TREASURY SERVICES

UPDATE

EUROPE, MIDDLE EAST & AFRICA EDITION

An e-newsletter for treasury professionals

FIRST QUARTER 2014

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MANAGING CHANGE IN 2014

A fresh approach to age-old responsibilities

By Dominic Broom, Head of Sales and Relationship Management for Europe, the Middle East and Africa, Treasury Services, BNY Mellon

As the world in which we operate continues to shift and recalibrate in line with changing regulations (at global, regional and local levels) and market forces, we must find new approaches to age-old tasks. Indeed, let's not forget that although the ways in which we work must evolve, our industry objectives remain the same.

For financial institutions (FIs) and corporates alike, new regulations – crafted in the wake of the 2008 global financial crisis – are forcing the re-assessment of how business is funded and risks are managed, while broader market forces are re-shaping investment strategies. Yet despite such upheaval, corporate treasurers must still ensure that cash is available at the right time, in the right place and in the right currency – all while safeguarding the optimisation and provision of liquidity – and banks must continue to facilitate the transaction cycle. In order to do this, both must adapt.

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Of course, adaptation is hardly a novel concept for banks or corporates. For centuries, traders have sought commercial growth and expansion opportunities by moving into unchartered territory (literally and metaphorically) and this has never been a risk or complication-free process. Finding ways to overcome challenges is therefore not only par for the course, but a necessity.

As for banks, they have always had to find new ways to facilitate and drive commercial flows – from the days of bartering to today's multi-polar currency world. In fact, bank intermediation has been so effective that – when combined with free-flowing market liquidity – it helped international trade to settle into established patterns that remained the norm until the crisis struck.

Now that such patterns have been turned upside-down – with the balance of economic power shifting from west to east and north to south, and intra-emerging market trade flows becoming the key drivers of global economic growth – how can banks maintain their role? The answer is by working together to leverage one another's strengths, to do what they have always done.

Supporting cross-border commercial flows in the face of market challenge depends on the provision of robust working capital, and strong risk and data management systems. By joining forces, local and global banks can ensure such essentials are in place – to their mutual benefit, and that of their clients. Such partnerships, and the numerous ways in which they can help 'join the dots' between where the market is heading and their individual business strategies, are discussed by my colleague Mauro Bonacina.

Managing liquidity: same goals, different methods
This same concept also applies to liquidity management. Optimal liquidity management – for banks, non-bank financial institutions and corporates – has always depended on striking the right risk-reward balance, and this remains the case. However, while the pre-crisis emphasis was firmly on yield, and the aftermath emphasis on security, most organisations are now seeking a middle ground.

With access to liquidity remaining a challenge for businesses around the world, and self-funding becoming the primary means of business development, keeping cash inactive for the sake of security is no longer an option. That said, liquidity cannot be compromised. Sufficient, reliable liquidity is a must for all businesses, if they are to address everyday settlement and operational demands (in both normal and stressed conditions), and achieving this is a question of managing the process. As my colleague Dhiru Tanna explains, there can be no "one-size-fits-all" approach to fulfilling liquidity optimisation, security and availability requirements, but specialist support can point them in the best direction for their individual requirements. The importance of managing cash and other liquid assets is also discussed in the broader context of collateral management by Jeannine Lehman, head of Global Collateral Services EMEA, providing an insight into how demands for high-quality collateral and intensified risk management can be met as market dynamics continue to shift.

Concerns over liquidity and cash management are compounded by the need to focus on intraday liquidity management under Basel III. The new framework, which comes into play in January 2015, requires FIs to provide on-demand intraday balances – rather than the historical end-of-day cash positions – across all accounts and liquidity sources. Intraday liquidity data is to be collated by seven monitoring tools, which are to be used individually or in various combinations according to individual FIs' operational scope; with any potential causes for concern discussed with regulators, alongside ways in which the risk can be addressed.

The complexities and technicalities of this development – in addition to the Intraday Liquidity Analytics tool; our response to helping clients manage the new demands – is covered in more depth by Michelle A. Palombo. But one thing is clear: this potentially game-changing shift in focus from end-of-day liquidity to intraday liquidity brings a mix of challenge and opportunity.

Meeting these new demands undoubtedly puts a huge strain on data management and reporting systems, and question marks remain over how the collated data will be perceived and used. But, taking a longer-term view, improved intraday liquidity management can lead to greater visibility and control over liquidity and cash flow, and greater data granularity can enable FIs to spot – and resolve – potential problems and roadblocks, before they have a chance to cause major complications. Turning the initial difficulties into a strong foundation for the future is a challenge we must all face – and should be our mantra for the future.

Future evolution

These changing market dynamics and ongoing regulatory and commercial challenges mean we are at an inflection point. For BNY Mellon, this means intensifying focus on the evolution of the global payments space, and taking steps to replicate and leverage our strengths in US dollar clearing globally. This is discussed by Daniela Eder – in the broader context of the evolution of global transaction banking, while James McMorrow details our investment in becoming a direct CHAPS clearing member.

Viewed in isolation, becoming a direct CHAPS member demonstrates our commitment to the UK, and enables us to extend to sterling our established strength and capabilities in US dollar clearing. Looking at the broader picture, the development marks a key milestone in our bid to build on our multicurrency payments capabilities to further support our clients across the globe as new currencies continue to rise and internationalise.

Supporting clients is at the heart of everything we do. As a renowned relationship bank, our strength and success largely depends on our ability to leverage the local-market expertise provided by our local and regional partners. So thank you for being our partners, and I look forward to further updating you on our ongoing efforts to support your businesses – and those of your clients – in future editions of this newsletter.

Dominic Broom

BNY MELLON TREASURY SERVICES

EXPANDS INDUSTRY EXPERTISE IN EUROPE, THE MIDDLE EAST & AFRICA

Anil Dala,
Market Manager Europe, the Middle East & Africa, Treasury Services, BNY Mellon

Monika Aminiova,
Market Manager Europe, the Middle East & Africa, Treasury Services, BNY Mellon

ANIL DALA AND MONIKA AMINIOVA JOIN THE TEAM

BNY Mellon has made two new appointments to its Treasury Services Europe Middle East & Africa (EMEA) team – both based in London and reporting to Peter Hazou, Head of EMEA Market Management, Treasury Services.

Anil Dala will work closely with sales and product line management in developing solutions for non-bank financial institutions (NBFIs). Dala's focus will include BNY Mellon's various multicurrency clearing solutions as well as the internationalisation of a number of proprietary BNY Mellon supply chain products.

Dala joins BNY Mellon's Treasury Services after six years at Pershing, a BNY Mellon company, where he was responsible for the development of business solutions for their wealth and adviser segments in the EMEA region. Prior to that he held a number of roles at Barclays Wealth and Lloyds TSB.

Monika Aminiova also joins the team, and will focus on the development and commercialisation of BNY Mellon's euro, sterling, and multicurrency payments solutions, as part of BNY Mellon's drive to become the pre-eminent provider of global payment services. BNY Mellon already supports payment transactions in over 100 currencies.

Aminiova joins BNY Mellon from Barclays, where she was a Market Manager responsible for the development of sector-specific Treasury Services propositions in the UK. Prior to Barclays, Aminiova held a variety of positions at Citigroup in product management, sales management, implementations and relationship management, and operations.

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“Anil and Monika are valuable additions to our growing team – bringing with them a wealth of experience at a pivotal moment for BNY Mellon, as we look to expand our treasury services offering to banks and NBFIs, enhance our multicurrency capabilities, and continue investing in our global infrastructure”, says Peter Hazou.

BNY MELLON RECOGNISED AS

BEST TRADE OUTSOURCING BANK AND BEST TRANSACTIONAL BANK FOR FINANCIAL INSTITUTIONS IN EMEA

By Dominic Broom,
Head of Sales and Relationship Management for Europe, the Middle East & Africa, Treasury Services, BNY Mellon

For the fifth year running, BNY Mellon has won Global Trade Review's Leaders in Trade award for "Best Trade Outsourcing Bank". This cements our position as a leading global trade finance and transaction processing solutions provider.

We view our repeated success in this category as proof that our collaborative approach continues to resonate with the market. Local-global bank collaboration allows us to join local market expertise with global reach and best-practice transaction processing solutions: a combination that can help our clients to minimise costs, expand their cross-border trade networks and harness the latest developments in technology. We believe that such leveraging of local and global strengths has proven key to our continued success, as well as that of our client banks and financial institution partners.

However, collaboration can only yield optimal results if it is firmly rooted in the needs and norms of individual clients and the market(s) in which they operate. With this in mind, client focus is fundamental for us, and we work to develop trade processing solutions that can be tailored to market and client-specific concerns. This degree of flexibility is vital if our local bank clients – and their own customers – are to successfully connect the dots between where the market is heading and their own business strategies.

Such is our staunch belief in customer focus, that our efforts to put the client first were also recognised by *EMEA Finance's* 2013 Treasury Services Awards, which saw BNY Mellon voted Best Transactional Bank for Financial Institutions in EMEA for the fourth consecutive year.

While client-focus has become something of a "buzz-term" – and can, in some cases, come across as an empty promise – designing and implementing solutions based on real needs of clients and end-clients is the only way to help our industry navigate this unprecedented era of regulatory, technological and economic change. As market uncertainty continues, focus must intensify on safeguarding liquidity and supply chain

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sustainability. In recognition of this, we continue to invest in innovative solutions to enable clients to adapt to the changing landscape.

One such example is our new Intraday Liquidity Analytics (ILA) tool. ILA provides our clients with insight into their day-to-day liquidity flows to help them curb costs and free-up resources from manual balance monitoring. This particular solution is discussed in greater detail by my colleague Michelle A. Palombo, while more information on our transaction processing and liquidity management solutions are discussed by Mauro Bonacina and Dhiru Tanna respectively.

Our continued investment in practical tools and solutions is underpinned by our client services model, which allows us to provide highly-responsive, holistic support across BNY Mellon's full suite of Treasury Services cash and trade solutions. Such a "full-spectrum" approach to client services is the foundation on which the success of any electronic solution ultimately rests.

