POST-PANDEMIC ECONOMICS
Shortened supply lines and innovation are the way forward

MODERN SLAVERY
What treasurers need to know to protect their organisations

PLAN YOUR ACHIEVEMENTS
Why mindful management can deliver better team results

The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ JUNE/JULY 2020

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ACT TREASURY EXCELLENCE AS STANDARD

EDITOR'S LETTER

Today's situation is unlike any we've seen. As I write, the lockdowns and remote working are ongoing. Around the world, policymakers are tentatively modelling a gradual lifting of restrictions. For now, with businesses and commercial activity mothballed, and medium- and longer-term outlooks still difficult to call, life remains highly unpredictable. Will normality begin to creep back in at the tail end of this year? It's hard to say. Will the way we work ever fully return to what it was? Few of us think so.

For the time being, most of us have found ways to operate at arm's length. There are signals that boards are getting clearer in their outlook and demands. Nevertheless, the situation will remain a highly demanding one for some time.

Weeks into lockdown, many treasurers are still closely focused on liquidity – a preoccupation that won't recede any time soon. The bigger questions – when a recovery might start, the impact on the global economies of vast central bank cash injections – are being asked with increasing urgency.

With all these thoughts in mind, this edition focuses on the strategic treasurer. As The Association of Corporate Treasurers' *Business of Treasury* regularly finds, treasurers are increasingly called upon for their strategic insights. This year's research was conducted prior to the spread of the pandemic and the wider onset of lockdown. However, respondents were as prescient as ever. This year's findings show that technological advancement and business strategy will be priority areas for the year ahead. Communication and relationship management continue to be in the foreground. See page 6 for an overview.

The pandemic has influenced our perspective on many aspects of working life – technology foremost among them. On page 10 we find out how treasury technology has helped treasuries improve short- and mid-term cash visibility, supporting that role of the strategic treasurer. And while arguing the case for meaningful cash investments will be undeniably difficult just now, the opportunity cost for treasury technology is lower mid-recession than at other times and the pay-offs potentially easier to delineate.

As thoughts turn to recovery, it will be crucial to continue to develop thinking and practices around green and sustainable finance – not to mention the contributions that treasurers make to ESG. Navigating the differing market standards, ratings and aligning with public sentiment are all issues explored in our ESG feature on page 16.

As we continue to weather the economic and business storms heralded by the pandemic, I hope you find this edition helpful.

Keep safe and well in these unprecedented times.

Liz Loxton

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The Treasurer
is the official magazine of
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THE TREASURER ©2020
Published on behalf of the ACT by **Think**, Capital House, 25 Chapel Street, London NW1 5DH
◆ +44 (0)20 3771 7200
◆ thinkpublishing.co.uk

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SUBSCRIPTIONS
Europe, incl. UK (per annum)
1 year £285 | 2 years £405 | 3 years £525
Rest of world
1 year £320 | 2 years £495 | 3 years £655
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1 year £142 – UK and Europe (MUKEU)
1 year £185 – rest of world (MRoW)
For information, visit treasurers.org/thetreasurer/subscription

MIX Paper from responsible sources FSC® C004116 www.fsc.org

Printed by Pensord
ISSN: 0264-0937

THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

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2020 THE BUSINESS OF TREASURY

THIS YEAR'S *BUSINESS OF TREASURY* FINDINGS SHOWS TREASURERS PRIMED FOR A POST-PANDEMIC WORLD: WITH LIQUIDITY, TECHNOLOGY AND LEADERSHIP THEIR PRIORITIES

The Association of Corporate Treasurers' *Business of Treasury* report was released in the midst of the COVID-19 crisis.

Treasurers are in the front line of liquidity and cash management, and the spotlight is shining on them like never before – even during the 2008 global financial crisis.

