Transforming challenges into opportunities

Asia Corporate Treasury Survey 2014

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Foreword

The lessons learnt from the global financial crisis and the subsequent economic recession have brought about several changes to corporate treasury functions in Europe and the US in recent years. Not only has financial risk management – a core treasury responsibility – moved to the top of the boardroom agenda, but management is also placing increasing importance on cash and liquidity management, as securing external funding becomes more difficult. The volatile markets have led companies to adjust hedging techniques to allow for more active management of financial risk and also to expand treasury's role in managing other risks – for example, commodity risk, which was not previously seen as a treasury responsibility. The crisis has proved that the consequences of neglecting the treasury function can be devastating and has highlighted the importance of focusing on established 'good practice'. Since then, more entities have been focusing on enhancing efficiencies throughout the treasury function and making basic principles good practice, while making sure that their activities are better aligned with the constantly evolving needs of the business.

Growth in Asia has been significant, not just among Asian companies but also among global companies with operations in Asia. Asia currently contributes to about 30% of the global economy, and Asian economies are predicted to dominate the global economy in future: China and Japan are already the second and third largest economies globally. Bolstered by the strong growth of the Chinese economy, the developing countries in the Asian region are expected to see a 7% growth this year.

Against this backdrop, we believe the time is now ripe for an Asian-focused treasury survey. While operating in Asia presents many issues that affect all global companies, there are many challenges that may be unique to Asia. Unlike much of Europe, Asia does not have a single currency, there is no single regulator, the banking landscape is very diverse, and there are many restrictions relating to the multiple emerging currencies, such as strict controls on convertibility and cross-border remittance.

This survey reveals where the Asian corporate treasury functions stand vis-à-vis their European and US counterparts, and what treasuries need to do in order to enhance their value-add to the businesses given that treasury functions now have greater visibility at the board level.

I hope you find the results interesting and useful to your understanding of the market.

Sebastian di Paola
Partner,
Global Corporate Treasury Solutions Leader

Voted Number 1 Treasury Consultant for 13 years running by Treasury Management International

Welcome to our inaugural PwC Asia Corporate Treasury survey

I am pleased to present the inaugural PwC Asia Corporate Treasury Survey 2014. Businesses globally are facing unprecedented challenges and uncertainty. While Asia has continued to grow as the economies in Europe and the US have been facing a slowdown in recent years, these economic headwinds have also affected Asia. There are significant concerns about the effects of the Federal Reserve tapering its stimulus programmes, the potential tightening of liquidity and credit, and political uncertainty especially with the developments in Ukraine and concerns over the slowdown of the largest Asian economy – China. These will continue to create significant volatility in the market and Asian corporates will have to grapple with these challenges.

This report describes how corporate treasuries based in Asia are coping with these challenges. The findings are based on responses from 117 organisations across 7 countries in Asia. The report shares insights on the structure of these corporate treasuries, their key challenges, their risk management approaches, their relationship with their bankers, their approaches to cash and liquidity management and many more. In the opinion of the respondents, they view financial risk, cash and liquidity management as the top treasury activities which is lined with current economic uncertainties and volatility. However, despite the significant challenges, over half of the respondents use basic risk management techniques to manage their financial risks and less than one third of the respondents have real time information on their cash position. Furthermore, more than half the respondents do not have a treasury management system in place.

The survey revealed that there are significant opportunities for Asian treasury centres to transform and deliver strategic benefits to the business. Hence, the key challenge is for boards and senior management to ensure that their treasury function are equipped to deal with these challenges and derive value. This include revisiting the role of the treasurer to manage the broader enterprise wide risk via more sophisticated techniques to derive strategic benefits rather than just listing out and quantifying the risks, automating transaction processing to free up treasury personnel's time to perform more value added activities, rationalising their banking relationships or developing in an house bank model to achieve greater efficiency and to save costs.

I would like to thank all the participants for taking the time and effort to ensure the success of the survey. I believe that the findings will provide a valuable understanding of the unique challenges faced in Asia and align that with the opportunities available.

117 organisations

7 countries

Chen Voon Hoe
Partner,
Singapore Corporate Treasury and Commodities Leader

Contents

Key findings

Treasury organisation

Close to two-thirds of the treasuries surveyed operate in geographically dispersed businesses. However, more than half of the respondents have five or fewer staff in their group treasury function despite the cross-border complexity.

62% of respondents perceived themselves to be 'value-added' treasuries.

Financial risk management and cash and liquidity management were identified as the top two most important treasury activities.

Risk management

Foreign exchange risk was ranked the most significant risk for many Asian corporate treasurers, while counterparty credit risk and commodity risk were ranked the lowest by the respondents.

While 66% of respondents were exposed to commodity risk in varying degrees, more than a third are not managing the risk at all.

Approximately half of the respondents used basic risk management techniques or a standardised approach to manage their financial risks.

Hedge accounting

Half of the respondents did not apply hedge accounting, citing reasons such as the immaterial impact to the financial statements, the complexity and restrictive nature of the current accounting standards, the administrative burden, and the lack of appropriate systems to deal with hedge accounting requirements.

Bank relationship

Over 60% of the respondents used three core banks or fewer for cash management activities. Larger organisations have fewer core banks than medium-sized organisations, suggesting the former may be in the process of rationalising their bank relationships.

Quality of service/advice was rated as the top attribute by respondents from medium and large organisations when they are selecting a bank.

Cash management

The survey showed that less than one-third of respondents have real-time information on their cash position, and over 40% of the respondents do not have even basic cash-pooling structures in place.

Technology

More than 50% of respondents did not have a treasury management system (TMS) in place, and those that did are only using the basic functions.

Investment

Security is the number one investment criteria for respondents. The remaining selected liquidity (9%) and yield (3%). Overwhelmingly, bank and money market deposits are the preferred investment products for excess cash, with over 60% of the respondents favouring this option over others.

Treasury of the future

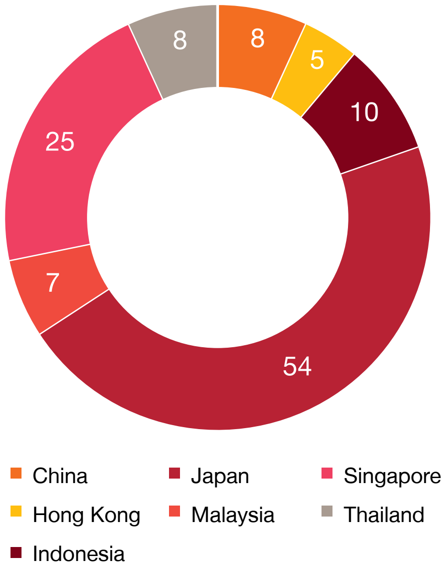
Respondents' key priorities in the near future are getting the right treasury personnel, more effective cash and risk management and TMS implementation.

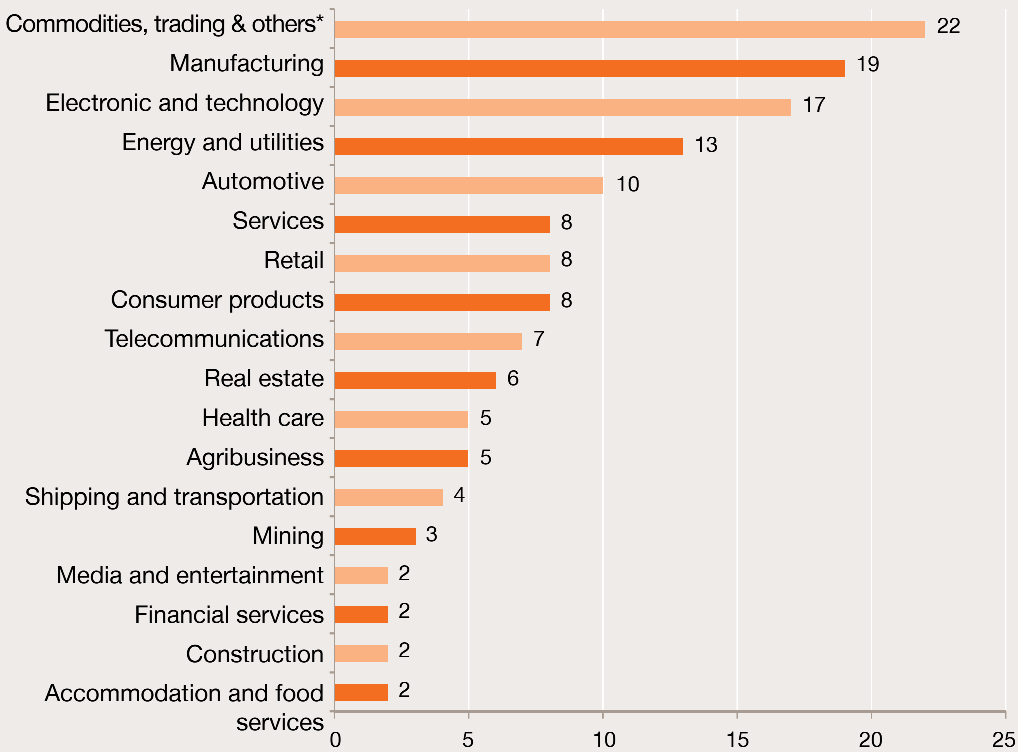
Survey methodology

The survey focuses on four areas of corporate treasury, including risk management, hedge accounting, cash and liquidity management and treasury management system. Respondents were asked 53 questions relating to treasury background and governance, financial risk management, hedge accounting, cash and liquidity management, as well as future changes in treasury and treasury management system. Our respondents come from a wide range of industries, covering a wide range of treasury needs and profiles. In total, we received 117 completed surveys from 7 countries.

