



# Treasury Workshop Series

FTA Annual Congress 2016

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SCB Treasury Solutions and Advisory

# FTA Professional Development Program 2017

Quarterly Sessions planned to focus on specific functional roles within Treasury



1

- Banking infrastructure
- Cash and liquidity management



2

- Capital Markets
- Working capital funding



3

- Exposure measurement and analysis
- Financial risk management



4

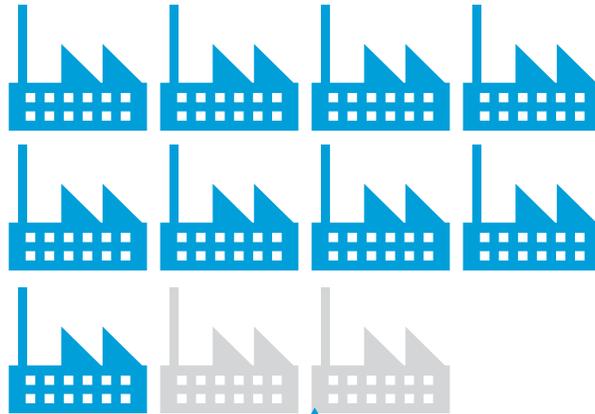
- Trade and supply chain finance
- Working capital optimisation



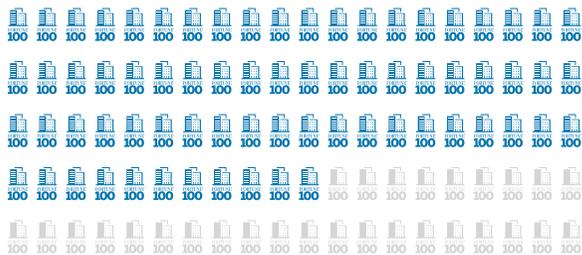


# An introduction to Standard Chartered Bank in Asia

We are one of the largest and oldest international banks servicing multinationals in Asia today



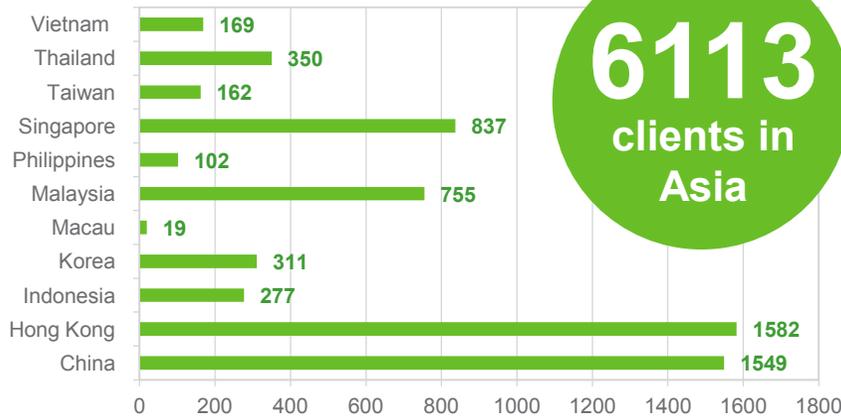
Total advisory engagements	<b>801</b>
Europe & US MNCs	<b>341</b>
Executed in Asia	<b>506</b>
SSC and cash re-engineering projects	<b>76</b>
Trading hub projects	<b>20</b>



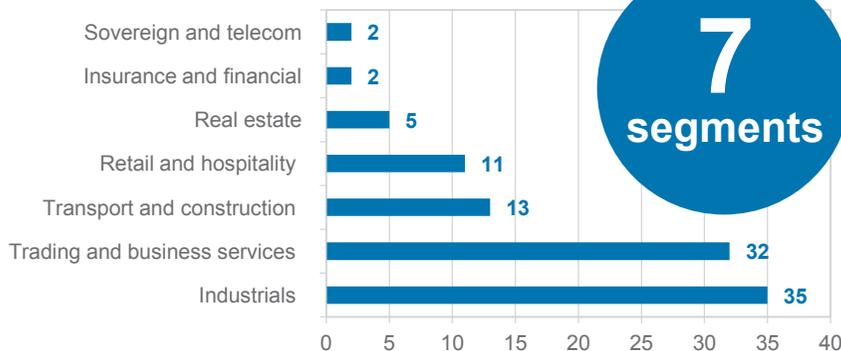
# We are one of the top 3 banks servicing multinationals in Asia

## Multinational cash management clients:

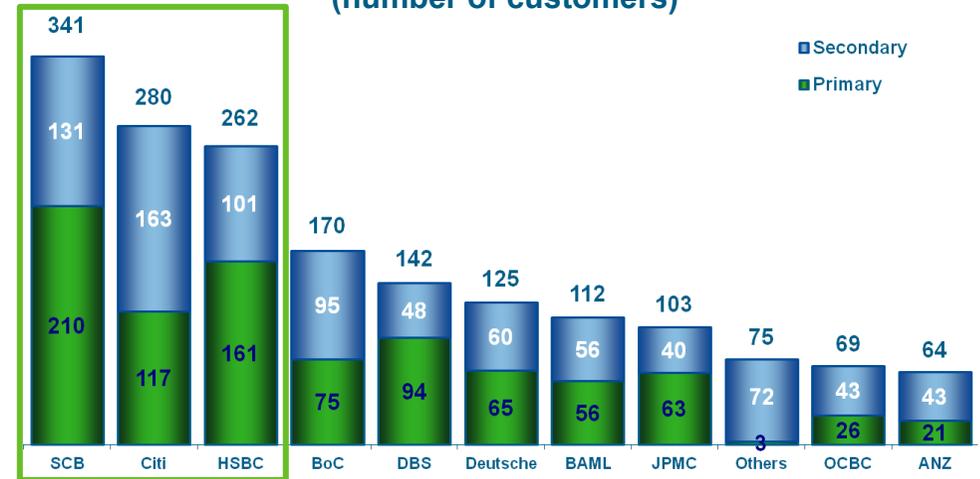
### By country:



### By segment:



## Primary and secondary transaction banker – Top 10 banks (number of customers)



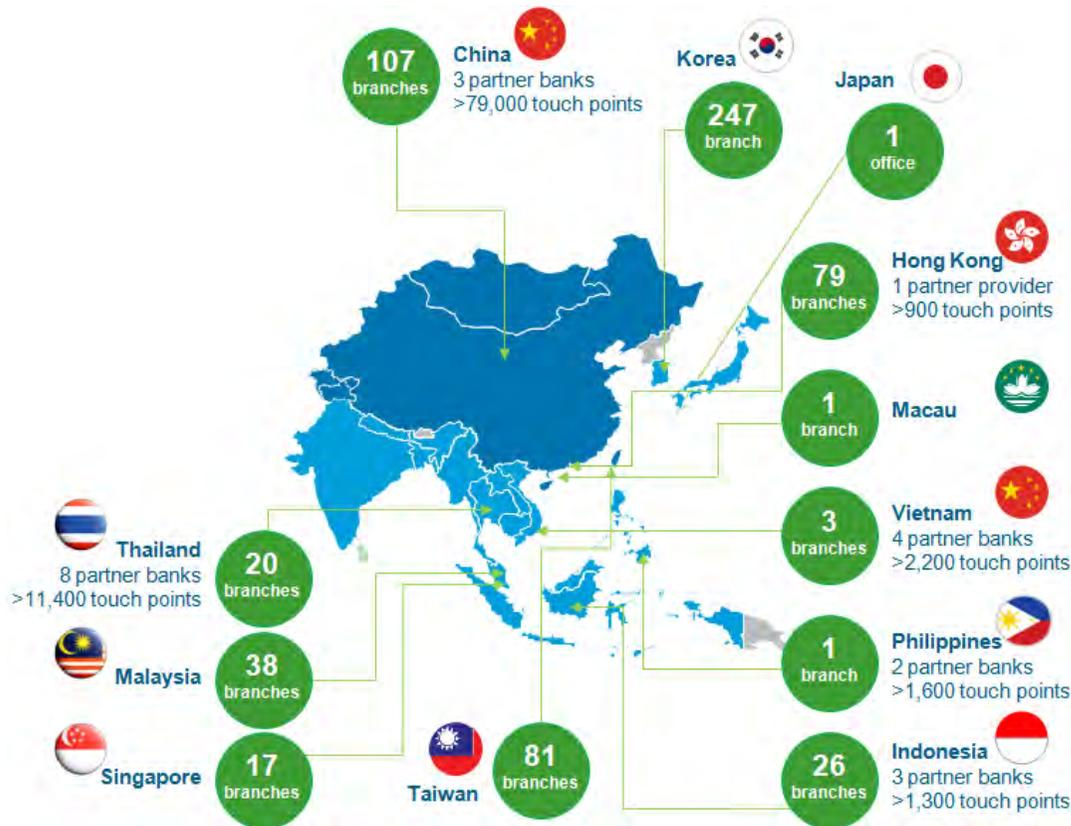
Source: East & Partners Asian Institutional Transaction Banking Markets Program May '16  
Users: 941 Institutions in Asia - China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, Korea, Taiwan, Thailand



We are one of the largest banks in Asia, and our pan-Asia network supports a full range of capabilities