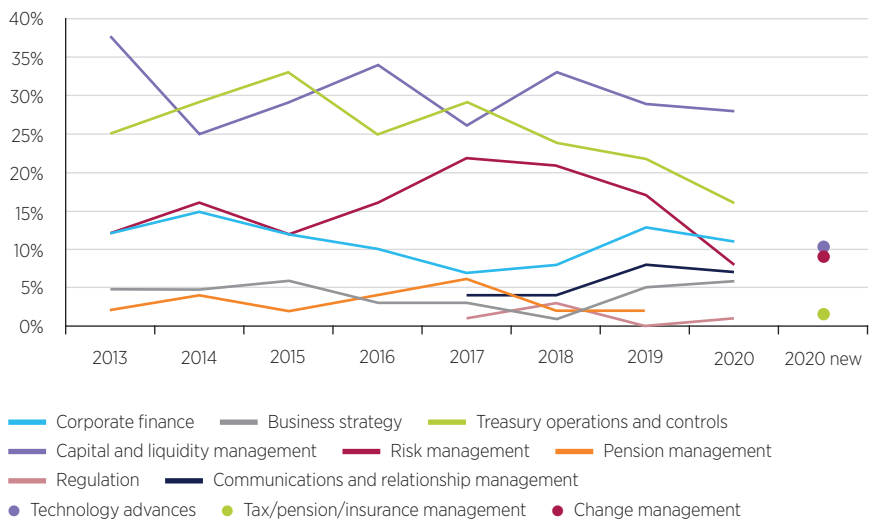
Although the research behind the report was conducted just before the crisis struck and prior to widespread lockdowns, it is clear from the findings that treasurers already believed that fundamental changes were afoot. The new priorities identified by treasurers are perhaps this year's most striking finding.

The full report is available online at treasurers.org/hub/research/business-of-treasury. In the meantime, here are the most notable findings.

1 IT'S TREASURERS WHO ENSURE LIQUIDITY

Treasurers themselves say that cash and liquidity management are the essence of their role. That was true before and is certainly priority number one today. Treasurers are playing an invaluable role in maintaining the financial health and stability of their organisations and, indeed, the wider economy. As one respondent put it: "Good treasury can ensure a company's continued survival and success; bad treasury can open up unexpected and catastrophic risks."

Where treasurers spend the most time



Respondents were asked: in which area do you currently spend the most time? Base: 202 respondents

2 TREASURERS' PRIORITIES ARE SHIFTING

This year we asked treasurers about their likely priorities for the year ahead. The answers revealed a new set of priorities for the modern treasurer, including: technological advancement; business strategy; communications and relationship management; and change management. These four areas now take precedence over traditional areas such as regulation, treasury operations and tax/pensions/insurance, which appear more as accepted must-haves.

Crucially, this shift of priorities requires that treasurers develop new skills and behaviours.

Future priorities: where treasurers expect to spend more time

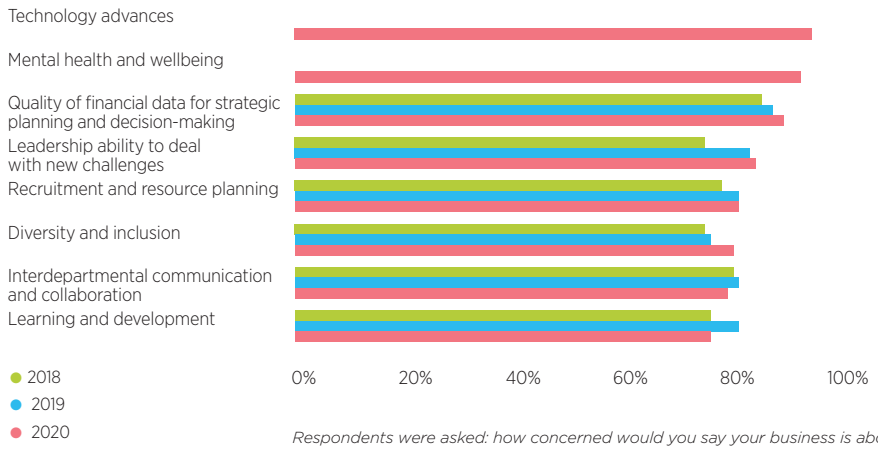
Respondents were asked: compared to the current position, in 12 months' time do you expect to spend more or less time on each of the following in your day-to-day role? Base: 202 respondents

3 AUTOMATION IS REDEFINING TREASURY

We asked treasurers about their main issues within their organisation. Their top concern was technology advances; second was mental health and wellbeing. Not what you'd have expected perhaps, but a compelling finding, nonetheless.

This year's survey examined how treasurers are leveraging technology. The picture is one of technology allowing treasurers the space to increase their strategic and value-adding contributions to their organisations. The fact that 87% of organisations are pushing forward in investing in automating treasury activities is a finding that also has long-term implications for treasurers.

