TREASURY SERVICES

# UPDATE

*An e-newsletter for treasury professionals*

**Spring 2015**

**IN THIS ISSUE**



## BNY MELLON TREASURY SERVICES AWARDED NUMEROUS AWARDS AND DISTINCTIONS

### STAND-OUT PERFORMANCE DISPLAYS GLOBAL INDUSTRY LEADERSHIP

BNY Mellon has won 14 top distinctions in industry award categories, surveys and publication rankings for its Treasury Services offerings – a remarkable showing that further solidifies our place as a top global provider. The awards, garnered throughout 2014 and the first quarter of 2015 and listed below, provide a view into the commitment to excellence we offer around the development and implementation of products and services in the regions we service throughout the globe, including Asia Pacific; Europe, Middle East & Africa (EMEA); Latin America; and North America.

According to BNY Mellon Treasury Services CEO Ian K. Stewart, “These distinctions draw on an emerging theme, threaded throughout the numerous award categories, that highlights key investments into our global services that combine advanced technology and quality service. These enhancements continue to differentiate us within the marketplace while improving the overall strength and diversity of the global treasury services environment.”

Among these investments, the launch of our global payments infrastructure in 2014 served as a catalyst for our stellar performance across these regions. The new global payments infrastructure is designed to harness and extend our established strengths as a processor of U.S. dollar-denominated payments across the extensive array of currencies that we support as a major provider of Global Payment and Foreign Exchange services. Over time, this infrastructure will help clients process any payment on a single platform, anywhere,

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irrespective of its value, currency or clearing mechanism. As the rollout of the new infrastructure continues, we will be applying the technological and financial strengths that position us as a leader in USD payments, with an end goal of better payment and fund transfer support for clients across all of BNY Mellon's businesses.

The awards include the following distinctions and rankings in numerous industry publications and surveys:

- **Legacy and Ecosystems Transformation Model Bank Award –** Celent recognized BNY Mellon as a Model Bank for its work in Legacy and Ecosystems Transformation on its global payments infrastructure. A global research and advisory firm for the financial services industry, Celent's decision for the award was based on the initiative's ability to meet a bank's business objectives; technology and integration excellence; and the degree of innovation in terms of improving sales or service results; reducing risks or costs; and improving business processes.

- **Best International Transaction Bank for Financial Institutions (FIs) (Asia Pacific, Middle East and Africa)** – BNY Mellon Treasury Services has been named the Best International Transaction Bank for FIs, leading counterparty bank in Asia Pacific in the 2015 *Asian Banker* Transaction Banking Awards. The award recognizes leadership in the cash management, trade finance and payments industries among international FIs in Asia Pacific, the Middle East and Africa.

- **Best Transactional Bank (EMEA)** – For the sixth year in a row, BNY Mellon Treasury Services won the award for Best Transactional Bank for Financial Institutions in *EMEA Finance's* annual Treasury Services Awards, which recognize the best treasury, cash management, trade finance and FX services providers across the region. Based on various performance and structural factors, such as market share and growth, innovation and corporate strategy, the award recognizes our ability to combine client service, market segment knowledge, and product and infrastructure strength to deliver innovative solutions to our clients.

- **Top Cash Management Rankings** – BNY Mellon's Treasury Services team in Asia Pacific received No. 1 rankings for six categories in the Financial Institutions section of *Asiamoney* magazine's 2014 Cash Management Poll, including:

  - Best Global Cash Management Services (Overall - Medium Cap)
  - Best Global Cash Management Services (Overall - Small Cap)
  - Best U.S. Dollar Cash Management Services
  - Best at Understanding Business Strategies, Objectives and Requirements

- Best at Implementing Cash Management Solutions
- Best After-sales Customer Service

This year's Cash Management Poll was the largest yet, with more than 10,000 valid responses including more than 1,300 votes from FIs. Among FIs, voters from small and medium organizations judged BNY Mellon to be the leading overall cash management service provider. Results were published in the magazine's August edition.

- **Best Bank Trade Services Provider** – BNY Mellon was named Best Bank Trade Services Provider (Gold) in *Trade & Forfaiting Review* (TFR) magazine's Excellence Awards for 2014. We also received a bronze award for Most Innovative Trade Bank. The TFR awards are based on verified votes from the publication's readers, including corporations, banks and other FIs involved in international trade finance – a critically important service to BNY Mellon's client banks and the importers and exporters they support. The awards reflect the value of BNY Mellon's expanding trade processing capabilities, correspond with the benefits experienced from the recent deployment of our new global payments infrastructure, and exemplify how we use the scalability of our innovative solutions for institutions unable to develop and deploy these capabilities internally.

- **Global Winner as Best White Label System Provider for Treasury & Cash Management Services** – For the eighth consecutive year, BNY Mellon received distinction as the best provider of private label services in *Global Finance* magazine's annual Treasury & Cash Management Survey for 2015. The publication used a multi-tiered assessment process – including a readers' poll and input from industry analysts, corporate executives, technology experts and independent research – to select this year's best providers of treasury and cash management services. A variety of subjective and objective criteria were considered for the results, including profitability, market share and reach, customer service, competitive pricing, product innovation and service delivery differentiation.

  BNY Mellon's Treasury Services private-label offerings leverage our product, client support and technology strengths to allow private-label clients to access a sophisticated array of cash management and multicurrency payment solutions. The solutions help minimize the costs and operational complexities associated with internal product development and platform and system enhancements.

- **Top Innovators Award** – BNY Mellon Treasury Services won *Global Finance* magazine's Top Innovators Award for the launch of our Intraday Liquidity Analytics service. The distinction recognized banks and service providers with noteworthy innovative efforts throughout the past year. Launched via our multi-year global payments infrastructure project, the Intraday Liquidity Analytics service provides clients with increased understanding and management of their cash flows to reduce daylight overdrafts, free up capital, address liquidity transparency, and access data via the BNY Mellon TreasuryEdge® electronic banking platform.

- **Best Trade Outsourcing Bank Award** – BNY Mellon was named Best Trade Outsourcing Bank by *Global Trade Review* (GTR) – an international trade finance magazine – for the sixth consecutive year. The GTR Leaders in Trade 2014 awards, which highlight achievements across a number of regions and product lines, were judged by the magazine's global and regional editorial boards. BNY Mellon's processing expertise, coupled with our global network of correspondent banks, works to combine local knowledge with global reach to help institutions minimize costs, expand their cross-border trade networks and harness the latest developments in technology. Our trade processing solutions are tailored to market- and client-specific concerns, helping to create the flexibility to marry business strategies with the current market direction. Full coverage of the awards appeared in the magazine's January/February issue.

- **Distinguished Provider of Global Transaction Banking Services** – Based on a survey of global banks conducted by the market research firm FImetrix, LLC, with senior executives at more than 650 banks in nearly 100 countries, BNY Mellon was designated for the third consecutive year as a Distinguished Provider of Global Transaction Banking Services. The designation recognizes leading performers in the global transaction services market space. FImetrix survey respondents across six global regions were asked to evaluate U.S. and Western European banks that provide international cash and trade transaction services.

For more information on any of the BNY Mellon awards and distinctions, please contact us at 1 800 424 3004 (Option 2) or treasury@bnymellon.com.

JOANNE SCHEIER APPOINTED

# CORPORATE SEGMENT MANAGER FOR BNY MELLON'S TREASURY SERVICES BUSINESS

Joanne Scheier
BNY Mellon Treasury Services
Corporate Segment Manager

## SCHEIER BRINGS EXTENSIVE SKILLS AND EXPERIENCE TO NEW POSITION FOCUSED ON GROWTH-ORIENTED SOLUTIONS FOR LARGE CORPORATE CLIENTS

BNY Mellon has appointed Joanne Scheier Corporate Segment Manager for the company's Treasury Services business.

