

# TM Forum

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## Respond to Brexit uncertainty by evaluating exposure, monitoring negotiations



For U.S. companies intent on responding effectively to Brexit, little has changed since citizens of the United Kingdom voted in June to leave the European Union. Amidst the political upheaval and uncertainty created by the unexpected voting results, there continues to be only one clear short-term course of action for U.S. treasurers: It's important that they evaluate their company's exposure to pound sterling (GBP) volatility and the need to take any action to manage the related risk.

At U.S. companies that either trade with the U.K. or have operations there, making decisions about a wide range of longer-term issues should become easier once the U.K. initiates Brexit negotiations and reveals a defined strategy — a step new Prime Minister Theresa May has indicated she will take by the end of first quarter 2017. Even at that point, however, negotiations on new trade agreements are set to last two years, and no one knows how much longer it might take to gain approval from all 27 EU member countries on the resulting pacts.

With that as a backdrop, let's look more closely at the need to assess foreign exchange exposure, before reviewing some of the other challenges and opportunities U.S. treasury managers will be presented with as Brexit unfolds.

### Managing foreign exchange exposure

"The U.S. companies most impacted by Brexit are those most exposed to the sterling currency," says Chris Braun, managing director and head of FX Sales at U.S. Bank.

Immediately following last summer's Brexit vote, the GBP experienced a dramatic slide relative to the U.S. Dollar (USD). But Braun says that was just a first taste of the volatility we could see throughout the Brexit process. "We've transitioned into a very long-term period of uncertainty and volatility," he says.

Some of the companies most exposed to Brexit-related risk have a big USD/GBP mismatch in their payables and receivables. "If you have a U.S. Dollar functional entity selling into the U.K. and getting paid in pounds — and the company has no natural offset to that — currency volatility could have a huge impact on their business," explains Mary Henehan, senior vice president and co-head of Commercial FX Sales at U.S. Bank.

When U.S. corporate treasurers take stock of their currency exposure and decide they need to actively manage it, a likely solution is hedging with derivatives such as forwards or options. "It's wise to go through that process and develop an appreciation for why you should or shouldn't employ a hedging program," Henehan suggests.

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## Other challenges and opportunities

Here are some other observations from the U.S. Bank International Banking team to keep in mind as you monitor Brexit developments:

- **Brexit will have a major impact on U.S. multinationals with a foothold in the U.K. designed to provide a passport into the rest of Europe.** “Their long-term strategy and access to the European market could be challenged,” says Darcy Paschino, vice president and country manager for Europe at U.S. Bank.
- **Many U.S. multinationals may need to relocate their U.K.-based European treasury centers.** Dublin is currently a popular site for these centers.
- **Many will also need to revisit their global cash management structures and strategies such as cash pooling.** After Brexit, there may be new taxes associated with money movement across U.K. borders.
- **London’s days as the financial center of Europe might be numbered.** Banks have already started moving some of their EU operations out of the U.K. and into other countries. Several cities, including Frankfurt, are looking to replace London in that role.
- **A devalued GBP equates to lower prices.** That means better deals for U.S. companies importing from the U.K., as well as for U.S. firms looking to make direct investments in the U.K. “However, at the same time, a weaker sterling raises the cost of financing a U.K. entity,” says Craig Weeks, senior vice president and manager of the U.S. Bank International Banking Group.
- **From a trade standpoint, Brexit will likely have a bigger impact on U.S. banks than on U.S. corporations.** “While the U.K. is only the seventh largest U.S. trading partner, it’s America’s No. 1 partner when it comes to importing and exporting financial services,” Weeks notes.



*Talk to one of our International Banking Group representatives about the challenges and opportunities presented by Brexit. To learn more about your company’s level of exposure to volatility in pound sterling, and possible solutions for actively managing that risk, visit with one of our Foreign Exchange specialists.*





## County government battles payments fraud with technology, training and tone

The executive team for Wisconsin's Dane County takes every reasonable precaution to safeguard the funds the county collects and administers. "We rely on the public trust and this isn't our money," says Donna Vogel, deputy treasurer.