More information on BNY Mellon's Client Support can be found at
http://www.bnymellon.com/treasuryservices/clientsupport.html

MANAGING THE
TRADE PROCESS

Mauro Bonacina,
Sales Officer for Europe, the Middle East & Africa, Treasury Services, BNY Mellon

MITIGATING TRANSACTION RISK IN TIMES OF CHANGE

The global trade landscape is transforming. Statistics from UNCTAD's (United Nations Conference on Trade and Development) South-South Trade Monitor reveal that the past decade has seen trade that involves emerging markets surge from roughly a third to almost half of global flows. During the same period, the intra-emerging market share of world trade has almost doubled to 25 per cent[1].

One of the main consequences of this shift in geographical focus is a heightened risk-consciousness. With growth opportunities increasingly likely to be found in new (and therefore less-familiar) markets, corporates are increasingly seeking to mitigate risk throughout the end-to-end trade process. For many, this is the principal concern.

This is hardly surprising, as risk mitigation shot to the top of the corporate agenda in the wake of the global crisis of 2008 and the subsequent liquidity constraints and market uncertainty. But such concerns have been exacerbated by the rise to prominence of new markets and currencies, as well as an increase in intra-emerging market trade corridors, all of which requires new approaches to age-old trade practices.

A changing landscape

Prior to the 2008 crisis, cross-border trade had more-or-less settled into established patterns and practices. While the letter of credit (or "LC", the cornerstone of all banks' trade finance offerings, and most secure means of guaranteeing payment) has remained in permanent use, a combination of abundant market liquidity and mature market dominance saw its global use decline, and open account trade settlement flourish.

The rise of open account, a more efficient but less secure means of trade settlement than LCs, reflected the market's prioritisation of ease and speed over risk mitigation: with the security offered by LCs often being paperwork-heavy and coming at a cost.

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Though concerns over risk now rank higher than those over efficiency for the majority of companies (something of a role reversal), the solution is not quite as straightforward as reverting to LC use. This is because facilitating modern cross-border trade is about more than just minimising risk, and therefore requires tools with a greater scope than the LC can offer.

Managing market differences

In a world that takes speed and efficiency as a given, security must come hand-in-hand with ease-of-use. This makes automation vital, and though significant advances have been made in trade processing technology (particularly since the advent of the internet), automation can be complicated by global diversity.

With compliance environments, reporting requirements and levels of operational sophistication varying between markets, there can be no standardised "one-size-fits-all" approach to facilitating the trade process. Therefore electronic platforms alone cannot constitute a solution, even those at the more sophisticated end of the spectrum that can offer degrees of flexibility.

Managing cross-border trade requires a combination of operational tools, local-market understanding and global oversight. It is, therefore, a task that no one bank can undertake independently. Given this, strategic collaboration between local operators and specialist global trade service providers can be an effective solution. Their combined strengths can allow corporates across the globe to benefit from the best of both worlds: the local-market expertise and experience of house banks and the cutting edge technological solutions and international oversight and reach of global players. As a result, trade can continue to flow in the face of ongoing regulatory changes and market challenges.

Collaboration for success

Of course, bank partnership in itself is not a new concept, and especially not for us at BNY Mellon. We have long believed that joining forces is the banking community's best chance of addressing corporates' evolving trade concerns while overcoming broader financial market hurdles.

Collaboration is, however, a broad concept, and we believe the market now requires a shift from the more conventional local-global bank alliances, which tend to focus on the one-way provision of technology, to those that drive the two-way transfer of knowledge as well as capabilities. This dual emphasis can prove vital, as it looks beyond technology to facilitate the global leverage of local expertise, as well as local access to the latest in international best-practice and innovation in line with individual market practices.

As a proponent of this more strategic form of bank collaboration, and a specialist provider of cross-border trade processing solutions, our services (see box below for more information) are recognised by our clients, and the broader industry, as one of our key strengths. Indeed, *Global Trade Review's* 2013 Leaders in Trade awards saw BNY Mellon voted Best Trade Outsourcing Bank for the fifth consecutive year: our repeated success proving that our capabilities and collaborative approach continue to resonate with the market. For more information on this award, and further industry accolades, please refer to the article titled "2013 Industry Accolades".

Moreover our efforts to help our clients (and in turn their clients) to connect the dots between the direction of the commercial world and that of their own business strategies also extend to client service, thought leadership and the promotion of market dialogue. We believe it is these three elements, combined with innovative technology, that will help both our customers and the wider market to make the most of arising opportunities, and navigate the challenges ahead.

A video outlining the challenges – and solutions – associated with managing the trade process can be viewed at http://www.bnymellon.com/helpingyou/treasuryresearch/

[1] http://unctad.org/en/PublicationsLibrary/webditctab2013d1_en.pdf

Overnight Document Examination and LC Relay

The breadth of our solutions reflects the diversity of client and market requirements as the commercial world continues to evolve. Despite the scope of these solutions, all share a number of common factors that we believe are vital to their effectiveness. First, all are developed in-house and are flexible enough to allow for client-customisation where necessary. Second, our capabilities are supported by a global team of trade experts that work with clients to implement solutions based on the needs of their domestic market(s) and business-specific needs. Lastly, and perhaps most importantly, our solutions are offered on a non-compete basis, meaning our clients can view us as a strategic partner rather than a competitor.

Working collaboratively in this way helps our clients to increase revenue by allowing them to leverage a full spectrum of trade capabilities targeted to meet the growing demands of their own customers, while controlling both operational and processing costs. As banks and NBFIs are measured against increasingly rigorous standards for profitability and efficiency (in addition to asset quality and compliance), this is a crucial factor for success.

One solution, which is gaining real traction as rising costs and decreasing margins force many banks to scale-down back-office capabilities, is our Overnight Document Examination (ODE) service. ODE may be used for both import and export LCs, with LC status information (plus imaged documents) available 24 hours a day via our Trade Internet Query system. Trade Internet Query is an online reporting tool that provides timely, accurate and detailed LC information (and document images), and can be used to confirm the documents in question have been examined, and whether or not any discrepancies were found.

When combined with our broader range of automated trade services, ODE can provide an end-to-end document examination function, and thereby enable us to help our clients in both the immediate and longer-term. Immediate benefits include robust security and fast turnaround times, as well as a means to lower processing costs. Furthermore, such costs may also be better-managed in the long term, as we can maintain processing capacity at agreed costs on clients' behalf, regardless of peaks and valleys in volumes. In addition, ODE can also support customers' business development efforts by enabling them to more strategically redeploy internal resources and focus on their core business.

Of course, ODE is a singular solution that focuses on helping clients "lighten the load", and some require assistance not only in this respect, but also in managing the shifts in geographic focus in light of the changing direction of global trade flows. This dual concern may be addressed by our LC Relay service.

LC Relay is designed to enable issuing banks to expand their trade processing to regions where they do not maintain branches. Under this relay partnership model, BNY Mellon acts as the issuing bank's local processing agent, performing documentary exams, managing any discrepancies and effecting the ultimate payment, while allowing the issuing bank to gain access to our global network and international trade team. This both expedites the end-to-end process, with the faster delivery of documents and resolution of discrepancies, and gives the customer in question, the opportunity to enhance its trade capabilities and expand its global footprint.

"Trade finance" and "transaction processing" are broad terms, and ODE and LC Relay are just two examples of the solutions we can provide that fall under these umbrellas. For more information on all of our trade and transaction processing solutions, all of which are designed to help our customers (and their own clients) capitalise on arising opportunities while minimising risk, please go to http://www.bnymellon.com/treasuryservices/tradefinance.html, or consult your relationship manager.

STRATEGIC CASH MANAGEMENT

CASH OPTIMISATION

Dhiru Tanna,
Sales Officer for Europe, the Middle East & Africa, Treasury Services, BNY Mellon

STRIKING THE RIGHT BALANCE

Effective cash management is crucial to survival and rests on three principles: right time, right place, right currency. This sounds straightforward enough, but as any bank or non-bank financial institution (NBFI) will tell you, it's far easier said than done. For many organisations, cash management is complicated by their size and geographic spread. Maintaining multi-national operations means working across time zones, dealing with disparate legal and regulatory requirements and managing a variety of data formats and reporting requirements. As a result, gaining visibility and control over their cash positions can be a real challenge, despite technological advances designed to facilitate the process.

But this is only cash management – just the building block of cash optimisation. Cash optimisation (of which visibility and accessibility are key components) requires cash to not only be available, but working hard to the organisation's benefit. To ensure this is the case, banks and NBFIs need to devise a cash management strategy. Of course, there is no such thing as a one-size-fits-all strategy. However, all cash optimisation efforts will ultimately centre on the fundamental elements: security, yield and liquidity.

Security, yield and liquidity: a strategic approach to cash

Security

The crisis of 2008 made the security of cash paramount for most, and this remains the case today. Such caution is understandable and, to a certain extent, to be encouraged. However, as market volatility continues, keeping cash as secure as possible will necessitate a focus not only on the "conventional" threats, such as country and counterparty risk, but take in to account broader financial market evolution.

For example, the continuing advancement of emerging markets, the debt overhang in the US and Europe, and the ways in which new regulations (brought in in response to the crisis) are changing traditional suppliers of capital: all are having a profound effect

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on the way risk needs to be assessed and managed. Keeping abreast of such developments, and how they impact on business, necessitates an up-to-date understanding of market transitions, and the ability to translate understanding into a viable risk mitigation strategy. Without such a plan in place, or the ability to adapt related systems and processes in line with market developments, the safety of cash will always be under threat.

Yield

While the security of cash is unquestionably important, there can be such a thing as being too careful. Despite ongoing market challenges, and the subsequent need to safeguard cash, the fact remains that few can afford to keep cash inactive for extended periods merely for the sake of security. This is particularly the case in light of the low interest rate environment, which has remained consistently low and is not expected to change any time soon, and the fact the future requires investment. For many organisations, proprietary cash resources are becoming the primary means of funding business development, making it doubly important for cash to make a return.

With yield making a return to the spotlight, the challenge lies in striking the optimal balance between risk and reward. This can be a tall order as, rather than being constant, the balance is likely to shift in line with evolving business requirements and circumstances. As a result, efforts to reconcile risk and reward must be flexible enough to allow for change, while keeping the flow of liquidity constant.

Liquidity

Managing risk and reward, though difficult, is only half the battle won. A key need for all businesses is sufficient, reliable liquidity to address day-to-day settlement and operational demands (in both normal and stressed conditions). Safeguarding liquidity is a matter of control, and this, in turn, is chiefly a question of managing the process: understanding the situation at hand and being in a position to take the most appropriate action. Getting it right first time is imperative in both instances as the wrong decision, or even mis-timing the right decision, can have serious consequences.