Having served in a series of senior leadership positions for BNY Mellon's Treasury Services business, Scheier will be responsible in her new role for ensuring that solutions developed by BNY Mellon's Business Strategy and Markets Solutions (BS&MS) group continue to keep pace with the growing needs of large corporate organizations.

"The makeup of our team reflects our strategic focus on key market segments," said Anthony F. Brady, managing director and global head of the BS&MS Group. "This newly created position will allow us to sharpen our focus on the corporate market segment. Joanne’s expertise and experience will help ensure that clients in this important segment can take full advantage of our distinctive treasury services solution sets and capabilities as the investments company for the world.”

A veteran Treasury Services leader with nearly 30 years of industry experience, Scheier began her career as an implementation specialist with heritage Mellon Financial. After service as an executive sales manager and head of the Consulting Services team, she was appointed chief administrative officer for BNY Mellon's Treasury Services business in 2008. She went on to serve as global head of client support, and before being named to this new position, was global head of account management and client onboarding.

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# ALAN EVANISH PRODUCT LINE MANAGER FOR PAPER RECEIVABLES

Alan Evanish
BNY Mellon Treasury Services
Product Line Manager for
Paper Receivables

## EXPERIENCED PRODUCT AND OPERATIONS MANAGER TO LEAD WHOLESALE AND RETAIL LOCKBOX SERVICE DELIVERY

BNY Mellon Treasury Services has appointed Alan Evanish as Product Line Manager for Paper Receivables. Reporting to Paul Simons, head of Supply Chain Management for BNY Mellon's Treasury Services business, Evanish will be responsible for managing BNY Mellon's delivery of wholesale and retail lockbox services.

Evanish brings more than 20 years of experience in both product and operations management to his new position. He was extensively involved in the streamlining and consolidation of BNY Mellon's lockbox operations several years ago, and has played a key role in the development and implementation of advanced imaging, OCR and payment information management capabilities. Before being named to his current position he was senior product manager for the Supply Chain Management's Corporate Receivables Product Management group.

"Alan's extensive background in lockbox services from both a product and operations perspective makes him an excellent addition to our Supply Chain Management leadership team," said Paul Simons. "Paper-based invoicing and payments still account for a substantial portion of payment activities, especially with business-to-business transactions. Alan's sure to play an important role in our continued development of solutions that can both better support our clients' treasury operations and also advance us toward our tactical and strategic receivables objectives."

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ONGOING REGULATORY CHALLENGES

# CONTINUE TO RESHAPE THE TREASURY HORIZON

By Jeffrey Horowitz
BNY Mellon Treasury Services
Head of North American Sales and Relationship Management

## NEW REGULATORY, COMPLIANCE AND RISK DYNAMICS REQUIRE VIGILANCE/ACTION FOR TODAY'S INDUSTRY PRACTITIONERS

The ongoing regulatory focus around transaction banking continues to be one of strengthening liquidity and transaction oversight. The resulting – and evolving – regulatory mandates and compliance directives are culminating to create a risk environment that is altering many fundamental aspects of doing business around the globe. For corporate and institutional treasurers to stay on top of the changes, vigilance remains key. Keeping abreast of the developments to ensure internal policies meet new and impending requirements is one part of the equation. Just as importantly, understanding how the changes are set to impact financial providers can help businesses adjust and develop strategies as needed to achieve their goals for growth.

**Regulatory Challenges and Considerations**

The increased regulatory focus highlights both quantitative and qualitative liquidity standards, both for the U.S. domestic market and globally, and by varying measures in response to the 2008 financial crisis. A sampling of some of the potentially most impactful of these currently set to affect aspects of the treasury marketplace are highlighted below.

- **Basel III** – The Basel Committee on Banking Supervision (BCBS), a global group of bank supervisors, strengthened capital requirements in 2010 in response to concerns that insufficient capital contributed to and worsened the 2008 financial crisis. Basel III increased the minimum amount of capital required, limited the types of instruments that qualify for regulatory capital, and introduced new capital measures, including a leverage ratio requirement and a common equity tier 1 requirement. Basel III builds on Basel II, which primarily revised the risk weightings and calculations for exposures in the capital calculation.

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Developed to strengthen the regulation, supervision and risk management of the banking sector, the Basel III measures aim to help:

- improve the banking sector's ability to absorb shocks arising from financial and economic stress;
- enhance risk management and governance; and
- strengthen banks' transparency and disclosures.

In the U.S., banks must manage compliance with new Dodd-Frank, Basel II, and Basel III capital requirements, which are combined in the July 2013 revised capital rules.

To prepare for Basel III's more stringent capital adequacy requirements, European banks are cutting costs and investments to preserve capital. Liquidity could also become an issue in the future. The ECB is providing low-cost liquidity to banks but, with the redefinition of assets that can be given a 100 percent weighting as being liquid assets, European banks could ultimately find themselves competing aggressively for increased retail deposits to meet the new liquidity ratios.

- **Liquidity Coverage Ratio (LCR) –** The first minimum, quantitative, regulatory liquidity requirement applied to banking organizations, the BCBS developed the LCR as part of the Basel III package in response to concerns that a lack of liquidity contributed to and worsened the 2008 financial crisis.

The LCR is intended to promote the short-term resilience of banking organizations, absorb shocks from financial and economic stress, and improve the measurement and management of liquidity risk. To achieve these goals, the LCR requires a company to hold enough “high quality liquid assets” (HQLA) to meet net cash outflows over a stressed 30-day period. The LCR rules specify which types of assets count as HQLA (e.g., cash and U.S. Treasuries) and how to calculate cash outflows (e.g., deposit run-offs) and inflows (e.g., receipt of loan payments).

In the U.S., the final LCR applies to the largest banking organizations with $250 billion or more in total assets, or $10 billion or more in on-balance sheet foreign exposure, and to insured depository institutions with $10 billion or more in total assets that are subsidiaries of such companies. A less stringent, “modified” LCR applies to banking organizations with less than $250 billion but $50 billion or more in total assets. Banking organizations covered by the final LCR rule (for the U.S. phase-in period) must meet 80 percent of the standard beginning in 2015, 90 percent in 2016, and 100 percent in 2017.

The final U.S. LCR rule mitigates many of the LCR concerns for custody and trust banks. The proposed U.S. LCR rule did not appropriately recognize stable and low risk sources of deposit funding from custody and other servicing relationships. The final rule allows a wider range of client deposits, such as cash from mutual funds and certain correspondent banking relationships, to receive LCR credit. As a result, banks may hold less HQLA against these deposits and place them into higher yielding assets. Other types of client deposits, such as cash from hedge funds and private equity funds, continue to be expensive from an LCR perspective.

For retail, universal, and broker-dealer banking organizations, the final rule improves the treatment of certain retail funding, retail brokered deposits, collateralized deposits (e.g., for public sector and corporate trust deposits), committed facilities to special purpose entities that do not issue securities or commercial paper, and assets held in segregated accounts in accordance with regulatory requirements for the protection of client trading assets.

The Federal Reserve, Financial Stability Board, and other regulators also are increasingly focused on the more general liquidity risks of short-term wholesale funding, asset fire sales, and matched books. The LCR addresses some of these risks by increasing the liquidity charge on committed credit and liquidity facilities and securities financing transactions (SFTs), but the LCR only applies to SFTs that mature within 30 days. As a result, regulators are developing other measures to address the liquidity risks of short-term wholesale funding and SFT financing, including a net stable funding ratio, heightened capital surcharge for firms that rely heavily on short-term wholesale funding and minimum margin and haircut requirements for SFTs. These requirements could increase costs for broker-dealer banking organizations and other banks that fund or service these arrangements.

