



**CFO**innovation **INSIGHT ROUNDTABLE**

# THE EMERGING ASIAN TREASURY

The Renminbi, Automation, Cloud  
Computing and Other New Expectations

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# About This Report

CFO Innovation Asia organised a roundtable discussion on treasury issues in association with SunGard, one of the world's leading software and technology services companies, in Singapore on 18 April 2012.

The participants shared their experiences and strategies about reinventing the Asian treasury, whether as the global treasury centre of an Asian multinational, the regional arm of a non-Asian conglomerate or the standalone unit of a local enterprise.

This report identifies the persons quoted whenever possible. However, some statements are not attributed to allow participants to express views that may not reflect those of their organisation.

The regional treasurer of a major international credit card provider. The Asia Pacific treasury centre manager of an emerging Chinese multinational. The CFO of a global tyre manufacturer. The treasury department accountant of a fast-growing Singapore commodities enterprise. The financial controller and treasurer of a Singapore-listed exporter of maritime rigging and safety systems.



**T**he roundtable discussion organised by CFO Innovation in April this year brought together five finance executives from a variety of industries and companies that ranged in size from US\$30-billion-in-annual-revenues American Express to S\$33.4-million-a-year Teho International.

Also in attendance as resource person was Francois-Dominique Doll, Product Specialist – AvantGard Solutions, Asia Pacific, at software and technology services provider SunGard, which sponsored the event. The moderator was CFO Innovation Editor-in-Chief Cesar Bacani.

The discussion was lively and wide-ranging and included the following topics:

- dealing with the renminbi in treasury operations

- treasury as a cost centre and/or a profit centre
- implementing a Treasury Management System (TMS)
- cloud computing
- tax incentives for productivity activities

### Anticipating the Renminbi

One trend that everyone is watching is the internationalisation of the renminbi and the implications on the treasury function. “We are actually one of the pilot enterprises in China in launching the renminbi going outside,” revealed one participant, who manages the regional treasury centre of a globalising Chinese manufacturer. “The volume is not big, but it is growing bigger.”

The latest SWIFT RMB Tracker, which monitors the usage of the Chinese currency in trade and pay-

ments, finds that the yuan now has a 4% share by value in the global issuance of letters of credit. It has overtaken the Japanese yen (at 1.9%), but is still behind the euro (7%) and far from long-time leader the US dollar (a commanding 84%).

“It’s not so easy to move money around,” said another participant. “We have a number of businesses in China, but because the renminbi is still restricted, we have not been as advanced as some other companies.” While the renminbi is allowed to be used in trade settlement, capital and other transactions still require regulatory approval. China’s SAFE – the State Administration of Foreign Exchange – is often unable to say whether a transaction can be done or not, said this treasurer.

But that is bound to change, said Ang Fui Siong, Vice President and Regional Treasurer at American Express in Singapore. “And as more Chinese [cardmembers] visit other countries and as more of our customers go to China and use American Express cards, exposure [to the renminbi] will also increase.” The

expectations are that China will make the local currency fully convertible on or before 2020, when Shanghai is targeted to become a major financial centre under China’s long-term plans.

For now, because the volumes are still small, integrating the renminbi into treasury’s currency mix does not appear to be a priority. But Phua Cheng Boon, Financial Controller and Treasurer at maritime equipment stockist and exporter Teho International, said his company will eventually need to address the issue – and the new risks the renminbi will bring.

“I think in the past few years, during the financial crisis, companies made mistakes in terms of betting on the wrong currency,” he said. “When you want to go into a financial product, what do you have in place to ensure that you manage your risks in the proper way? I would say we are doing OK at this moment, but as the business grows and you have increasing types of derivatives and other financial products, it will be good



*Nicki Soffe and  
Francois-Dominique Doll,  
SunGard, and Mindtrac’s  
Balasubramanian  
Suryanarayanan*

to have [an automated treasury system].”

Should Asia’s treasurers start planning for renminbi exposure today? SunGard’s Doll suggests it is not a bad idea. “What our clients want to do is to invest now and develop everything they will need,” he observed. “They do not want to come to SunGard three years down the road, saying, ‘I need these other improvements.’ You might not do FX or long-term investments at the moment, but you might need them later.”

