

Aside from getting the green light from Veolia's entities, Morel also had to work on changing the pooling setup without disrupting daily activities such as sweeping and reporting.

Morel quickly acted on the PBoC announcement and in the run-up to the release of the guidelines, he and his team laid the groundwork for linking the China business to its treasury operation at its headquarters in Paris. He was able to do the first sweep to their headquarters in just two months after the PBoC rules were released.

"There was a lot of preparation work done until the PBoC released their new regulations," Morel notes. "The preparation work simplified and enabled us to deploy the solution quite rapidly after the official announcement

of the new regulation."

Since the groundwork was done, Morel had sufficient time to manage the implementation process. "It was a matter of agreeing on the documentation and getting the right approval from the regulators."

With the renminbi cross-border cash pooling in place, Morel for the first time could achieve renminbi liquidity centralization. "We managed to centralize the cash generated by our controlled Chinese entities in an on-shore cash pool and have it automatically deposited or funded by our headquarters at the end of every day," notes Morel. The new solution also means a reduction of financing costs for Veolia in China as it could now take advantage of offshore funding.

That allowed Morel to focus his attention on other aspects of Veolia's treasury operations. "We are focusing on restructuring, centralizing and optimizing our processes," he explains. Aside from putting in place Veolia's renminbi cross-border cash pool, Morel has also been instrumental in developing the company's cash forecasting application and simplification of internal financing towards Chinese subsidiaries. "As a treasurer operating in Asia I need to have a broad understanding of the financial spectrum," adds Morel.

He remains on the look out for opportunities to improve the company's treasury operations. "We also have to deal with regulatory changes, which have an impact on our day-to-day business," explains Morel. **A**

Treasurer of the Year – Malaysia

Tactical and strategic in times of stress

Resetting the funding agenda in a tough market environment

One of the key aspects of a treasurer's role is funding. The challenge is especially acute when markets are going the wrong way and the needs are the highest. Here is how one treasurer tactically put lessons learned from years in the markets to good use and came away with a stellar outcome

By Daniel Yu

The year 2015 for Malaysia and its economy has turned out to be an *annus horribilis*. From the weakening ringgit, to collapsing commodity prices, the political infighting and the spectre of US Fed fund rate hike created a distressed operating environment. To be able to raise financing and overcome the negative tone required a healthy dose of strategy and a tactical approach to markets.

This was how Abdul Halim Salleh and his team at Cagamas, the national

mortgage corporation of Malaysia, steeled themselves to the forces beyond their control. As the senior vice-president, head of treasury and capital markets, Halim leads a treasury team that cannot be easily compared to other issuers.

Cagamas stops short of calling itself as lender of

Halim: Raised competitively priced liquidity vis-a-vis the firm's ringgit cost of funds

second last resort (after the central bank). Because of its mandate, Cagamas often does not enjoy the luxury of picking the best time when to come to the market with a new issue.

And this was put to the test in 2015. New rules on liquidity coverage ratio (LCR) imposed by Bank Negara Malaysia, the country's central bank, were coming into force as from June 2015. It was uncharted territory for banks but they nevertheless needed to meet the new regulation.

Starting at 60% of high-quality liquid assets that they were required to hold to withstand an acute liquidity stress scenario rising to 100% by 2019, banks needed to keep an eye on secure stable funding. Cagamas' purchase of housing loans from banks is considered one of the sources of stable funding.

In order to fund the purchase of housing loans, however, Cagamas goes to the capital markets to raise the financing. How tough was 2015? "The total size of the private debt securities market was 68 billion ringgit (US\$17.3 billion); 32 billion ringgit was raised in October to December," Halim relates. "From January to September, no one wanted to buy bonds and no one wanted to come to the market because the cost of funding was high."

By October, however, banks were streaming to Cagamas to sell part of



their housing portfolio in order to meet the new LCR rules. Cagamas, as part of its mandate, had to provide support to ensure the liquidity in the secondary home mortgage market despite the dismal market environment.

It undertook a number of strategic decisions that led it to become the first big issuer to spark eventually a revival in the bond market starting in October 2015. In total, during that time, Cagamas was able to issue four billion ringgit (US\$1 billion) to satisfy its mandate and meet the needs of the financial institutions that have come to it for support.

One strategic step was to opt for a reopening of an existing issue. "We realized that if we go for a new issue while investors were reluctant to buy, we may need to price it higher," Halim explains. "We are not only going to distort our yield curve but also distort the curve for the whole market." This is given the role Cagamas plays in the overall development of Malaysia's bond market.

Halim explains further. "How do investors price you? There are three ways. First is your balance sheet; you need to have a good business model. Second is the

pricing itself – when you choose to go to the market. And third, often overlooked and under-utilized but vital to help in pricing, is the secondary liquidity of an issue."

Reopening has a number of benefits, Halim believes. It helps to rejuvenate the secondary volume as an issuer is capitalizing on the existing investors of that particular issue. By reopening also, an issuer is able to add diversity to the views – investors start promoting the bond. Finally, it also increases the issue size enabling a particular issue to meet the minimum requirement to be included in an index.

In the foreign currency market, Halim opted to take the private route instead of launching public issues. Private placements often come under criticism because of the lack of transparency. But in an environment when conditions may not be supportive of any new issue, it may be the smart thing to do to clear funding hurdles.

"The operating environment was against you from every corner," he explains. "We deliberately refused to do a public foreign currency issue last year. When you do a private placement, you get to meet the real-money investors

who have the same views as you." In a particularly difficult environment as in 2015, including the widening CDS premium on Malaysia, Halim says that it was important to attract more intrinsic value international investors with longer term investment horizon.

These real money investors are not easily perturbed by temporary market overreaction, which more often than not results from short-term speculative trading activities. "Consequently, we were still able to raise competitively priced liquidity vis-à-vis our ringgit cost of funds."

Looking back at 2015, Halim is pleased with the outcome. Cagamas raised the equivalent of 2.7 billion ringgit in the offshore market. In the first three months following the 500 million ringgit, three-year reopening of its ringgit issue, Cagamas saw the volume of its bonds surge by over 70%. As a result, the pricing in the secondary market also tightened with the curve declining by 16bp to 20bp. In what has been one of the most difficult years for Malaysia, Cagamas proved it is possible to change course and reset the funding agenda both in the onshore and offshore markets. **A**



Treasury Team of the Year

REGIONAL

Optimizing liquidity and enhancing efficiency

Looking at risk-return relationship from a fresh perspective

The Honeywell treasury team in Asia-Pacific led by regional treasurer John Chen has adopted a series of initiatives that resulted in a significant amount of incremental interest income and operational efficiency

By Chito Santiago

From managing risk to optimizing liquidity and increasing operational efficiency, the treasury team at Honeywell International in Asia-Pacific had an event-

ful year in 2015 as they help generate value for the company.

Based in Singapore and Shanghai, the regional treasury team headed by John Chen as regional treasurer cover 18 markets. While its organization structure is fragmented with a collection of many small legal entities, as many as 20 or 30 per country, the team was still able to overcome this operational challenge and forge a strategic vision for Honeywell.

Chen: Implementing initiatives to enhance efficiency for treasury and internal business partners