- **Dodd-Frank Section 1073** – This section of the Dodd-Frank regulation applies to consumer remittances (of US$15 or more) initiated in the U.S. and sent to locations in foreign countries. Its provisions are designed to protect consumers by making remittance processes and fees more transparent. The rule especially affects open-loop models, for which it is not possible to know at origination how the payment will be routed and, thus, what the total fees will be. The rule could ultimately result in significant changes to payment industry practices – up to and including the opting out by some from certain cross-border funds transfer.

- **U.S. Commodities Futures Trading Commission (CFTC) Regulations on Derivatives Trading –** As part of Dodd-Frank legislation, OTC derivatives (credit default swaps and interest rate swaps initially) are to be settled via CCP Clearing Houses. The new requirements apply to OTC derivatives which have historically been settled bilaterally and not through CCP Clearing Houses requiring their members use Futures Commission Merchants (FCMs) instead. The FCMs' solicitors accept orders for commodity contracts traded on an exchange and hold clients funds to margin. This is designed to limit risk by reducing/eliminating intra-day exposures as a result of exchange settlements, and assist clients in meeting regulatory requirements. Many market participants who previously had no collateral requirements now need to access and manage collateral in order to comply with these exchange regulations.

**Compliance Scrutiny**
Increased scrutiny around Anti-Money Laundering (AML) measures have created a new operating environment for both financial institutions and large U.S. and multinational corporations across many industry segments, including energy, media/telecom, manufacturing, automotive, transportation and logistics, real estate, insurance, healthcare and more.

Although it has always been standard practice for financial institutions to be aware of who they are doing business with, the U.S. Patriot Act has made these requirements even more essential. Passed in October 2001, this law requires all financial institutions to make sure they have AML programs in place to help prevent potential terrorism financing. Since the law was passed, adherence to KYC has been highly scrutinized by the U.S. government.

Financial institutions are required to perform due diligence with comprehensive background checks designed to help ensure their clients are who they say they are and are not participating in any illegal activity or terrorism. Strict transaction monitoring procedures are also required to uphold KYC directives.

For businesses that access the financial markets, understanding what your financial partners require with respect to KYC will help to facilitate the account opening process, on-boarding new services and aid the effective and efficient movement of transactions through the financial systems. Companies need to be sure they have effective programs in place to comply with increased efforts to monitor these risks – businesses that fail to develop such plans may face severe sanctions for their lack of oversight. The scrutiny pertains not only to financial institutions and corporations managing cash transactions, but also to individual managers within companies who can face penalties for violations of the Bank Secrecy Act, AML and regulatory requirements. Overseas accounts are also highly scrutinized for AML compliance.

### Marketplace Response

As these changes aim to impact the marketplace to varying degrees, financial providers and their clients are homing in on three main areas of heightened focus to accommodate the changes, including:

- **Capital reform** – Incorporating a renewed emphasis on quality, consistency and transparency of the capital base to identify and stem potential risks while managing growth. Managing capital requirements to accommodate internal needs for profit making and growth are now intrinsically linked with regulation compliance.

- **Risk management and supervision** – Including accommodating higher capital requirements for systemic derivatives and financial exposure, and ensuring a capital surcharge for systemically important banks.

- **Market discipline** – Addressing securitization exposures, off-balance sheet vehicles and calculation of regulatory capital ratios.

For corporations and institutions, these areas of heightened focus may lead to impacts across the operation, such as the following:

- Increasing demand for liquidity may limit supply of overnight product availability, potentially impacting supply chain workflows and end-product manufacturing/operations.

- Differentiated interest rates and/or balance sheet capacity may be offered as banks value certain types of depositors over others.

- Tiering of short-term rate curves may occur, potentially requiring new investment policy guidelines to optimize earnings on cash.

- Adjusting workflows, redirecting resources and considering additional financial service products and services may result from the need to more actively manage liquidity.

- Complying with regulations that require forfeiture of liquidity, stability or yield by investors (corporations, banks and non-bank financial institutions) may cause time- and resource-heavy commitments to work more closely with business partners and regulators (where applicable), and overhauling supply chain processes, as needed.

- Increasing need for investors to more actively manage their cash may expand the corporate treasurer's role beyond traditional cash management responsibilities.

- Identifying short-term investment vehicles as important, profit-making alternatives may necessitate further research into products and services offered by your financial providers.

- Establishing strong banking relationships via enhanced communication with financial institutions may help:
    - o manage accounts and processes according to current legislation while accommodating bottom-line improvements;
    - o define proper liquidity policies; and
    - o understand tools that are available to manage the new requirements.

**BNY Mellon Solutions and Strengths**

Risk, regulation and cost control continue to be the key drivers among client needs for solutions that are at once flexible and scalable. This is a challenging and ever more complex environment for everyone, and clients continue to look to us to help them transform their business models, notably around risk mitigation, collateral, transparency, compliance and distribution.

BNY Mellon Treasury Services tools available to help organizations handle the new requirements include:

- **Liquidity management solutions** – As ongoing credit constraints, heightened risk profiles and regulatory requirements highlight the use of cash – and liquidity – as collateral and working capital, we offer several solutions to help businesses and institutions gain greater visibility over their cash flows. These solutions are designed to help optimize the use of end-of-day funds for intraday collateral purposes, as well as offer tri-party collateral management and repurchase agreement (“repo”) techniques.

  Intraday reporting and analytic tools available on TreasuryEdge®, our electronic banking portal, include:

    - o **Intraday Liquidity Analytics Service**, which provides critical trend and transactional data to allow organizations to better manage costs associated with intraday liquidity, reduce intraday overdrafts and handle payment flows more easily and efficiently.
    - o **Payment Analytics Service**, currently being piloted, provides comprehensive payment trend information on USD wires related to Straight-Through Processing (STP) rates, inquiry reporting and historical trend data to help streamline the liquidity management process.

- **Managing USD and foreign currency account structures** – Our Foreign Exchange solutions allow us to work with clients to manage, build, expand and deepen their foreign currency payment and account capabilities. Our solutions help organizations convert incoming investor subscriptions into the base currency of their individual fund, whether they need to convert outgoing investor redemptions into their home currency or to fund their foreign currency accounts.

  BNY Mellon provides options for clients to meet expanding foreign currency service needs, enabling them to:

  - Send FX payments in more than 120 currencies.
  - Open accounts in more than 45 currencies, enabling them to manage their payments and receipts of each currency.
  - Access local high value payment clearing in EUR, GBP, and USD.
  - Access enhanced liquidity reporting to simplify calculating the overall net position.

- **Asset Account solutions** – Our Consumer Notes Program offers organizations interested in raising capital by leveraging their brand equity via their own notes program an outsourced service with complete processing capabilities and back-office support to help them manage their program, including investor registration, client service, transaction processing, record keeping, tax reporting, and integration and back-office administration.

  The service offers corporations:

  - A stable, reliable, predictable source of funding
  - Flexibility to meet financing needs
  - Increased client loyalty through cross-sell opportunities

The new regulatory market is dissolving the boundaries between businesses and their traditional areas of expertise. To navigate the guidelines for compliance, today businesses want broader, more multi-faceted solutions that comply with the new regulatory mandates and are delivered in a more seamless fashion. As a result, they are asking us to do more for them. Specifically, this translates into helping to develop strategies to successfully navigate these areas and build successful programs to achieve their specific goals via solutions such as those outlined above.

