

# TREASURY CHALLENGES IN 2017



## Global Leader in Treasury Outsourcing and Consulting

*FTI Treasury provides global treasury outsourcing solutions and consulting services to a diverse international client base including Fortune 500 and FTSE 100 corporates and financial institutions, public sector organizations and multi-lateral agencies.*

- Trusted.** Each year we process over \$130bn of transactions in an SSAE 16 accredited environment, helping our Clients to trade and grow with confidence.
- Global.** Delivering treasury solutions and services to valued Clients in over 40 countries and 30 currencies.
- Expert.** Treasury is at our core. Our sole focus is on the provision of strategic clarity and practical solutions that reduce risk, remove complexity and minimise cost.

### **Treasury Outsourcing:**

FTI Treasury is a proven global leader in treasury outsourcing solutions.

Our unrivalled expertise and resources enable you to outsource all or selected elements of your treasury function with total confidence.

Each of our Clients benefit from seamless integration, greater efficiency, on-going support and reduced treasury costs.

Our expert team has a proven track record of tailoring world-class treasury solutions to each Client's specific requirement, irrespective of operational scale or sector

### **Treasury Consulting:**

Since 1988 FTI Treasury has been building a global reputation in the delivery of Treasury consulting and advisory services.

Our team brings a wealth of real-world financial and practical operational experience in corporate treasury.

Whether your requirement is for a major change-management project, or a bespoke technical implementation our consultants provide strategic clarity and practical solutions that reduce risk, remove complexity and eliminate unnecessary cost for your organization.

[www.ftitreasury.com](http://www.ftitreasury.com)

# Contents

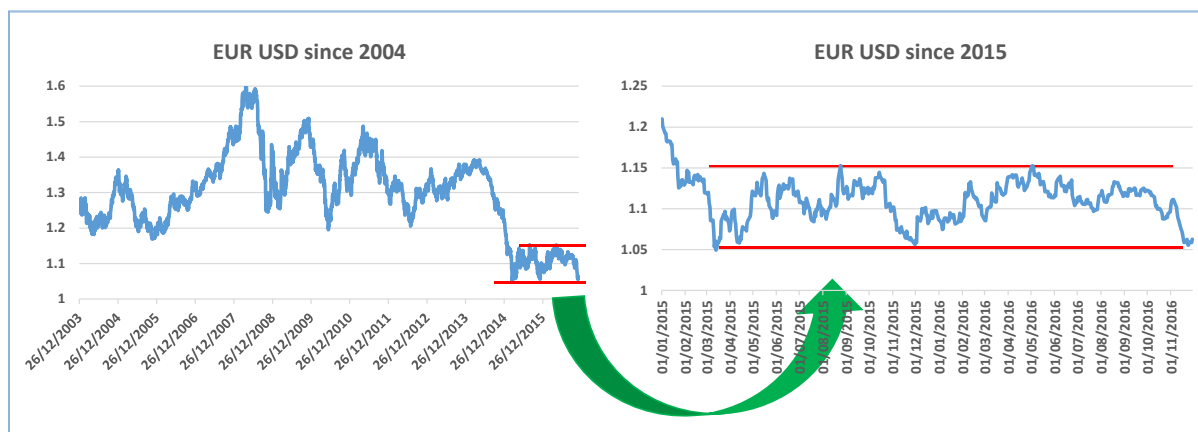


1. Financial Market Volatility
2. The Brexit Effect
3. Global Economic Concerns
4. Regulation and Compliance
5. International Tax
6. Cyber Risk
7. On-going Treasury Concerns

# Financial Market Volatility

2016 was a period of both relative stability and unexpected volatility in financial markets.

- The USD has been relatively stable against the EUR for the last two years and is currently trading at the bottom of this stability range. A move below EUR/USD 1.0500 represents a continuation in the down trend of USD appreciation.



- The unexpected Brexit vote saw GBP depreciate by almost 20% after the 23<sup>rd</sup> June 2016 vote with a low below GBP/USD 1.2200 recorded.
- Negative interest rates in Europe continued on the back of benign economic growth.

## US Outlook:

- New administration to articulate economic policies and potential impact on government budget deficit can be assessed
- Economic forecasts for 2017 relatively positive – GDP above 2.0%; unemployment of 4.8% to fall; US manufacturing to increase faster
- US Fed expected to increase interest rates 3 times in 2017 after Dec 14<sup>th</sup> increase.