Standard Chartered is one of the largest banks in Asia



Full footprint coverage in **12 countries**

**621 branches** with over 150 years history

**>96k** extended touch points via **21 partner banks**

**Direct access** to all clearing systems

**Virtual accounts** for collections and payments

# These Asia centric examples show the strength of our multinational cash management capabilities in the region today



**World's largest package delivery company and provider of supply chain management solutions**

**20**  
**markets**  
in our footprint

Pan regional liquidity solution with cash concentration including China multi-banking

Multi-currency notional pooling in Singapore with extended cut-off times



**One of the largest manufacturers of electrical, electronic and fibre optic interconnection system**

**10**  
**markets**  
in our footprint

Cash pool set up in place on-shore in China, developing a regional liquidity solution

Exploring a global vendor pre-payment solution to help manage payables

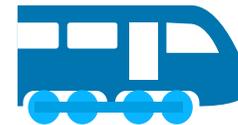


**Oil and gas super major**

**22**  
**markets**  
in our footprint

Full cash management services including payroll, vendor payments and collections

Supporting treasury and SSC operations through advisory and technology solutions



**Leading manufacturer and provider of engineering services**

**11**  
**markets**  
in our footprint

Cash trade and FX, domestic cash pool in China, regional interest optimisation

Global vendor prepayment solution to drive efficiencies in the supply chain management



# Introduction

As companies expand their operations into Asia, they often reach a point where the existing Treasury models become inadequate

**1 Leverage Centralised Model**

- Establish Treasury as Centre of Excellence
- Develop consistent framework across business

**2 Drive Efficiency**

- Consolidate / rationalise bank accounts
- Leverage common processes / resources

**3 Improve Liquidity Management**

- Release trapped cash
- Facilitate interco lending where possible

**4 Proactively Manage Risks**

- Perform analytics to understand exposures
- Manage FX, liquidity, interest rates, etc.

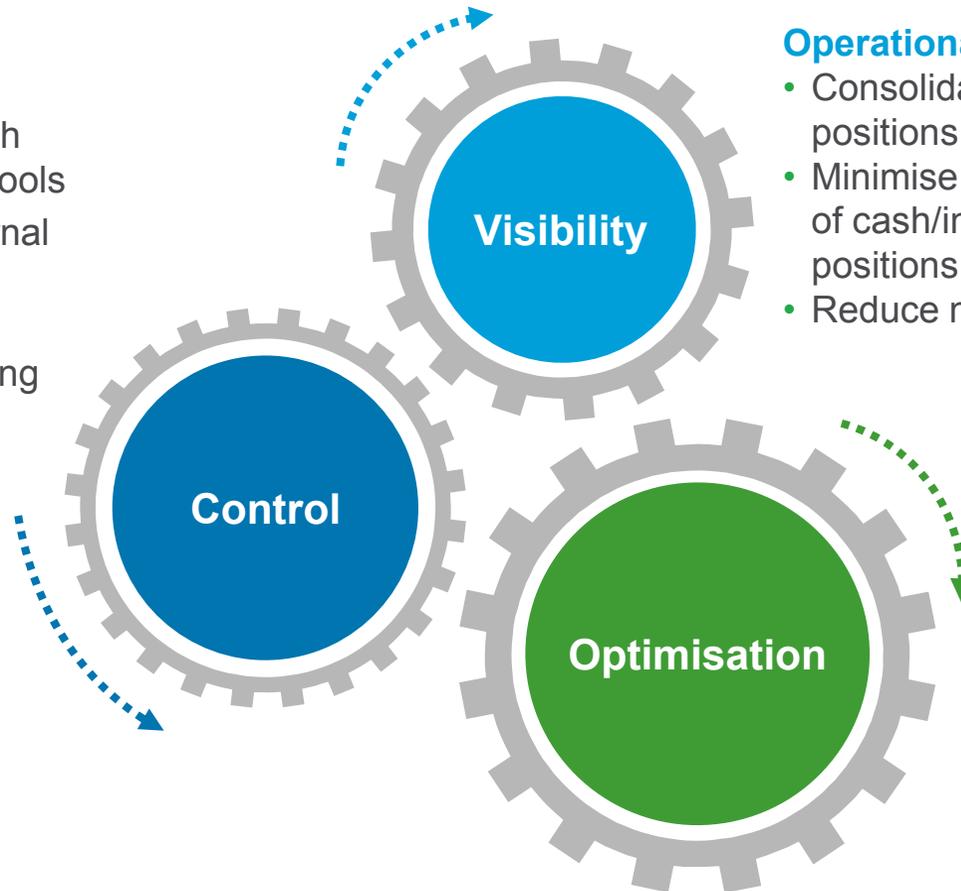
**5 Reduce Costs**

- Reduce overall cost of doing business
- Leverage group buying, automate processes

# Streamlining and standardising cash and liquidity management then becomes a priority in order to drive efficiency and lower costs

## Liquidity efficiency

- Consolidate cash through deploying cash pooling tools
- Control and access internal cash to reduce external funding needs
- Reduce required operating cash, freeing surplus for investments



## Operational efficiency

- Consolidate view of cash positions
- Minimise administrative tracking of cash/intercompany loan positions
- Reduce number of fund transfers

## Financial efficiency

- Increase interest income and reduce interest expense
- Free-up cash for investments or other purposes
- Improve financial ratios

# Treasuries are evolving in different ways to meet the demands of driving efficiency and providing support to the Asia business

## CENTRALISATION (Cost Focus)

### TREND

- Established MNCs centralising activities to Group Treasury
- Leverage familiarity with markets and established infrastructure / processes
- Core driver is cost and efficiency
- Typically dollar functional businesses (e.g. Tech., Oil & Gas)

### IMPACT

- Demand for standard global banking services
- Drive towards global In-House banking structures / centralised processing solutions

### TREND

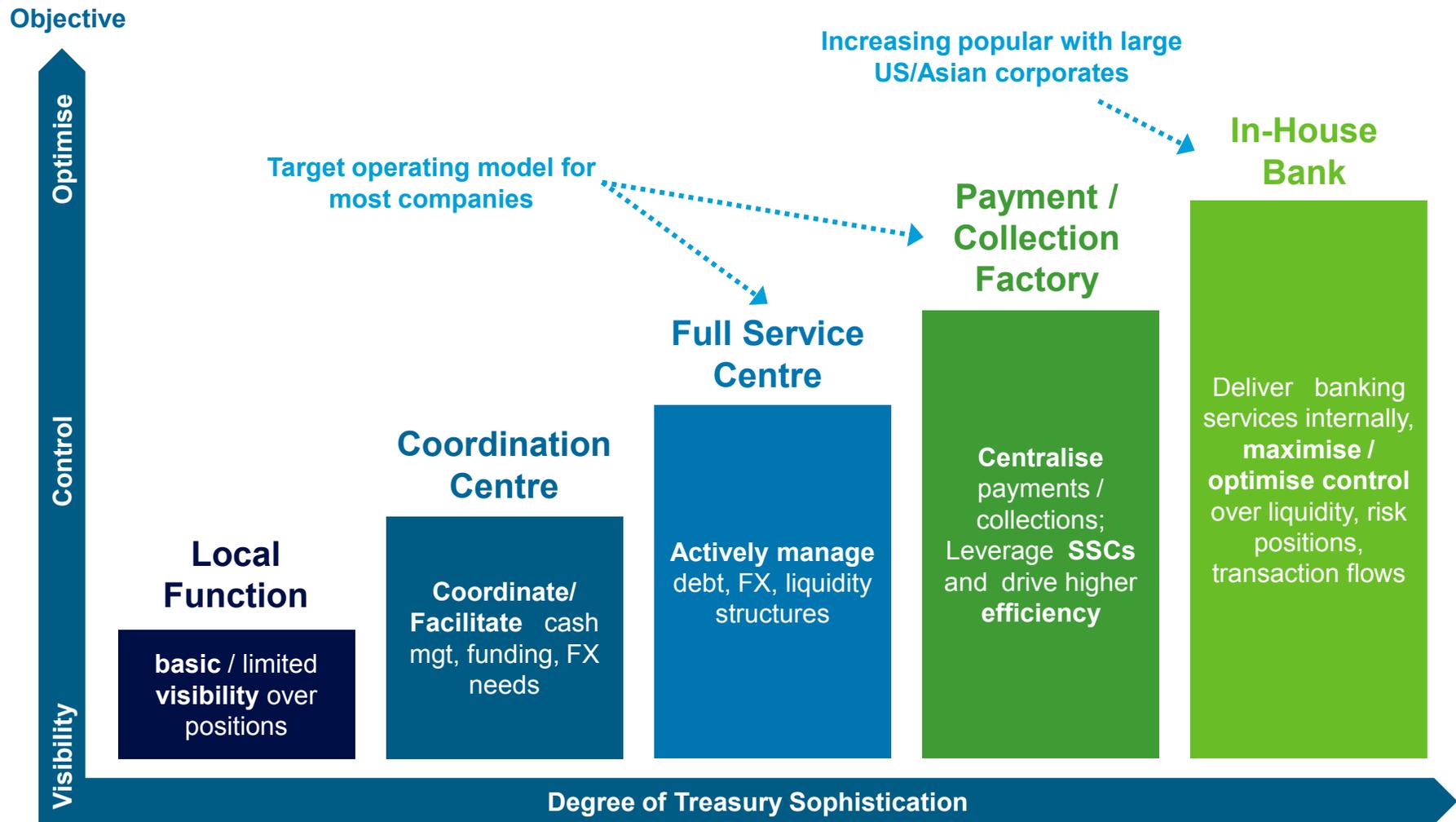
- RTCs expand capabilities, implement advanced models, upgrade cash management
- Leverage better support for local business as “weight” shifts to Asia
- Typically local currency businesses with strong local needs / growth

### IMPACT

- Standardisation of banking service with specialised solutions for specific market needs
- Require value added problem solving advice

## REGIONALISATION (Growth Focus)

# There are various operating models that enable an increase in centralisation, however there is no single “Best Fit” Treasury model





# Treasury Trends in Asia

# Emerging markets make up an increasing share of the **global economy**

## Global sales revenue



41% of global revenue in 2013 compared to 21% in 1980

## Global profits



Will make up 38% of global profits by 2025 up from 32% in 2013

## Goods trade



Involved with more than half of the world's goods trade compared to approximately 30% in 2000

## Fortune Global 500



46% of Fortune Global 500 companies by 2025 compared to 17% in 2010 and 5% in 2000

# Audience poll

What are the words that come to mind when you think of the markets of Asia?