Specialist help

Many banks and NBFIs will find it a major challenge to independently strike an ideal balance between risk, liquidity and yield. This is because the majority of tried and tested in-house methodologies, and the largely standardised third-party solutions, can struggle to offer the degree of flexibility that the pace of market evolution now requires. For such organisations, seeking guidance and technical support from a specialist global provider of global cash optimisation and investment solutions could be the best course of action.

As one such provider, our goal at BNY Mellon is to take a consultative and collaborative approach to developing and delivering high performing investment strategies and solutions that work to address a full range of risk-return requirements. In order to do this, we utilise our local expertise from around the world to help our clients keep track of the shifts that affect cash decisions, and subsequently inform the investment solutions we create.

An example of our investment solutions is our money market funds (MMFs), which have been developed to recognise the importance of cash as an asset class in its own right. Catering to varying risk-return requirements, our MMFs are pooled investments in short-term, triple-A rated instruments that, when actively managed, can offer better yields, diversification and reduced credit risk than bank deposits, all without compromising liquidity. All of our funds can be accessed via Liquidity DIRECT. This is a centralised cash investment portal that offers clients access to direct investment in individual money market securities[1], as well as over 100 multi-currency money market mutual funds. Clients can choose the most appropriate instruments, combined with access to reporting capabilities that can provide transparency.

When tied into a broader range of cash management expertise and capabilities, such solutions enable us to help our clients achieve their aim: to capture new opportunities and mitigate risk as the investment landscape continues to evolve.

A video outlining the challenges – and solutions – associated with cash optimisation and striking the optimal balance between risk and reward can be viewed at http://www.bnymellon.com/helpingyou/treasuryresearch/

More information on BNY Mellon's cash management solutions, including Liquidity DIRECT and Money Market Funds, can be found at http://www.bnymellon.com/liquidityservices/

[1] Securities products and services other than money market securities are offered by BNY Mellon Capital Markets, LLC

LOCAL-GLOBAL

BANK COLLABORATION

Günther Blum,
Vice president for trade services and trade finance,
Treasury Services, BNY Mellon

FACILITATING TRADE BEYOND EUROPEAN BORDERS

The German economy, the indisputable powerhouse of Europe, is chiefly driven by two things: the small medium sized enterprises (Mittelstand) and the multi-national exporters. Despite being known as a key player in intra-European trade, Germany has been equally proactive in finding trade partners beyond the region's borders, and its efforts in this respect have always stood its economy in good stead.

Indeed, maintaining a more international outlook has gone a long way to helping the German economy circumvent the troubles experienced by some of its southern European neighbours as a result of euro turbulence. In addition, Germany's export industry has been further supported by the structural reforms undertaken after the creation of the single currency, as well as more recent revisions to fiscal policies designed to increase German competitiveness abroad, and mitigate the rising threat posed by other major export markets such as Asia and Africa.

Turning to new markets

Though southern Europe's economy continues to struggle, signs of a (slow) recovery are beginning to emerge. Yet despite such "green shoots", German corporates, particularly the smaller and mid-tier players, must still have practical and sustainable plans in place to explore commercial opportunities outside the eurozone. For many, this will mean continuing to rely on the country's export prowess, but with an increased focus beyond Europe's borders to markets that show promising growth potential. The Middle East and North Africa (MENA) region is one such market, and is discussed in greater detail by my colleague Bana Akkad Azhari in the article titled "The Shift from Intra-Regional to International Trade".

While MENA has long been defined by (largely intra-regional) trade, its emergence as a region for international trade – chiefly as a result of strong trade ties with China and, increasingly, the wider Asia-Pacific region – has attracted greater attention. While Germany has been more successful than most European economies in exporting to

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MENA, German companies looking to tap into trade beyond the region's established trade centres, such as the UAE, as well as international trade flows coming via the Middle East, require three key elements.

The first is a connection. Success requires scale, and achieving scale in these markets requires not only a local customer base but also a local partner through whom to build business and perhaps even invest in local production. Such local expertise is difficult to establish independently, as it requires specialist knowledge of the market in question, as well as local access to the tools required to facilitate international trade.

Second, corporates must be able to control and manage the trade process; a challenge all the more significant for cross-border trade. This, as Mauro Bonacina explains in his article, "Managing the Trade Process", is a complex game because of the need to mitigate risk, navigate local compliance environments, understand and overcome regional and market-specific restrictions, and ultimately achieve settlement.

Ensuring this process is efficient, secure and transparent is difficult enough when dealing with familiar markets and counterparties; it is a different matter altogether with new trade territories. Maintaining the levels of speed and security modern cross-border trade demands in the face of evolving compliance requirements, differing business practices and use of multiple currencies, is a tall order and one that companies cannot meet without specialist help.

Finally, and closely connected to the issue of trade processing, is the need to access corresponding cash management capabilities. Though the integration of the cash and trade functions is hardly a new concept (it has long-been recognised as a key way to improve risk-mitigation and working capital efficiency), combining such holistic solutions with multi-currency capabilities is a specialist area. As a result, this is an area in which smaller banks and financial institutions in Germany could find challenging, particularly given corporates' additional demands for global reach and optimal trade processing control and efficiency across borders.

Local-global bank collaboration

It is well-known that Germany has a strong tradition of localised banking, and the strong relationships this fosters are highly-prized – particularly by the Mittelstand, which value such historic presence, as well as the local market and customer knowledge possessed by smaller indigenous banks. While there can be no substitute for 'hometown' relationships and the understanding and insight they garner, the smaller German banks that tend to serve this sector could potentially find themselves at a disadvantage if they cannot match their local relationship strengths with global trade processing, cash management and network support solutions.

This concern can be addressed by collaborating with a specialist provider of global trade processing and cash management services, especially if the union is founded on a non-compete, collaborative basis. This, certainly, is the approach we at BNY Mellon advocate, and it is a principle designed to allow the local partner in question to leverage global reach, experience, expertise, and technology capabilities in a way that best suits the specific needs of its corporate customers without the competitor risk.

As a result, smaller German banks and financial institutions can effectively become global players at minimal cost, risk and disruption to their existing processes. Such advantages come from access not just to international best-practice in trade processing, but also to in-depth global insight garnered through our local partnerships worldwide. Indeed, our on-the-ground teams in Germany serve not only our local partners, but those throughout the broader region and beyond – particularly throughout the Middle East.

By recognising the importance of local relationships, and combining it with specialist market knowledge and innovative technology, such partnerships can provide invaluable support in facilitating connections and managing the process as trade routes change. As a result, they can help Germany fulfil the potential of its expanding trade horizons – and thereby maintain its position at the forefront of export competitiveness – even as recovery remains tentative in much of the wider eurozone.

COLLABORATIVE FINANCIAL INSTITUTION

SUPPLY CHAIN MANAGEMENT

Peter Hazou,
Head of Market Management for Europe,
the Middle East & Africa,
Treasury Services, BNY Mellon

CONNECTING THE DOTS IN THE SUPPLY CHAIN

In an era where supply chains are ever more complex, and connectivity is key, Peter Hazou assesses the role of banks as vital intermediaries, and the growing importance of inter-bank collaboration.

The term 'globalisation' is one applied frequently to current industry trends – but the reality is that for the majority of supply chains, globalisation has occurred some time ago and a new era of supply chain intricacy and complexity is well under way. Indeed, as global markets continue to develop and purchasing power shifts from west to east and from up to down, new geographies and markets are becoming integral to the process as if they were the buyer-supplier partners just down the road.

Of course driving much of this development is the increasing permeation of technology which automates, streamlines, digitises and shines light on the process throughout the flow of goods and underlying documentation. Technology enables this efficiency but also opens a host of additional opportunities to enrich and add value in each stage of the trade process.

But as valuable as technology's contribution unquestionably is, it cannot remove the fundamental challenges faced by underlying supply chains. Such challenges range from the adverse effects of constrained liquidity, to counter-party risks, the complexities of navigating local and global regulatory environments, and the need for more robust platforms designed to leverage specialist local-market understanding. Risk lies at the heart of all of these connections; risk of non-delivery, risk of non-payment, risk of poor performance, risk of missed expectations - risks in every element of the process. Banks cannot of course cure all these uncertainties, but they can play a role in reducing and managing risks to understandable and acceptable levels.

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Supporting supply chains

Of course, banks – through their web of correspondent banking relationships – have always played a key role in facilitating trade as a core banking activity. As an intermediary between buyers and sellers – managing the documentation, exchange and counterparty risks to ensure that goods are self-liquidating against payment - banks have been at the heart of commerce and trade since time immemorial.

But as the supply chain industry has entered a new era, so too has the intermediary role of the bank. As geographic distance between trading counterparties has increased, banks have been tasked with maintaining efficiency and security across borders – and this has led to the transfer of physical documents being joined by the instantaneous and continual flow of electronic data.

Making this even more complex is the significant variation between – and scale of – modern end-client demands. Multinational corporates increasingly require cash flows to be conducted in local and sometimes exotic currencies as their supply chains spread into new geographies, while new global and regional regulations – and their varying local interpretations – mean banks must ensure financial supply chain flows remain compliant, all while anticipating and navigating political or economic disruption which interrupt the physical supply chain. In a world equally empowered by both ideas and technology, this means innovations and required changes to supply chain processes can arise from any direction as suppliers and buyers seek to meet their own particular local requirements. Inherent in the vagaries of this evolution is that no single model fits all counter-parties. Some early adopters seek advantage through “leapfrogging”, while others struggle with how they should retro-fit such process re-engineering in a consistent way which suits all of their buyers and suppliers, and is palatable to local customs, practices and regulations.

In the face of this, banks must be able to provide the innovative technology that modern data and cash flows rely on – technology that must be robust and scalable yet also sufficiently flexible to ensure continued operational stability throughout the supply chain in a manner that provides a suitable business model for sustainable investment. Beyond that, the challenges only multiply as banks must also address their own industry issues post-crisis: such as new capital adequacy rules, returns on risk-weighted assets (RWAs), deleveraging, liquidity, risk mitigation and the need to reduce operating costs. Furthermore, some of the key elements of successful supply chain management, such as the role of document examiners, are specialist in nature and may no longer fit with everyone’s business model as experienced examiners become more expensive and retire from the industry. So how can these challenges be addressed?