## European Outlook:

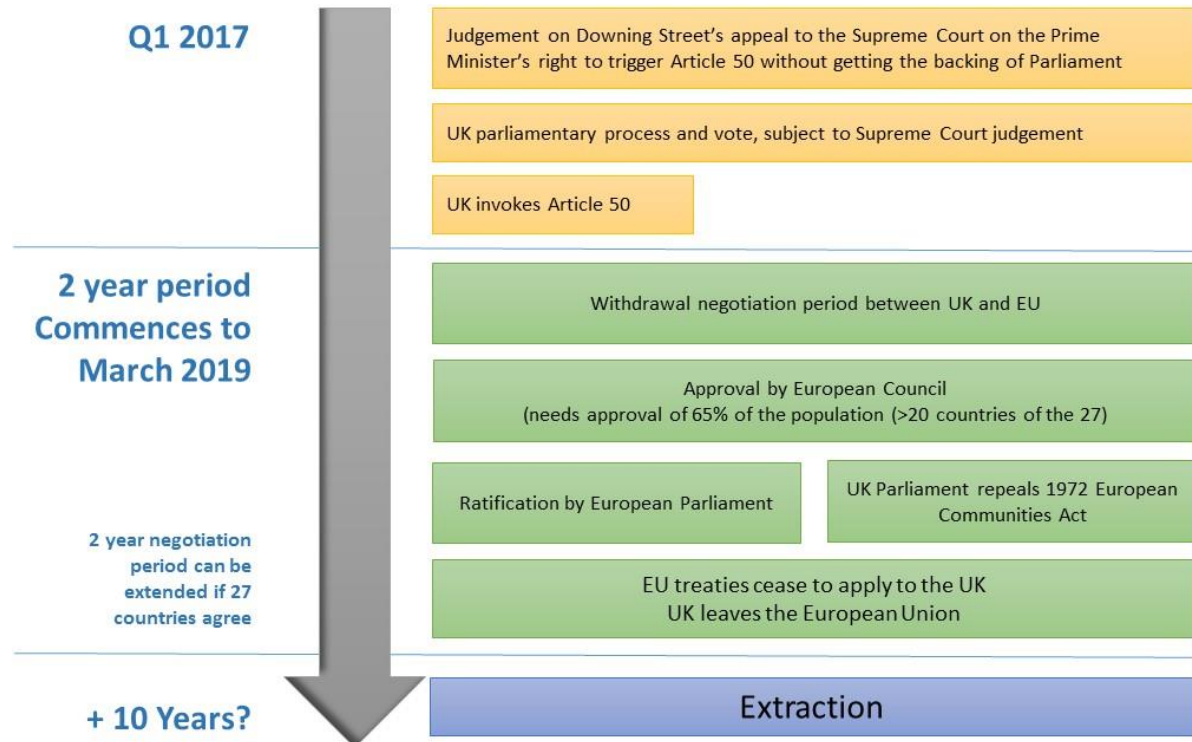
- Low economic growth forecast to continue; negative interest rate environment unchanged
- Brexit uncertainty – a year of interesting twists and turns expected
- Greek crisis has not gone away (Debt to GDP over 180%, unemployment 23%); debt relief on the agenda
- Domestic elections due in Germany, France, the Netherlands, Czech Republic.

## Treasury Impact:

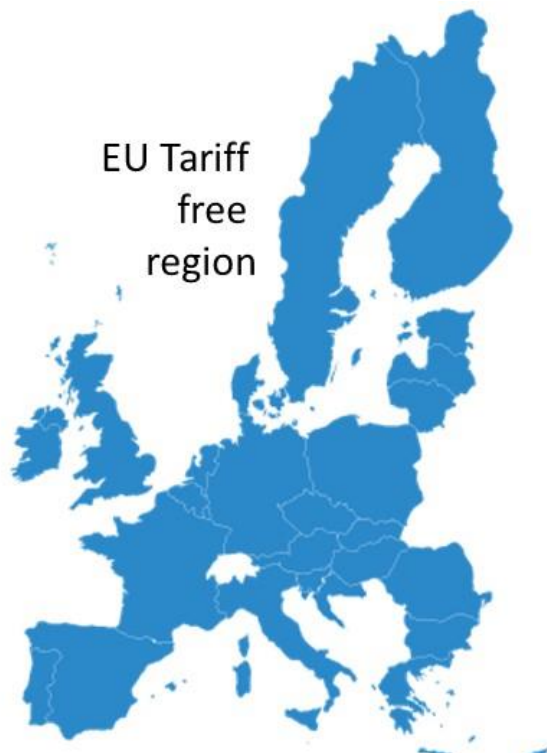
- Continuing USD strength expected
- GBP volatility
- Negative EUR interest rate environment continues.

# The Brexit Effect

2017 will see the next phase of the Brexit process come to life, and the following timetable provides the expected timeframe for the agenda to move forward:



## Trade Agreements



### World Trade Organization treaties

Agreed duties on goods, services and intellectual property.

A forum for negotiating agreements aimed at reducing obstacles to international trade and ensuring a level playing field for all.

UK currently under EU schedules.

A move to WTO tariffs increases the cost of doing international business.

### Free Trade Agreements

Bilateral trade agreements.

Favourable tariff arrangements can apply.

Can take years to negotiate.