54 out of our 117 respondents were from Japan, 25 respondents from Singapore and the rest were from China, Hong Kong, Indonesia, Malaysia and Thailand.

There were 12 industry sectors having 5 responses or more, the top 3 industry sectors being commodities, trading & others (22 responses), manufacturing (19 responses), and electronics and technology (17 responses).

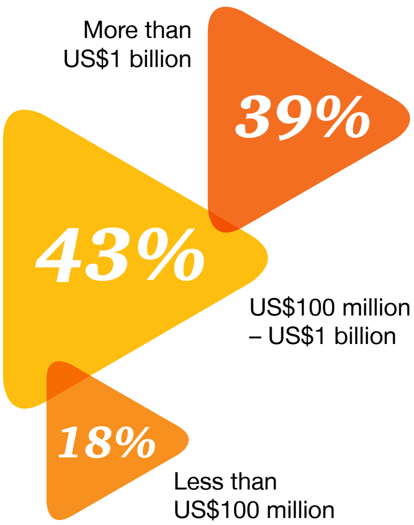




Replies Per Industry Sector

* Within the “other” category, we received responses such as commodities, e-commerce, chemicals and trading

Replies per turnover

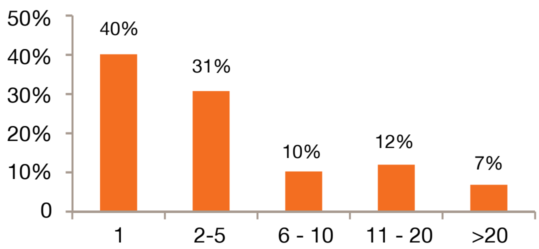


To enable us to provide further insights into our findings, we have analysed the results based on each category of organisation in terms of size, with smaller organisations regarded as those with turnover of less than US$100 million, medium organisations with a turnover of between US$100 million – US$1 billion and larger organisations with a turnover greater than US$1 billion. The survey population covers a representative sample from each category of turnover size, with 18% of responses from smaller organisations, 43% from medium organisations and 39% from larger organisations.

Treasury organisation

1 Deployment of treasury staff

Our survey sample covered a cross section of treasury function sizes. 29% of the treasuries are within geographically dispersed businesses covering six or more countries, another 31% oversee between two to five countries. They are therefore likely to be dealing with complex cross-border liquidity, currency and counterparty issues.



Number of countries operating under the respondent's responsibility

Despite the cross-border complexity, entities, especially in the small and medium-sized segment, do not tend to have a specialised treasury function. 53% of our respondents indicated that they had 5 or fewer staff in their group corporate treasury.

Organisations operating in Asia face challenges from their significant exposure to the risks of transacting in multiple emerging currencies, limited hedging options, capital controls, and a plethora of languages, cultures and regulations. As companies grow larger and more complex, the need to invest in treasury resources to support this growth becomes more apparent. The key challenge for treasury function in Asia is to present the case for a larger budgets so they can increase resources and talents to keep up with the growing business and financial demands.

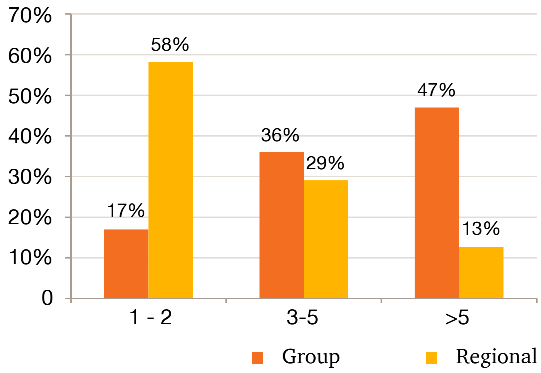
The regional treasury set-up mostly comprises smaller companies and multinational corporations (MNCs) having an Asian treasury centre that operates with a small team of one or two resources, limiting its treasury activities.

We also note that as the treasury team grows bigger, more of the functions operate at a group level. This may indicate that the entities have started centralising their treasury functions to manage risks and regulations.

There are various ways to centralise treasury activities, depending on the nature and geographical spread of the business. Some companies may prefer one central treasury function operating at one location where all treasury activities are managed. For others, treasury may function as a single operation but located in different regions of the world. These regional treasury centres may be responsible for regional cash management and also allow "24 hour access" to the financial markets.

A centralised treasury offers a number of tangible and intangible benefits to the corporation, including:

- Improved working capital management through increased access to cash, resulting in reduced debt and increased return on investments of excess cash.
- More streamlined bank accounts, which translates to lower transaction costs and bank fees.
- Standardised cash management across all legal entities.
- Global compliance with headquarters treasury policies and procedures.
- More effective management of foreign exchange (FX) exposures and interest rate risks through global oversight.
- Netting of exposures leading to cost savings from fewer FX conversions and bank transfers.
- Global view and management of limits on bank exposure.
- Increased productivity from leveraging centralised treasury activities and technology to achieve more output with fewer human resources.



Deployment of treasury staff

Treasury Organisation

2 Core treasury activities in Asia

Respondents were asked to rate 9 corporate treasury activities according to whether they were 'Very important', 'Somewhat important', 'Least important' or 'Never considered'. We then scored their responses, with 'Very important' having a score of 4 points and 'Never considered' having a score of 1 point.

We also reviewed a subset of the results by size of organisation, which showed some interesting variances. These are highlighted below.

Financial risk management and cash and liquidity management were identified as the two most important treasury activities for larger organisations.

This came as no surprise given that these organisations are likely to be more geographically dispersed, and managing financial and liquidity risk would be key areas of focus.

We have witnessed a period of significant foreign exchange, interest rate and commodity price volatility in recent years. Notably, the market saw emerging market currencies like the Indian Rupee and the Indonesian Rupiah tumbling in value in 2013. The uncertainty over tapering of quantitative easing by the US Federal Reserve will also likely have a considerable impact on interest rates and liquidity.

Overall

Rank	Activity	Score
1	Cash and liquidity management	3.43
2	Financial risk management	3.41
3	Supporting management and business units	3.35
4	Working capital management	3.34
5	Funding	3.23
6	Banking Relationship	3.21
7	Tax	3.01
8	Capital structure	2.65
9	Company credit rating	2.38

Large organisations

Rank	Activity	Score
1	Financial risk management	3.75
2	Cash and liquidity management	3.75
3	Funding	3.61
4	Supporting management and business units	3.43
5	Working capital management	3.36
6	Banking relationship	3.27
7	Tax	3.00
8	Capital structure	2.98
9	Company credit rating	2.80

Medium-sized organisations

Rank	Activity	Score
1	Working capital management	3.48
2	Cash and liquidity management	3.34
3	Supporting management and business units	3.26
4	Financial risk management	3.18
5	Banking relationship	3.18
6	Funding	3.06
7	Tax	2.92
8	Capital structure	2.52
9	Company credit rating	2.32

Small organisations

Rank	Activity	Score
1	Supporting management and business units	3.40
2	Banking relationship	3.25
3	Financial risk management	3.20
4	Tax	3.20
5	Cash and liquidity management	3.10
6	Working capital management	3.00
7	Funding	2.90
8	Capital structure	2.45
9	Company credit rating	1.80

Relative importance of treasury activities – by size of organisation

Working capital management and cash and liquidity management were ranked the two most important activities for medium sized organisations.

Clearly cash is critical, and medium-sized organisations are concentrating on improving their working capital efficiency to maximise the use of their cash balance and assets/ liabilities. This suggests that the medium-sized and smaller companies may have less access to the capital markets than the larger companies. While small companies did not identify these two activities as being key, they did indicate that banking relationships was a key activity. This is also in line with the finding that a significant proportion of the small and medium-sized companies did not have a cash pooling structure in place to optimise internally available capital and minimise interest costs.

Smaller organisations placed emphasis on the importance of supporting their management and business units.

This is not what we expected as smaller organisations tend to focus more on managing working capital and liquidity. So, could this be more of an aspirational target by treasurers rather than the reality?

Capital structure and company credit rating receive the least attention from treasurers across all sizes of organisations.

This could be attributed to the fact that many Asian companies are still funded through bank debt.

The global financial crisis has won treasurers' unprecedented attention from boards and business teams alike and the contribution of the treasury function is now better understood. However, as the survey results reveal, treasurers in Asia still have some work to do in the areas of systems, processes and people to transform the treasury in order to add more value to the business. Treasurers should continue to evaluate the value they bring to their business outside of managing financial risks, and how they can align themselves to the strategic goals of the business.