Connecting the dots

The answer lies in greater inter-bank collaboration and connectivity. The challenges faced by banks, coupled with the growing demands of corporates, mean a combined collaborative approach from the banking community is needed if supply chain linkages are to be maintained and strengthened. With today's economy requiring the global dissemination of transaction-related data and liquidity flows, the partnership approach can ensure this is delivered in a way that meets commercial requirements at all three levels of proximity – local, regional and international.

Local and regional banks in particular may benefit from choosing to partner with a global provider into markets where they are not present and where it makes no sense to build bricks and mortar to serve the foreign needs of their home market clients. By the same token, global banks bring broad expertise and scale to their role as intermediary – particularly where they are not also a local competitor in pursuing the same clients as their local correspondent banks. This globality includes local-market knowledge drawn from on-the-ground teams but scaled with the safety of systemic importance in key money-centres which provide the liquidity for global commerce. Similarly, the level of demand for sophisticated technological capabilities, and the significant levels of investment and talent such innovation requires, means global providers are inherently better positioned to design and develop the technology-driven solutions and platforms needed.

Finally, with respect to contingency plans, global oversight teams can anticipate potential challenges on the horizon, all over the world, and advise partner-banks in advance on how such problems may be avoided. By joining the dots in this way – collaborating to enhance data and cash flows, and to share expertise – the banking community as a whole will be better placed to address the challenges of supply chains today, and to continue its vital role in facilitating and supporting trade.

A video outlining the pivotal role that communication plays in managing the connectivity between buyers and sellers in the development of global transaction banking networks can be viewed at http://www.bnymellon.com/helpingyou/treasuryresearch/

A version of this article originally appeared in the September 2013 issue of Trade & Forfaiting Review

THE IMPORTANCE OF

RELATIONSHIPS IN MULTI-CURRENCY CASH MANAGEMENT

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A MULTI-LAYERED OFFERING FOR MULTI-CURRENCY SERVICES

As we enter a new era of globalisation and technological standardisation, Simone Satan explores the factor that forms today's key differentiator: the personal approach to serving client needs.

Until recently, many cross-border transactions were priced in US dollars or euros. But with purchasing power increasingly shifting from west to east – bringing new, "exotic" currencies into the spotlight – cash optimisation is now as much a question of managing multiple currencies as it is increasing cash visibility and control.

As the global economy adapts to the "new normal" – that is the emergence of new trade corridors and subsequent rise to prominence of new currencies, ongoing credit constraints, a heightened risk profile, and regulatory uncertainty – monitoring and managing the movement of cash across borders is becoming more complex than ever. Overcoming the complexities necessitates a more strategic approach to cash management, which must encompass optimising cash across multiple currencies.

Of course, cash optimisation has always been positioned at the core of the treasury role, and multiple currencies have always been a factor. That said, cash management, and particularly the multi-currency aspects of cash management, was arguably more straightforward pre-crisis than it is now, reflecting the dominance of the more mature economies and free-flowing market liquidity that eased any bottlenecks or inefficiencies in the cash cycle.

As treasurers and the wider financial community struggle to address the realities of optimising cash in today's environment, it is becoming increasingly apparent that cash optimisation depends not only on overcoming process and operational inefficiencies, but also the ability to seamlessly incorporate new currencies into existing systems and practices.

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The ability to access and leverage a comprehensive set of multi-currency cash management solutions is, therefore, vital. However the challenge lies in determining what exactly constitutes an optimal multi-currency cash management offering.

While automated processes, technology-lead platforms and global reach all spring to mind – and are of course invaluable in developing and delivering such solutions – solutions that will make a tangible difference to corporate cash management are those that can meet individual market and organisation-specific requirements. In today's increasingly standardised banking environment, achieving this level of client-focus depends on the quality of client service. As a result, client service is becoming the key differentiator between specialist cash management providers, and is serving to revolutionise what had become a standardised, product-led sector.

Defining client service

Certainly, the challenges of the current climate, from both a regulatory and economic viewpoint, means client demands are becoming increasingly complex. Whereas clients of similar sizes (e.g. small-and-medium enterprises, or multi-national corporations) once had relatively uniform requirements, banks must now understand and address these needs on a case-by-case basis, and this can only be achieved through collaboration.

Of course, putting a collaborative approach into practice is easier said than done, but is perhaps best illustrated by the long-term working relationship BNY Mellon has experienced with one client in particular – a high-profile German bank. Indeed, with a challenging mandate to process time-critical payments in a variety of exotic currencies, underpinned by a full spread of reporting, cash reconciliation and contingency plans, the utmost level of service and client engagement was critical to ensuring the ongoing success of this project.

This begins – and ends – with dialogue. Indeed, a proactively client-focused approach requires communication above all else, and this should be apparent right from the start, not only to gain a clear understanding of client needs, preferences and expectations, but also to build a sufficiently comprehensive insight into their working processes in order to identify gaps they might not have realised were there.

For example, by becoming fully versed with the inner workings of our German bank client, we were able to identify a funding gap between the trade and settlement dates of their existing transactions – wherein the bank knew when their payments were being sent out, but not the exact rate at which these payments were being conducted. By passing on all rate information immediately, we were then able to introduce more transparent reconciliation, with such enhanced visibility being the first step to better management of cash flows.

Bank-client communication must also permeate the entire process of consultation, solution development, implementation and continual review. For this reason, we established a regular calling programme, not just to ensure the evolving client needs continued to be met, but to keep the client fully informed of our own market knowledge, and any developments that may have potentially threatened the time windows of their payments.

This leads on to the second key element of client service – internal connectivity. Certainly, the channels for communication that are established externally should be reflected to an equal degree internally. And by this, we mean the silo-free interaction of team members from all layers of the business – from operations and client service to product and network management, and electronic banking teams – in order to fully leverage the full spread of internal expertise to develop truly holistic solutions.

Similarly, the entirety of a provider's global network should be put to use – with the local-market expertise and multi-lingual capabilities garnered from an international footprint enabling greater stability at both ends of cross-border cash flows, as well as increased forewarning of potential local-markets disruption.

At the same time, such multi-layer and multi-geography participation should not be achieved at the expense of client-side consistency. Rather than the anonymity of a call centre, clients should have at their disposal a specific list of contacts they've met face-to-face, with the reassurance that these team members can be contacted directly whenever needed, and are committed for the long-term.

Finally, the emphasis should be on service – not salesmanship. "Solutions, not products" is the order of the day, and this means really listening and responding to client needs (rather than pushing products) and a demonstrable willingness to share market knowledge with clients and non-clients alike, for the benefit of the market as a whole. This latter point is particularly important in light of the scale and pace of regulatory change. With the activities of our German client extending into relatively unfamiliar geographies, the ability to address the impact of both global regulations and more localised, less well-known initiatives was vital in avoiding payment disruption.

A changing world

As banks adapt to the "new normal" – a world where shifting trade flows and more intricate supply chains demand far greater multicurrency capabilities, yet regulatory and economic challenges make the provision of such services all the more difficult to achieve – the bank-centric "product push" mentality must be firmly relegated to the past.

Instead, we must continue to develop the more personalised approach – one that offers consistent, flexible, knowledge-focused and solutions-driven responses at all stages of the transaction cycle. It is only by enhancing communication and collaboration, and thereby achieving optimal client service, that together we can drive the market forward.

A version of this article originally appeared in the September 2013 issue of FX-MM

THE CLEARING HOUSE AUTOMATED PAYMENTS SYSTEM

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BECOMING A DIRECT MEMBER

In the wake of the global financial crisis, the Clearing House Automated Payments System (commonly known as "CHAPS") is undergoing radical change to reduce systemic risk – a change which both promotes BNY Mellon's global payment strategy and enables us to better support the strategies of our clients.

Launched in 1984, CHAPS guarantees same-day settlement finality for sterling payments of any value. Since 1996, the scheme has used an enhanced real-time gross settlement system by which individual payments are settled across scheme members' settlement accounts at the Bank of England (BoE).

CHAPS has historically consisted of a small number of settlement banks (also known as direct participants) and a much larger pool of indirect members that undertake CHAPS transactions via correspondent banking relationships with direct participants.

While it has long been recognised that potential for interbank settlement risk is inherent in such a system, it was the events of 2007-2008 that acted as the catalyst for change. The crisis, and subsequent intensified focus on risk, kick-started efforts by the BoE to increase direct membership, which led to the 2012 introduction of an obligatory revision to the tiering system which differentiates users according to the daily value of their payments.

Under the new BoE rules, "systemically important" indirect members (i.e., those processing in excess of two percent of the daily CHAPS value) are required to become direct participants. This represents an overhaul that, since its introduction, has seen an increase in new – and, in many instances, international – players entering the direct CHAPS clearing market. By 2015, 25 banks are on course to become direct CHAPS participants, which marks an increase of 11 since the crisis began.

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The benefits of such market expansion are numerous and far-reaching. Competition should stiffen, thereby driving improved levels of service and pricing and, in time, harmonised rules for reporting. BNY Mellon, an established and substantial contributor to the daily total CHAPS payments value, is one of six systemically-important banks (as identified by the BoE) currently working towards direct membership. For BNY Mellon, this process is scheduled for completion in 2014.

Becoming a direct member

Upgrading to direct membership is a complex undertaking requiring significant investment of staff and fiscal resources. Primarily, there is the issue of expertise, which also acts as a key differentiator among CHAPS providers.

CHAPS is recognised by HM Treasury as an inter-bank payment system and is overseen by the BoE (in accordance with the Banking Act of 2009). Close consultation with the BoE – as well as with CHAPS Co. and our current CHAPS correspondent bank – to ensure that the direct membership criteria are met from a legal and regulatory standpoint is essential. For this reason, we meet with the BoE on a frequent basis, and these meetings will continue throughout the entirety of the direct membership process.

Once the legal and regulatory requirements are satisfied, next comes the issue of technology enhancements. CHAPS payments solutions must be built and rigorously tested prior to launch. We have invested significantly in the growth of our EMEA product management function to make sure that our migration is not only successful but seamless to avoid disruption to our existing clients. This is true not only of our efforts to become a direct CHAPS member, but of our broader investment in a new global payments infrastructure. In addition to supporting direct CHAPS clearing, this will enable us to replicate our strengths in US dollar clearing across multiple currencies (currently over 100 currencies).

