Reflecting on 2016, we note a year filled with a great deal of geopolitical change, and closer to home, a trend-rich treasury environment presenting both challenges and opportunities. We are reminded of corporate treasury’s role as the principal risk manager of the organization, and the longer-term trend of treasury becoming more strategic as its mandate expands. While no crystal ball is available, this environment of change, challenge and opportunity looks to carry on into 2017.

Key trends international treasurers need to focus on in 2017 include several dynamic areas of risk that must be managed and mitigated. At the same time, treasury success will also be influenced by how well treasurers seek greater efficiency to mitigate the risks that can result from excessive and inefficient processes.

Here are the trends likely to dominate global treasury initiatives in the coming year:

**RISKS TO MANAGE**

**TREND #1: SHIFT TOWARD POPULISM**

Recent political events—most notably the Brexit vote in the UK and the election of Donald Trump in the US—represent a trend toward populism, with potential changes to the world order and global trade that have underpinned our global economic system for decades.

It’s a trend creating a lot of uncertainty. We won’t begin to know all the implications of Brexit or gauge the real possibility of a “hard Brexit”—a short negotiation window—until negotiations get underway in 2017. Similarly, only time will tell what Trump will do in office, as indications are he plans to be flexible when it comes to the statements he made on the campaign trail.

While Brexit, at this point, raises more questions than answers, 2017 is the time to begin contingency planning, i.e., identifying key risks, asking the right questions to explore possible scenarios and understand potential impacts. The framework that follows, although tailored to Brexit in this instance, is flexible to accommodate many geopolitical changes.

First, treasurers need to consider how Brexit will impact liquidity management practices across the EMEA region, and manage potential risks accordingly. Does Brexit add complexity to efficient treasury structures in the region? Post-Brexit, will the EU create incentives to hold euros in accounts on the continent?

In response to these political developments, maintaining clear visibility over cash across currencies, entities and banks will be crucial.

Brexit also raises questions about cross-border trade, as the UK renegotiates its trade relationship with the EU and countries in other regions. Terms of the UK’s access to the EU single market are still to be determined, and depending on EU/UK trade terms post-Brexit, renegotiation of trading terms with suppliers/customers may be required.

It will also be important for treasurers to monitor post-Brexit developments on the passporting of regulations into and out of the UK (currently British banks can provide services across the EU from the UK). Depending on the final negotiated agreement—for example, if the UK does or doesn’t end up a member of the European Economic Area (EEA)—passporting rights, leveraged by many captive financial companies, could be impacted.

Brexit may also create the need for treasury to re-evaluate banking relationships in the UK and Europe. Banks, too, will be impacted by changes in passporting rights—with the key being a thorough understanding of how banks operate today, e.g., passport from the continent into the UK, or from the UK into the continent. But it’s also important to understand where banking partners clear euros, should that be impacted down the road.

The UK is a major hub for treasury, housing many cash pool headers (physical and notional), treasury centers and shared service centers. Treasurers should re-visit their location-decision criteria and understand what if anything will change.

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TREND #2: CONTINUED FOCUS ON CYBER SECURITY/FRAUD MITIGATION

Cybersecurity, an ever-present challenge throughout 2016, will remain a major treasury focus in 2017. The growing investment needed to combat fraud, as well as its potential to saddle companies with major financial losses and reputational damage, show no signs of abatement.

There are no silver bullets for eliminating cyber fraud. To mitigate the risk, corporations need to take a holistic approach that encompasses all of the following:

- **Governance**—Strong corporate governance in the form of global policies is essential in laying the foundation for mitigating cyber fraud.
- **Culture**—Corporations need to create and embrace a culture that recognizes the importance of shared responsibility for preventing cybercrime.
- **Technology**—Technology must include the latest encryption/security features. Technology partners should share this responsibility.
- **Training**—Ongoing training for all employees coupled with job-specific training for certain teams is vital to fraud prevention.
- **Process**—Automated, streamlined processes define the behaviors that can be relied upon to prevent both internal and external fraud. Companies need to ensure the key processes that attract the most cybercrime attempts, such as those around payment processing, are reviewed at least annually, and that technology control points are embedded in new automated processes. For payments, that means segregation of duties, multiple levels of approval, and daily reconciliation of all transactions.

TREND #3: TAX-DRIVEN CHANGES

From a treasury perspective, tax used to be just another department in finance. But in recent years the working relationship between tax and treasury has become much closer. Some of the current tax developments help explain why this is so—and why tax-driven changes remain a major risk management focus for 2017:

- **Section 385 regulations from the IRS and US Treasury**—In October 2016, the US Treasury made amendments and added exemptions to reduce the impact of the new Section 385 regulations. Initially, it was thought that these rules would bring significant changes to cash pooling structures. However, pooling and short-term funding have been exempted from initial considerations that they were “equity.” Nevertheless, as a result of Section 385, requirements related to the documentation of intercompany loans, including those for US affiliates of foreign parents, have increased.
- **BEPS**—One of the Organization for Economic Co-operation and Development’s Base Erosion and Profit Shifting (BEPS) action points is expected to create a significant burden of additional country-by-country reporting on corporates globally starting in 2017.

    BEPS aims to reduce profit shifting through different geographies and tax jurisdictions, foremost by means of transfer pricing. As a result, there will be a push toward greater transparency. In 2017, corporates will begin publishing the amount of tax they paid in participating markets, and this transparency is likely to drive additional changes, possibly including dramatic alterations to corporate legal structures, European Commission enforcement actions, or questions from the press. Transparency, as many of us in the treasury world know well, is the first step toward change.
- **US tax holiday on cash repatriation**—Many US multinational corporations, including many cash-rich technology and pharmaceutical companies, are holding billions of dollars offshore as a result of the current US tax code. This
Questions About Trade and Passporting

1. Do you understand the terms and potential working capital impact on contracts with cross UK-EU suppliers/customers?

2. Should you expect an impact on trade—e.g., duties, border controls, licenses, taxes, etc., where trade crosses the UK-EU border?