- 1 ▶ Risky, volatile
- 2 ▶ High growth
- 3 ▶ Trapped cash
- 4 ▶ Local decision making
- 5 ▶ Manual processes
- 6 ▶ High costs
- 7 ▶ Regulatory changes
- 8 ▶ Local banks

# What do treasurers think when they consider the markets of Asia? Its very different from the developed world economies

Complex/  
challenging

Manual/  
paper-based  
processes

Too many  
unknowns

Bespoke  
processes

Ever changing  
regulation

Localised  
decision  
making

Trapped cash

Dependence  
on local banks

High growth  
potential

High returns

High risk

High costs:  
hedging,  
transactional

Volatility

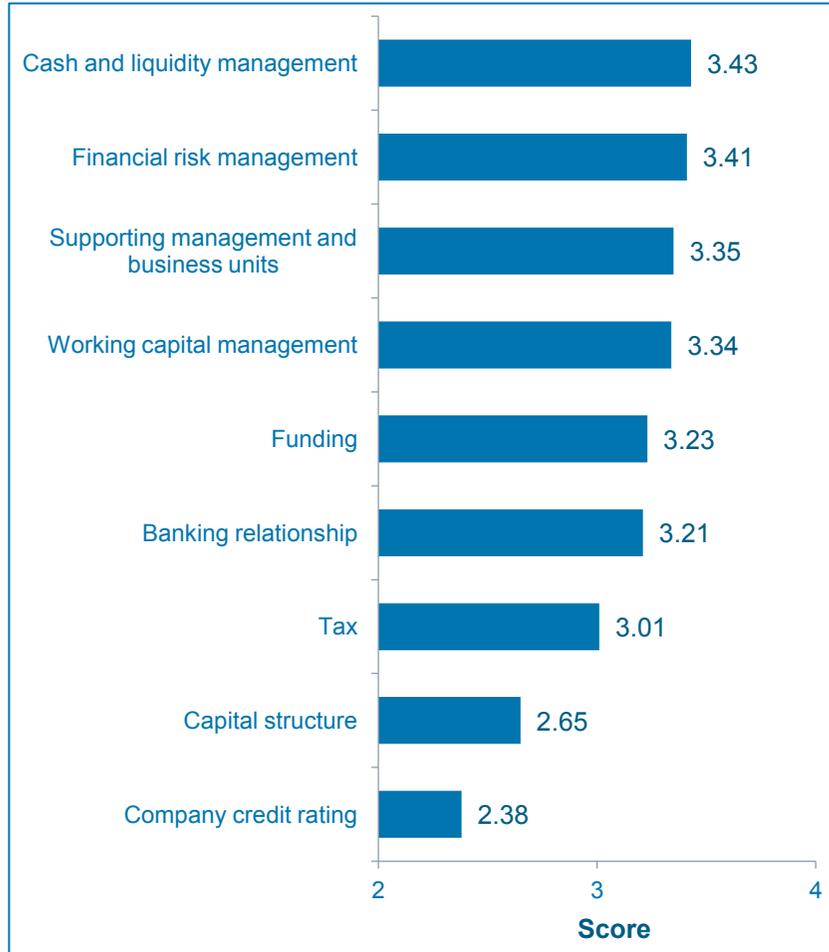
# Audience poll

What are your current key treasury priorities for markets in Asia?



- 1 ▶ Manage risks effectively
- 2 ▶ Improve visibility and forecasting of cash flows
- 3 ▶ Optimise liquidity management
- 4 ▶ Improve operational efficiency
- 5 ▶ Comply with tax and regulatory requirements

# When asked to define specific areas of focus, here is what Treasurers said in Asia



Source: PwC's Asia Corporate Treasury Survey 2014



Source: Asia Pacific Treasury Management Barometer 2015

# In line with these views, 82% of treasurers in Asia responded **“Setting up a regional treasury”** as a high priority in a recent survey

What are the top three priorities for your Company over the next 12 months (pick 3) ?						
(N: 841)	N of TB Corporate Whole Market (N: 841)	N of TB Corporate South East Asia (N: 493)	N of TB Corporate North Asia (N: 348)	% of Corporate Whole Market	% of Corporate South East Asia	% of Corporate North Asia
<b>Rationalising the overall number of accounts or banks</b>	<b>713</b>	<b>423</b>	<b>290</b>	<b>85%</b>	<b>86%</b>	<b>83%</b>
<b>Setting up a regional treasury centre</b>	<b>686</b>	<b>402</b>	<b>284</b>	<b>82%</b>	<b>82%</b>	<b>82%</b>
Improving payment or procure-to-pay processes	271	154	117	32%	31%	34%
Implementing new banking or treasury systems	204	124	80	24%	25%	23%
Setting up a Shared Service Centre	202	121	81	24%	25%	23%
Improving collections, invoice reconciliation, or order-to-cash processes	198	120	78	24%	24%	22%
Changing banks to improve cash management processes	93	51	42	11%	10%	12%
Moving sales or supplier management to electronic channels	89	50	39	11%	10%	11%
Setting up a procurement or sales hub	67	34	33	8%	7%	9%