Contact your BNY Mellon representatives to discuss these industry trends and what you can do to help your organization plan for the opportunities that reside in a transformed marketplace.

BNY MELLON ACH SERVICE OFFERS

# EXPANDED OPTIONS FOR INCREASED FLEXIBILITY

## BROADER FUND REDEPOSITING AND CONTROL TOTALS SUBMISSION CAPABILITIES NOW AVAILABLE

The BNY Mellon Automated Clearing House (ACH) solution offers a wide variety of options to streamline payments through the system. Recent enhancements to those options offer increased control and customization for users.

**Expanded Options for Redepositing Returned ACH Debit Payments**

The ACH system allows payers two options for redepositing funds into their accounts should a payment fail due to insufficient funding. In addition to giving clients the option of redepositing funds once or twice to cover such payments, BNY Mellon Treasury Service's ACH service currently offers users further flexibility via four different redeposit timing criteria, whether they choose the one- or two-day redeposit option.

BNY Mellon ACH users can choose from the following timing criteria options for one- or two-day redepositing of funds:

- **Next business day** – We reintroduce the item back into the ACH network on the day we receive the return for settlement on the next business day.

- **Selected number of business days –** You can choose from one to 19 business days between when a return is processed and the redeposit is made. The system counts business days only, automatically skipping weekends and holidays.

- **Friday redeposit –** You may request to make the redeposit on a Friday, so as to coincide with a weekly pay cycle. In this case, returns arriving Saturday through Wednesday of a given week will be redeposited on the Friday of that week; returns coming in on a

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Thursday or Friday will be redeposited on the Friday of the following week.

- **Semimonthly –** The redeposit can be timed to coincide with a semimonthly pay cycle (i.e., paydays falling on the 15th and last business day of a month). In this case, returns sent two or more days before a payday will be redeposited on that payday; otherwise, the redeposit will skip to the end of the next pay cycle.

**Expanding Options for Control Totals**

To help improve the timeliness and accuracy of their ACH payments, BNY Mellon ACH service users are required to submit control totals to us through our automated voice response system (as a complimentary service), or directly through the network's ACH Customer Service (for a fee). For a more automated approach, users now also have the option to submit control totals via a separate electronic file transmission. (This option requires users to subscribe to our fee-based Summary File Confirmation service.)

Additional enhancements are also currently planned this year for the control total feature, including the ability to submit totals online or via a mobile device once users have been set up to use the voice response system option.

We will continually keep you updated with current and planned enhancements for our ACH service. Please contact us with any questions at 1 800 424 3004 (Option 2) or treasury@bnymellon.com.

ACH

# OPERATING RULES UPDATE

## AMENDMENTS IMPACT ACH SYSTEM GUIDELINES

NACHA, the Electronic Payments Association, has announced several Automated Clearing House (ACH) operating rule changes that affect the ACH system. Recent and upcoming amendments to the NACHA operating rules include the following:

**As of January 1, 2015:**

- **Changing Name Field Requirements within Return Entry Fee Formatting** – Return Entry Fees using the Prearranged Payment and Deposit (PPD) standard entry class code can use either the receiver's name, a reference number, identification number or code to align with fields in the related Accounts Receivable Entry (ARC), Back-Office Conversion (BOC) and Point-Of-Purchase (POP) entries. The name is currently required in all PPD entries. The change is set to alleviate the difficulty for originators in reading names via automated devices that must be used to capture the receiver's routing, account and check serial number.

- **Formatting Prenotification Entries** – Prenotification entries, with the exception of IAT entries, will no longer need to include addenda records that are associated with a subsequent live entry. Formatting criteria for these types of entries had not been clearly defined within the NACHA rules, causing confusion for some ACH participants. This amendment requires that IAT prenotifications continue to carry the seven required addenda records, and although originators may continue to transmit addenda records with prenotification entries if they so choose, they will no longer be required to do so.

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- **Expanding Content Requirements for Person-to-Person (P2P) Web Credit Entries** – This amendment clarifies that the company identification field for P2P WEB (Internet initiated/mobile) credit entries must identify the P2P service provider (i.e., the Originator's financial institution or third-party service provider) to avoid confusion around formatting requirements for this field.

**As of March 20, 2015:**

- **Using Internet Initiated/Mobile Entry (also known as WEB) Standard Entry Class (SEC) Codes as Credits for (non-IAT) P2P Entries** – WEB SEC codes (previously used for debit-only transactions, except for reversals) are modified to include P2P credit transactions (single or recurring) sent from a consumer's demand deposit account, allowing:

    - financial institutions to more clearly identify P2P transactions for processing and tracking statistical data;
    - P2P service providers to batch WEB debits and credits together; and
    - appropriate designation of the WEB code for P2P transactions, since these transactions are originated via the Internet or mobile devices.

- **Removing of Notification of Change (NOC) Code C04 (Incorrect Individual Name/Receiving Company Name)** – The NOC C04 code warrants that the receiver's name on a debit entry match a name on receiver's account. As a result, potential compliance and liability challenges for Originators, Originating Depository Financial Institutions (ODFIs) and Receiving Depository Financial Institutions (RDFIs) may arise in certain scenarios in which the two entries cannot match (e.g., when an insurance company originates an ACH debit to a receiver's account, but the receiver's name on the debit entry is different from the actual name on the insurance account).

    To avoid potential confusion, this amendment removes the CO4 code from the NACHA Operating Rules, and requires originators and ODFIs to rely on contracts and records to properly identify the name of the receiver being credited or debited, without reliance on the RDFI's NOC. RDFIs will be required to post mismatched entries according to account number, return the entry as an RO3 code (no account/unable to locate account), or communicate directly with the ODFI/originator.

**Effective September 18, 2015:**

- **Changing Thresholds for Unauthorized Debits and Returns** – Increasing concerns about unauthorized transactions and poor origination practices in the ACH system have spurred this amendment to reduce the current return rate threshold for unauthorized debit entries returned due to administrative or account data errors from 1% to 3%. New thresholds will also be established for administrative return debits at 3% and overall debit entries at 15% (excluding Represented Check Entry [RCK]) returned for any reason. While some level of returns is viewed as unavoidable, the amendment aims to reduce excessive administrative and total returns that may indicate problematic origination processes.

**Effective October 3, 2016:**

- **Assessing a Fee for All Unauthorized Returns** – ODFIs will be required to pay a fee (estimated at $3.50 - $5.50) to the RDFI for each ACH debit returned as unauthorized. The rule is intended to improve ACH Network quality by reducing the incidence of ACH debits returned as unauthorized, allowing RDFIs to avoid associated costs and improve customer satisfaction.

For more information on the latest ACH Rules updates, please contact us at treasury@bnymellon.com or 1 800 424 3004 (option 2).

2015

# ACH OPERATING RULES AVAILABLE

## BNY MELLON CLIENTS RECEIVE DISCOUNT

To help you stay up to date with current ACH operating rules, BNY Mellon clients can order a copy of the Corporate Edition of the 2015 NACHA Operating Rules and Guidelines at a discounted price of $35.*

To receive your copy (book or CD), access the order form at http://www.bnymellon.com/treasuryservices/forms/rules.pdf and mail or fax it to the address listed on the form. You can also use the Internet Customer Service feature of BNY Mellon TreasuryEdge®, our electronic banking portal, to request a copy. The order form is located within the Internet Customer Service menu item of TreasuryEdge under ‘Service Requests’, ‘ACH’, ‘Order the ACH Rules Book’.