Given the effort and expense direct membership requires (even when not tied into more expansive payments upgrade initiatives), the revision to the system was not necessarily welcome news to many indirect CHAPS participants. While this is perhaps understandable, as regulatory developments are raising the cost of payments processing and putting margins under increasing pressure, the change underscores our ongoing effort to expand our multicurrency payments capabilities and become a driving force in the UK and across the wider international payments landscape.

What does expansion of our global payment solutions mean for our clients?

Our new CHAPS capabilities will enable us to extend our strength and capabilities in US dollar clearing to sterling. In practical terms, this means improvements in straight-through processing (STP) that lead to a reduction in processing costs and operational risk and an increase in visibility and control. This will also allow us to offer greater flexibility with respect to cut-off and contingency times.

Of course, there are broader and longer-term benefits. Until now, CHAPS has been dominated by a small contingent of highly regarded long-standing sterling clearers. Now there is the opportunity for new CHAPS members to offer a wider selection of services to increase competition.

Direct membership comes hand-in-hand with a place on the CHAPS board and invitations to industry meetings, affording greater visibility into regulatory changes and an ability to influence and drive CHAPS' strategic direction. As a result, we can inform and educate our clients promptly on developments that may affect their business and help drive the scheme's expansion to a more global client base.

One development we would welcome would be the adoption of, and agreement upon, global payment standards and formats to facilitate payments worldwide using standardised information. ISO20022-based payment formatting, already used for SEPA payments, will begin to address this issue, but there remains much work ahead in this respect. It would also be beneficial for clients to be able to add information to their payments – such as attaching invoices or including additional notes for beneficiaries. This would be a huge leap forward in both CHAPS and global payment capabilities, and time will tell if it comes to pass.

Our commitment

BNY Mellon is committed to the UK and to investing in the services our clients need to support the development of their businesses. Though our move to direct membership is a recent development, our knowledge of the UK payments market is extensive (the result of a market presence of almost 100 years), and our share of the CHAPS market is considerable, particularly for a non-domestic organisation. These are the strong foundations on which we continue to build our UK offerings.

To this end, CHAPS serves as a gateway for us. In addition to the migration to direct membership, we are taking steps to join the UK payment council's affiliate programme that caters to non-members of other UK payment systems – such as Faster Payments and BACS – and grants greater access to information regarding changes and updates. This will give us a broader insight into the entire UK payment market, knowledge that we in turn can communicate to our clients and translate into new opportunities for them.

Educating clients, particularly those based outside of Europe, on UK developments is something we take very seriously, and is part of our overriding aim to always act as a strategic partner rather than a solutions provider. As we continue to invest in this market to further support clients and their businesses, regular communication in the form of newsletters, seminars and one-on-one consultation will be a key part of this process.

BNY Mellon’s involvement with CHAPS is a reflection of our long-term UK and international focus, and migration to direct membership is a major milestone in our effort to leverage our US dollar strengths globally.

OPTIONS TO CONSIDER WHEN

MANAGING CROSS-BORDER PAYMENTS

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A DAUNTING ARRAY OF OPTIONS

As financial market evolution continues, managing cross-border payments can be a significant challenge. It is, however, a challenge that must be met, as the ability to navigate the changing global payments landscape is crucial to any organisation's future strategy.

But this is often far easier said than done. To illustrate the scale of the challenge, let's look at the tasks faced by a newly appointed cash manager of a company with global operations. Once appointed, he or she is (usually) tasked with evaluating international payment options in the bid to establish the most efficient, secure and cost-effective processes. This seems straightforward enough, but such evaluation is complicated by a number of factors.

One such factor is the number of service providers that merit consideration, including banks, non-bank payments providers, technology firms and credit card companies. Another is the variation in payment types, such as:

- corporate capital transactions; capitalising a foreign subsidiary or collecting inter-company dividends;
- international vendor payables, denominated in local currency;
- small-value payroll, pension payments, expense reimbursement.

Last but not least, the variety of methods by which beneficiaries can receive payments must be reviewed. Payment methods can span from the more traditional, such as wire transfers, to the utilisation of Real-Time Gross Settlement Systems (RTGS), electronic deposits through low-value clearing (ACH or BACS, for example), and local currency drafts.

Rule of thumb

When making cross-border payments, the rule of thumb is as follows: "the currency of the home country never leaves the home country". Rather, the execution of

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international payments requires correspondent banking relationships connected to each country's clearing system. Typically, the correspondent bank performs the foreign exchange transaction.

Third-party payment providers ultimately depend on the global payment infrastructure of large banks with a dominant franchise in the payments business. Other non-bank providers do not possess the global network of payment hubs, correspondent relationships and interbank credit arrangements necessary to support payments in the world's currencies.

The key to successful cross-border payments execution is to align the appropriate payments service with the originated payment type. For corporates, transactions are typically:

- generally large value payments / trades;
- negotiated, shopped FX rates;
- repetitive payments or those planned in advance;
- hedging purposes – using forward trades.

That said, Accounts Payable departments, which typically handle vendor payable transactions, have somewhat different needs. As a result, they require:

- centralised control, often with a need for decentralised entry of payment details;
- aggregation of multiple payables in the same currency to achieve more competitive pricing;
- ability to accept or reject the FX rate via a "Request for Quote" process;
- cash management features with repetitive and non-repetitive entry of payment details;
- small-value, high-volume payments with the ability to upload a file.

With these needs in mind, corporations require a centralised mechanism for streamlining their global payments process, with the option of decentralised access. They also require options to centralise their liquidity and payments needs in order to improve the efficiency of cross-border payments processes.

Cross-border payments options

Given the complexity of cross-border payments, many mid-sized banks may struggle to fulfil all of their corporate clients' requirements without support. Given this, many are enlisting the expertise and capabilities of specialist, global providers of international payments services.

BNY Mellon is one such provider, and we advocate a more strategic, collaborative approach to local and global banks working together. Such an approach is designed not only to plug local banks into an extensive network of correspondent banks, and facilitate the provision of market-leading technology at local level (and in line with individual market requirements and practices), but to drive the two-way transfer of knowledge.

With the world in which we operate – and particularly the payments landscape – in flux, the sharing of knowledge and best-practice will be as important to addressing end-client requirements as solutions-development. A combination of thought-leadership and technology is key to navigating the changes and the challenges the financial world faces, and will better enable the banking industry to meet end-client needs as the market and regulatory landscapes continue to evolve.

A version of this article originally appeared in the June 2013 issue of Global Finance.

SHAPING THE FUTURE OF

TRANSACTION BANKING

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OVERCOMING CHALLENGES TO EMBRACE OPPORTUNITY

In the wake of the 2008 global financial crisis, transaction banking has made a return to the spotlight thanks to a renewed appreciation of its "back to basics" mindset and the factors that form its core pillars: stability, transparency, and its role as facilitator of "real" economic activity. But while these underlying principles are the same as they have always been – and show no sign of changing – the industry is far from standing still.

Drivers for change

Global transaction banking – comprising trade finance and processing solutions, cash management and cross-border payments – is undergoing a period of major transformation. Not only are payment volumes soaring (global non-cash payments volumes reached 307 billion transactions in 2011, according to Cap Gemini and RBS) but as risk mitigation – and with it, the need for more adept cash and working capital management – became the market's priority following the credit crunch, the value of transaction banking has become increasingly well-recognised. In particular, its advocacy of traditional commercial values such as transparency, and the importance of relationships and open counterparty communication. But as the immediate problems of the post-crisis environment recede, there are further changes afoot. The evolution of transaction banking is being influenced by a number of developments – industry, market and client-led. And such developments beg the question: how can banks ensure that they (and their clients) are best-placed to chart the course ahead?

When analysing the changes, the most apparent are those occurring on an industry-wide level. And this means compliance with – and adaptation to – the new regulatory environment. Regulatory initiatives, such as Basel III and Dodd-Frank, demand higher capital and liquidity buffers and more stringent reporting capabilities. Banks, therefore, must be able to provide a granular, real-time view of risk exposures, including intra-day reporting, the tracking of all payment flows, and balance and funding estimates.

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The cost of meeting such compliance requirements, combined with the fact they often further squeeze already-pressurised margins, has caused many banks to reassess both their geographic and business-line spread. Such analyses have led many to go back to their roots and refocus on their core business. While, in practice, this can mean anything from a decline in future investment in now-peripheral activities to a full-scale retreat from whole businesses or geographies, the upshot is industry consolidation – and this will gain further traction as regulatory and market pressures mount.

In line with such regulatory and market pressures, client needs have also evolved. Corporates and non-bank financial institutions (NBFIs) are equally under pressure to meet heightened reporting requirements, meaning they too are looking for enhanced oversight and reporting capabilities, with more intricate and readily-accessible provision of data and analytics. Such enhanced visibility must apply throughout the entirety of the transaction process – providing end-to-end oversight and control over payment flows – as well as enable in-depth real-time data, particularly with respect to intraday liquidity. In relation to this, banks are under greater pressure not only to provide solutions that can help clients in these endeavours, but to yield greater transparency over fees and their own liquidity levels and balance sheet business.

In a similar vein, the crisis-induced contraction in liquidity has underscored the need to increase the effectiveness and efficiency of cash flow management – whether by unlocking idle cash that can be put to better use, or by ensuring transactions are both time- and cost-efficient, despite the hurdles presented by cross-border legal, process and system variations. Commercial organisations of all sizes – from local operators to the largest multi-nationals – are likely to consider the optimisation of working capital and cash flow management as imperative. And this, in turn, means they are placing greater demands on their transaction banks than ever before – seeking true “value-added” service that goes beyond product features and functionality.

Last but not least, the wider market itself has gone through tremendous upheaval. Looking at the turmoil region by region, the eurozone continues to struggle under the burden of its debt crisis; the USA’s economic recovery has been notably sluggish; and even emerging-market powerhouses such as India and Brazil – the bright sparks in the bleak post-crisis years – now show signs of a slowdown after years of rampant growth. Times are changing – and with change come challenges.