Note: no significant variance by country

Source: Recent survey conducted by East & Partners for corporate across Asia



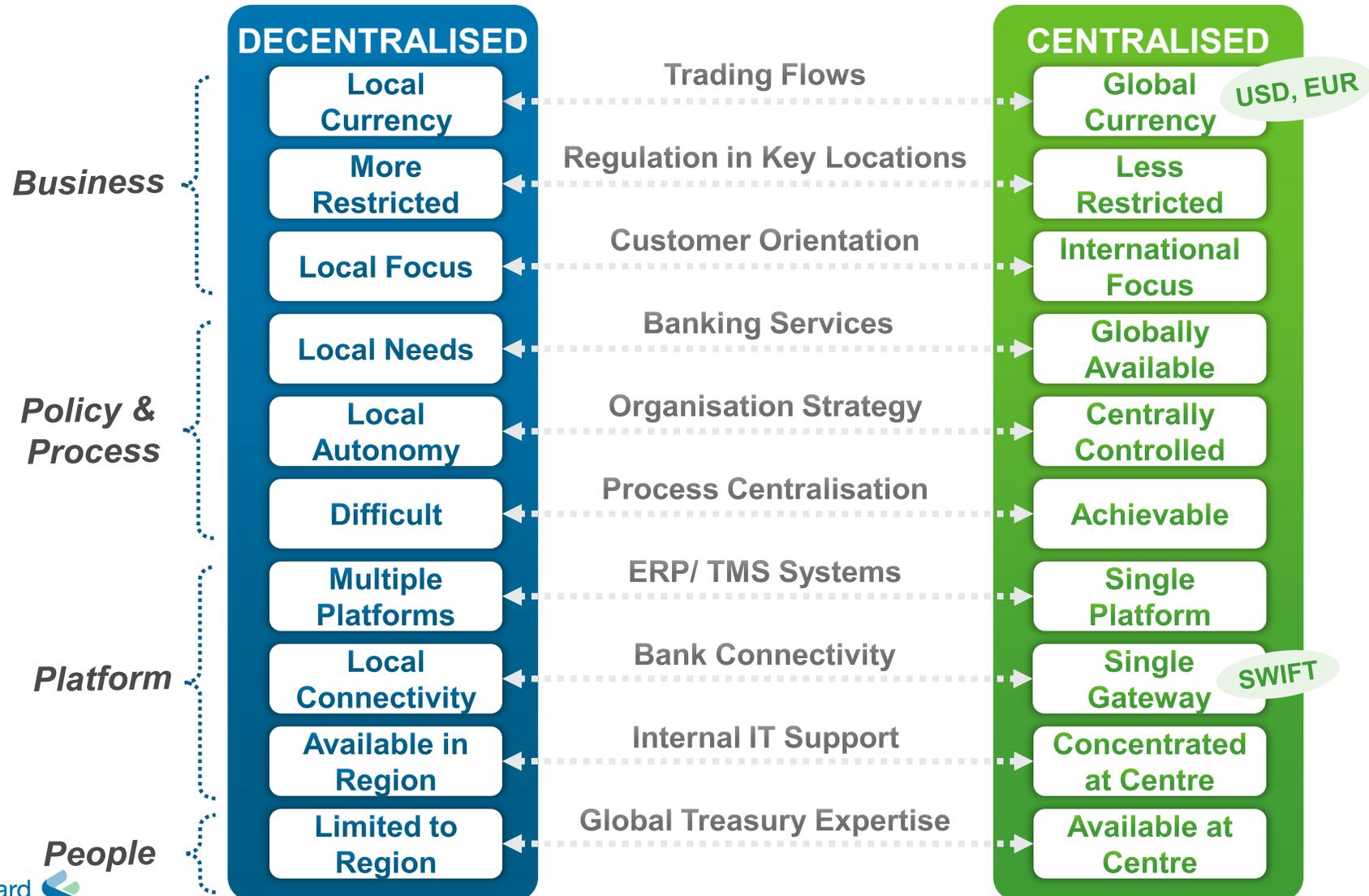
Centralisation Fundamentals

# Treasury Structure and Models

# From a functional perspective, Treasury usually delivers the following 5 key services to the organisation

<b>Cash / Liquidity Management</b>	<b>Funding / Investment</b>	<b>Risk Management</b>	<b>Reporting / Analytics</b>	<b>Compliance / Control</b>
<ul style="list-style-type: none"> <li>▪ Local / x-border liquidity structure</li> <li>▪ Bank accounts</li> <li>▪ Settlements</li> <li>▪ Reconciliation</li> <li>▪ E-banking</li> <li>▪ Yield enhancement/ protection</li> <li>▪ Dividend repatriation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Local / consolidated capital structure</li> <li>▪ Interco loan structure</li> <li>▪ Alternate financing</li> <li>▪ Bank credit facility</li> <li>▪ ST / LT/ Strategic Investment</li> </ul>	<ul style="list-style-type: none"> <li>▪ FX risk</li> <li>▪ Interest rate risk</li> <li>▪ Commodity risk</li> <li>▪ Counterparty risk</li> <li>▪ Credit Risk</li> <li>▪ Market risk</li> <li>▪ Country risk</li> <li>▪ Operational risk</li> </ul>	<ul style="list-style-type: none"> <li>▪ Cash flow forecast analysis</li> <li>▪ Real -time group cash / liquidity position</li> <li>▪ Central view of bank facilities</li> <li>▪ Central view of exposures</li> <li>▪ Bank wallet share analysis</li> <li>▪ Treasury Centre activities / performance</li> </ul>	<ul style="list-style-type: none"> <li>▪ Policy and procedures</li> <li>▪ Automate processes</li> <li>▪ System access / performance</li> <li>▪ Treasury compliance</li> <li>▪ Audit exercise</li> </ul>

The degree to which Treasury can centralise these activities, requires careful consideration across a variety of areas



# The choice between a global or regional delivery model will also depend on corporate strategy and underlying business needs

## Global Treasury Model

## Regional Treasury Model

### Location

- Closer to head office

- Closer to operating business

### Standardisation

- Greater process standardisation

- Greater flexibility in regional set-up

### Regulation

- Easier to drive compliance framework

- Easier to stay across local regulations

### Services

- Easier to drive global services approach

- Easier to tap local services / markets

### Business Model

- Suits companies with international business model in a dominant trading currency (i.e. US Dollars), e.g. mining, oil & gas, technology

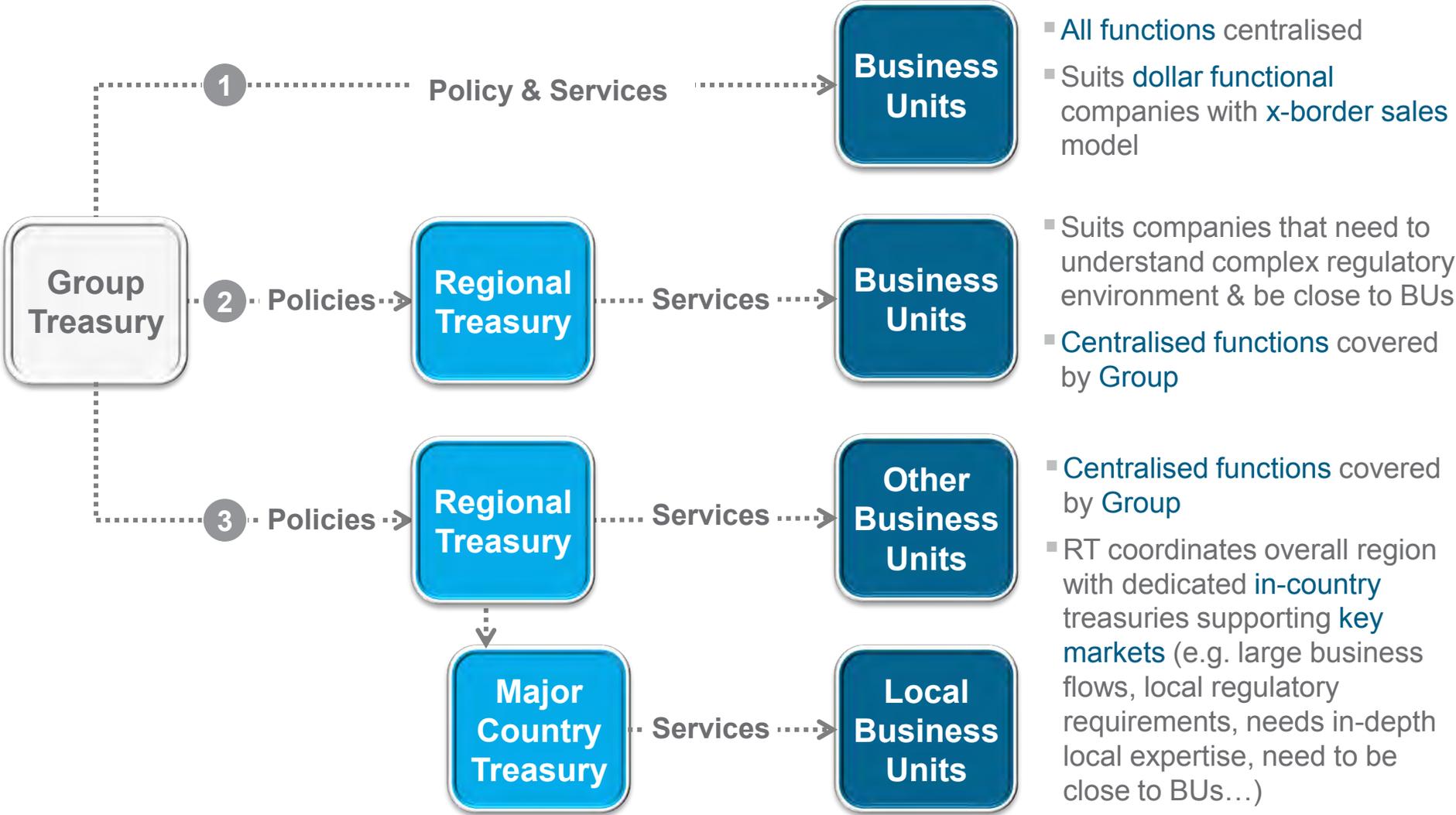
- Suits companies operating localised businesses across many markets and multiple currencies, e.g. consumer goods

### Execution

- Group Treasury sets strategy and policies, Treasury Centre executes centrally

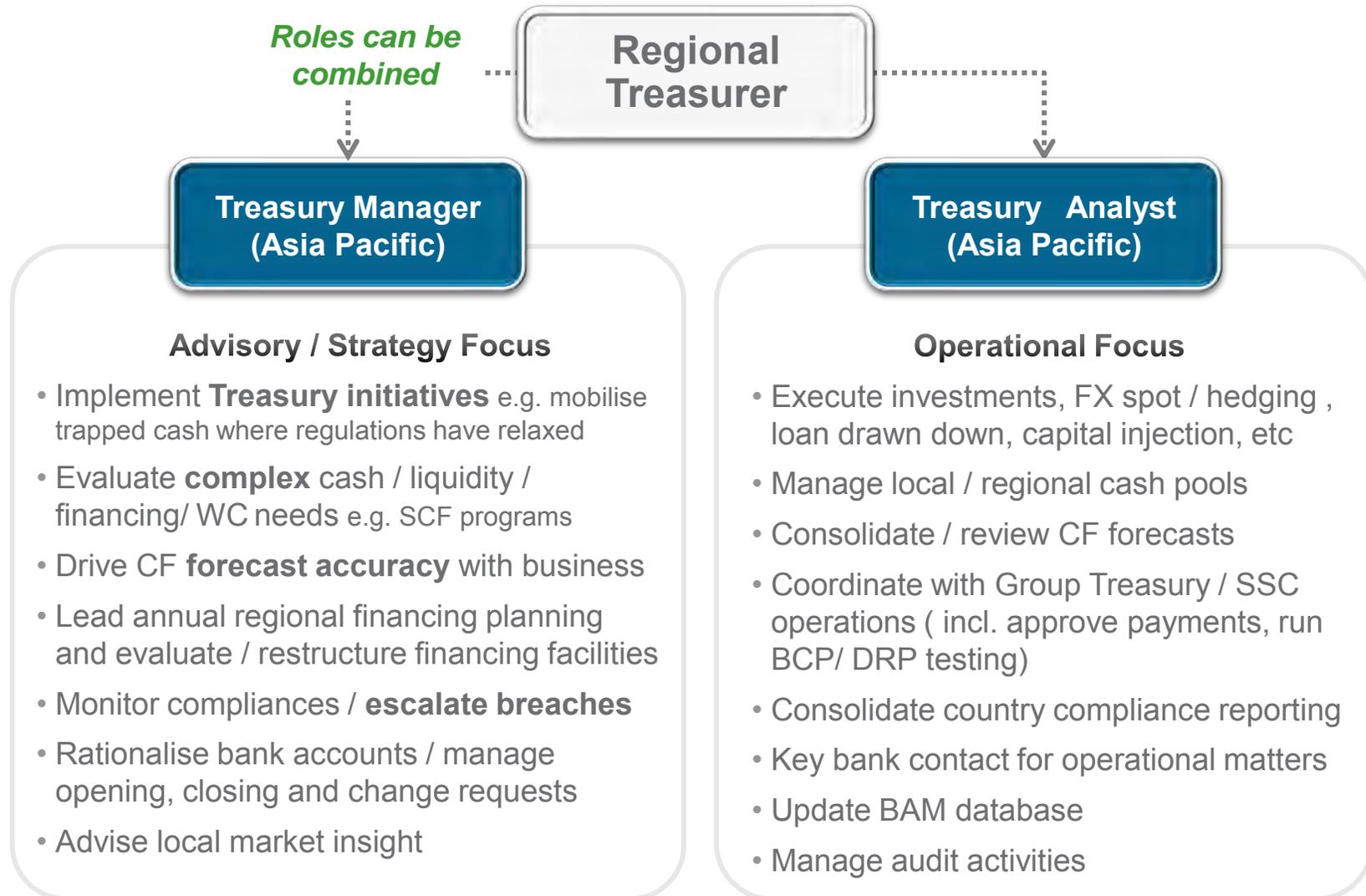
- Group Treasury sets strategy and policies, Treasury Centre executes locally