Purchasing a copy of the rules book allows buyers to access convenient online research tools, key words and compliance topics via NACHA’s Web site at www.nacha.org.

**A one-time charge of $35 per copy will appear on your BNY Mellon monthly billing statement.*

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EXPANDING

# ELECTRONIC GLOBAL PAYMENT OPTIONS

## INTERNATIONAL ACH AND EXPANDED FILE FORMATS AVAILABLE

BNY Mellon Data Transmission Services' (DTS; formerly EDI) comprehensive payables solution now includes access to our Global Mass Payments (GMP) service, one of a number of key enhancements to the solution. This upgrade is designed to allow clients to submit instructions to exchange International ACH (IACH) payments in a single electronic file, through one convenient service.

### International ACH via EDI

The IACH component is designed to combine elements of classic correspondent banking with low-value processing and can provide clients with a faster and more reliable method for making payments to global beneficiaries from a single funding account. Using a network of banks that have direct links into local clearing networks, BNY Mellon can convert payments into local currencies. The correspondent bank(s) acts to work within the operating rules of the local networks, which often differ from country to country as to file format, remittance detail, clearing cycle, etc., providing delivery and receipt. BNY Mellon also provides customers with a confirmation report for the rate and payout amount.

### Expanded File Formats for GMP

The BNY Mellon GMP service enhancement is designed to increase file formatting options to clients by translating a single, standards-based file into one of the following transaction formats that a vendor may request: wires, (FX and USD); USD ACH and IACH; and checks and drafts. The solution currently supports formatting in ANSI X12 820, ISO 20022 PAIN version 3 and FastTrack.

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Payment and remittance details are provided to vendors according to client instructions. By increasing the number of payment file types handled by the system, clients can gain additional opportunities to streamline the payments processes and reduce expenses by, for example:

- accessing a single data stream for comprehensive transaction authorization, initiation and tracking;
- minimizing time spent tracking errors and booking general ledger entries;
- enhancing the ability to forecast cash and accurately post receivables;
- securing transactions via the service’s digital-signature technology, which can help to provide nonrepudiation of file origin and receipt; and
- providing processing options for lower costs based on low-value clearing systems such as ACH.

For more information on enhancements to our Data Transmission Services and Global Mass Payments services, please contact us at 1 800 424 3004 (Option 2) or treasury@bnymellon.com.

HEALTHCARE

# PATIENT REFUND SERVICE STREAMLINES PROCESSING

By Rose Wojciechowski
BNY Mellon Healthcare iRx Solutions®
Market Manager

## BNY MELLON'S SOLUTION DESIGNED TO HELP RELIEVE THE REFUND BURDEN

As a result of the increase in patient out-of-pocket responsibilities and the emphasis on collecting copayments at the point of service, many healthcare providers are either experiencing – or anticipating – an increase in patient overpayments. But managing and refunding these overpayments can be challenging.

While a refund originates in a healthcare provider's accounts receivable department, the disbursement responsibility typically falls to the accounts payable area. The refund payment may be handled there via a manual process or by adding patient data to a vendor file. In addition, the documentation that health systems must deal with is often inconsistent and requires the involvement of several areas before a refund can be verified and a check issued. Subsequently, downstream activities — such as identifying payment status and uncashed payments for escheat processing — can result in manual and time-consuming efforts, significantly impacting a health system's bottom line.

**Easing the Process for Providers and Their Patients**

By leveraging the latest finance and accounting tools and systems, BNY Mellon's Refund Check Processing service is designed to lift check issuance and account management activities out of a provider's operations, and handle the process for them. The service tackles virtually all of the major obstacles that healthcare organizations normally encounter through patient refund check issuance, including printing and mailing, return check handling, customer service, reporting and escheatment*.

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The service requires clients to provide us with a patient refund check issuance file and, by creating a work item for each check in our workflow management tool, we then print and mail refunds to the designated recipients. We manage and send all returned checks to designated forwarding addresses, as required, track clients' check payment history, and manage the complete reconcilement, fraud detection, and stop and void processes.

In streamlining the refund check issuance process, the service aims to:

- Reduce manual-based processing costs by moving all related workflows to BNY Mellon, freeing up your internal resources

- Handle external inquiries into your accounts payable and receivable areas to assist your team with patients expecting refunds

- Maintain reporting via an updated file to help keep your billing and accounts payable systems current

- Automatically transition stale-dated checks (defined by your parameters) to "stop payment" status

- Perform due diligence and escheatment* filing with the appropriate jurisdictions

If escheatment is required as a final step in the process, clients can work directly with Cognizant, a leading provider of business processing services, to integrate their escheatment process into the overall patient refund solution.

To learn more about how BNY Mellon's Refund Check Processing service can help you streamline your processes, contact us at 1 800 424 3004 (Option 2) or treasury@bnymellon.com.

**Escheatment support services are not offered or performed by BNY Mellon or any of its subsidiaries or affiliates. Cognizant, a leading provider of information technology, consulting and business process outsourcing services, may provide such services directly to your organization. As BNY Mellon does not perform any part of the escheatment service, parties interested in providing/contracting escheatment as it relates to the BNY Mellon Healthcare Patient Refund solution must work directly with Cognizant (BNY Mellon will provide the appropriate contact information as required). BNY Mellon does not warrant or guarantee any escheatment services that may be provided by Cognizant to your organization and expressly disclaims any liability for any loss arising from your use of, or reliance on, any such services.*

COLLECTION SOLUTIONS FOR

# INSURANCE FIELD AGENTS

## MOBILE-IN-PERSON PAYMENT

The explosion of mobile technology adoption has transformed the way companies are transmitting money. Many insurance companies, for example, are seeking alternate solutions to the traditional, paper-based collection of premiums in the field, knowing that the ability to accept electronic payments via debit card, credit card or ACH at the point of purchase can be critical to the sales process.

This is especially true for initial premium payments, for which insurers and policyholders typically want the policy to immediately take effect. And while these convenient payment options are in high demand by both the field agent and the insured alike, insurers are realizing that additional payment solutions hold the added benefit of allowing them to increase safeguards around their policyholders' card and account information.

But implementing these processes can cause multiple issues. Attempting to establish a mobile payment solution in-house can become an overwhelming task – the infrastructure needed to securely deliver mobile payments is complex, expensive and cumbersome, and requires the cultivation of multiple vendor relationships to meet the industry's security standards.

The good news is that there is a simplified solution at hand to facilitate the acceptance of debit card, credit card and ACH transactions that also provides the required level of transaction security. BNY Mellon can help you streamline your operations and expedite the collection of funds – while also providing your customers with more payment options – through our Mobile-In-Person Payment (MIPP) service. Our service enables your field agents to process E-check, credit and debit card payments received in person from your policyholders on mobile devices equipped with a mobile browser application. Credit and debit card payment processing provides real-time approval or decline notification for each transaction that is processed with the service.

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All processed transactions then flow to your company's database located within BNY Mellon's secure data centers for consolidated payment processing and reporting.

MIPP is also PCI-compliant, meeting the industry's highest standards for protecting the confidential data of individuals who make payments using our services. Achieving PCI data security standards validation further distinguishes us as one of the industry's premier electronic and online bill payment solution providers.