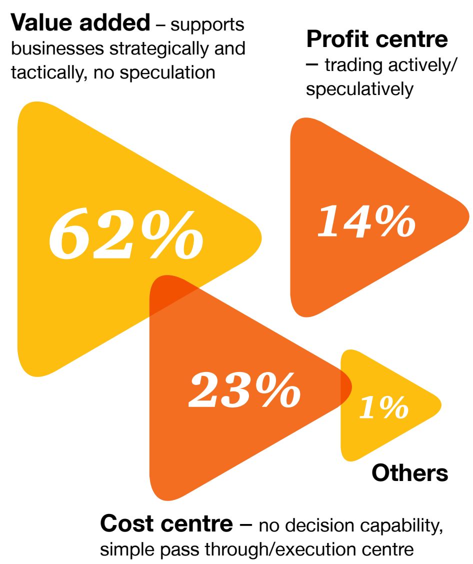
Treasury model

3 How has the treasury function in Asia developed?

The survey results showed a majority (62%) of respondents perceived themselves to be 'value-added' treasuries – that is, treasury works actively with the business to achieve its strategic goals. For example, this involves using their skills, experience and judgment to support the business units in deciding what, when and how to hedge their transactions.

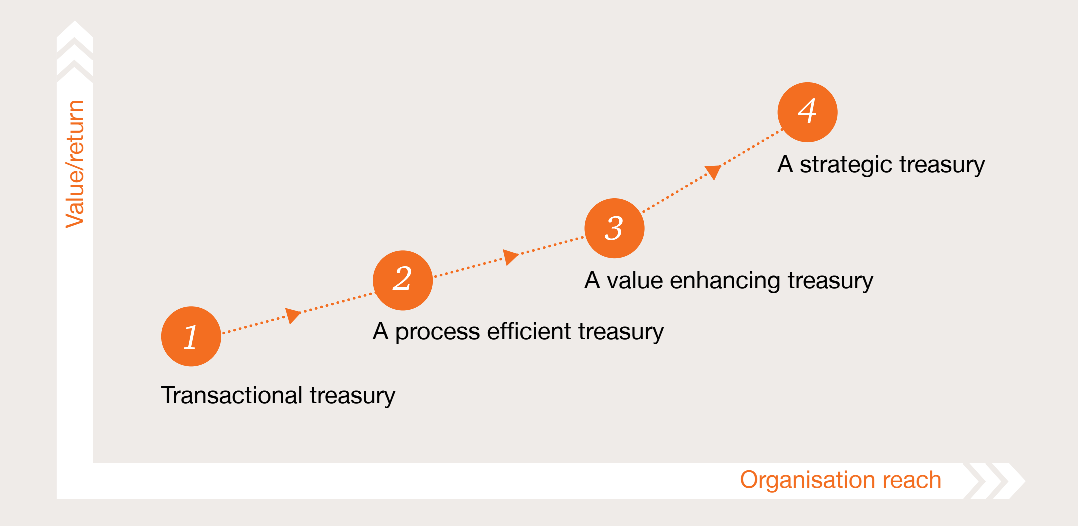
However, our survey found that many treasuries in Asia are still using a standardised approach and traditional methods of managing risks rather than more active or aggressive methods (see the section 'Risk approach'). Many have yet to implement proactive management of cash and liquidity (see the section 'Cash centralisation') or adopt treasury technology to drive process efficiencies and enhance timely and useful information to support better decision-making (see the section 'Treasury technology'). The responses seem to imply that some of the 62% of respondents may aspire to be a value-added treasury centre rather than performing as a value-added centre. As such, there appears to be some scope for moving treasury functions away from acting as a transactional treasury and towards a process-efficient treasury, a value-enhancing treasury or a strategic treasury.

Of the 23% (27 respondents) that perceive themselves to be a cost centre, ten were large organisations and twelve were medium organisations. Under our cost centre definition, the treasury function captures the exposures of the business and passes these on to the market in a back-to-back fashion, without looking for internal improvements or netting opportunities. There is a clear opportunity here for these organisations to enhance their treasury function and drive value.



Evolution of a treasury function

The treasury development model



Please note: The curve's gradient is dependent upon your organisation's specific circumstances.

1 A transactional treasury

What it delivers
A treasury that plays a focused execution role, enabling the business to carry out necessary transactions; primarily impacting financial functions.

What you can get
- Increased control.
- Improved compliance.
- Visibility of risk and funding.
- Centralised expertise.

2 Process efficient treasury

What it delivers
A treasury that provides excellence in execution, ensuring optimal use of cash via integration with underlying finance processes and banking providers.

What you can get
- Visibility and control of group-wide cash.
- Improved management of liquidity.
- Lower treasury operating costs.
- Straight-through processing.
- Single version of the truth.

3 Value enhancing treasury

What it delivers
A treasury that delivers quantifiable value for the business as a whole, optimising financial flexibility and efficiency, and acting as an enabler to the business to achieve its strategic goals.

What you can get
- Lower cost of funding.
- Lower business operating costs.
- Stronger credit rating.
- Lower earnings and cash flow variability.
- Effective financial reach in new markets.

4 Strategic treasury

What it delivers
A treasury that actively contributes to the strategic decisions of the whole business and provides financial leadership.

What you can get
- Increased operating revenue.
- Improved competitive positioning.
- Improved customer and supplier relationships.
- Balance sheet aligned with business dynamics.
- Improved business unit cash flow.
- Finance expertise deployed to business units.

Financial risk management

4 Key financial risks

The ongoing global financial uncertainty continues to cause unprecedented volatility in foreign exchange rates and asset prices. We asked the respondents the significance of various financial risks to them, and FX risk was ranked top for many Asian corporate treasurers. This came as no surprise given the increasingly diversified geography of their business operations, cross-border transactions in multiple currencies with many involving emerging currencies with strict controls in convertibility, cross-border remittance, etc.

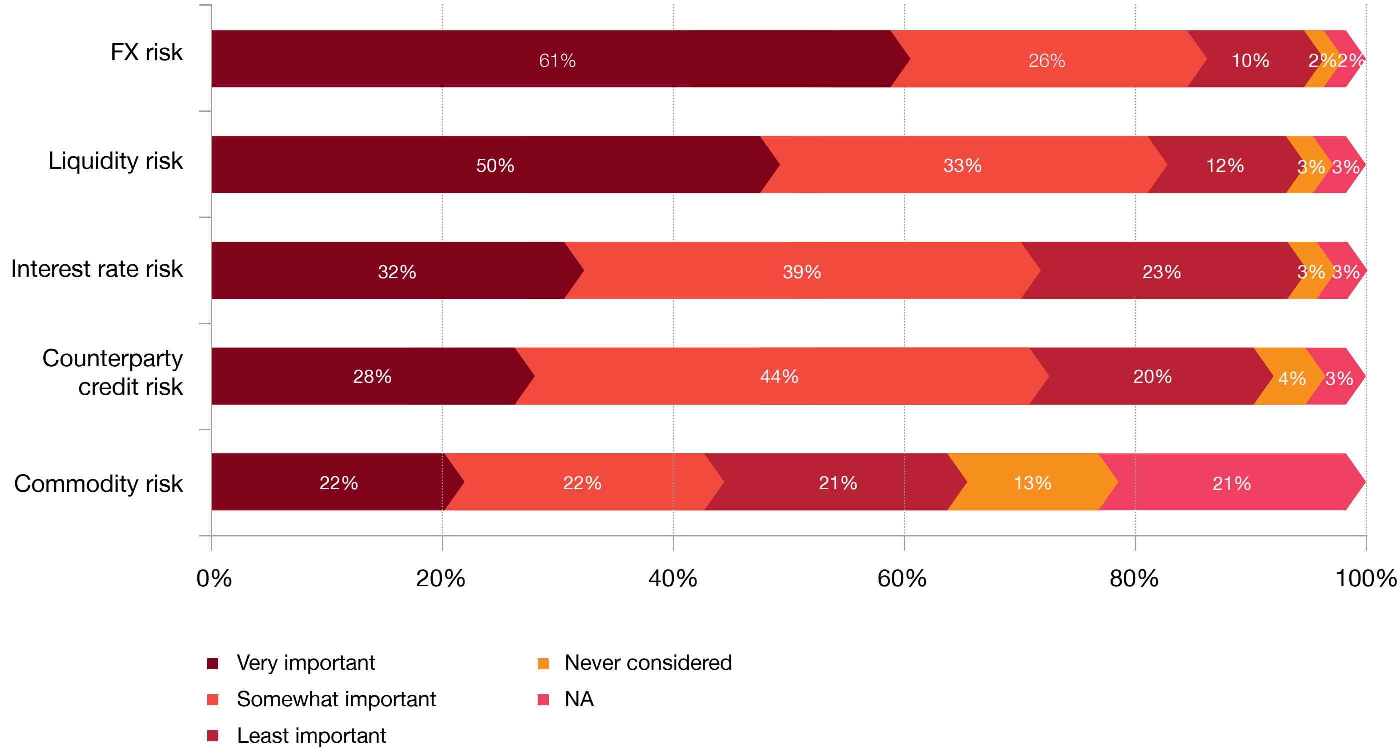
Some examples of foreign exchange controls in the region:

- In Thailand, outward remittance of Thai baht is restricted and the currency is not freely available outside of Thailand. Hence, many financial institutions generally do not offer Thai baht accounts overseas. Within Thailand, there are also restrictions on foreign currency transactions and opening of foreign currency bank accounts. These factors complicate the arrangement of cash centralisation for companies with operations in Thailand.
- In China, we have seen a gradual relaxation of currency control (i.e. renminbi or RMB internationalisation) with the introduction of various pilot schemes by People's Bank of China (PBOC) and State Administration of Foreign Exchange (SAFE) in recent years. Some of the new programmes include permissibility of cross-border RMB lending, RMB trade settlement, cross-border sweeping of RMB and foreign currency. These schemes have allowed organisations with operations in China to better manage their foreign exchange risk, cash and liquidity, and to improve efficiencies in their payments and collections.