EU FTA models include:

- Canadian model
- Swiss model



# Global Economic Concerns



Key economic concerns and impact on economic growth forecasts:

Growth of world output	2015	2016 (f)	2017 (f)
World	2.4	2.9	3.2
USA	2.4	2.6	2.8
EU	1.9	2.0	2.0
Japan	0.5	1.3	0.6
Russian Federation	-3.8	0.0	1.2
Africa	3.7	4.4	4.4
East & South Asia	5.7	5.8	5.8
Western Asia	2.0	2.4	3.0
LATAM	4.5	5.6	5.6

Source: United Nations

# Regulation and Compliance

Regulatory change will continue to be a key evolving area in 2017. It should now be regarded as one of the key business areas in corporate treasury and requires adequate attention to ensure compliance and response to the consequential challenges that arise. Some areas to watch out for in 2017 are:

Regulation	2017 Changes	Corporate Treasury Challenge
<b><u>Basel III</u></b>  Reform measures to strengthen the regulation, supervision and risk management of the banking sector	<u>Further increases in capital buffers:</u> <ul style="list-style-type: none"> <li>• Capital Conservative Buffer: from 0.625% to 1.25%</li> <li>• Minimum common equity capital conservation buffer: from 5.125% to 5.75%</li> <li>• Minimum total capital plus conservation buffer: from 8.625% to 9.25%</li> </ul> <u>Liquidity coverage ratio:</u> from 70% to 80%	<ul style="list-style-type: none"> <li>➤ Access to bank deposit counterparties &amp; corresponding counterparty risk management</li> <li>➤ Deposits for less than 30 days unattractive to banks</li> <li>➤ Viability of notional pooling still not clear</li> <li>➤ Fees for daylight overdraft facilities?</li> </ul>
<b><u>EMIR Reporting</u></b>	EMIR trade reporting is going to go through some fundamental changes in 2017. ESMA are introducing a large addition of new fields, changes to position reporting, collateral reporting and asset class specific fields.  <u>Start date expected H2 2017</u>	<ul style="list-style-type: none"> <li>➤ May require amendments to existing EMIR reporting process</li> </ul>
<b><u>FinfraG</u></b>  FMIA Switzerland is the financial market infrastructure act regulating derivatives trading	FinFraG reporting came into effect in 2016 and reporting compliance expected during 2017.  Similar rules to EMIR apply, except that there is no requirement to report internal OTC derivatives	<ul style="list-style-type: none"> <li>➤ Swiss resident entities need to engage with their counterparty banks to arrange for delegation, if chosen course of action.</li> <li>➤ Alternatively, an internal process has to be established.</li> </ul>
<b><u>European Money Market Funds</u></b>  New regulations to enhance liquidity and stability	Final agreement between the European Council, the European Commission and the European Parliament close in order to proceed with new regulations. Implementation will take at least two years and should commence in 2017	<ul style="list-style-type: none"> <li>➤ Clear understanding required on alternatives and risks associated within the new rules.</li> </ul>

# Other Matters

## International Tax

2017 will see more information on the global targeting of corporation tax paid by multi-national companies come into the public domain arising from:

- OECD Base Erosion and Profit Shifting (BEPS)
- EU Common Consolidated Corporate Tax Base (CCCTB)
- EU Anti-Tax Avoidance Directive (ATAD)
- US corporation tax policy under the new administration.

## Cyber Risk

While cyber risk is now regarded as a major threat to all businesses, treasury in particular must be concerned as the party that is responsible for the processing of significant high value payments.

Risks		Mitigation
<ul style="list-style-type: none"><li><input type="checkbox"/> Theft</li><li><input type="checkbox"/> Data breaches and loss</li><li><input type="checkbox"/> Business interruption</li><li><input type="checkbox"/> Trade secrets &amp; confidential information</li><li><input type="checkbox"/> Breach of contract</li><li><input type="checkbox"/> Public relations</li><li><input type="checkbox"/> Produce recall</li></ul>		<ul style="list-style-type: none"><li><input type="checkbox"/> Firewalls key updated</li><li><input type="checkbox"/> Secure file transmission</li><li><input type="checkbox"/> Specialist software &amp; upgrades</li><li><input type="checkbox"/> Network vulnerability testing</li><li><input type="checkbox"/> Staff user awareness</li><li><input type="checkbox"/> Business continuity &amp; disaster recovery</li><li><input type="checkbox"/> Policy, procedures, review, compliance</li></ul>

## On-going Treasury Concerns

- **Cash flow, liquidity and exposure forecasting, including:**
  - A global integrated technology solution
  - Global bank balance visibility
  - Actual versus forecast reporting
- **Funding:**
  - Alternative financing sources
  - Large organisations – wallet share, capital market access
  - SME and start-up funding – angel investors, venture capital, crowd funding, invoice discounting.
- **Financial risks:**
  - EUR negative interest rate environment
  - Investment returns and risk/reward profile
  - Ability to diversify counterparty risk
  - FX volatility and long term exchange rate uncertainty.



# Contact



[www.ftitreasury.com](http://www.ftitreasury.com)

'The Dublin-headquartered specialist treasury company'

FTI Treasury

International House

3 Harbourmaster Place

International Financial Services Centre (IFSC)

Dublin 1

Ireland

+353 1 6360000

[pleavy@ftitreasury.com](mailto:pleavy@ftitreasury.com)

[info@ftitreasury.com](mailto:info@ftitreasury.com)