**Advantages of a Complete Solution**
The MIPP service is a primary component of our comprehensive suite of mobile payment acceptance solutions that are designed to increase premium collection efficiency within your company. The benefits of a MIPP solution extend to all aspects of the transaction: initial premium set up, flexible configurations, security options, comprehensive audit trail reports and quality monitoring. Other service benefits include:

- **improved customer** relations via progressive solutions that ease the payment process for your clients;
- **enhanced security and audit procedures,** as the policyholder can directly input banking information without sharing the information with a field agent. Also, agents no longer have to collect, store and transport paper checks and manually deposit items into local bank branches;
- **reduced delinquent payment collections** and associated cancellation costs by providing electronic in-person payment options to speed payment processing;
- **accelerated cash flow and reconcilement** to increase cash application accuracy and positioning for your company. Policy numbers or other identifying data elements can be reported back to the insurer to facilitate reconcilement procedures;
- **simplified** set-up processes that allow the policyholder to immediately activate the policy; and
- **reduced paper transaction fees** by providing electronic payment options.

The service can be used in conjunction with a variety of other BNY Mellon Receivables solutions, such as ACH Debit, Retail/Wholesale Lockbox, Remote Check Deposit, Mobile Electronic Bill Presentment and Payment, Integrated Voice Response, and call center and Web portal solutions. These services allow you to offer your policyholders payment options that fit their bill paying behavior.

As an industry leader with more than 50 years of experience with receivable processing, we have the expertise, qualified staff and technology to meet your organization's processing needs. For more information about our electronic services for insurers, please contact Ed Shane at 610 382 0951 or ed.shane@bnymellon.com.

EXPANDING THE

# DEFINITION OF CLIENT SERVICE

By Karen Braithwaite
BNY Mellon Treasury Services
Global Head - Client Support

## HELPING BUSINESSES REACH THE NEXT LEVEL OF PERFORMANCE

As transaction banking solution providers proliferate the marketplace, the business of providing financial products and services has grown more highly commoditized than ever before. As such, providers wishing to distinguish themselves among the competition understand that to stay relevant and competitive they need to focus on delivering a differentiated experience to clients. One relevant way – and key to how BNY Mellon Treasury Services operates – is to focus on delivering a level of quality client service that supersedes the market standard.

Instead of focusing on selling products with a standard level of support that seeks only to maintain the "working order" of day-to-day business, our process focuses on viewing the clients' needs through a much wider lens. Clients' ongoing requirements – for today and into the future – drive a compendium of deliverables throughout the life of the relationship they have with us. Continuing well beyond the implementation phase, these service deliverables are dictated not only by contracts and what's been signed for on the dotted line. They are, in large part, driven by client needs that continually evolve and change as a business grows throughout the life of their relationship with us.

We have embedded a collaborative and personalized approach to offering consistent, flexible, knowledge-focused and solutions-driven services at all stages of the transaction lifecycle. In other words, the relationship has no specific end point, but continues to progressively help clients define their needs while finding solutions that will work for the lifetime of the alliance.

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Further, the edict goes well beyond finding solutions to today's problems or fixing the need of the day. In an increasingly complex financial ecosystem, this long-term involvement sets the standard, we believe, for an enduring journey that results in mutually-beneficial outcomes for both clients and service providers. Successful long term alliances help maintain clients' strategies for growth through smooth operations, and set a high precedent for future offerings that we may develop.

This approach has been profoundly successful for us. Results of our recently-conducted Global Client Service Survey, which measures the effectiveness of our Client Service area – and in particular the Client Service Officers (CSOs) who interact with our clients Globally – for example, reveal that BNY Mellon Treasury Services continues its standing as a marketplace leader in client satisfaction.

The more than 600 global clients who responded to the survey (conducted by BNY Mellon Corporate Client Insights) rated our Client Service performance as outstanding, with 96 percent reporting that they are very satisfied or satisfied with the quality of our client service, and 96 percent reporting satisfaction in their overall relationship with their BNY Mellon Treasury Services client service officer. (For an in-depth view of our recent Client Service Satisfaction Survey results, contact us at 1 800 424-3004 [option 2] or send an e-mail to treasury@bnymellon.com.)

**Redefining the Standard – Key Components**

Our experience offers a roadmap for providing exceptional servicing that continually strives to determine client needs in the following ways:

- **Rapidly acting when the unexpected happens.** As we endeavor to be proactive and pre-empt our clients' needs where possible, the unexpected will inevitably occur. And when it does, detailed knowledge of the client and the necessary technology capabilities required to address even the most complex of client concerns must be at the ready. Our experience has proven that long-term relationships, built on trust and with a history of clear and open communication, are the bedrock of strong and effective responses during times when complications interfere with daily operations.

- **Understanding external market forces.** Challenging market factors are exacerbating the need for clients to reach their commercial goals regardless of (and in accordance with) economic upheavals and ongoing regulatory challenges. Clients must reconcile global financial instability, declining access to credit, and rigorous compliance demands with greater transaction processing efficiency, enhanced risk mitigation and sophisticated cash and liquidity management solutions to deal with these evolving global issues. And a successful client service program must include the knowledge of these factors in its day-to-day dealings with clients to effectively deal with their needs, while having the facility to evolve over time to ensure that their servicing is in line with the changing financial environment.

The overall aim remains: to help clients reach their commercial goals regardless of economic or regulatory hurdles, as well as the day-to-day challenges they face.

- **Serving as the primary point of contact.** Servicing groups with dedicated primary contact points for clients act as both ambassador for that provider and as the access channel to the payments, liquidity and network management solutions those clients need to keep workflows moving smoothly. Meeting this goal requires four crucial components.

    1. **Knowledge** – Each servicing professional needs to maintain not only a sound knowledge of a client's business within their personal skill set, but also a solid understanding of transaction processing practices at the global level. Financial market savviness also aids the ability to accurately address issues that may fall outside of the day-to-day variety.

    2. **Presence** – If providers are to address their clients' emerging business needs, a literal presence in the markets in which their clients are active is imperative. Our teams are located in 22 cities and 19 countries around the globe across Asia-Pacific; the Europe, Middle Eastern and Africa regions; as well as throughout Latin America and North America. Across these regions, we act as a cohesive team leveraging our relationships around the globe to solve our clients' challenges as effectively and efficiently as possible.

    3. **Personalization** – The high-touch, personalized approach we take to servicing is an integral part of the success of our operation. Dedicated professionals who know our clients and their businesses personally handle individual client relationships, as opposed to the standard call center model in which each new communication results in time consuming, potentially frustrating interactions for clients.

    4. **Technology** – While technology cannot in and of itself constitute a solution, we do leverage our existing technology to expedite the resolution of client inquiries and to provide meaningful data which can assist in improving processes based on root cause analyses. Soliciting

technology to buttress support efforts provides an additional line of defense in offering potential solutions and tracking issues.

- **Soliciting Feedback** – Feedback gained both formally through surveys and informally through daily client interactions has shaped our client service model accordingly. If client satisfaction is to be of paramount concern, providers need to continually and consistently monitor their performance from the clients' point of view, with equal importance given to both quantitative and qualitative data. Maintaining dialogue with clients – at the executive level, if needed – also goes far in helping to ensure that support relationships are as effective as possible and meet client needs to the fullest.

**The Future of Client Service**

For BNY Mellon Treasury Services, our present and future focus remains a simple message on the surface, but very detailed in its roll out – helping clients succeed. To do so, industry providers must continue to adapt as our clients – and the industry – evolve to juggle needs dictated by internal processes as well as compliance demands.

As such, the role of client service, and our high standards of performance quality, are integral to the consistent delivery of quality treasury services. Our successful, hands-on delivery methods focus on:

- Increasing operating leverage through a replicable and scalable model that can be utilized in our many servicing operations areas throughout the globe.
- Individualizing client intimacy on a case-by-case basis to deliver the level of service that each relationship warrants/requires.
- Sharing industry knowledge with clients via our internal market segment experts.
- Forming a streamlined, client-facing team across borders, making it easier for clients to do business with us, wherever their offices may reside.