Counterparty credit risk and commodity risk were ranked the lowest by the respondents. While we have emerged from the recent financial crisis, the collapse of Lehman Brothers has taught us the importance of counterparty credit risk. In our view, counterparty risk should not be ignored, and organisations should establish limits and monitoring policies and procedures to manage concentration risk to ensure sufficient diversification across counterparties.

Not all companies have direct or significant exposure to commodity price risk – but for those that do, it is worrying to find that the respondents assessed commodity risk as being relatively low in importance. We also found that for organisations that are exposed to commodity risk, a high percentage (more than one third) do not manage the risk. Please see further findings in the next section, 'Risk approach'. Volatility in commodity prices is likely to have a material impact on cash and working capital on those organisations and it is surprising that treasurers do not give it higher priority.

Risk exposure



Financial Risk Management

5 Risk approach

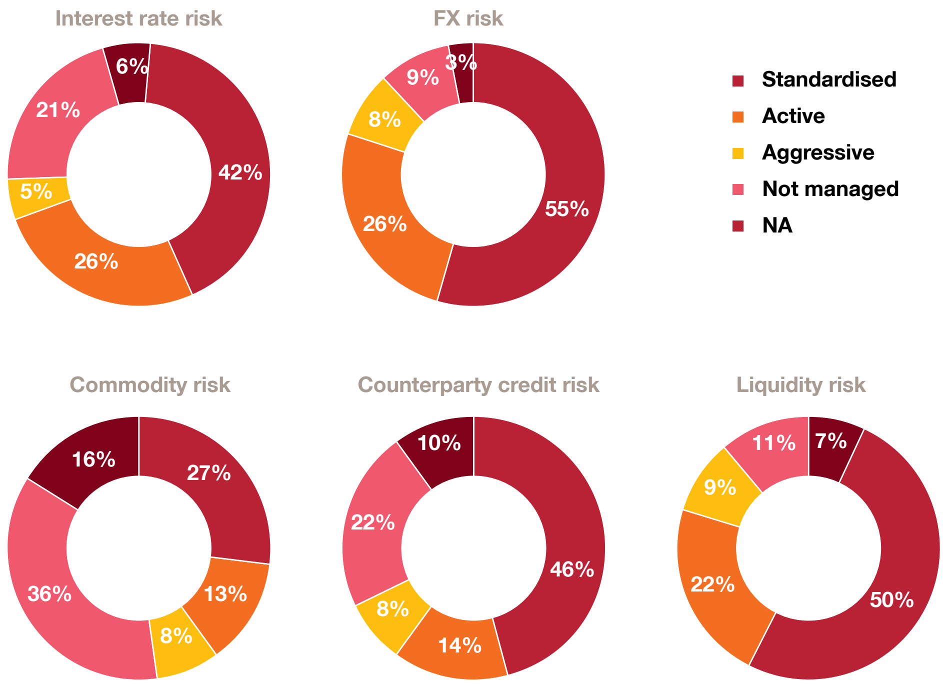
We asked our respondents about their overall risk approach (standardised, active or aggressive) in relation to their financial risks.

The results show that approximately half of respondents across all sizes of organisation continue to apply a standardised approach to manage their interest rate, foreign exchange, liquidity, and counterparty credit risks. So, there is some scope for corporates in Asia to more actively manage these risks in order to cope with the volatile markets.

Another significant observation is that, although the majority of respondents (66%) indicated exposure to commodity risk, a relatively high percentage (36%) were not managing the risk at all. As highlighted in the previous section, commodity risk has been subject to significant volatility in many markets in recent years. This could be due to many reasons including the impact of commodity risks being less material to the organisation or commodity is being managed by the purchasing or procurement functions instead of treasury. The trend in certain organisations is for treasury to be more involved and to centralise its commodity price risk and FX risk management so that the treasury team can benefit from potential synergies and can capitalise on its financial risk management and use of financial instruments.

A third of respondents did not manage counterparty credit risk exposure or consider it non-existent. This corroborated the earlier finding (see the section 'Key financial risks') that counterparty risk was given less importance than other risks.

Approximately half of the companies applied a standardised approach to manage risk

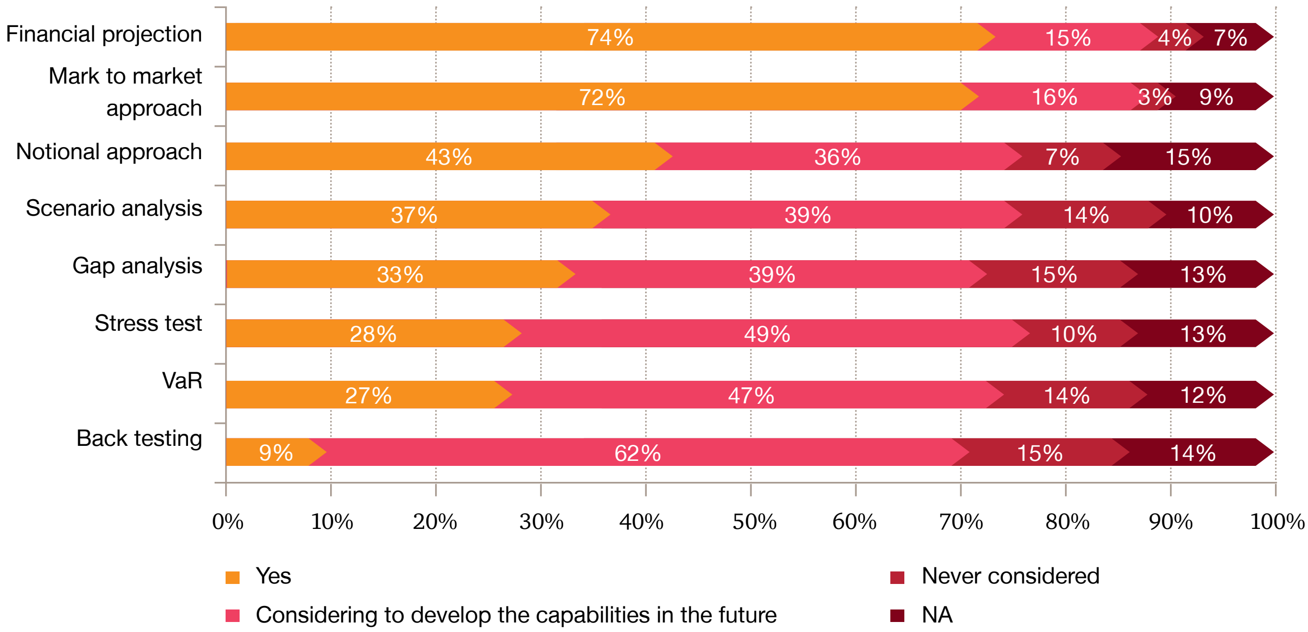


Standardised approach is defined as hedging within well defined and narrow limits, with limited decision power left to the treasury function. ***Active*** approach is defined as dynamically hedging risk where hedging considerations rely on factors influencing the market price movement of underlying assets such as macroeconomics. ***Aggressive*** approach is defined as dynamic approach, which is applied when taking into account business strategies and activities, including physical supply chain, with the goal of maximising market opportunities, and profitability and cash flow.

Our survey also revealed that organisations in Asia tend to use traditional methods such as marking to market, financial projection and notional approach to manage risks. Only a third used more advanced techniques such as sensitivity analysis and gap analysis to manage uncertainties. Other sophisticated methods such as value at risk (VaR) and back testing were rarely used.

Traditionally, sophisticated risk management has been the domain of financial institutions, driven by regulatory capital requirements and optimising return on risk capital. However, the increased volatility of foreign exchange rates, interest rates, and tightening of liquidity since the 2008 financial crisis have increased the need for organisations to manage risk. Our survey results indicated that there is scope for corporates to make changes to their risk management so that they can forecast or manage risk more dynamically and proactively improving their financial performance.

Methods of risk management



Treasurers' focus on financial risk management is critical in managing a company's exposure, but should treasurers' responsibility extend beyond just listing out and quantifying financial risks? Should they also be responsible for a company's enterprise risk management (ERM)?

As businesses and the environment in which they operate become increasing complex, treasurers can embrace a broader risk agenda that extends beyond purely focusing on financial risks and to include other risks, with a view to help the organisations to achieve a strategic advantage.