The treasury management systems (TMS) developed by SunGard and other vendors typically integrate FX sub-systems, hedging and other aspects of cash and treasury management. “It can be a question of cost,” Doll concedes, “since treasury is often seen as a cost centre rather than a profit centre. There is a perception that there is no real return on investment in implementing a proper treasury system.”

What automation can do is help minimise the operational costs by, for example, rationalising the processes, which could mean avoid-



SunGard’s Doll

ing the need to hire two or three more people to do manual processing.

### Cost Centre or Profit Centre?

But is treasury really only a cost centre? “I think it’s both a cost centre and a profit centre,” said Balasubramanian Suryanarayanan, Group CFO and Finance Director at tyre maker Mindtrac. Surya, as he is known for short, told the story of a supplier that was borrowing money in India to finance the purchase of raw materials at 15% to 18% per annum – and passing on the cost to Mindtrac.

In Singapore, where Mindtrac is headquartered, interest rates are “phenomenally lower, about 3% or thereabouts,” said Surya. Mindtrac decided to finance the supplier from Singapore at the lower rate, thus saving the difference between 18% and 3% in interest. “That’s where the solutions available at the treasury side in various segments of countries can be put to use,” said the CFO.

“That’s the tension between treasury and the business,” observed another participant. “We propose and recommend that the company buy an option or a forward contract to manage the risk, even though it is expensive. Management may say: “But my view is that the renminbi is going to appreciate. Why do you want to hedge against that, and do it in a more expensive offshore market?”

“I would say that treasury people thinks of ourselves as a profit centre, but other departments and outsiders feel we are a cost centre,” said the treasury department accountant of a Singapore commodities enterprise. “Generally, if we have not

done a good job, it will be broadcasted in the income statement, e.g. a big forex loss." But if treasury did a good job, it will go unnoticed in the financial statements.

That's because treasury's contributions to the bottom line tend to be reported as cost reduction, rather than actual earned money. If treasury manages to lower the cost of financing, for example, it will be reflected in higher margins for other parts of the business, such as sales and marketing.

It boils down to the question of how you measure treasury's performance, said Doll. If your processes are optimised, you have captured all your transactions, you have provided visibility into the company's cash position, you generate the right set of reports every year or six months – you have done the job expected of you. But you'd still be seen as a cost centre.

"But when you report more information and you are able to show the occasions when you were able to beat the market, then you can say, 'We've made a profit on that for this particular six months,'" said Doll. For example, treasurers looking to park excess cash would call three to five banks to compare interest rates. "You can record all these rates and say: 'These are the market quotes that you provided me for these six months and this is what your competitors did. So what can you offer me?'"

In this case, the treasury management system is much more than a basic tool. "It also functions as a performance tool to benchmark your profitability," said Doll. "You will be able to go to the CFO and say: 'This is how well we have performed this year on the treasury side.'"



*Surya and Teho  
International's Phua  
Cheng Boon*

However, getting this value-added information depends on the information that treasury stores, the extent of TMS integration with market data and the company's ERP and other systems, and the availability of trading information, among other things. "Banking connectivity can be a challenge," Doll said, referring to the different platforms and data formats that various banks use, which can make retrieval, storage and comparisons challenging.

### **TMS and the Banks**

Connectivity is, in fact, what frustrates Mindtrac's Surya. "I would want to embrace this [TMS]," he said, "but I'm being restricted by factors beyond me." There is little hesitation at the company to adopt automation and technology per se, but what he and his treasurer are discovering is that they would still need to do some things manually.

"I face a situation where, even if I log in and electronically approve transactions, I still need to print and sign and hand the document to the banks. I ask myself: 'Why do I spend time and money on tech-

nology and still print on paper?' It doesn't make sense."

The CFO also complained about visibility of accounts across different banks in various countries. "Many banks claim they can communicate with each other seamlessly, but if you dig deeper, it is more of a nightmare than a smooth integration process," he said. This is true even of the same bank operating across different jurisdictions, whose subsidiaries are not always on the same platform.