Client service is uniquely positioned within a provider's organization – by way of continuous touch points and deep relationships forged from the knowledge of clients' businesses and the daily challenges they face – to act as the prime gatekeepers to these important relationships. Institutions that understand that building long-lasting interactions via the methods outlined herein are those that will stand out – and indeed prosper – despite these increasingly competitive and challenging times.

To learn more about the important role that client service plays within BNY Mellon Treasury Services, contact us at 1 800 424-3004 (option 2) or send an e-mail to treasury@bnymellon.com.

CHINA-LATIN AMERICA TRADE:

# WHERE IS IT GOING?

By Dino Sani
BNY Mellon Treasury Services
Latin America Head of Sales &
Relationship Management,

## CHINESE DIRECT FOREIGN INVESTMENT CONTINUES IN LATIN AMERICA, BUT THE RELATIONSHIP IS CHANGING

Since the beginning of the last decade, trade between China and the countries of Latin America and the Caribbean (LAC) has grown at an astonishing rate: an average growth rate of 23 percent in annual exports from LAC to China.[1] The reasons behind this are clear: the rise of the Chinese economy; its need to fuel it with the abundant raw materials found in Latin America; the stagnation of the economies in the US and Europe; and Chinese direct investment in Latin America, particularly in infrastructure, mining and energy. Brazil, whose economy is the most diverse and whose banking system is the most developed, was the biggest beneficiary, but not the only one.[2] In 2013, China invested approximately US$15 billion in the region. In the same year, in comparison, the World Bank invested $5.2 billion in 2013. Between 2005 and 2013, Chinese investment in the region was approximately US$100 billion.[3]

Chinese direct foreign investment continues in Latin America, but a number of factors are changing the nature of the relationship. One, the Chinese economy, though still growing, is doing so at a slowed rate. Two, Chinese economic growth is shifting from being primarily driven by manufacturing toward a greater emphasis on investment and services, meaning that the dependence on raw materials from Latin America is slowing at the same time that the price for such commodities is falling. These changes are particularly troublesome in that commodity exports are not well diversified: more than fifty percent of exports are made up of iron, copper and soy and are centered primarily in Brazil, Chile and Argentina.[4] Three, China is becoming an increasingly larger exporter of goods to Latin America, and the nature of the exports are in the high-value manufacturing sector, e.g., electronics and automotive, a challenge to Latin America's own desire to develop that sector.

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The result of these factors is an ever-increasing trade imbalance and a growing role for China not just as a trade partner but as an economic presence within the region.

This is most challenging to Brazil, which seemed poised to become the economic driver for the South American continent and now must consider that the partnership with China, which has been so important to Brazil's rise, has become a hurdle to Brazil's fully transforming its economy and reaching the position it envisioned for itself.

**Chinese Investment: Resources and Infrastructure**

As Chinese investment continues, it is interesting to note where – and in what – China is investing. Focus is primarily in two areas: raw materials and infrastructure. Regarding raw materials, the Chinese oil companies CNPC and Sinopec have together invested US$14 billion in an oil project in the Orinoco basin; and the Chinese have purchased La Bambas copper mine in Peru for US$5.8 billion, the largest deal of its kind in Peru's history. In Brazil, two Chinese firms, CNOOC Ltd. and the National Petroleum Corporation are part of a consortium of foreign firms (also including Royal Dutch Shell and the French firm, Total SA) that has taken a $500 million stake in the offshore Libra oil site, which has an estimated yield of 12 billion barrels of oil.[5] So it would seem that China is beginning a shift from being solely an importer of raw materials toward taking control of the source of those imports.

Many of the infrastructure investments, particularly, are large and far-reaching and seem intended to serve the dual purposes of stimulating the regional economies (i.e., providing a healthy return on the investments), and facilitating trade flows both within Latin America and between Latin America and China. Through a Hong Kong-based corporation, China is helping fund a canal project in Nicaragua which, if successful, would provide an alternative to the Panama Canal, free of US jurisdiction, and which the Chinese would run and manage for at least the first fifty years, renewable for fifty more.[6] China's President, Xi Jinping, visiting South America in July, also proposed a joint project with Peru and Brazil to build a railway from the Peruvian Pacific coast to Brazil's Atlantic coast. There are also discussions under way about an Atlantic-Pacific railway within Colombia and a similar railway in Honduras between Ampalla and Castillo. These investments, should they come to fruition, will provide China trade routes in the western hemisphere not only free of US control but, to large degree, under Chinese control, greatly facilitating the movement of goods between the regions, and securing for China a geopolitical foothold in the hemisphere.

### Financial Investment

China has also begun investing in the region's financial industry. The Industrial and Commercial Bank of China (ICBC) in 2012 bought 80% of Standard Bank's Argentine organization and has since placed branches in Brazil and Peru. Last year, the China Construction Bank Corporation (CCBC), the second- largest commercial bank in China[7] and the fifth-largest worldwide,[8] acquired Banco Industrial eComercial (BicBanco) in Brazil for a cash price of US$730 million. China is Brazil's largest trading partner, and these investments position Chinese banks as providers of trade finance and working capital to underwrite that trade flow.[9]

Beyond that, China has stated its intention to make the renminbi a global currency, establishing it first as a trade currency, second as an investment currency, and third as a reserve currency. Its method has been, in essence, to create two currencies – one controlled and onshore (CNY), one offshore and free to float (CNH); the first with many restrictions as to its use, the latter with few. This unorthodox approach has proved remarkably successful and proceeds at a pace outstripping most predictions. In 2012, Hong Kong was the only offshore market for renminbi. Today, restrictions on onshore renminbi have lessened and there are markets in Taipei, London, Singapore and Frankfurt, in addition to Hong Kong, with more cities and countries bidding to join them – Vancouver, Toronto, San Francisco, Luxembourg and France. And, according to SWIFT, the percentage of trades being settled in renminbi is rapidly increasing: twentieth in customer-initiated and institutional payments, inbound and outbound based on value, in 2012, seventh in 2014.[10]

### Settlement in Renminbi: What Does it Mean?

There are already good reasons for Latin American corporations to settle trade into China in renminbi: reduced foreign exchange risk, fewer exchange payments, speed of conversion, easier access to China-based corporations and supplier discounts. As China decreases its regulatory demands, onshore trade in renminbi will become less expensive, less difficult, and less time consuming.

Regulations around the renminbi are being liberalized at an increasing pace, with China's twelfth five-year plan (for 2011-2015) showing a clear commitment to improving convertibility and reducing exchange rate restrictions. However, the currency still operates under a combination of aspects: those controlled by the government and those decided by the market. For example, although the only official ISO code for renminbi is CNY, there are still two separate pools of the currency that cannot be intermingled.

CNH and its interest and exchange rate are determined by the market, unlike the CNY rates, which are set by the central bank, meaning that CNY usually trades below CNH. Regulating interest rates also means imposing a ceiling on bank deposit rates, although the central bank has vowed to make these interest rates more market-based. The ceiling for foreign-currency deposit rates was eliminated in the Shanghai Free Trade Zone and then throughout Shanghai. The lower limit on lending rates was abolished in July 2013.