Key value proposition of ERM:

- Connecting risk and strategic planning leading to greater integration of strategy, with tactical responses to risk, compliance to help to improve business and IT Governance.
- Better allocation of key roles & responsibilities to promote accountability and improve business performance
- Balance divergent needs of internal & external stakeholders - including, improving management of overlapping regulatory demands.
- Promotes risk based management of resources - Economic Capital measures and optimising the cost of managing risk
- Improvements in quality and utility of relevant (risk) data - Better business performance through optimal leverage of technology, which support risk identification, analysis, monitoring, & mitigation efforts.
- Effective response to prepare for the increasing interest from regulators & rating agencies
- Invigorates opportunity-seeking behavior (thriving risk culture)

Hedge accounting

6 Application of hedge accounting

The unprecedented swings and uncertainties seen in recent years in the financial markets have led many organisations to deploy some form of risk management strategy, the most common being the use of financial derivatives, to hedge exposures in FX risk, interest rate risk, commodity risk, counterparty risk and liquidity risk.

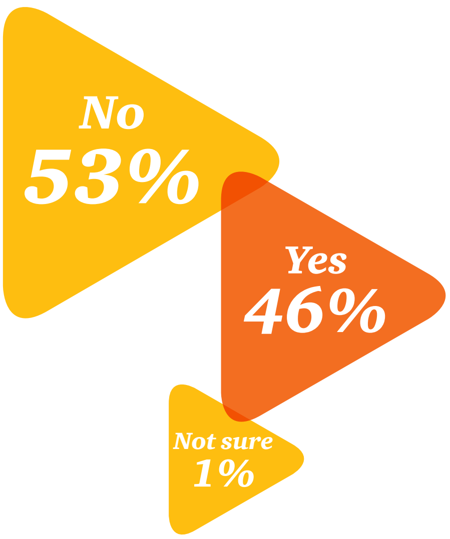
As highlighted in the previous section, 89% of respondents were managing their foreign currency risk, 73% of them were managing their interest rate risk; and 48% were managing their commodity risk.

However, 53% of respondents did not apply hedge accounting for their hedges. Hedge accounting is a concept under the accounting standards aimed at reducing the volatility in the income statement caused by the requirement to measure derivatives on the balance sheet at fair value.

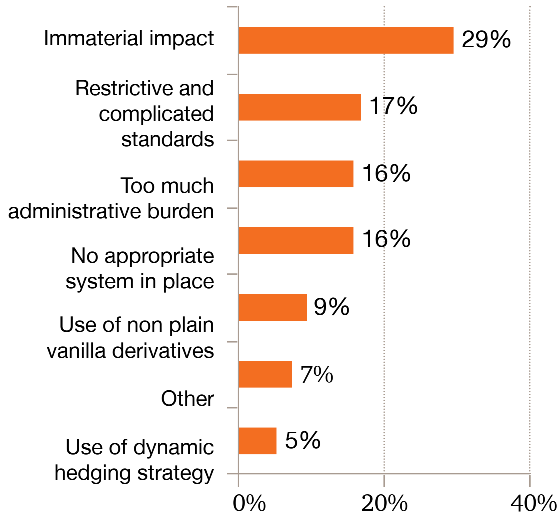
"Hedge accounting adoption is still seen as too cumbersome and complex for many"

The main reasons cited for not applying hedge accounting included the immaterial impact on the financial statements (29%), the complexity and restrictive nature of the current accounting standards (17%), the weight of administrative burden (16%) and the lack of appropriate systems to deal with hedge accounting requirements (16%). Of the reasons given, system challenges were bigger impediments for smaller sized organisations (20%) to apply hedge accounting than for the medium to large organisations (12%). This is not surprising given that the investment and focus on treasury technology in the smaller organisations is still in its infancy.

Do you currently apply hedge accounting?



Reasons for not applying hedge



The new accounting standard will simplify hedge accounting

The lack of incentive to apply hedge accounting reflects the frustration of the accountants, treasurers, boards, investors and analysts alike with the existing hedge accounting rules. The complex rules have at times made achieving hedge accounting impossible or very costly, resulting in significant volatility in the financial reports, even when the hedges were considered economically efficient. As a result, after the onset of the global financial crisis, the International Accounting Standards Board worked on a new model to simplify and align hedge accounting to better reflect risk management practice. The new rules were released in Quarter 4, 2013.

Overall, the new standard is a substantial overhaul and provides a better basis for aligning accounting with risk management economics; it also makes hedge accounting simpler in practice. The many improvements present a compelling case for more organisations to revisit their risk management strategies. It may be that hedging opportunities that were dismissed before as being unfeasible, now fall firmly into the "workable and must action" category.

The survey results also showed that system challenges also put off quite a few companies from adopting hedge accounting. Most of the TMS today have the capability to deal with the majority of the hedge accounting requirements, and some are already developing the functionalities needed for the new accounting requirements. As companies in Asia continue to embrace technology to drive the effectiveness of their treasury management, they can look to TMS to automate the hedge accounting process with straight-through processing through to the accounting system. This reduces the need for documentation and manual effectiveness testing, allowing more time to actually manage the financial risks.

The key changes under the new hedge accounting rules include:

- The removal of the infamous '80%-125%' bright line hedge effectiveness test with a more principle-based assessment.
- Friendlier treatment of options, which is a valuable risk management tool that protects entities from the downside, yet allowing them to benefit from the upside.
- Derivatives can be designated as part of a hedged item which will potentially benefit, among others, corporate or financial institutions issuing foreign currency debt and who may manage the foreign exchange risk and interest rate risk separately.
- Components of non-financial items fulfilling certain criteria to be separately designated – a move particularly welcomed by those with hedging activities in the agricultural, energy and resources sectors, or those who use large amount of commodity-based products.

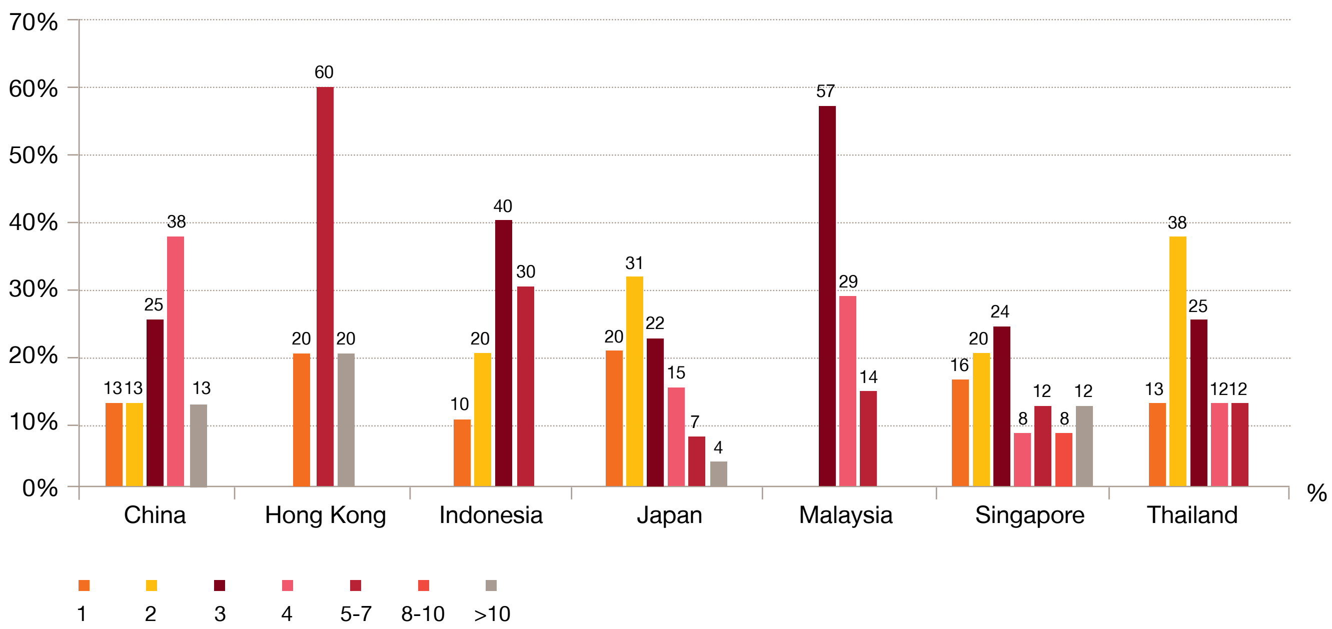
Bank relationship

7 Rationalising bank relationship

"Over 60% of respondents used three core banks or less for cash management activities"