3. Do you have a clear view of what licenses are being passported into the EU?

4. If your company holds a banking license or takes advantage of regulatory passporting, what do you need to think about?

has resulted in inefficient, and sometimes perverse, capital practices, such as companies issuing debt in the US because they can’t tap their abundant, offshore trapped cash without incurring steep taxes.

But some of that offshore cash could be repatriated. Trump’s pre-election economic plans included comprehensive US tax reform allowing US firms to repatriate funds held overseas at a 10% tax rate, versus the current 35% rate. That, coupled with the risk of increased transparency regarding taxes paid in many countries through BEPS, could prompt the repatriation of much of the $2.6 trillion held overseas.

A boost in cash repatriation is potentially the most significant change we could see in 2017. Treasurers will need to determine how best to use that cash when it comes home, e.g., is it to be re-invested in the business, held in cash, or returned to shareholders?

OPPORTUNITIES TO EXPLORE

TREND #4: TANGIBLE DIGITALIZATION

Much discussion these days centers on nascent technology like blockchain where the payoff for treasury could be many years away. The good news, however, is there is a lot of technology available today to take treasury to new heights of efficiency. Here are a few examples of efficiency-boosting technology—or tangible digitalization—that were popular in 2016, and will see greater adoption in 2017:

- **Virtual Accounts.** Corporations can minimize bank account fees and improve accounts receivable (AR) reconciliation by maintaining a single account with many associated virtual accounts. For example, companies in Europe maintain one account for collections, but also have hundreds or even thousands of associated virtual IBANs (International Bank Account Numbers) that can be associated with incoming payments and matched to the one physical account. Virtual accounts make it easier for a company to establish automated reconciliation processes for remittances.

- **Automated foreign exchange (FX) conversions.** Corporations can make trade payments efficiently in a foreign supplier’s local currency by using a bank’s automated FX conversion service. Paying a supplier in its local currency—and assuming the transaction’s FX risk—can eliminate the premium foreign suppliers typically add to the cost of goods when they must accept payment in a foreign currency.

  An automated FX service enables a company to pay in multiple currencies from a single account, eliminating the expense of maintaining multiple foreign currency accounts. This tool helps corporations avoid maintaining idle balances in non-key/non-hedged currencies while accessing real-time, more competitive FX rates.

  Meanwhile, regulators and clearing associations around the world continue to promote electronic payment capabilities that enable a better experience for consumers and real-time settlement.

  Real-time payment systems have been around for some time, with trailblazing systems being established in countries such as Japan, Switzerland, Taiwan, and South Korea, and more recently in Brazil, Denmark, Poland, Singapore, Sweden, Sri Lanka, and the UK.

  Now the US is also looking to join the push for real-time payments. Currently the Fed has formed a Faster Payments Task Force to review potential payment offerings. The Task Force is reviewing over 20 faster-payment proposals and will provide its
first assessment in early 2017 and a second mid-year. It has no intention to mandate a system but will let the market decide. Currently a pilot version of The Clearing House’s Real Time Payments (RTP) platform is scheduled to go live with a bill payment application by the end of the first quarter of 2017. Ultimately, RTP will afford opportunities for faster settlement of B2B, B2C, P2P, C2B, and government payments, as well as provide an opportunity for corporates to re-visit their end-user customer experience.

Concurrently, development is ongoing with Instant Payments, an EU-specific version of real-time payments under the Single Euro Payments Area (SEPA) framework. Similar to the other systems noted above, Instant Payments will offer increased speed and transparency, more convenience, and enhanced safety. Banks can adhere to the scheme starting in November 2017.

**TREND #5: LONGTIME STRATEGIES GET HIGHER PRIORITY**

Treasurers have labeled two additional opportunities as high priority for 2017.

- **Financial supply chain solutions.** Supplier finance (SF) aims to extend payment terms without hurting suppliers, and provide key suppliers with a much-needed source of low-cost liquidity. Typically with SF a buyer can enable its supplier to get paid faster while receiving financing from the buyer’s bank at a lower cost of funding. In turn, the buyer can negotiate extended terms or a discount on the invoice.

  Supplier finance has been gaining steam as large corporate buyers experience an increasing need to provide liquidity to their supply chains. Local banks are taking a harder look at granting credit to smaller trade counterparties. Thus, for many suppliers, SF is a popular form of non-recourse financing.

  A SF program can offer a win-win proposition. Suppliers can receive a low cost of funding that improves their cost structure, while buyers can extend terms and improve working capital while promoting a stable supply chain.

- **Bank account rationalization.** Globally, we have observed a real focus on account rationalization driven by a need to reduce costs and increase control, and by the recognition that after many years of organic and inorganic growth, most MNCs have too many bank accounts and bank relationships.

  In many cases, capabilities to enable bank account rationalization are growing. In Asia, for example, changes at the local level have resulted in tax and utility payments no longer requiring accounts with local bank accounts, as has been the case historically, allowing for more consolidation of accounts with regional providers.

**PLAN AHEAD FOR SUCCESS**

In 2017, treasurers will face change and risk but still be offered attractive opportunities. Some of that change and risk is already here, like cyber-fraud—that needs addressing now. And opportunities, like bank account rationalization, that can be easily mastered. Others, like Brexit, remain uncertainties and don’t necessarily require action, just vigilance. For instance, for Brexit, the time for considering potential impacts and courses of action, and planning for success, is now.

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