A new era

Of course, it’s not all bad news. New initiatives such as the Single European Payments Area (SEPA) are designed to create a significant improvement in market harmonisation and standardisation. Such assimilation of processes and standards is to be encouraged – even if it is likely to put pressure on banks by increasing competition in the payments space, and lowering margins – meaning some local banks may struggle to keep up.

Looking further afield, new opportunities can be found both in the rise of intra-emerging market (or "south-south") trade flows, and in the next wave of "up and coming" economies beyond the BRICs (Brazil, Russia, India and China). Indeed, attention is now turning to the newly-coined MINTs (Mexico, Indonesia, Nigeria and Turkey); a group of countries that promise a combination of healthy GDP growth potential and a growing consumer base.

To embrace such opportunities and support the broadening horizons of corporate and NBFI clients, the transaction banking sector must keep pace with the developments at hand. The Chinese renminbi (RMB), and its rapidly-growing role on the international stage, provides a case in point. With its increasing accessibility, the currency is likely to positively impact both regional and global payments, bringing transparency, ease of conversion and processing, and the potential for cost savings. As a result, banks hoping to stay in the payments space must channel considerable investment into global payment systems capable of onboarding emerging currencies. Such investment must be supported by expertise and uniform standards of service across currencies and markets.

Global payments require a truly global service – one that combines international currencies (BNY Mellon supports payment transactions in more than 100 currencies) with expertise, relationship management, accessibility and standards of customisation. A "global service", therefore, is much more than the cross-border provision of technology, although the importance of automated platforms as an industry enabler should not be underestimated.

Of course, questions remain. As new currencies emerge and internationalise, will banks become truly currency-agnostic? Or will these new currencies only be catered to by a select cluster of specialist clearers? As markets recalibrate on a macro level – in line with a shift in economic power from west to east, growing intra-emerging market trade flows, and the rise of new currencies – it is only by understanding these changes and preparing accordingly that banks will be able to keep up, and ensure they are in the best possible position to navigate future hurdles and opportunities alike.

Forging a path ahead

As always, this is easier said than done. For example, banks hoping to be selected as foreign currency correspondents must be able to demonstrate in-depth market knowledge, and provide transparency over foreign exchange rates, conversion practices and contingency payment routes. As their clients seek ever-greater levels of visibility and control over cash, banks must be able to provide pooling and other account structures that will ensure efficient cash management across entities and branches.

In addition, clients require truly value-added data that clearly outlines payment trends and opportunities for improving straight-through processing rates. And finally, banks should ensure they can offer strong, multi-channel client servicing – including dedicated points of contact, flexible contact hours that reflect today's 24-hours-a-day, seven-days-a-week business flows, and structured and trackable Service Level Agreements that outline these standards.

These factors, far from comprehensive, are a mere illustration of the numerous expectations now placed on banks, and provide a strong argument in favour of the correspondent banking model. This is a tried-and-tested approach that combines local market knowledge, global reach, and client understanding – the value of which is rapidly rising to prominence.

Certainly the challenges incurred by recent sector and market developments – not least the regulatory and cross-border hurdles of the evolving payments arena –mean independent investment in modern technology and expert staff may not be financially viable. And this is where global/local collaboration can provide the best of both worlds – leveraging the global reach and investment strength of specialist providers, in combination with the local-market expertise and experience of local banks. This is an approach long-advocated by BNY Mellon and, when undertaken on a non-compete basis to assuage local operators of competitor concerns, can prove the optimal way to deliver innovative, best-practice solutions at local level in line with local market requirements.

Our recently launched Intraday Liquidity Analytics tool, designed to help customers address liquidity transparency and intraday overdraft coverage requirements under Basel III, is one example of such solutions. Please refer to Michelle A. Palombo's article titled "Focusing on Risk and Expense Reduction" for more information on our Intraday Liquidity Analytics tool. Another is the development of our global payments infrastructure which will allow us to deliver payments in virtually any currency to nearly anywhere in the world on a single platform. Focused initially on Euro clearing capabilities, the new infrastructure will extend our established strengths as a processor of US dollar-denominated payments across the broad array of global currencies. These are just a couple of examples of how we remain committed to investing in technology and using innovative solutions to respond to the changing global payments landscape.

Indeed, "commitment" is the operative word and most important aspect here. Transaction banking will continue to evolve, bringing both opportunities and challenges, and it is only by investing in its future – be it financially, geographically, or in adopting a new collaborative approach – that together we can not only prepare for, but influence the shape of things to come.

FOCUSING ON RISK AND EXPENSE REDUCTION:

A CASE STUDY ON GLOBAL LIQUIDITY ANALYSIS

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Changing regulatory and market developments have many industries assessing whether or not their systems and processes can keep pace. As a result, financial institutions (FIs) are considering how they can best prepare for the potential impacts of such changes on their account structures, intraday liquidity flows and daylight overdraft limits. One of our international financial services clients, with numerous international accounts, had particular concerns in this respect, and asked us to help.

Data and liquidity analysis: a global view

The client in question was experiencing difficulties pertaining to intraday liquidity flow evaluation, which were compounded by worries over intraday exposure and daylight overdraft limit management. We provided the tools by which the client could analyse and review data and information in order to ascertain the precise nature of their problems. This enabled them to scrutinise existing systems and processes and identify the pain-points. This in turn revealed the nature of the solution needed.

The ideal solution was one that allowed for a quick, comprehensive view of accounts and daily liquidity data – data being key to finding ways to reduce intraday exposure – while reducing cost and administrative effort. Implementing such a solution demanded a global liquidity review.

To begin, the BNY Mellon team gathered a detailed listing of the client's EU-denominated accounts and BNY Mellon-held USD Nostro accounts. The client used this information to compare their key account factors – such as hourly account balances and account peaks and troughs over a period of several days – in a single view. This "snapshot" of data enabled the team to recommend numerous, viable ways for the client to re-engineer systems, thereby improving controls, reprioritising payments, boosting straight-through processing and, ultimately, the consolidation of accounts.

This is proof that detailed analysis of data, followed by a few simple changes to processes, account structures, and even the timing of incoming payments can yield

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tangible results. As a result, the client was able to benefit from a consolidated account structure, decreased intraday exposure with each of its partners, and the reduction – and, in some cases, removal – of intraday overdraft limits. In total, the changes generated more than US$13 million in savings for every US$1 billion reduction in the client's use of intraday overdraft limits. In fact, such was the project's success that it led to the client in question consolidating all of its USD Nostro accounts with BNY Mellon, and discussing several other opportunities for collaboration.

Necessity breeds innovation

In hindsight, the client's problems also proved to be something of a forerunner to what are now broader, industry-wide concerns over intraday liquidity management that come as a result of Basel III.

Indeed, new developments under Basel III mean that, as of January 1st 2015, intraday liquidity management will become a key component of FIs' overall liquidity management strategies, with the regulatory focus shifting from the historical end-of-day liquidity positions to the peaks and troughs of intraday liquidity positions. This marks an end to entrenched, long-standing practices, and puts banks and FIs under pressure to adapt to new approaches to intraday liquidity management and monitoring.

Under the revised rules, FIs will need to provide monthly, on-demand figures for all accounts (including Nostro) and all sources of liquidity across a combination of the new, quantitative monitoring tools as directed by the Bank for International Settlements (BIS). The seven monitoring tools – or "metrics" – are divided into three categories, and the precise combination required depends on individual FIs' operational scope.

As outlined in the BIS publication *Monitoring indicators for intraday liquidity management*[1], category A tools are applicable to all reporting banks. These metrics assess daily maximum liquidity usage in normal conditions, available intraday liquidity at the start of the business day, total payments activity, and time-specific obligations. Tools in category B apply to reporting banks that provide correspondent banking services, and cover the value of payments made on behalf of, and intraday credit lines extended to, correspondent banking customers. Finally, the category C tools assess the throughput of daily payments activity across settlement accounts, and are applicable to reporting banks that are direct participants (i.e. a participant in a large-value payment system that can settle transactions without using an intermediary).

The information collated will then be used by supervisors to track intraday liquidity risk and assess FIs' ability to meet payment and settlement obligations under both normal and "stressed" conditions. Any causes for concern must then be discussed with supervisors, and a mitigation plan put in place. This, of course, is a major undertaking, placing a huge strain on data collation/management systems and reporting capabilities. Many FIs will find themselves unable to manage such a tall order independently – particularly in light of the fact that the reporting of the stipulated figures is only half the battle won.

Visibility is one thing. Control is another, and FIs must be able to demonstrate the ability to manage liquidity without depending too heavily on intraday overdrafts: the failsafe, pre-crisis method of many for balancing intraday liquidity fluctuations. The majority of FIs will struggle to do this without expert guidance (not to mention access to liquidity management solutions and reporting tools) and will instead look to specialist providers of liquidity management and banking technology solutions for help.

Intraday liquidity analytics

Our ability to pre-empt deepening concerns over intraday liquidity management led to the development of our recently-launched Intraday Liquidity Analytics (ILA), a tool designed to help customers address liquidity transparency and intraday overdraft coverage requirements under Basel III.

ILA is a new solution that is now available on our TreasuryEdge^{SM} electronic banking platform, and can enable clients to better-manage costs associated with intraday liquidity, thereby reducing intraday overdrafts and managing payment flows more easily and efficiently. It can also improve access to real-time and historical intraday cash and liquidity information across multiple accounts, and present data in both graphical and detailed transaction formats. Clients can gain additional insight and control by converting all balances using the FX conversion tool. This carries out a virtual conversion of all multicurrency accounts into a base currency so the client can see the aggregate position of all balances in one currency. By enabling users to drill down into problem timeframes and transactions that are creating negative liquidity, these combined elements mean both liquidity and risk can be better managed globally in all currencies.

Market and regulatory challenges show no sign of abating, and we must all find ways to adapt if we are to survive in this evolving financial world. The new liquidity transparency and risk regulations under Basel III are demanding, but if implemented with guidance and operational support from the right banking partner, it is our view that FIs can not only meet these demands, but turn them to their advantage.

At BNY Mellon, we believe in the importance of having a thorough understanding of client-specific needs and of providing insight into individual markets. This, combined with technology capabilities that allow access to detailed, real-time information, can grant FIs the visibility and insight needed to optimise liquidity and cash management – and thereby not only survive in this volatile landscape, but thrive.