Also in July 2013, the People's Bank of China simplified the documentary review of underlying trade transactions and introduced the cross-border intercompany loan scheme. Such deregulation means multinationals' liquidity, previously trapped onshore, is freer. Other limitations remain in place, however, including a ban on foreign entities using renminbi funds for trading domestic securities or financial derivatives, or for making entrusted loans, but liberalization efforts have already resulted in the following:

- Settlement in renminbi at the end of 2013 was almost twice what it was in 2012;
- The renminbi is now the fifth most widely used international currency, up from twentieth in 2012;
- It became the second most utilized currency in trade finance last year (after the dollar), with an 8.66% share of letters of credit and collections in October, up from 1.89% in January 2012 – compared with the euro's 6.64%;
- Renminbi settlement between China and the European Union is expected to triple in the next three years, and significant progress is also expected in Africa and emerging markets;[11]
- Volume of international bonds and bank notes denominated in renminbi in 2013 was up 24.9% over the previous year.[12]

Within LAC, China has been preparing for trade settlement in renminbi since at least 2009, when China and Brazil conducted the first cross-border renminbi settlement. Since then, using what has been referred to as "currency swap diplomacy," China's Ex-Im bank has issued renminbi-denominated lines of credit to Jamaica and Bolivia for equipment and construction;[13] and the Central Banks of Argentina and Brazil have currency swaps with the People's Bank of China.[14] (Globally, the People's Bank of China had made currency swap agreements of 2.48 trillion renminbi in 23 countries and regions by the end of 2013, including swaps with the European Union and with the Bank of England. Since then, further agreements have been reached with the Swiss National Bank and the Central Banks of Russia, Luxembourg, France and South Korea.)[15]

## Summing up

There would seem, at present, little downside for LAC to settle trade payments directly in renminbi, rather than in US dollars, particularly given the size of the trade flows. However, the growth of the renminbi is occurring so rapidly that it is difficult to understand fully the global implications. The issuer of a global currency can gain both economic and geopolitical advantages, and China's long-range plans are not clear. Latin America's partnership with China has been very positive and profitable for both sides, but it is changing. The growing trade deficit and uncertainties – both economic and political – that Chinese growth presents in the region are potential challenges to Latin America's self-determination and would seem to argue for a greater degree of caution toward what may be a too-eager embrace of all things Chinese.

*This article first appeared in the September/October 2014 issue of* Latin Finance *magazine.*

[1] "China Trades Up in Latin America," Jill R. Richardson, *Foreign Policy in Focus*, June 2, 2014.
[2] "Latin America Increases Relations With China: What Does That Mean For The US?" *International Business Times*, June 28, 2013.
[3] *The Economist*, April 12, 2014.
[4] "China Trades Up in Latin America." Jill R. Richardson, *Foreign Policy in Focus*, June 2, 2014.
[5] All examples: *International Business Times*, May 8, 2014.
[6] *International Business Times*, June 14, 2013.
[7] By assets and loans.
[8] By market capitalization.
[9] All figures: *Finance Asia*, November, 2013; and "Enter the Dragon," *Brookings*, June 6, 2014.
[10] *SWIFT Watch*, 2014.
[11] It should be noted that, while many cross-border deals are now conducted in renminbi, most of those are still priced and invoiced in USD.
[12] All statistics: SWIFT, 2014.
[13] Latin America's Role in Renminbi Internationalization," Jahangir Aziz, *Inter-America Dialogue Economic Brief*, 2013.
[14] "Enter the Dragon," *Brookings*, June 6, 2014.
[15] "RMB Developing Quickly as Major World Currency," *ChinaDaily USA*, July 21, 2014.

BNY MELLON LAUNCHES

# NEW PAYMENT ANALYTICS SERVICE

Watch the Video


Michelle Palombo, Electronic Banking Managing Director for BNY Mellon Treasury Services, discusses our new Payment Analytics Service designed to help you understand – and effectively manage – your day-to-day straight-through processing.

**Watch the video** or download the page at https://www.bnymellon.com/us/en/what-we-do/payment-analytics.jsp.

## NEW PAYMENTS-FOCUSED ANALYTICS SERVICE COMPLEMENTS INTRADAY LIQUIDITY ANALYTICS SERVICE

BNY Mellon has expanded its analytical support for Treasury Services clients with the launch of Payment Analytics. Designed for institutional clients with high levels of wire transfer utilization, Payment Analytics provides real-time updates on straight-through processing (STP) success rates, information on the type and number of payment queries, and trend data that clients can use to improve the efficiency of payment processing.

Presenting powerful analytics in easy-to-understand, actionable and customizable graphical formats, Payment Analytics can provide reporting on payments by account, time intervals, beneficiaries and payment channels. Detailed information on repair wires can be especially useful in reducing repair fees and providing a more immediate release of funds to payees. Available to select global clients on a pilot basis for the past several months, Payment Analytics complements BNY Mellon's Intraday Liquidity Analytics service.

Provided via BNY Mellon's TreasuryEdge® portal, the two analytical services reflect BNY Mellon's strategic commitment to providing not just processing and transaction support, but also 'big data'-based analytical insights that clients can use to better manage their treasury function.

"Our leadership position in USD-denominated payments for institutional clients was built on a solid foundation of efficiency, experience, reliability and global reach," said Gregory Malosh, managing director and head of Information and Liquidity products for BNY Mellon's Treasury Services business. "Initiatives like Payment Analytics and Intraday Liquidity Analytics are enabling us to deliver entirely new dimensions of service to our clients.  We're leveraging BNY Mellon's technological strengths to give clients significantly

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enhanced levels of immediacy and insight into their liquidity and cash management practices."

For more information on the Payment Analytics or Intraday Liquidity services, please contact us at treasury@bnymellon.com or 1 800 424 3004 (option 2).

THOUGHT LEADERSHIP

# EVENTS

## JUNE

| | |
|---|---|
| 3-5 | American's Health Insurance Plans (AHIP) Institute 2015<br>Nashville, TN |
| 7-10 | Insurance Accounting & Systems Association (IASA)<br>Las Vegas, NV |
| 17-19 | America's Claims Event (ACE)<br>Austin, TX |
| 18 | Third Annual North America Trade & Export Finance Conference (GTR News)<br>New York City, New York |
| 22-24 | HFMA ANI National Institute<br>Orlando, FL |

## JULY

| | |
|---|---|
| 9-10 | BAFT Global Payments Symposium<br>New York City, NY |
| 27-28 | Healthcare Payments Innovations<br>Boston, MA |
| 28 | Digital Currencies & The Blockchain 2015<br>New York City, NY |

## AUGUST

| | |
|---|---|
| 3-5 | Global Concepts<br>Chicago, IL |

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## SEPTEMBER

| | |
|---|---|
| **21-24** | Utility Payment Conference (Booth #100)<br>Atlanta, GA |

## OCTOBER

| | |
|---|---|
| **12-15** | SIBOS<br>Singapore |
| **18-20** | AFP Annual Conference<br>Denver, Colorado<br>Kevin Fahey, BNY Mellon and panel, "Achieving the Elusive Healthcare Payments/Servicing Victory"; Cheryl Gurz, BNY Mellon and panel, "Women Mentoring Women - An Empowering Treasury Initiative" and "Leaping Ahead of the International Payments Curve"; Lisa Hays, BNY Mellon and panel, "How Bayer Stopped Payments Pain with ISO20022". |
| **19-21** | ICE Conference<br>Tempe, AZ |
| **25-28** | Money 20/20<br>Las Vegas, NV |

## NOVEMBER

| | |
|---|---|
| **14-17** | FELEBAN<br>Miami, FL |
| **19** | 4th Annual West Coast Trade & Export Finance Conference (GTR News)<br>San Jose, CA |
| **Nov. 30-Dec 2** | Global Concepts<br>Miami, FL |

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