# Even within the regional treasury model, it is also common to see some variations that companies adopt to fit their business needs

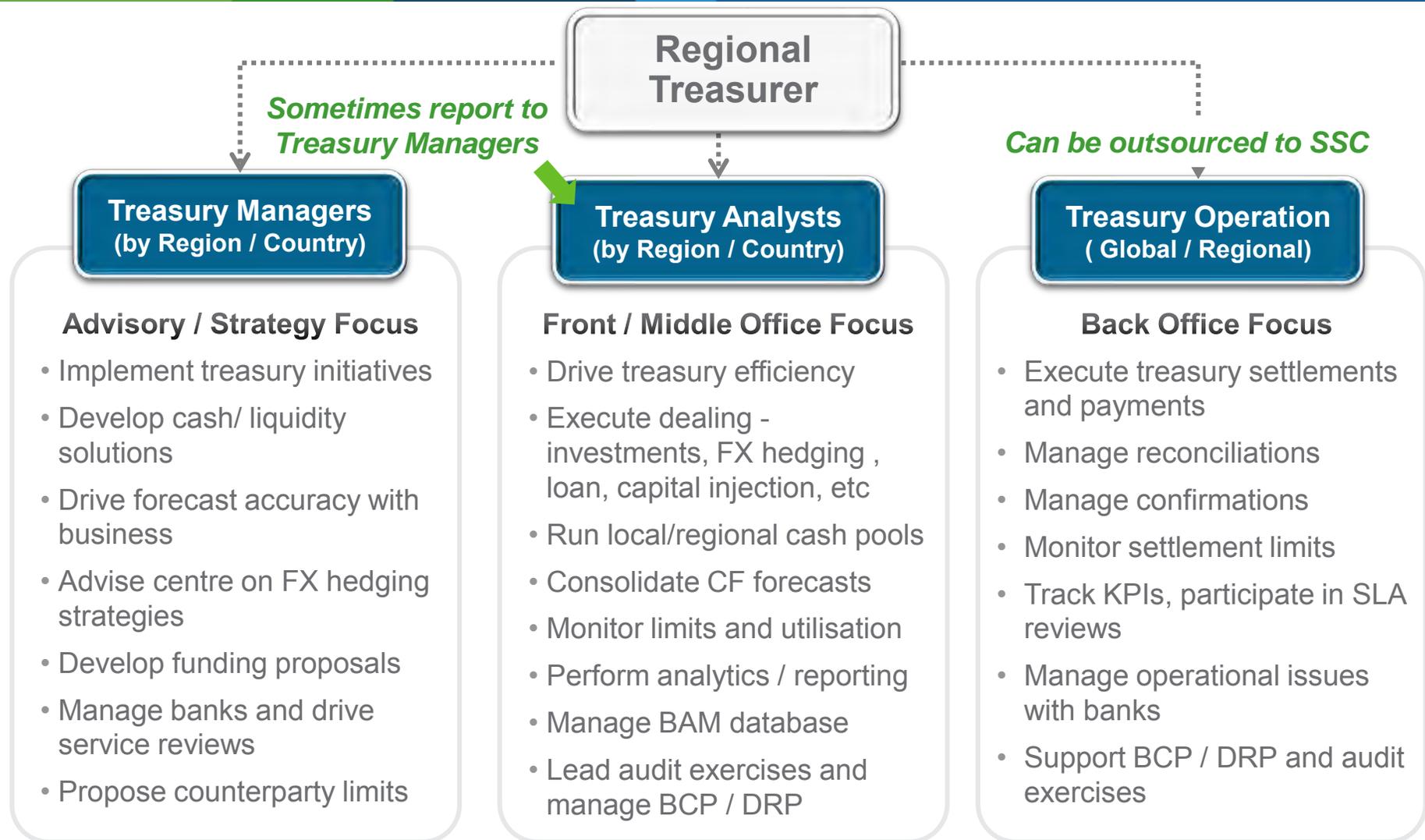


- All functions centralised
- Suits dollar functional companies with x-border sales model
- Suits companies that need to understand complex regulatory environment & be close to BUs
- Centralised functions covered by Group
- Centralised functions covered by Group
- RT coordinates overall region with dedicated **in-country** treasuries supporting **key markets** (e.g. large business flows, local regulatory requirements, needs in-depth local expertise, need to be close to BUs...)

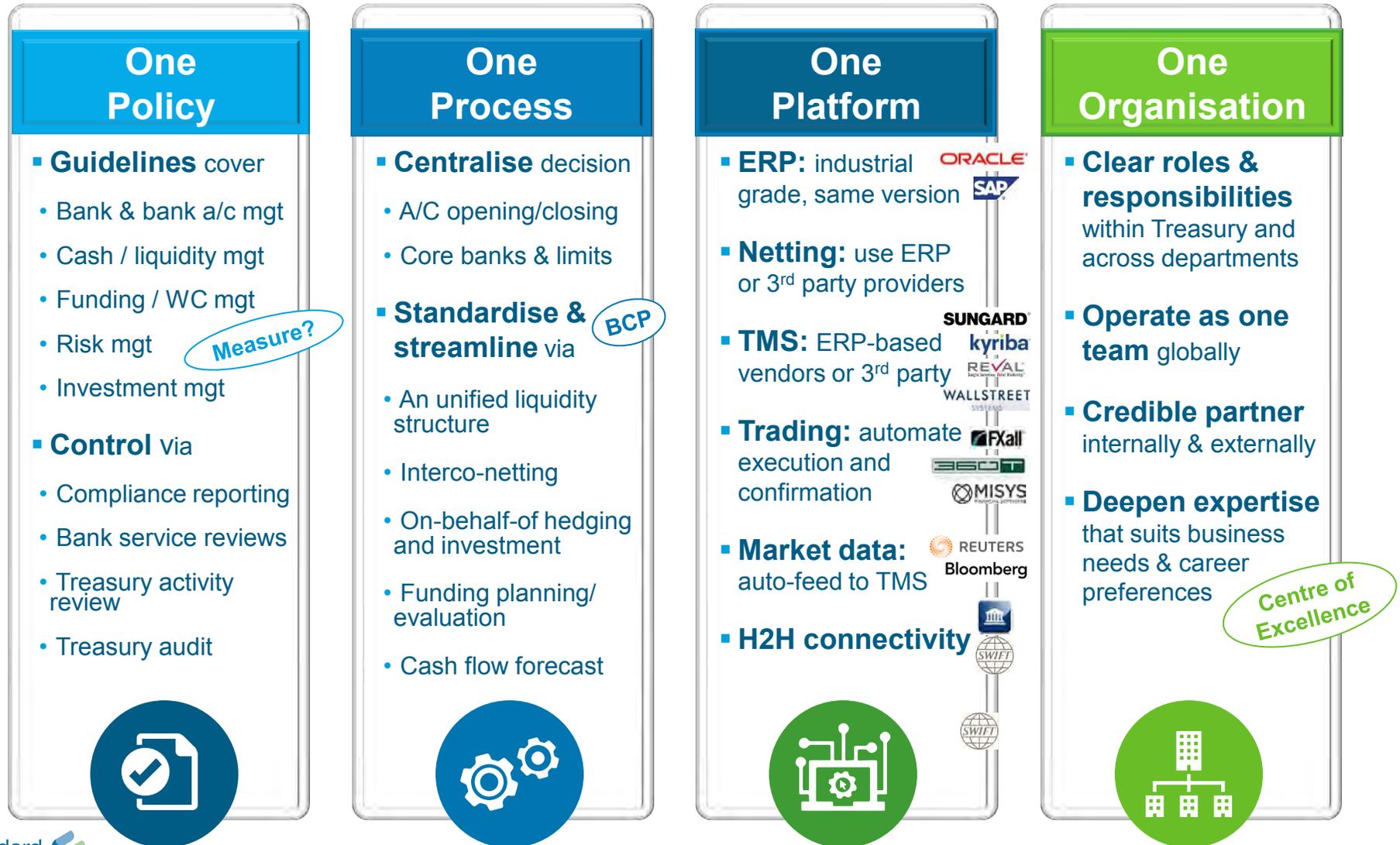
These services can be supported by Treasury as a service centre that focuses on advisory and policy execution...