One of the practical outcomes is that Surya cannot really make a comparison of rates and other terms offered by the different banks his company deals with, and therefore cannot reap the full benefits of automating treasury management. "I want a system that works seamlessly with my banks and communicates with my ERP," he said. "I want it to work without human intervention."

**"I want a system that works seamlessly with my banks and communicates with my ERP"**

The Singapore commodities enterprise, which has accounts with banks in China, India, Malaysia, Philippines and Europe, as well as Singapore, has a similar experience. "Sometimes even the banks themselves do not have the systems that allow for comparisons," said the treasury accountant. "Surprisingly, some major banks do not even offer online banking. Their system does not have the capability to automatically give us

the rates every day, so the bankers extract the information manually. Then, at our end, we also need to input the rates manually."

There are automation products available, but the question is the price, said Ang of American Express. "There is a system out there that can automatically choose the best rate for you if you are making [an FX] trade and is able to send automated confirmations back to the bank and automatically generate general entries in all the systems. But you need to have scale; you need to have enough transactions every day to be able to justify investing in the system."

SunGard's Doll suggested that Mindtrac look at service providers like SWIFT, the secure messaging platform used by more than 10,000 financial institutions in 210 countries to settle payments on behalf of their customers and themselves. "SWIFT is open to corporates as well," said Doll. "A lot of corporations in Europe and the US actually use SWIFT to communicate directly with their banks."

With SWIFT or a similar system, banking connectivity is enhanced because the banks on the network use the same messaging standards. SWIFT also has what it calls its EBAM (electronic bank account management) service, which does away with paper requirements in corporate account opening, closing, maintenance and reporting. However, banks in countries where regulators still require paper documents have no choice but to ask customers to fill up forms.

### **Up in the Cloud**

The roundtable participants also discussed cloud computing and outsourcing in treasury manage-

ment. “The selling point is to companies that are not large enough in scale to have their own servers,” observed Ang of American Express. “The cloud provider will back up [your data] elsewhere offsite. But for big companies, they already have multiple sites.”

American Express does not outsource its treasury functions to third parties, either. “We have centres of excellence,” Ang explains. “We have teams of people in shared service centres in India, the UK and in Singapore, where we have our regional treasury functions. This is how we try to get economies of scale and cross-learning, and respond to business contingencies.”

But the cloud may be a difficult sell to companies of any size. “Everyone in Asia is pretty conservative,” said Teho’s Phua. “It will take a lot of effort to convince management to move from internal processing to outsourcing, or from an internal server to the cloud.”

Added another participant: “What if someone hacks into the system and millions of names and credit card numbers are leaked? If the data is in our own system, at least we can control it. Once you outsource or you give the data to a third party who keeps it in a cloud, it becomes a security risk that we cannot control.”

“When we tried to present the idea of the cloud to our associates and the CEO, one of their main concerns was with regards to the security of the information,” agreed a participant. “There is price-sensitive information, like our pricing. If this falls into the wrong hands, we will lose a trade secret.”

Actually, said Doll of SunGard, some sizeable companies have



migrated part of their treasury functions to the cloud. “We have one big client in the US which has a regional treasury centre in Singapore and they are fully hosted on managed services for treasury. They moved to the cloud last year.”

*Ang Fui Siong of American Express and SunGard's Soffe*

These enterprises are typically “into technology,” he added – they are companies the likes of Amazon.com, Google and Groupon. In Asia, China’s Huawei, a major developer and manufacturer of telecommunications equipment, operates its own private cloud for its various subsidiaries and affiliates, and is starting to offer infrastructure and software cloud services to other companies.

Security is a priority for treasury cloud service providers like SunGard, Doll stressed. “There are legal agreements with regard to the confidentiality of data,” he pointed out, “as well as service level agreements that specify how much time we have to come up with a solution in cases when the system or the service is down.”

The SunGard solution comes in different packages, from provision

of hardware to managed services to software-as-a-service. “Rather than buying the hardware and having it deployed by the company, it is hosted by SunGard,” said Doll. “The next generation is providing a global application. When you connect through the web, you see your own environment.”