[1]http://www.bis.org/publ/bcbs225.pdf

GLOBAL COLLATERAL SERVICES

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KEEPING TRACK OF CHANGE AND HOW IT AFFECTS BUSINESS

As market dynamics continue to shift, institutional investors – on both the buy-side and sell-side – are under mounting pressure to meet demands for high-quality collateral while also focusing closely on managing risk. Fulfilling this dual requirement against a backdrop of regulatory change demands two things.

Firstly, a global perspective of the developments at play. With regulatory changes taking place at the local, regional and global level simultaneously, investors need insights into potential conflicts and crossovers and to adapt their collateral management strategies accordingly. Secondly, the ability to identify and implement new approaches to collateral management is key (though today's already-high levels of financial market and technological sophistication mean 'new approaches' are more a question of redeploying existing tools and techniques rather than starting from scratch). Indeed, this is the premise behind the creation of BNY Mellon's Global Collateral Services (GCS) business in 2012.

GCS brings together a suite of capabilities and innovative solutions that leverage the strengths and expertise of what were historically four discrete BNY Mellon business lines: securities lending, tri-party global collateral management, Derivatives360, and liquidity services. More than the sum of its parts, GCS help clients to better manage counterparty and market risk in their collateral transactions, engage in more investment opportunities to help maximise their investment returns, and access new financing alternatives as they look to successfully navigate market and regulatory change.

Overcoming external and internal challenges

Of course, change is never easy – even at the best of times – but the perennial headaches associated with change management are currently amplified by the unprecedented speed and sheer volume of regulatory and market developments.

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Following the financial crisis of 2008, everyone has become used to looking at business activity through 'regulatory eyes', but now that requires more than merely keeping up with developments and 'ticking boxes'.

As the regulatory web becomes increasingly intricate, unravelling its complexities, and managing the inevitable conflicts between local and global regulations – and the resulting unintended consequences – that arise, is proving to be a specialist's game.

The overriding aims of these new regulations are laudable – of that there is no question. But it can be a challenge to balance regulators' commitment to safeguarding the security and stability of the financial system, and the practical, "on the ground" needs of commercial entities. With this in mind, we work closely with our regulators, industry bodies and clients to ensure we are part of the conversation around regulation, and to ensure we fully understand the impact of reform and meet the regulators' requirements. That understanding of, and ability to offer guidance on, the evolving regulatory agenda is greatly valued by our clients – many of whom are not only responding to ongoing market shifts, but must also reflect any external, regulation-led developments via internal realignment of their resources and strategy .

While transformation is now the name of the game for some market participants, some are in a stronger position to adapt than others. For many institutional investors, previously familiar systems, practices and even job remits are now changing – and such upheaval can present major challenges, and expose potential weaknesses.

To begin with, there is the issue of expertise, or the perceived lack thereof, as the case may be. New demands give rise to new areas of specialisation, which in turn create new roles. For example, in treasury management, we've seen the rise of working capital specialists. But for some organisations – particularly smaller players who may not have the resources to take on additional members of staff – such new roles often become 'add-ons' for existing employees. As a result, newly emerging areas of focus do not always receive the attention they should, as an already-stretched workforce may simply not have the bandwidth to expand their duties. In such instances, GCS can provide the expertise and experience institutional investors may require, as well as help them navigate the practical challenges associated with opaque systems and processes.

With respect to collateral, insufficient transparency (a common problem) means investors may be uncertain as to what exactly they have available, or if what they have is eligible under the new rules and requirements. Furthermore, in many organisations, departmental silos can often prevent collaboration on collateral posting, which can create competition for collateral. Such internal conflict can be aggravated by the variations in investment cultures that can exist within companies – and thereby prevent internal cooperation – and the fact that collateral often isn't ring-fenced, meaning all divisions may stake a claim to it. Establishing a central collateral pool could resolve these issues – but this could mean a significant cultural and operational change within organisations.

Charting a course for the future while simultaneously addressing current challenges is a huge undertaking; one that few institutional investors will undertake alone. With this in mind, the best course for many will be enlisting the guidance and operational support of a specialist, trusted provider of collateral management solutions.

Managing the "what ifs?"

As such a provider, BNY Mellon understands that when it comes to designing and implementing a collateral management strategy, there can be no one-size-fits-all solution. Our services are, therefore, designed to be flexible enough to address individual client requirements, at the same time as providing support in five key domains, relevant-to-all areas: segregation, optimisation, liquidity, value and efficiency. We call this the SOLVE^{SM} approach, and it may be broken down as follows:

- **Segregation** – The safe-keeping of collateral with third-party custodians, and the creation of transparency around counterparty exposure,
- **Optimisation** – Dynamic inventory management, taking into account exposures and collateral eligibility requirements,
- **Liquidity** – The provision of sophisticated, real-time tools to assist clients in managing their liquidity and margin requirements,
- **Value** – Services to facilitate the optimisation and "transformation" of financial assets,
- **Efficiency** – Centralised collateral portfolios for speed and efficiency

As should be clear, that acronym belies a clear intent: to help clients capitalise on emerging opportunities while preparing for the unexpected. "Proofing" a business against the unexpected is not only a question of keeping on top of compliance – although, with Dodd-Frank totalling several thousand pages, this is a tall enough order in itself – but also of preparing for all eventualities. Indeed, thinking of the "what ifs?" (both positive and negative) and taking steps to adapt accordingly is what is now needed if the balance between meeting compliance, mitigating risk and achieving commercial success is to be struck.

This is as true for us – a strategic partner and solutions provider – as it is for our clients. And in the bid to further support our regional clients, the GCS EMEA team has commenced a multi-year expansion plan which will further harness the expertise of the compliance, risk and tax teams with whom GCS collaborates. With respect to solutions, we are exploring ways to enhance existing products to ensure they are Basel III compliant; capable of accommodating a broader spectrum of trade types; and applicable to clients on both the buy- and sell-sides. This is an ongoing programme with a sharp focus on the future challenges facing our clients and providing the holistic solutions they will require.

Navigating current challenges while anticipating future difficulties is a real challenge. But it is one that we believe can be met through a combination of expertise (both in terms of changing regulations and management of business collateral), individual client understanding and the provision of appropriate solutions. With such an approach – one that we continue to advocate – we strive to help our institutional investor clients make sense of today's rapidly changing world, and navigate new market dynamics as well as the collateral management challenges they represent.

More information on Global Collateral Services can be found at
http://www.bnymellon.com/collateralservices/

THE SHIFT FROM INTRA-REGIONAL TO INTERNATIONAL TRADE

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THE EVOLUTION OF TRANSACTION BANKING IN THE MIDDLE EAST

As it becomes a strategic hub for rising intra-emerging market trade flows, the Middle East is at an inflection point in its development. Bana Akkad Azhari assesses the effect of evolving trade patterns on the region's transaction banking provision and the role local-global bank collaboration can play in navigating the changes.

Trade is synonymous with the Middle East. The region has long been defined and dominated by trade, but the emphasis is now shifting from intra-regional to international trade – and chiefly trade conducted with overseas developing markets. This is a key point to note, as intra-emerging market – or "south-south" – trade is now one of the main drivers of the global economy.

Indeed, according to the World Bank's June 2013 Global Economic Prospects, over half of developing country exports now go to other developing economies[1] – and this trend shows no sign of abating. Such a shift in trade focus from west to east is a key development for the Middle East, as its position between the growth markets of Central and Eastern Europe, Africa and Asia makes it a gateway for global intra-emerging market trade. Asia is of particular importance – and not least because of China's status as one of the original drivers of intra-emerging market trade, and the already well-established trade ties between China and the Middle East.

As China undergoes fiscal transformation – as it seeks to mature from being an export-led economy to a consumption-based economy – it is likely that new regional growth markets seeking to emulate China's example will emerge to eventually become key international trade players.

As a result, the Middle East's connections with Asia are set to increasingly expand beyond the world's second largest economy. And research supports this view – a 2012 Ernst & Young report entitled Beyond Asia: New Patterns of Trade indicates that for most rapid growth markets in Asia-Pacific (Mainland China, Hong Kong, Indonesia, Malaysia, Singapore, South Korea, Taiwan, Thailand and Vietnam), trade with MENA will grow faster than trade with the Eurozone over the next 10 years[2]. The number of trade agreements between the two regions, which are increasingly moving beyond commercial oil ties to encourage mutual investment across a variety of sectors, further supports this. One such example is the April 2013 agreement between Qatar and Vietnam to promote trade co-operation and facilitate the exchange of commodities and services between the two countries.

Managing evolving expectations

Such developments – and the wider ramifications of rising south-south trade – are having a profound impact on domestic corporates' requirements and expectations, presenting the Middle East's indigenous banks with a significant challenge.

Facilitating modern cross-border trade against a backdrop of ongoing liquidity constraints and unprecedented regulatory complexity can be difficult enough. But with commercial growth opportunities increasingly to be found in new, less familiar markets – in which transactions risks are naturally perceived to be higher – managing the trade process becomes even more complicated. Not only must the amplified risk be addressed, but so too must the commercial rules, requirements and levels of operational sophistication of the new markets in question. With this in mind, it is easy to see why the region's domestic banks – who may have yet to develop truly international reach and capabilities – could struggle to independently support their corporate customers' efforts to tap into rising intra-emerging market trade.

That said, the Middle East – and its banking sector – has plenty working in its favour. A historically conservative region, many of its deep-rooted characteristics – such as a staunch emphasis on risk-mitigation – have stood the Middle East in good stead. Indeed, its inherent conservatism is often cited as one of the reasons Middle Eastern banks escaped the global crisis of 2008 relatively unscathed – and it is equally likely to work in its favour going forward. However, the nature of modern international trade means such prudence will have to be combined with speed and efficiency if all corporate requirements are to be met.

Bridging the divide

The value placed on caution and security by the region has manifested in the continued popularity of traditional trade instruments such as letters of credit (LCs), despite the expense and complex paperwork they often entail. The cornerstone of all banks' trade finance offerings, LCs offers the most secure means of payment for sellers – providing the terms are followed to the letter – and has always been an area in which local banks have tended to dominate. This is because the majority of corporates would rather employ an indigenous bank for LC issuance in order to ensure the consigned LC is valid.