With an annual budget of about \$570 million, Dane County has 500,000 plus residents and encompasses numerous schools, including the University of Wisconsin-Madison, and 61 cities, villages and towns. Its diligence is warranted. In 2015, nearly three-quarters of U.S. businesses were targets of payments fraud, according to the 2016 AFP Annual Payments Fraud and Control Survey.

Clearly, all organizations need to take steps to reduce exposure to payments fraud. Vogel and her colleagues take a comprehensive approach. "We believe it takes many players to reduce the risk of fraud," Vogel says. To that end, the county treasurer's office has forged a strong partnership with its internal IT department in order to stay abreast of technology-based threats.

Vogel and her colleagues also leverage the robust security offered by U.S. Bank, the county's banking partner. Dane County has deployed dual authorization for electronic payments, Positive Pay reconciliation for check disbursements, and other protections offered by the bank. The county also limits the number of employees with access to SinglePoint®, the U.S. Bank online treasury management system, to only those who truly need it to do their jobs. What's more, only a few are authorized to initiate funds transfers using the system.

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## Securing payments through training

Employee training also is critical to keeping funds secure, Vogel says. All employees who handle cash, credit or checks, along with their managers, receive training. The county prefers to conduct these sessions in person rather than online. “We know who shows up, and who’s paying attention,” she says.

The training addresses several common misperceptions about fraud. Employees often assume “it’s always big money, it’s always a single event, and it’s always a hacker,” Vogel says.

Few employees want to think their colleagues are involved in fraudulent activity, but internal fraud is a reality. The goal of training isn’t to foster suspicion, but rather to drive awareness of the ways in which fraud often occurs, and of the damage even smaller incidences can inflict, she adds.

## Teaching sensitivity to patterns

A key component of training is helping employees focus on patterns among transactions, including when payments tend to occur, the amounts, the methods — say, check versus wire — and the parties involved. That way, employees can be alert to transactions that veer from the norm, such as a spike in the amount of a monthly lease payment. Occasionally, these variances can indicate criminal activity. Thus, employees should understand their responsibility to question transactions that appear unusual before allowing them to proceed.

As an example, this discipline can help safeguard against business email compromise (BEC) scams, where a criminal sends an email, purportedly from one of an organization’s top executives, commanding an employee to transfer funds immediately to a certain account. Often, the employee is told to keep quiet about the transaction.

“Employee awareness training is critical,” says Steve Helgen, vice president, U.S. Bank Global Treasury Management. BECs are particularly dangerous, he says, because when employees are fooled and initiate the fraudulent payment, the payment instructions to the bank arrive fully authenticated. Nothing appears out of the ordinary.

Employees need to recognize that such a transaction is so outside the norm that it warrants further investigation, Vogel says. Just as important, they need to know they can bring any questionable transactions to their manager’s attention without fear of reprisal. “Our policy is, ‘if something bothers you, tell me,’” Vogel says.

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## Tone at the top

“The goal is to handle simple mistakes simply .... Most people want to do better and aren’t nefarious.”

Donna Vogel,  
Wisconsin Dane County  
Deputy treasurer

A “tone at the top” that conveys integrity is key in conveying this message, Vogel says. Employees need to hear management emphasize that no theft is trivial, and fraud will be vigorously prosecuted.

Management also needs to demonstrate this commitment in interactions with employees. For instance, Dane County understandably expects employees to report their hours correctly. In return, Vogel says, employees must be able to count on managers not asking them to work off the clock.

At Dane County, along with employees, managers participate in training. They learn how to recognize subtle behavior that might indicate an employee is engaged in fraudulent actions. One example: a worker who won’t go on vacation, or accept help from coworkers at busy times. While the employee simply may be a hard worker, he or she could be covering up fraudulent activity.

During their training, managers also receive instruction on the appropriate steps to take when learning of a discrepancy that might indicate fraud. The goal is to handle simple mistakes simply, Vogel says. “Most people want to do better and aren’t nefarious.”

