely feel the effects of our banks' anti-money laundering policies when we are opening new accounts. They require company documents to prove that the person is employed at the company. In terms of workload, it is not too time-consuming because we only need to provide these documents when opening an account."

However, the onus to comply with anti-money laundering policies is not only on the banks. It benefits all corporates to uphold any anti-money laundering regulations to prevent fraud. Although Mitsubishi Corporation UK (MCUK) is not currently regulated by the UK's Financial Services Authority (FSA), new anti-laundering legislation has prompted the company to tighten related policies and strengthen its due diligence process on commodity trading counterparties. "In response to the demands of the growing number of regulations and internal policies," says Gary Williams, London-based general manager of the treasury at MCUK, "we created a compliance department to coordinate and better support these activities. Although this used to be done by treasury at MCUK, the compliance department has now taken on that responsibility."

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As treasurers say farewell to the ivory tower, they are investing more time in learning the soft skills.

By Tom Leander

These days, heightened accountability and awareness of risk management are driving the integration of treasury with other company units.

“Twin factors – the impact of International Financial Reporting Standards (IFRS) and risk management – are bringing the whole world of accounting into the decision criteria of treasurers,” says Sander van Tol, a partner with Zanders, a treasury consultant based in the Netherlands.

The effect, he says, is to encourage the “integration of treasury with the other businesses within the corporation.” Van Tol adds, “The treasurer is leaving the ivory tower.”

Business unit savvy

Life outside the ivory tower will require new approaches and attitudes, among them the ability to argue, present, persuade and influence. No wonder then, treasurers see so-called ‘soft skills’ as part of the key to professional advancement. A study conducted in late 2007 by Chicago-based Zehren Friedman Associates for US corporate treasurers, identified the two top types of opportunities for skill development that would encourage career advancement. These were increased exposure to senior management and communications skills (e.g. negotiation, listening, presentation, influence skills).

The respondents said that communicating effectively in person, verbally and in writing were vital skills to have in treasury roles. They also cited the ability to talk about technical treasury terms and concepts, explaining and selling treasury solutions to senior management and at all levels within a company. They included knowledge and communication on non-treasury issues, as well, saying it was important to talk about manufacturing and operations issues and, in the words of one of the respondents, “incorporate diverse interests and concerns to a mutually agreeable solution.”

“The treasury function has so many constituencies,” says Blanche Roberts, consultant with Zehren Friedman, the Chicago firm that launched the study. “In the past, treasurers have been undervalued, in part because the businesses don’t understand who they are or what they do. The best treasurers are those that are good at educating others and articulating their value.”

Career building experiences

The need for treasurers to gain a broader palette of knowledge has been reflected in blue chip treasury training programmes, most notably at Ford, General Electric and General Motors. These programmes have been deliberately set up to create future leaders by putting treasury employees in close contact with other departments, often rotating them to the operational units for months at a time.

General Motors’ programme is famous for being the most extensive. It is a rotational programme that requires individuals to assume high levels of responsibility early in their careers. The programme lasts seven years and comprises several assignments that put promising employees in the middle of a strategic initiative undertaken by an operating business.

Ravi Jacob, corporate treasurer of Intel, believes that talented employees are exposed to businesses in each major region in which Intel runs a treasury centre. He rotates his most promising treasurers between India, the West Coast of the US and Europe, for regional experience that will help them broaden their knowledge of local business. To him, exposure in India is most important. “It’s commonplace,” says Jacob, “that the future of business growth is in the developing markets. But so too is most of the risk. It makes sense then to expose future treasurers to the risk inherent in where the business is going to be.” He also makes sure that promising employees are involved in M&A projects.

“They could easily go off to work for an investment bank,” he adds, “but if we give them career-building experiences they’re more likely to stay.”
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