This software-as-a-service model available as part of SunGard’s AvantGard Hosting & Managed Services is touted as a quick way for companies to deploy a TMS without the burden of high up-front and maintenance costs. Companies can also benefit from ease of implementation, automatic service upgrades, flexibility and scalability, said Doll.

### Tax Credits in Singapore

Whatever the TMS solution, whether on-premise or in the cloud, companies in Singapore may be eligible for tax incentives. “The government says that if you invest in productivity, it will give you tax credits,” said Surya. Under Singapore’s Productivity and Innovation Credit (PIC) programme, companies can enjoy deductions or allowances equivalent to 400% on up to S\$400,000 a year in expenditures on cloud computing, hardware, software, training and other activities that enhance their productivity.

“Basically, for every dollar you invest, the cash outlay that you have to put in is only 32 cents,” explained Phua. “You are getting credit of up to 68 cents in terms of tax credit.” There are many other incentives for a medium-size enterprise like Teho, he added. “For example, there are some grants run by International Enterprise Singapore that can cover up to

50% of your investment [in productivity activities].”

PIC runs from year of tax assessment 2011 to 2015. In theory, companies in Singapore can invest S\$2 million (US\$1.6 million) to transform their treasury function, including hardware, software and training, over five years – and pay out only S\$640,000. “Your total cost of ownership gets reduced,” said Surya. “Why wouldn’t anyone not look into that?”

Other jurisdictions across Asia, including Hong Kong, are not as generous. But then tax breaks are not the only drivers of treasury automation. It is about “modernising systems and procedures, doing centralisation, cash pooling and so on,” said Doll. “What is going to be your growth plan, which new countries are you going to invest in, which new currencies will you be exposed to, which new instruments are you going to trade in?”

### New Expectations

Indeed, over the course of the discussion, it was clear that treasurers are acutely aware that the business and the CFO are expecting more from them, given the volatile global economic environment that, at the same time, highlights Asia as a continuing area of growth.

“The expectations will grow more and more,” said Phua. “First of all, treasury will be expected to maximise resources. At the same time, you also need to comply with the rules and regulations of the board. The board of directors wants to have a risk management policy in place when you manage cash and what kind of investments you are going to do. This is becoming a key subject in terms of cash management.”

"I will say that the expectations are growing," agreed the accountant with the Singapore commodities company. The CFO's role is expanding to include strategy, risk management, analysis and other value-added tasks, not only accounting and financial reporting, and treasury has to keep up. "If our role is growing, their role is growing even more," he said.

"For us, the roles of the CFO and the treasury are complementary," the accountant added. "So once our CFO sets a direction, we have to plan accordingly so that our treasury operation is in line with the Group's direction."

New and more stringent regulations are coming into play as well. "With American Express being a bank-holding company, we now need to report [certain]daily balances on our exposures in Asia to US regulators," said Ang. "In the past, we did not have to do that." The Asia treasury is expected to remodel certain systems and procedures so information about its activities can be easily extracted from the US.

## Conclusion

Another key driver is the shifting of the world's economic gravity from the troubled West to still flourishing Asia. Despite their current economic slowdown, China and India remain the world's potentially two biggest markets with more than a billion consumers each. They will soon be joined by the ten-member Association of Southeast Asian Nations, which will become the 600-million-strong ASEAN Economic Market in 2015.

As Asia accounts for an ever larger share of the global revenues of multinationals like American Express, their regional treasury function will necessarily need to change. The same is true of local companies, particularly those looking for growth across borders, whether in other Asian markets or farther off in Africa, Latin America and even North America and Europe.

Questions about treasury automation, bank connectivity, exposure to the renminbi and other emerging-market currencies and other issues will continue to be asked. Fortunately, as this roundtable discussion shows, there are answers that CFOs and treasurers can consider adopting.

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## About CFO Innovation Asia

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CFO Innovation organises the annual two-day CFO Innovation Asia Forum in Singapore and other conferences in Hong Kong and China and India. It also broadcasts webinars and conducts research on a wide variety of finance, accounting, treasury, management and career development topics.

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