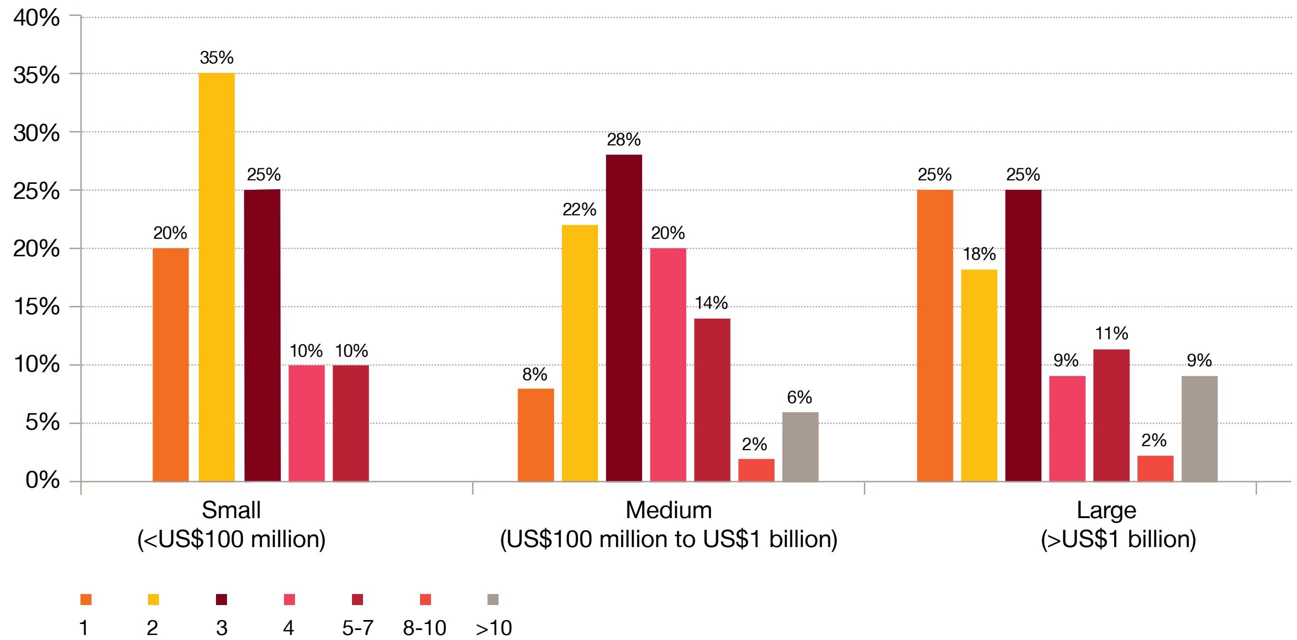
The results showed that over 60% of the respondents used three core banks or fewer for cash management activities. This is consistent across a number of countries. This seems to support the long-held view that, traditionally, some Asian corporates have built long-standing relationships with their local bank – they focus on building long-term relationships with only a handful of core banks to ensure strong credit line support rather than viewing the relationship as purely transactional.

Number of core banks by countries (%)



Whilst maintaining a long-term bank relationship is important, treasurers should continue to extract more value out of the relationships in terms of pricing, quality and breadth of service offerings. In Asia, it is still unusual for companies to enter into a request for proposal (RFP) for their banking relationships on a periodic basis. A well-designed RFP will assist an organisation to rationalise the costs of banking services and achieve greater efficiency in cash management. In emerging markets such as Asia, appointing a banking partner for the entire region may be challenging in practice given the diversity of market, regulatory environments and currency controls that exist, but treasurers need to achieve a balance between operational and financial efficiency as companies demand greater visibility and control over cash and reduction in transaction costs. We note in the survey that larger organisations have relatively fewer number of core banks than the medium-sized organisations, suggesting that the former may have embarked on the process of rationalising their bank relationships.

Number of core banks by company size



Bank relationship

8 Importance of banking relationship attributes

Respondents were also asked what they considered were the key attributes of their banking relationship in order of importance across seven categories. We have made the following observations.

- Overall, the most important attributes were quality of service/advice, banking fees and bank services pricing.
- Quality of service/advice was the top attribute for medium-sized and larger organisations and second for smaller organisations. These findings cannot be ignored by the banks. As highlighted earlier, there is a trend for companies to rationalise their banking relationships. The key question for banks is: when the company enters into RFP to rationalise the banking relationships, do the banks know what their clients value as quality service or advice? Do the banks have enough knowledge of their clients' business?
- Smaller organisations placed the most importance on banking fees and bank services pricing. This may suggest the higher materiality of the banking fees on their financial statements, so smaller organisations may be more reliant on quantitative factors compared to their larger counterparts.
- Counterparty risk was the least important attribute for medium-sized and large organisations. This raises an interesting question of why there is general lack of emphasis currently being placed on counterparty risk management, as discussed in earlier sections, 'Key financial risks' and 'Risk approach'.

Overall		
1	Quality of service/advice	3.62
2	Banking fees and bank services pricing	3.39
3	Coverage of services received	3.37
4	Knowledge of your business	3.27
5	Counterparty risk	3.15
6	Participation in the core financing of the group	3.13

Medium organisation		
1	Quality of service/advice	3.58
2	Banking fees and bank services pricing	3.38
4	Knowledge of your business	3.32
3	Coverage of services received	3.24
5	Participation in the core financing of the group	3.14
6	Counterparty risk	3.12

Large organisation		
1	Quality of service/advice	3.80
2	Coverage of services received	3.50
3	Banking fees and bank services pricing	3.39
4	Knowledge of your business	3.30
5	Participation in the core financing of the group	3.25
6	Counterparty risk	3.25

Small organisation		
1	Banking fees and bank services pricing	3.50
2	Quality of service/advice	3.40
3	Coverage of services received	3.35
4	Knowledge of your business	3.10
5	Counterparty risk	3.10
6	Participation in the core financing of the group	3.05

Relative importance of banking relationship attributes – by size of organisation

Funding

9 Type of debt used

The three most popular types of debt across all respondents were bank loans, credit facilities and overdraft. As expected, there were variances between the size of organisation, with medium and larger organisations placing more importance on bonds and equity market compared to smaller organisations. The establishment of bond programmes and private placements are less accessible for many small organisations especially those in the emerging markets for reasons such as the size of their borrowing requirements, their credit profile (usually they are non-rated) and/or their limited treasury resources.

Bond issuance in Asia in recent years is becoming more frequent as companies seek to reduce their dependency on bank debt. Having said that, Asian bond markets are at various stages of growth and remain small and illiquid with few exceptions. Those in Hong Kong, Singapore and Japan are comparatively more advanced and liquid, while markets in Indonesia and Thailand are still in the early stages of development.

The increase in bond issuance in Asia is further fuelled by China's effort to internationalise its currency, issuing offshore RMB denominated bonds known as 'dim sum bonds'. MNCs expanding in China see dim sum bonds as an emerging financing option to raise RMB funds for their Chinese operations.

The low interest rates in the US are pushing dollar-based investors further afield in search of returns, allowing Asian companies to fund at attractive yields and often longer maturities.

At the same time, Europe's own troubles are forcing many investors to look for safer alternatives.

Regulators across Asia have also encouraged the issuance of local or unrated debt to stimulate the growth of their bond markets. An example of this is the Asian Development Bank's Asian Bond Markets Initiative endorsed by ASEAN +3 (China, Japan, Korea), which aims to develop efficient and liquid bond markets in Asia, enabling better utilisation of Asian savings for Asian investments.

Issuing bonds also gives companies greater freedom from the restrictions that are often attached to bank loans. For example, lenders often require companies to agree to a variety of limitations and covenants, such as not issuing more debt or not making corporate acquisitions, until their loans are repaid in full. Such restrictions can hamper a company's ability to do business and limit its operational options.

Against this backdrop, treasurers who have been relying on bank debt as the dominant source of financing need to ask themselves whether they are doing everything they can to take advantage of the recent trends in the Asian corporate bond markets. At the same time, they also need to carefully weigh up the decision to issue bonds against factors such as the up-front fees associated with the issuance, the cost of applying for credit rating, higher disclosure requirements as prescribed by the listing authority or stock exchange for listed issuance.

Large organisation		
1	Bank loans	3.43
2	Credit facilities	3.27
3	Overdraft	2.52
4	Trade finances	2.45
5	Bonds	2.36
6	Equity market	1.77
7	Commercial paper	1.59
8	Private placement	1.45
9	Asset backed securitisation	1.32

Medium organisation		
1	Bank loans	3.20
2	Credit facilities	2.56
3	Overdraft	2.30
4	Trade finances	1.98
5	Bonds	1.86
6	Equity market	1.58
7	Commercial paper	1.38
8	Private placement	1.30
9	Asset backed securitisation	1.30

Overall		
1	Bank loans	3.09
2	Credit facilities	2.62
3	Overdraft	2.30
4	Trade finances	2.01
5	Bonds	1.82
6	Equity market	1.49
7	Commercial paper	1.31
8	Private placement	1.27
9	Asset backed securitisation	1.15

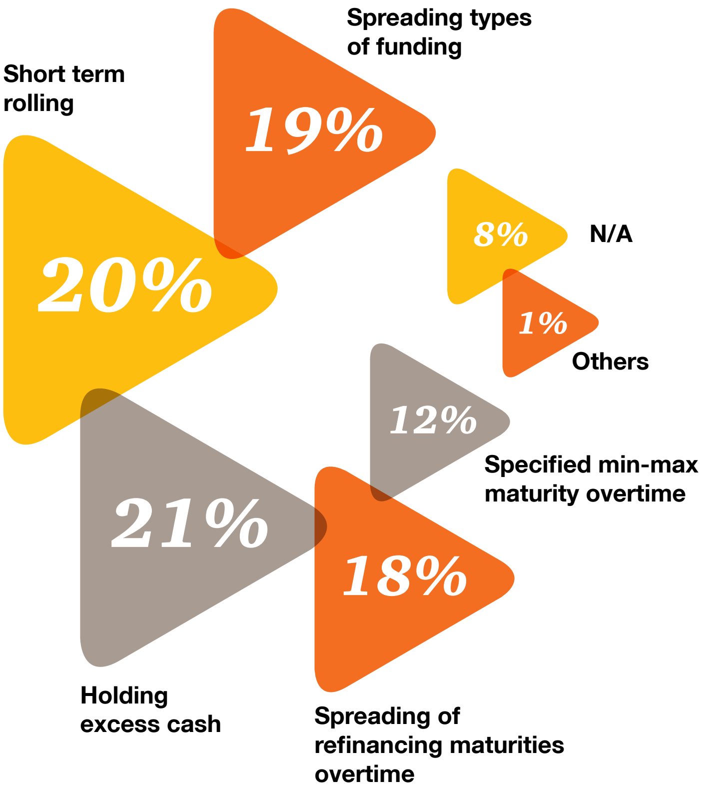
Small organisation		
1	Bank loans	2.45
2	Credit facilities	2.25
3	Overdraft	1.70
4	Trade finances	1.05
5	Bonds	0.95
6	Equity market	0.75
7	Commercial paper	0.65
8	Private placement	0.60
9	Asset backed securitisation	0.50