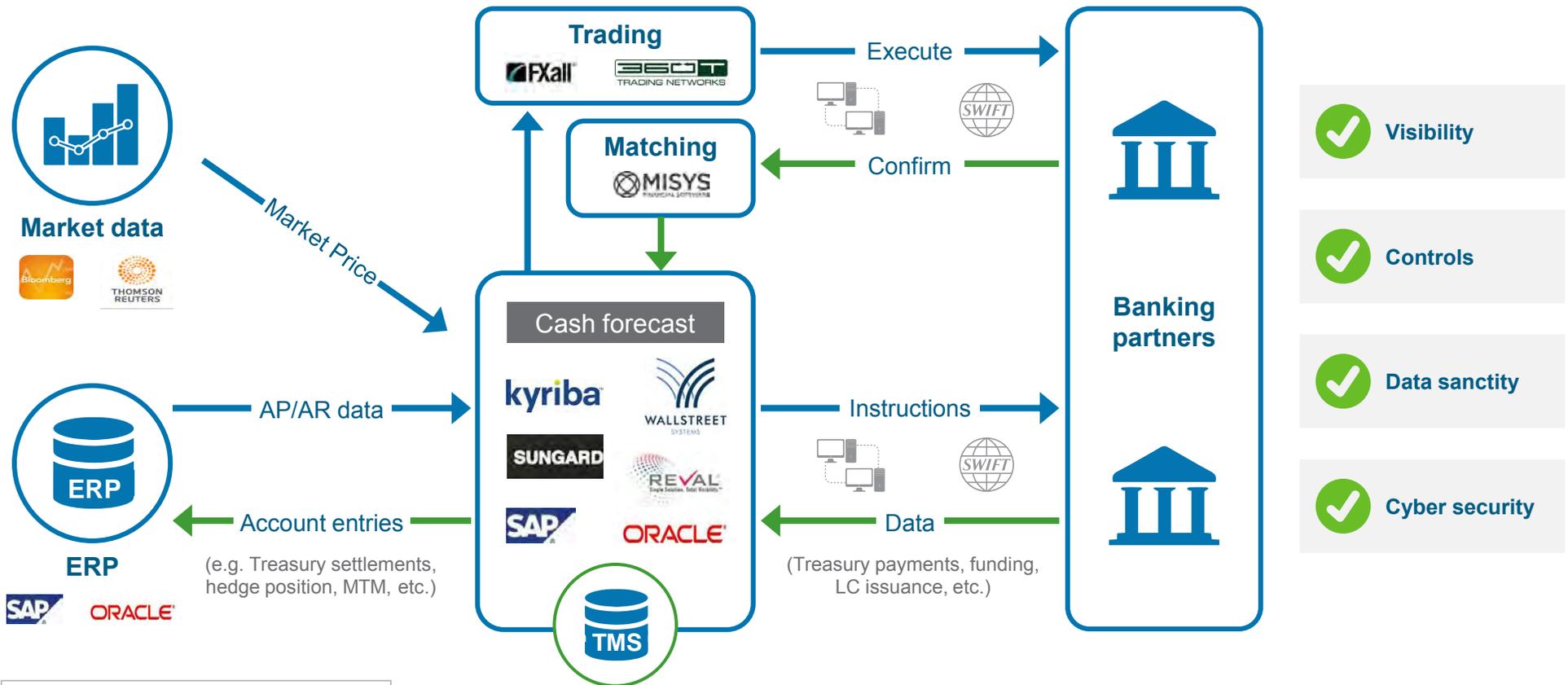
...or by a full service centre that is self-contained and delivers a broader range of Treasury services



# Regardless of the model, best practice is to operate one policy, one process, one platform and one organisation across regions



# Key to a harmonised governance framework is a **unified technology architecture**

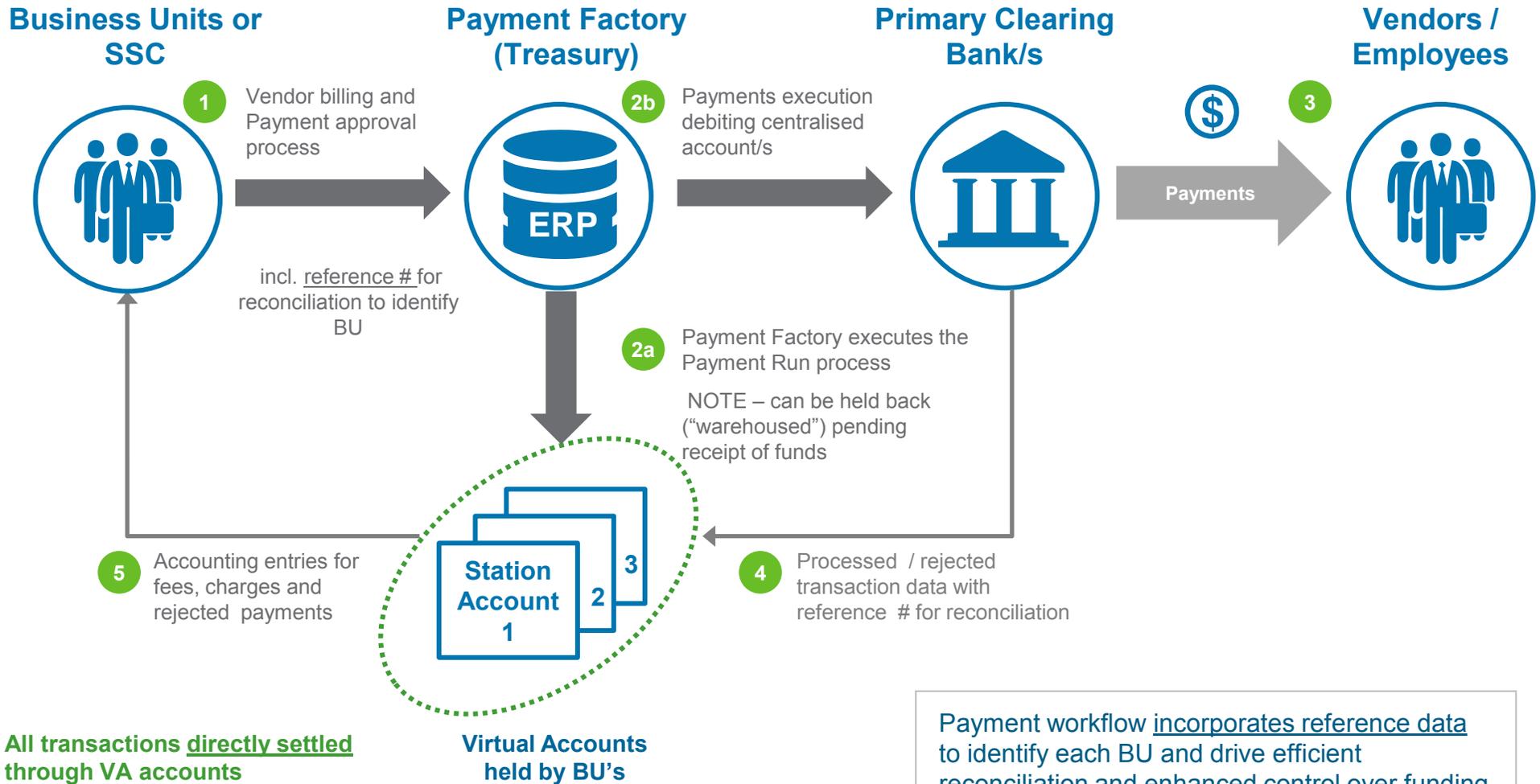


TMS: Treasury Management System  
 ERP: Enterprise Resource Planning  
 AP: Accounts Payable  
 AR: Accounts Receivable

“ **40%** of treasurers interviewed listed inadequate treasury systems infrastructure as a strategic challenge. ”