Today's need for enhanced speed and efficiency – not to mention greater visibility and control over end-to-end transaction flows – mean that the risk-mitigating properties of the LC must now be combined with the ease, efficiency and cost-effectiveness of open account trade settlement. However, given the cost and complexity involved, underpinning documentary credit capabilities with platforms that offer global reach, regulatory compliance across borders and enhanced processing may prove too tall an order for many local banks.

This is particularly the case when considering that trade solutions must come hand-in-hand with cash and working capital management solutions and, more specifically, multi-currency solutions. At present, such capabilities are largely the domain of specialist global providers – especially with regard to emerging settlement currencies, such as the Chinese renminbi (RMB) – but the Middle East is making notable headway in this respect.

Dubai, for example, is edging forward in its bid to become the next offshore RMB trading centre (after Hong Kong and Singapore). Though Dubai is one of the region's most advanced economies with respect to financial technology – in part because of the high concentration of international banks – innovation in this respect is likely to spread as local corporates realise the potential competitive advantages of the ability to settle in emerging currencies such as the RMB.

Leveraging global capability

Trade has long-been an international game and its growing complexity means it is increasingly becoming a specialist arena dominated by global trade and cash management providers. But local banks' strengths – particularly in the Middle East, a region in which relationships and historical presence are greatly valued – means there is no reason why international players should dominate on home turf.

While local banks may not possess the same operational scope or level of functionality as their international counterparts, what they can offer in terms of home-market expertise, client understanding, and capability to address client concerns at in-country level is difficult to rival. Replicating such strengths across borders – particularly in unfamiliar and challenging geographies – is a question of technology. And this is best achieved by partnering with a specialist provider of global trade and cash management services.

Certainly, such partnerships can capitalise on local-market expertise by making global reach and best-practice available without the need for proprietary – and often prohibitive – investment into network and solutions development. Such support can help local and regional banking communities adapt to the growing demands for emerging-market connectivity, and help ensure that trade entities are in a strong position to effectively mitigate risk, optimise working capital and make the most of the opportunities presented by burgeoning intra-emerging market trade.

A version of this article originally appeared in the November/December 2013 issue of Cash & Trade

[1] http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1322593305595/8287139-1371060762480/GEP2013bTrade.pdf

[2] Ernst & Young – Beyond Asia: New patterns of trade http://www.ey.com/Publication/vwLUAssets/Beyond_Asia:_new_patterns_of_trade_in_Asia-Pacific/$FILE/Beyond%20Asia%20-%20new%20patterns%20of%20trade.pdf

THE OPPORTUNITY FOR

LENDING IN LATIN AMERICA

INFRASTRUCTURE PROJECTS AND INDUSTRY EXPANSION IS DRIVING THE DEMAND FOR BILATERAL AND SYNDICATED LOANS IN LATIN AMERICA.

While the U.S., Europe and other parts of the world have been beleaguered by an economic downturn since 2008, Latin America has gone from strength to strength. To this end, global banks thirsty to lend are seeking opportunities in the region. But to execute a successful strategy, they need to partner with a seasoned administrator that has expertise in navigating the markets as well as advanced technology to execute and support the process.

Rich in natural resources, human capital and land mass, Latin America's economy has sustained an upward trajectory in growth. According to the CIA's World Factbook, Brazil is the world's eighth largest economy and Mexico ranks #12. Meanwhile, Argentina, Colombia, Peru and Chile rank in the top 50. Importantly, the sovereign debt of seven Latin American countries now has investment grade ratings from S&P and Moody's.

The World Bank estimates that in 2013 GDP in Latin America and the Caribbean will grow by 3.8% to 4%, largely driven by infrastructure development. To illustrate, Peru is expected to award $10 billion in infrastructure projects in 2014, and Chile is planning to award $14 billion.

In the last 25 years, much of the responsibility for these projects has shifted from the public sector to domestic and foreign private providers. Today, the planning, construction and operation of transportation systems, power and telecommunications utilities as well as water sources and sanitation facilities is fueling the Latin America's economy. Developments in the mining, agriculture, oil and gas, trade and services and other industries also have contributed significantly to the recent expansion.

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Moreover, certain countries have developed renewable energy plans. The Mexican government entered into a contract with Iberdrola, a Spanish engineering company, to construct a wind-energy plant in Oaxaca State. In addition, Iberdrola has installed a wind farm in the state of Rio Grande do Norte, Brazil, and it has partnered with Neoenergia to construct nine other wind farms in the country.

Brazil and Colombia Among Canada's Major Trading Partners

Colombia is also an attractive market for Canadian companies. Two-way merchandise trade in 2012 reached nearly $1.5 billion, making Colombia the fifth-largest trading partner in Latin America and the Caribbean (excluding Mexico). Canadian exports increased more than 11% in the two-year period (August 2011 to July 2013) after the Canada-Colombia Free Trade Agreement came into force.

Global expertise is required to bring these plans to fruition and create value for Latin America

Trends in the loan cycle indicate that Asian banks are the key lenders supporting this activity. For example, Chinese lenders have committed about $75 billion to Latin American development since 2005. But nowadays their European counterparts are also investing in key industrial growth opportunities.

These major financial institutions work with the development banks, including the Inter-American Development Bank (IADB), China Development Bank, the Brazilian Development Bank (BNDES) and the Export Development Bank of Canada (EDC), to finance an array of projects. The EDC in particular brings Canadian corporate oil and gas expertise to the region with 500 Canadian companies active in Brazil and trade totaling $6.5 billion between both countries. Bloomberg data show 37 syndicated loans totaling about $11.6 billion were transacted in the first half of 2013, with an average deal size of $313 million. The energy and financial industries borrowed the largest amount of funds.

Loan Products in Latin America

The Latin American loan market consists primarily of bilateral loans with some syndicated lending on large project finance opportunities.

For example, the U.S. drought in 2012 combined with other factors has increased the demand for agricultural exports from Brazil. Some local producers in Brazil are taking advantage of this trend and are financing expansion through bilateral loans with financial institutions that are backed by U.S. receivables. These trades may be attractive to lenders since they insulate against foreign exchange risk. The servicing of these transactions requires a party to track the receivables and manage the associated cash flows. These transactions require an independent intermediary to collect the receivables and monitor the level of collateral in the accounts so that it is sufficient to meet the terms of the loan.

Brazilian states recently have refinanced their funding needs by using a repack structure via a remote Special Purpose Vehicle (SPV) backed by a U.S. dollar loan from a large financial institution. These repack structures allow the states to take advantage of interest rate differentials and a stable U.S. dollar. This is a deviation from past practices where loans came directly from the Brazilian government

Brazil: A Popular Global Destination for Foreign Investors

According to *Ernst & Young's 2012 Brazil Attractiveness Survey* of 250 foreign direct investors (FDIs):

- Brazil is the second most popular global destination in terms of FDI value and fifth in terms of FDI projects.
- The number of FDI projects in Brazil increased by 39% in 2011, to a record 507.
- These projects created an estimated 161,166 jobs.

Citing *Business Week*, the report says between 2011 and 2014, BNDES forecasts that Brazil's industrial and infrastructure sectors will receive a total investment amounting to $906 billion (BRL1.6 trillion). The manufacturing industry is expected to receive $422 billion (BRL741 billion), and infrastructure and construction projects are projected to receive $484 billion (BRL848 billion) during the same period.

In some cases, financing a project involves a syndicated loan during the construction phase, which is then refinanced through a bond issue on completion. Banks are better able to manage the construction phase risks so they partake in the syndicated loan. They also favour the shorter tenor of the construction loan due to regulatory changes that have increased capital charges for longer dated commitments. Once completed, the bonds tend to be for a much longer tenor and the cash flows are more certain, which attracts alternative investors such as pension funds and insurance companies. This is evidenced in the Mexican wind farm project (Oaxaca) which issued project bonds once the construction phase was completed.

Future Trends

As Latin America continues to grow, the demand for bilateral and syndicated loans, as well as the need to issue project bonds, will likely increase. Of course, the appetite will vary across the region. For example, it may be higher in countries such as Chile, where there is a mature debt capital market. Brazil is poised for an increase in project financing considering it is hosting the World Cup in 2014 and the Olympics in 2016, and the total cost for the two events is expected to exceed $50 billion. In addition, a major train line is being built from Sao Paulo to Rio de Janeiro at an estimated cost of $19 billion.

On the supply side, global financial institutions are keen to lend, especially because good quality loans in Europe and the U.S. are not abundant at this time. Still, some lenders need to be more comfortable with their balance sheet position under the rules of Basel III before they increase their activity in the Latin American loan market. In Europe and the U.S., insurance companies and other non-bank investors have filled the gap in lending left by the global banks. These players are unlikely to play a significant role in Latin America until the market evolves to a stage where a secondary market can support securitisation.

Partnering with a Loan Servicing Expert

Loans differ from bonds and equities in that they are not dematerialised. This means that there is more work involved in administering them. Many lenders do not have the technology infrastructure to support loan administration. Since the financial crisis, there has been a move away from the historical models where one of the syndication banks took on the administrative agent functions to keep the deal in-house. They recognise specialised, independent third party agent banks have a role to play.

In the case of Latin America, lending can take different forms, such as a project bond, bilateral loan or syndicated loan, and there is no one size fits all solution. Being able to track activity, monitor performance, account for all the changes on the loans, as well as understand regulations, regional nuances and other specifics is critical.

Financial institutions with a strong balance sheet and reputation can support their lending programme by partnering with an independent global bank with multiple offerings and expertise in bilateral and syndicated loans as well as hybrid solutions. The servicing bank can provide specialised investment management and administrative expertise within Corporate Trust to help clients invest in and service the administration of their loan investments. It can serve as a local collateral agent and account bank and as a collection agent for exporters.

In addition, it will have sufficient scale to invest in loan processing technology that meets the needs of the Latin American market. For example, the systems will incorporate local market conventions and be available in Spanish and Portuguese.

Conclusion

Latin America is a large, growing market with significant opportunity driven by the need to build out the infrastructure and the desire to expand business in an array of industries. New entrants can get a foothold in the market by partnering with an independent service provider that understands the market practices across the region and has the technology to support the complexities of loan administration and project finance through the entire life of the project. Doing so will allow them to concentrate on their core competencies and benefit from the Latin American market as it matures.

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This White Paper was published in November 2013 and can be viewed at
http://www.bnymellon.com/corporatetrust/index.html

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