Popularity of types of debt used – by size of organisation

Funding

10 Funding management strategies

Since the global financial crisis, the emphasis in finance and treasury has been on ensuring sufficient liquidity to meet strategic and operational needs. Respondents were asked about their funding management strategies. We can see that the pressure on availability of funding over the last few years has forced many to focus on diversifying their sources of funding (19%). For example, raising funds from debt and capital market have begun to pick up steam in recent years and the market see the increasing popularity of convertible bonds and perpetual securities as alternatives to bank loans. As discussed in the previous section, 'Type of debt used', treasurers need to ask themselves whether they are doing everything they can to avoid over-reliance on a particular funding source and risk facing a liquidity crunch.



Aside from diversifying the sources of funding, respondents have also adopted strategies such as short-term rolling (20%) and the spreading of the maturity dates of the funding programme (18%) to manage funding risk. Gone are the days where treasurers would risk funding the bulk of their long-term debt in one shot to achieve critical mass, as many realised this presents an unacceptable concentration risk. About 21% of the respondents hold surplus cash to help ease funding risks. However, holding surplus cash may be counter-effective to optimal capital structures; as a best practice, companies are encouraged to set a minimum liquidity reserve, taking into account projected cash flow fluctuation.

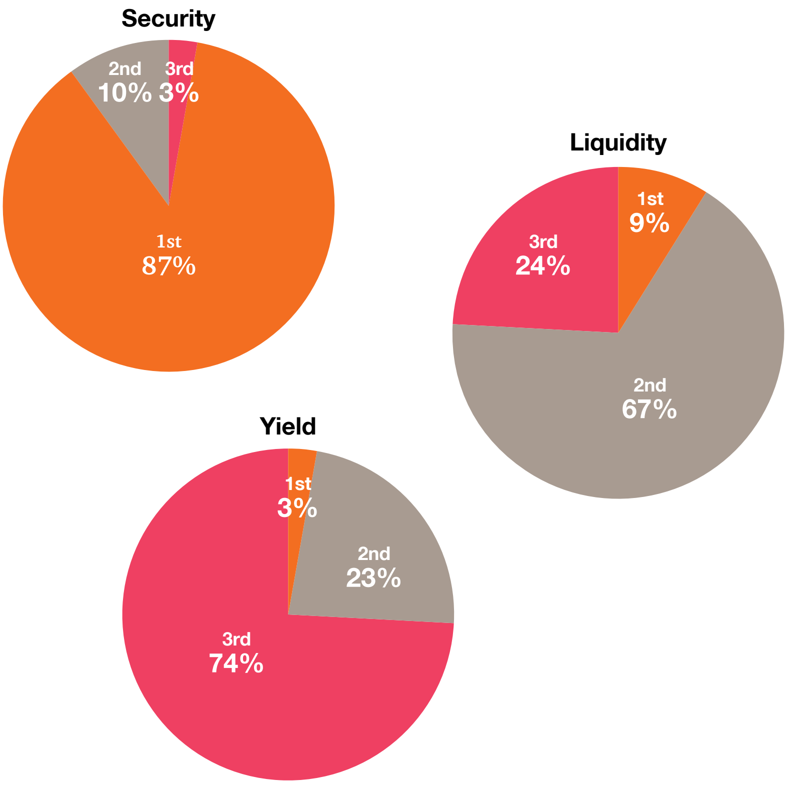
Investment

11 Investment of excess cash

"Over 60% of respondents across all sizes preferred bank and money market deposits"

Overwhelmingly, bank and money market deposits are the preferred options for investment of excess cash, with over 60% of the respondents across all sizes favouring these options over others. Very few considered other categories of investment product, such as government bonds, corporate bonds and commercial papers, as important. The results probably reflect the limited supply of alternatives in the Asian market and the risk appetite of boards and senior management for liquidity and risk/return profiles on these investment products.

Importance of investment principle



To date, many organisations operating in Asia are still grappling with the issues of highly regulated financial markets, such as China and India, and the limited investment alternatives; unlike mature markets such as Europe and the US where there is greater transparency in regulation and capital market. Whilst banks are continuously innovating their products, they are often restricted by various regulations. For example, in certain countries, there is a minimum investment period before imputing any yield. In other countries, it is often not easy to liquidate investments, and the risk of default is higher.

The respondents were also asked to rank the relative importance of their investment principles across security, liquidity and yield when investing. Close to 90% of the respondents ranked security as being of the highest importance, followed by liquidity and yield, which were ranked top by only 9% and 3% of respondents respectively.

Not surprisingly, protection of funds invested and their repayment at maturity is the number one priority for the majority of respondents. There is less appetite among organisations in Asia for taking risks in corporate debt (corporate bonds, commercial paper) and structured products, coupled with the lack of investment alternatives as mentioned previously. Many of the organisations may not have sufficient capacity to perform credit evaluation or manage counterparty risk. So, the risk and return of these investment products are generally perceived as not sufficiently adequate to justify the investment.

Going forward, it will be interesting to see whether there are any significant movements in importance in these investment principles. In particular, as we see more financial markets liberalising, will more corporates in Asia begin to look beyond traditional investment products such bank deposits and money market funds?

Cash management

12 Key cash management activities in Asia

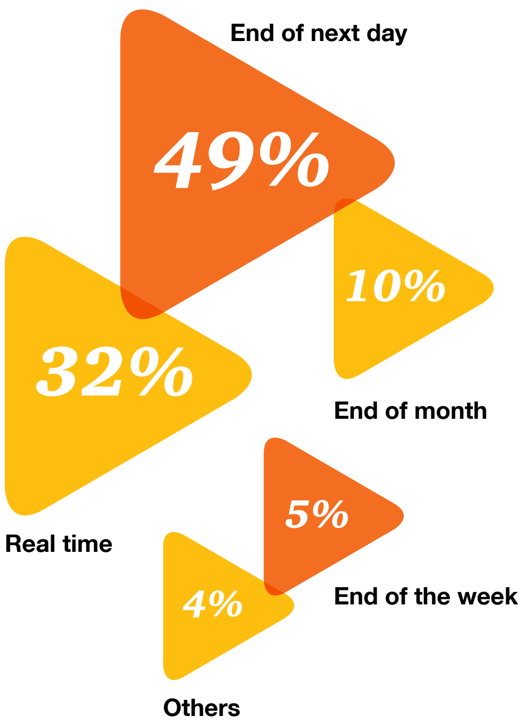
With scarce liquidity in Europe and the US during the financial crisis, visibility and control over cash have become critical for corporates around the world. Cash flow forecasting, working capital management, and cash centralisation have emerged as the top activities. The survey confirms the growing focus on internal availability of cash as pressure on external funding intensifies.

Cash flow forecasting is a perennial priority and challenge for treasury. It is important because it is a process of determining the future cash position, thereby enabling treasurers to identity potential financial needs and/or opportunities. However, much of the data on which treasury relies to construct an accurate, timely forecast is derived from sources outside treasury. The problem with obtaining and collating this information is often technical and cultural/organisational. There is also ongoing debate on the forecast horizon, frequency, level of granularity, accountability etc. The challenge is striking the right balance between these parameters whilst recognising that the different forecast types serve different purposes. These range from immediate liquidity and short-term cash management, to longer term working capital management and capital needs.

Key cash management activities		
1	Cash forecasting	3.79
2	Working capital	3.53
3	Liquidity management	3.38
4	Cash centralisation	3.38
5	Funding	3.29
6	Managing bank relationship	3.26
7	Managing commercial payments	3.24
8	Managing bank infrastructure	2.85
9	Managing investments	2.69

However, the survey shows that less than one-third of respondents have real-time information on their cash position. This could reflect the current limitations of technology and the connectivity with their banking platforms. The foundation of a sound cash forecast should always be having visibility of the cash position on a timely basis. Treasurers in Asia can do more to improve their cash flow forecasting.