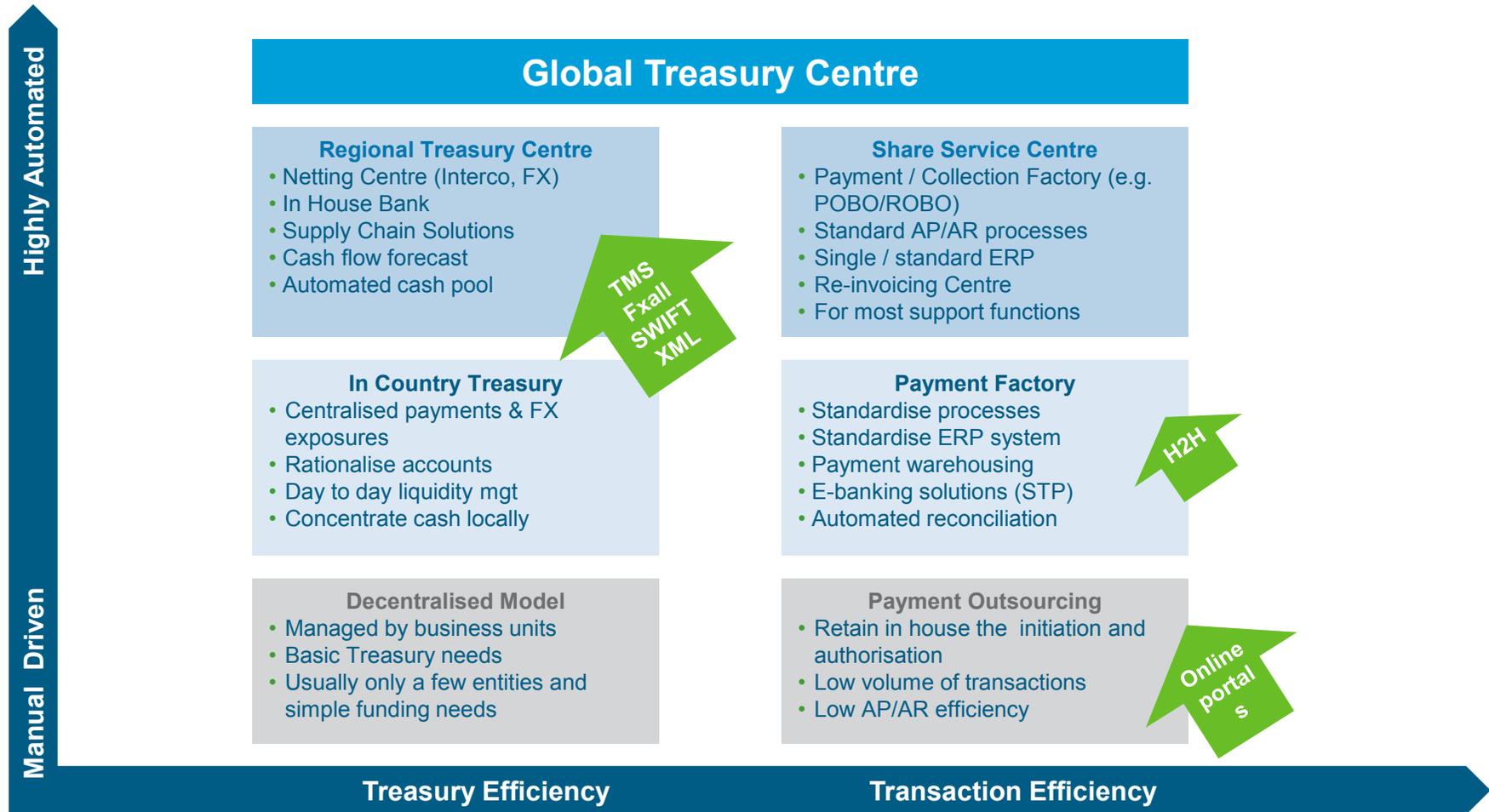
Source: Deloitte 2015 Corporate Treasury Survey

# A Payment Factory model allows Treasury to control the flow of payments to better optimise liquidity management and funding



# Many corporates decide to take a holistic approach to realise the full efficiency benefit across the entire finance organisation

## Value and Efficiency





Centralisation Fundamentals

# Key Considerations

# Treasury can be structured to only focus on the provision of operational services or extend to strategic activities



## Strategic Activities

- Capital structure and planning
- Risk management strategy
- Mergers & acquisitions
- Project and structured finance
- M&A Treasury advice

## Operational Activities

- Cash management
- Liquidity management
- Spot FX dealing
- Treasury payments
- Working capital management
- Internal funding, loan administration
- Bank relationship management
- Risk / regulatory monitoring

The scope of treasury activities is also driven by a **mix of different objectives** covering cost, process improvement and value creation

### Hierarchy of Treasury Centre activity by key drivers

#### Cost

- Reduced accounts
- Funding
- Intercompany lending
- Intercompany payments
- Foreign exchange



#### Process driven

- Payments
- Collections
- Forecasting



#### Value creation

- Customer finance
- Supply chain
- Treasury analytics



Ultimately, the optimal model requires a careful evaluation of local regulations, business implications, and market practices

## Important considerations



Scope of Treasury activities

Re-engineering of internal processes

Use of POBO – ROBO structures

Geographic coverage

Legal, tax and regulatory restrictions

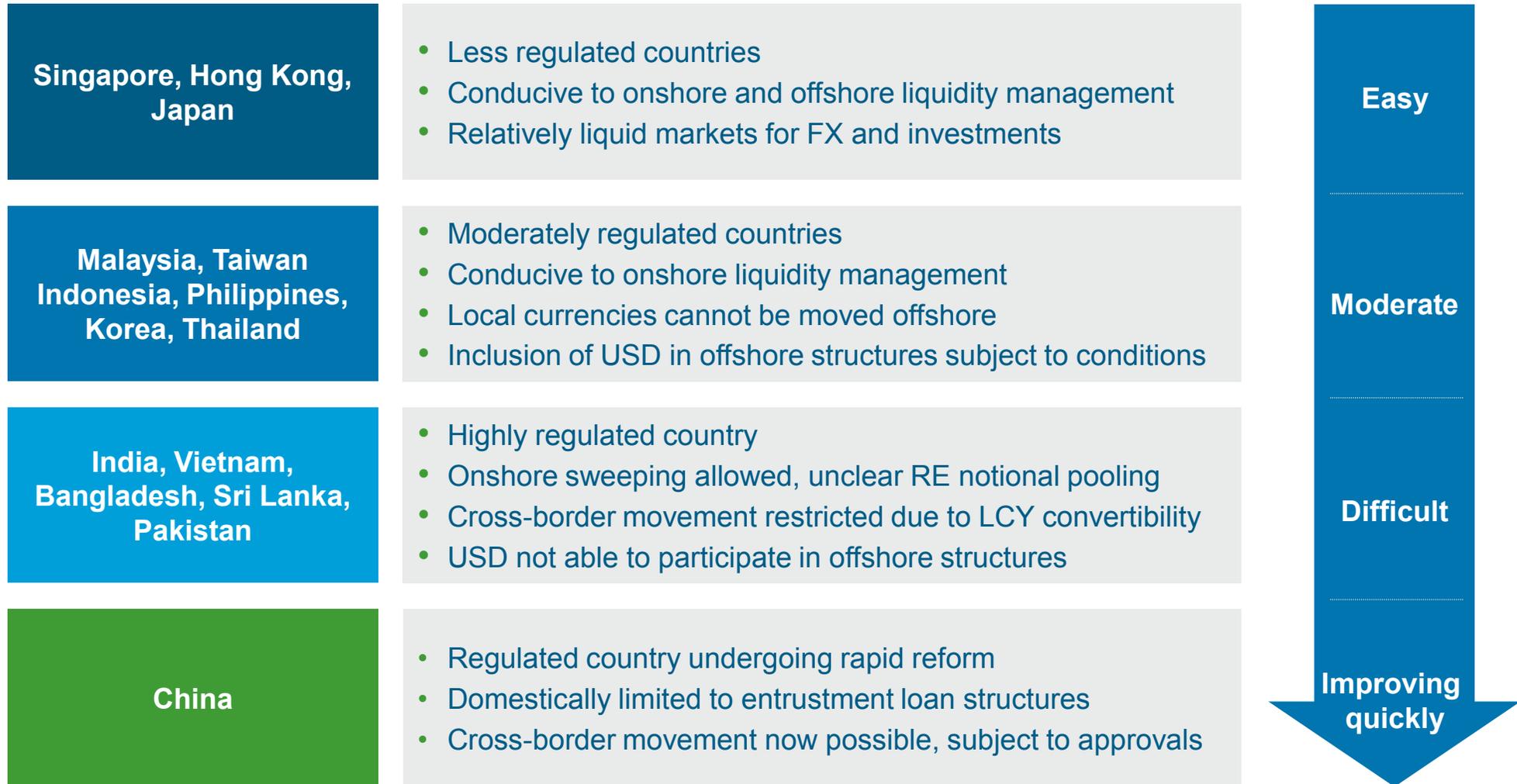
Resistance from Business Units on loss of control

Complex system requirements

Investment spend

Project resourcing

# Regulatory restrictions play a major role in influencing what's possible...markets vary from highly restricted to relatively open



Treasury structures may also take **different legal forms** depending on the jurisdiction and needs of the company



### Internal function

- Leverage **existing entity** (e.g. Holdco or Opco) to provide services to business units
- Potential for **lower overheads**, sharing of existing resources, group tax positions, etc.
- May still be able to access business incentives if own **identifiable profit and loss is maintained**



### Corporate entity

- No special licensing requirements (e.g. **Hong Kong, Singapore**)
- **Access to business and/or tax incentives** if a stand alone entity is used
- Act as the service provider entity to business units; single counterparty to banks



### Finance company

- Has **licensing/legal** requirements (e.g. **China, Germany**)
- Can be **separately capitalised** and rated by external ratings agencies
- Potential advantages in debt raising, access to capital markets, accounting treatment, etc.
- Can be used to support **customer financing** activities.