At the same time, Dane County will take action if it suspects criminal activity. “Mistakes are corrected, and fraud is investigated,” Vogel says.



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## Emerging payment systems enable faster, more efficient processing

Although business-to-business payment by check has held steady at about 50 percent of total payments since 2013, according to the Association for Financial Professionals (AFP), research suggests that percentage is likely to start declining soon.

The latest AFP Electronic Payments Survey found 13 percent of financial executives believe implementing faster payment solutions will have an “extremely positive impact” on their organizations, and another 49 percent expect the impact to be “somewhat positive.”

“The pace of innovation in the payments arena has been rapid, creating new opportunities for treasury managers to optimize their processes,” says Laura Listwan, senior vice president, U.S. Bank Global Treasury Management.

For starters, the long-awaited same-day ACH payment option became available in Fall 2016, enabling payment of ACH credits by the end of the receiving depository financial institution (RDFI) processing day. (By March 16, 2018, RDFIs must make ACH credits available no later than 5 p.m.).

### Same-day ACH purposes

The AFP survey revealed the following anticipated uses of these payments:

- Last-minute bill payment: 57 percent
- Emergency payroll: 38 percent
- Accounts payable payments made on the last day of discount availability: 24 percent
- “Will use for most payments”: 19 percent
- Trading partner payments: 17 percent

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Same-day ACH transactions are limited to \$25,000 and regulations require depository institutions to support same-day ACH debits by Sept. 15, 2017.

## Can we go faster?

Same day is faster, but for many high-priority transactions, it isn't nearly fast enough. Enhanced real-time payment systems, operating in Europe and the United Kingdom for several years, are becoming more widely available in the United States.

For instance, the Zelle digital payment network (originally called clearXchange (cXc)) has been online since 2011, but has been used primarily for consumer-to-consumer transactions. Payments can be made within five minutes, if the expedited service is chosen.

Through Zelle, customers of U.S. Bank and several other large institutions can transmit payments to any individual who has a bank account anywhere in the U.S. using only an email address or cell phone number.

With this alias-based payment network, businesses do not need to solicit and maintain the consumer's banking data to execute payments. Consumers register with clearXchange and only they and their bank know their bank account data.

## New debit card flexibility

Debit card networks can also facilitate real-time business payments to consumer bank accounts. MasterCard's Send and Visa's Direct use consumers' debit card numbers to make immediate payments to consumers. The debit card networks were traditionally used by business to transmit refunds on returned purchases, but it is now possible to push payments to consumer bank accounts without any associated purchase. Also, payments can be sent to prepaid cards, enabling the transfer of funds to individuals who lack a bank account.

## Real-Time Payments (RTP)

On the horizon for 2017 is the fruition of the The Clearing House's (TCH) RTP initiative. The country's oldest payments company, TCH is owned by two dozen of the country's largest banks, including U.S. Bank.

This 24/7 data-rich system will enable almost instantaneous payments, up to \$25,000 per transaction among all payee segments: business-to-business, business-to-consumer, consumer-to-business and consumer-to-consumer. Unlike ACH, however, it will not process debits.

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Initially RTP will operate only domestically, but international capability is in the works. The essential elements of RTP include the following:

- There can be no returns because funds must be available at the time of the transfer, so payees are assured of receiving payment.
- Payers will be notified promptly when funds have been received by the payee.
- Payees will be notified not only that a payment has been received, but can also receive information about the payment, such as the invoice number.
- Requests for payment delivered through the system can dovetail with e-invoicing and e-billing software, reducing paper handling costs and remittance errors.
- Additional data can be linked to transactions, including fulfillment messages. For example, upon receipt of payment a payee can notify the payer that goods have been shipped and provide a tracking number.

To decide which of these new, faster payment systems make sense for you, Listwan suggests conducting a “Working Capital DNA session” with a U.S. Bank Payments Consultant to pinpoint your trouble spots. “As new systems come online, there will be more and more ways to speed the payment process.”

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