Availability of real-time information on cash position

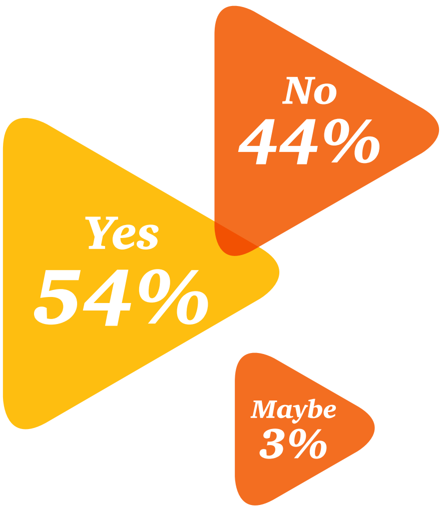


Cash management

13 Cash centralisation

Cash centralisation techniques – such as physical sweeping, notional pooling and more sophisticated models, such as in-house banking, payment factories, payment-on-behalf-of and receivables-on-behalf-of – have received increasing focus over the past few years. The global financial crisis has raised interest in maximising the availability of internal sources of capital where possible, rather than resorting to external sources, which could impact the liquidity headroom and leverage ratio, and could increase borrowing costs.

Availability of cash pooling structure



Such techniques, when executed on a regional or global basis, are often an effective way of making more cash available, simplifying bank account structures, reducing overall bank transaction costs and improving visibility and control over cash. However, not all countries in Asia permit cash centralisation, and there are considerable financial regulation and tax implications.

Overall, our survey showed that over 40% of the respondents do not have a cash pooling structure in place, with a resounding 86% of them being from small and medium organisations.

Several obvious reasons include the following:

- Non-uniform tax and regulatory environment in Asia
- Changing economic environment – continuous tax and financial regulatory reforms (China, India)
- Many Asian countries having some form of exchange controls or reporting requirements
- Lack of transparency in legislative systems – inconsistent practices between countries
- Trapped cash issues

However, we have seen in recent years the increasing sophistication of liquidity structures offered by banks; the liberalisation/internationalisation of some of the emerging Asian currencies (for example RMB); and finance and treasury centre incentives offered by governments to attract and promote the centralisation of the treasury activities in those countries (as seen in Singapore and Malaysia, where reduced or zero tax is applied to income from qualifying treasury services). This presents significant opportunities for organisations to enhance their cash and liquidity management strategy, and treasurers need to keep abreast of new and emerging regulatory reforms.

Treasury management system

14 Are Asian corporates optimising treasury technology?

More than 50% of the companies surveyed do not adopt a treasury management system (TMS) as their treasury management tool, and majority of them continued to rely on Excel spreadsheets. For the companies that have a TMS, the majority seemed to be using the basic functions for transactional processing. Another finding from the survey showed a mere 9% of respondents associate risk management with a TMS and less than one third used a TMS for risk and position reporting. This relatively low percentage suggests that the respondents may not be optimising the use of their TMS given its capabilities.

"53% of respondents do not have a TMS"

Our results also showed that treasury technology adoption was dominated by large organisations (61%). And of the countries surveyed, Singapore, Hong Kong and China showed a higher percentage of companies adopting TMSs. The low adoption of TMS by small (25%) and medium-sized (44%) companies is likely to be driven by budget constraints – they may not have the economies of scale to justify the investment in technology.

However, the importance of TMSs for treasurers cannot be understated, and senior management – especially those from growth companies – may have to re-assess their need to implement a TMS. We noted that many treasurers in markets such as Europe and the US have been making the business case, post-crisis, for increased investment in treasury technology to drive their responsiveness to treasury change. Running financial risk management and treasury operations on Excel spreadsheets is no longer enough in the wake of financial and economic crisis. Treasurers in Asia are faced with significant and complex risks across a number of geographical locations, and the effective management requires timely, accurate and complete data, and sophisticated risk analytics analysis and reporting, to enable better decisions to be made.

Furthermore, without technology, treasury staff may spend a greater proportion of their time performing transactional activities, retrieving historical information for reporting purposes etc., rather than looking for strategic opportunities to perform value-add activities. These include maximising interest income/ minimising interest expense, leveraging timely cash positions and cash flow forecast information on TMSs. Boards and management are also increasingly demanding improved treasury control environments that Excel spreadsheets cannot provide.

As mentioned previously, technology plays a significant role in transforming the treasury function and facilitating the expansion of treasury's responsibilities. However, the decision to implement a new TMS or upgrade/expand the use of an existing one is a major undertaking and requires careful planning, vision and design, taking into account the scale, complexity and maturity of the treasury functions in the near to medium term.

Benefits of a properly designed and effectively implemented TMS include:

- Improved treasury control environment through automated notifications and enforcement of controls, including segregation of duties in relation to approvals and confirmations;
- Process efficiency, with deals input only once, minimising the need for further manual intervention and improving the accuracy and levels of straight-through processing;
- More sophisticated risk management analytics and reporting to better support the needs of key decision-makers;
- Enhanced cash management (including visibility of cash) to reduce borrowing costs;
- Efficiency in process with reports generated on a timely basis and "at the touch of a button", eliminating unnecessary work effort and allowing more time to actually manage treasury risk and communicate with the business; and
- Better record-keeping and audit trails.

Future development

15 What changes are Asian treasurers thinking about?

We asked respondents to tell us if they were satisfied with the current treasury practices and if they envisaged any changes in the near future. The respondents showed concern and dissatisfaction in the following areas.

Talent management

Only 23% of the 117 companies surveyed are satisfied with their talent management in the treasury function. This very low percentage could be due to a number of reasons:

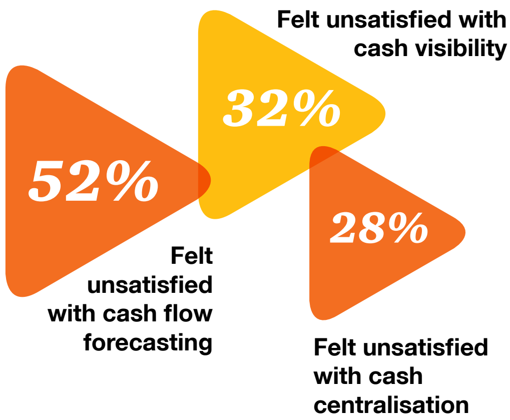
- Lack of talent in the market because the demand for appropriately skilled personnel outstrips the supply, especially in the wake of the financial crisis, and because of the rapid expansion of the Asian economies and Asian companies.
- Getting the right personnel is challenging, as the role requires not only skillsets in treasury but also in accounting and tax and in understanding the broader issues facing the business. There is a growing expectation of specialisation, which is seen as needed to manage the complexity of risks faced by today's treasury.
- Headcount budget for treasury has traditionally been limited due to the reliance on the finance department to carry out treasury activities.

The above analysis further bolsters the need for making a clear business case for increased system investment in order to leverage treasury technology to enhance cash forecasting capability and liquidity management.

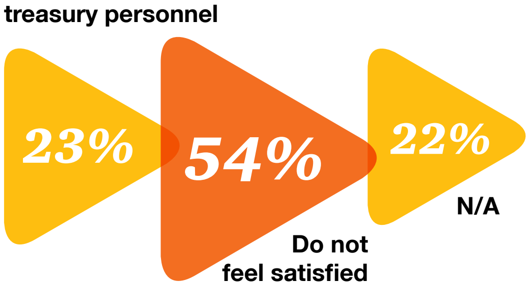
Cash management

Cash and liquidity management were included in the top two most important treasury activities. This indicated that treasurers continued to focus on ensuring the availability of funding to protect the business in volatile times.

However, despite the importance of cash, 52% of companies did not have confidence in their cash flow forecasting processes, and 32% and 28% of them were not satisfied with their cash visibility and centralisation, respectively.



Feel satisfied with existing treasury personnel



All treasury operations have one thing in common: they need capable and qualified treasury personnel.

But getting the capable and specialised Treasury personnel is challenging in the current job market, and it is critical for HR departments to find the right person within the right budget.

Risk management

50% of respondents were not satisfied with their overall risk management practices, risk methodology, tools and assessment, and their basic concept of enterprise risk management (ERM).

Notwithstanding the above, the 40% who expressed dissatisfaction indicate that their risk management practices will not change in the near future. Are treasurers constrained by budget or resources, or is the current practice perceived to be "fit for purpose" for now that companies see no immediate need for change?

"50% of respondents expressed dissatisfaction with their risk management and TMS"

The high level of dissatisfaction raises questions as to whether treasurers have appropriate knowledge of the methodology or the right tools for current market conditions. The risks that the treasurer need to manage today are constantly evolving. Treasurers need to embrace the broader risk agenda that extends beyond pure financial and into operational and strategic risks. The key consideration is whether the historically proven methodology or approach will remain relevant and continue to manage exposure effectively.

Treasury management system

75% of companies without a TMS continued to rely on Excel spreadsheets as their main treasury management tool; 49% of companies using TMS have expressed dissatisfaction with their current system.

Overall, we have seen more TMS deployment activities, including integration with other business systems and connectivity with banks, in more mature markets such as Europe and US.

Effective TMS implementation drives automation, and process efficiency, and increases the level of sophistication of analysis and reporting that will enable better decisions to be made.

There is a clear advantage in leveraging treasury technology. Treasurers need to consider the cost-benefit implications of a TMS and make clear a business case for increased system investment to drive responsiveness to treasury change and improved risk management.

Treasury is essentially about effective risk management, and this has been high on the boardroom risk agenda ever since the crisis. Treasurers today have a strategic role with board level accountability and the responsibility to manage enterprise-wide risk. To fulfil such key roles and responsibilities, treasury needs to incorporate technology and risk management best practices for their core activities.

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