Centralisation Fundamentals

# Benefits and Challenges

# Implementing centralised structures can generate significant business value and benefits for the organisation

## Benefits



### Liquidity

Simplified Accounts,  
Better Visibility & Control

- Rationalise A/Cs & Automate recon.
- Real-time cash visibility
- Active manage DPO /DSO across region
- Standardise services



### Funding

Self Funding Maximised

- Drive consolidated, accurate cash flow forecasts
- Automate domestic / x-border structures
- Increase interest income and reduce interest expense



### Bank Providers

Reduced Complexity,  
Lower Bank Fees

- Balance / diversify global counterparty exposures & banks' wallet shares
- Centralise transactions to enhance negotiation power
- Simplify/standardise documentation



### FX Positions

Consolidated Positions,  
Lower Costs

- Able to identify & manage risks across region; rigorous risk mgt framework
- Centralise FX to reduce spreads
- Leverage technology to reduce operational risks



### Automation

Higher Efficiency via STP  
and Automation

- Efficient payments / collections e.g. STP processing, E-flows
- Standard processes
- Tight integration between ERP, TMS and Banking systems

## Enablers

# Streamlining and standardising cash and liquidity management remains a priority in order to drive efficiency and lower costs

## Centralise & Standardise Activities

- Consolidate activities and resources to leverage economies of scale
- Standardise processes based on market best practices
- Develop a consistent framework across business

## Drive Automation

- Expand use of electronic settlement channels
- Integrate ERP, TMS and banking platforms - TMS as “source of truth”
- Utilise STP for reporting, transaction processing, reconciliation

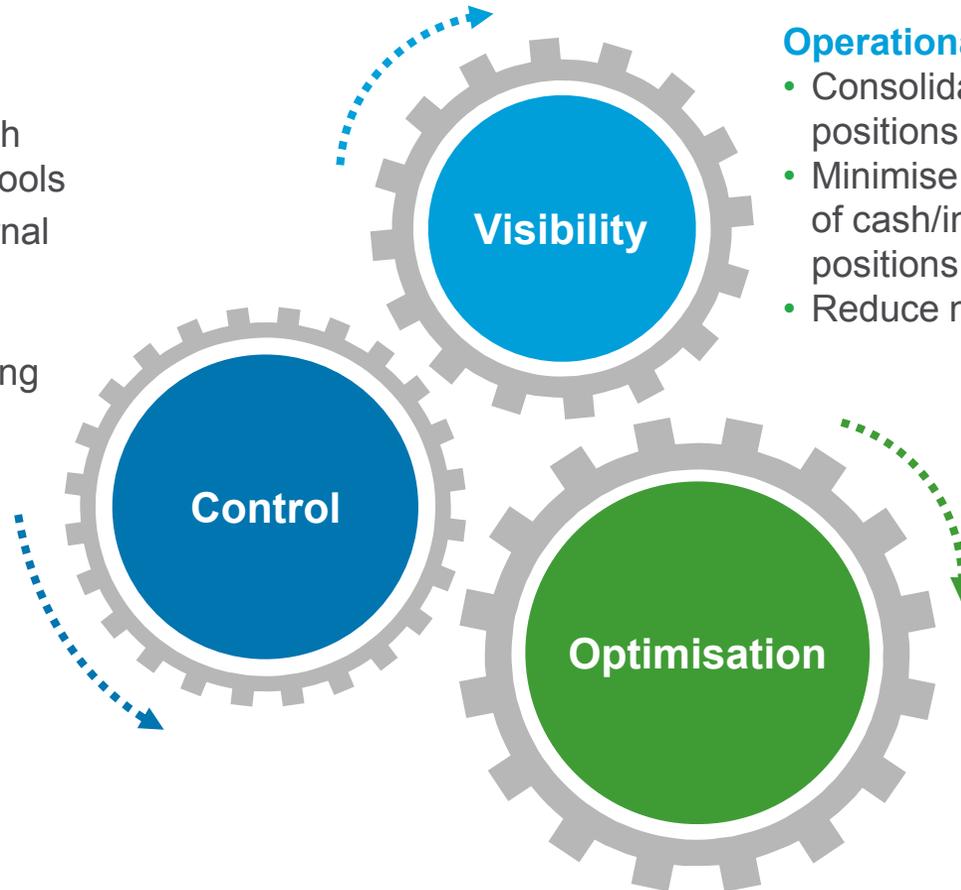
## Mitigate and Manage Risks

- Develop policies & processes to provide better control over critical risks
- Implement processes to identify, measure and manage financial exposures across funding, investments, FX, interest rates

# Optimising the effectiveness of Treasury operations is founded on achieving **efficiency, cost reduction, and control**

## Liquidity efficiency

- Consolidate cash through deploying cash pooling tools
- Control and access internal cash to reduce external funding needs
- Reduce required operating cash, freeing surplus for investments



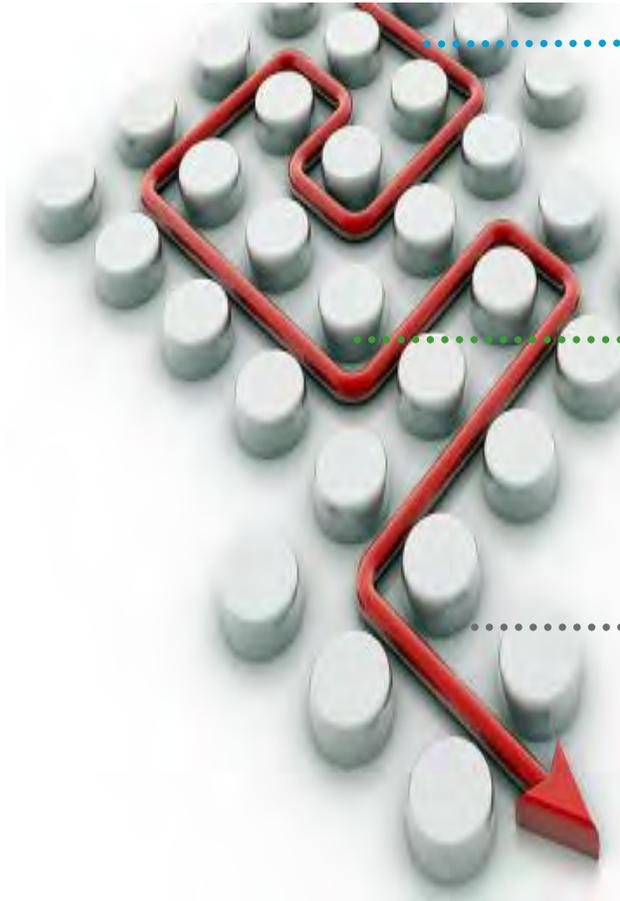
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- Consolidate view of cash positions
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- Reduce number of fund transfers

## Financial efficiency

- Increase interest income and reduce interest expense
- Free-up cash for investments or other purposes
- Improve financial ratios

# However, Treasurers often face a series of challenges in this journey



## ● Business Justification

- Quantify benefits
- Develop business case
- Justify major investment
- Generate buy-in for change

## ● Expertise

- Access to specialist knowledge
- Development of blueprint / roadmap
- Tax, accounting, regulatory due diligence
- Changes to process, risk framework, policies

## ● Resources / Support

- Systems development / integration
- Project management
- Ongoing change management



***YOUR CHALLENGES?***



# Critical Success Factors

# Important considerations include developing the Business Case and engaging early with key stakeholders

## Business Case

- Often required to **justify** system investments
- Can leverage **cut down version of Blue Print** as core document
  - Vision
  - Objectives
  - Core Services
  - Expected Benefits
  - Investment Required
  - Payback / Financial Return
  - Risk Management
- We can help develop the Business Case document and financial model

## Stakeholder Engagement

- Strong **mandate from centre** can unravel quickly as individuals feel they are losing control
- Need to **engage early**
  - Share the vision
  - Seek feedback and ideas
  - Invite senior participation on Steering Committee
  - Invite user participation in working groups
  - Share design as you go along
- We can help share our **real world experiences** on maximising engagement

# Further considerations include proof of concept, generating buy-in and developing a sustainable financial model

1

## Proof of Concept

- Develop proof of concept by implementing with [friendly business units first](#) and then gradually rollout out to other units
- Utilise experience gained to [constantly improve](#) model
- Drive for measurable bench marks and outcomes (outcomes speak louder than words)

2

## Change Management

- Communicate frequently on progress, even to those BUs coming on board later
- Implement [quick wins](#) to build confidence
- Build “[war stories](#)” to describe key successes

3

## Profit or Cost Centre

- Consider [a Cost or Cost plus](#) model to speed adoption of services
- Establish [arm's length](#) pricing based on commercial rates to avoid transfer pricing issues
- Establish [pricing mechanism](#) – fee for service, spread on deals, or cost reallocation

Beyond stakeholder management, other insights we have learned from successful global treasury centralisation projects include....



**Beyond Lift & Drop – look for opportunities to fundamentally re-engineer core processes on an end-to-end basis**



**Automate, Automate, Automate – eliminate manual processes through automation, e.g. Use full ERP/TMS functionality**



**Shift the paradigm – old ways of doing things are often tied to process / systems limitations, e.g. cash flow forecasting**



**Consolidate & streamline – use as opportunity to reduce number of banks and streamline / standardise services**



**Leverage bank technology – much has been developed over the past 5 years to help Treasury become more efficient**

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