Treasurers' top internal concerns over the past three years



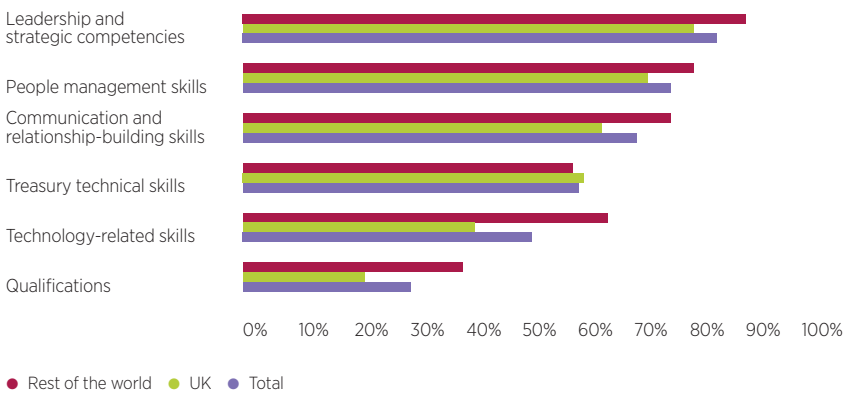
Respondents were asked: how concerned would you say your business is about each of the following internal factors at the moment? Base: 101 respondents

4 TREASURERS WANT TO DEVELOP THEIR LEADERSHIP SKILLS

This year's research reveals that treasurers are closely focused around the skills and capabilities needed to progress their careers. The top three areas of focus for personal objectives? Leadership and strategic competence; people management skills; and communication and relationship-building skills. Treasurers also felt that a lack of leadership skills was the most significant issue holding back their team members.

Read *The Business of Treasury 2020* in full at treasurers.org/hub/research/business-of-treasury

Where treasurers feel they need to develop themselves



Respondents were asked: which of the following are the areas of focus for your personal objectives and development?

POST-CORONAVIRUS
MORE INNOVATION, LESS GLOBALISATION

THE PANDEMIC HAS FLAGGED WEAKNESSES IN HEALTHCARE SYSTEMS THE WORLD OVER. SOLUTIONS FOR FUTURE CRISES ARE CLOSE AT HAND. KALLUM PICKERING FLAGS THREE MAJOR TRENDS FOR THE POST-COVID-19 ECONOMIC ECOSYSTEM

When it comes to economic upswings, the past is rarely a good guide to the future.

Nothing about the way the world looked before the financial crisis, with mostly stable politics and economic exuberance in major parts of the advanced world, could have provided even a remote signal about the key traits of the past decade.

But even in the depths of an unprecedented recession, three trends seem to be emerging that provide clues about the future.

HEALTHCARE

First, the state is set to play a much greater role in day-to-day life and economic activity, especially when it comes to healthcare provision.

Across the world, the coronavirus pandemic has revealed that: 1) existing healthcare facilities have struggled to handle a sudden surge in demand; and 2) some countries rely too much on long-distance imports for crucial medicines and equipment, which creates a dangerous bottleneck when demand rapidly picks up.

In response, governments are beginning to reinforce their healthcare systems. Beyond the near-term surge in spending to beat the virus, expect sweeping regulatory change, more healthcare spending and a more active trade and industrial policy to onshore production of key medicines and equipment.

That crises reveal shortcomings that governments address thereafter is not really news. The partial repair of the global banking system after the 2008/9 financial crisis is a case in point. However, there are crucial differences between now and the 2008/9 experience.

Unlike repairing the financial sector, which required growth-sapping increases in regulation and capital in the banking system, improving and reinforcing healthcare sectors across the world should not drag on economic growth.

With no past excesses to deal with, there is no payback in the years to come. No boom, no bust. Meanwhile, building a more resilient healthcare system will involve higher capital investment – in hospitals and factories – and more spending on research, doctors and nurses. That should be good for economic growth.

SHORTER SUPPLY LINES

Second, expect accelerated deglobalisation in goods trading. Frustrated by slow growth in the post-Lehman world and the increasingly visible costs borne by the losers from trade and immigration, rising economic nationalism had already started to put globalisation in goods trading into reverse in recent years.

US-led protectionism under the banner of President Donald Trump's 'America first' trade policies had triggered a trade war with China.

In Europe, the UK's decision to leave the EU will raise trade barriers between the world's fifth-largest economy and the world's largest single market.

And in Asia, an ongoing dispute between Japan and South Korea extends well beyond trade and is rooted in the messy legacy politics of World War II.

Now, reacting to the disruption in global trade flows and supply chains, manufacturing and production industries will shorten and diversify supply chains further, as well as raising inventories.

As they forego some of the earlier gains of globalisation, some trade-orientated sectors will lose a bit of momentum in line with a slowdown in trading in goods.

A public policy response to 'onshore' strategic industries and produce vital medicines and equipment at home will add to this trend of deglobalisation in trading in goods.

INNOVATION

Third, expect innovation to accelerate. A crisis can be the mother of invention. The coronavirus shock is likely to spur innovation in many fields, ranging from a more efficient use of labour and communications technology to increased use of 3D printing.

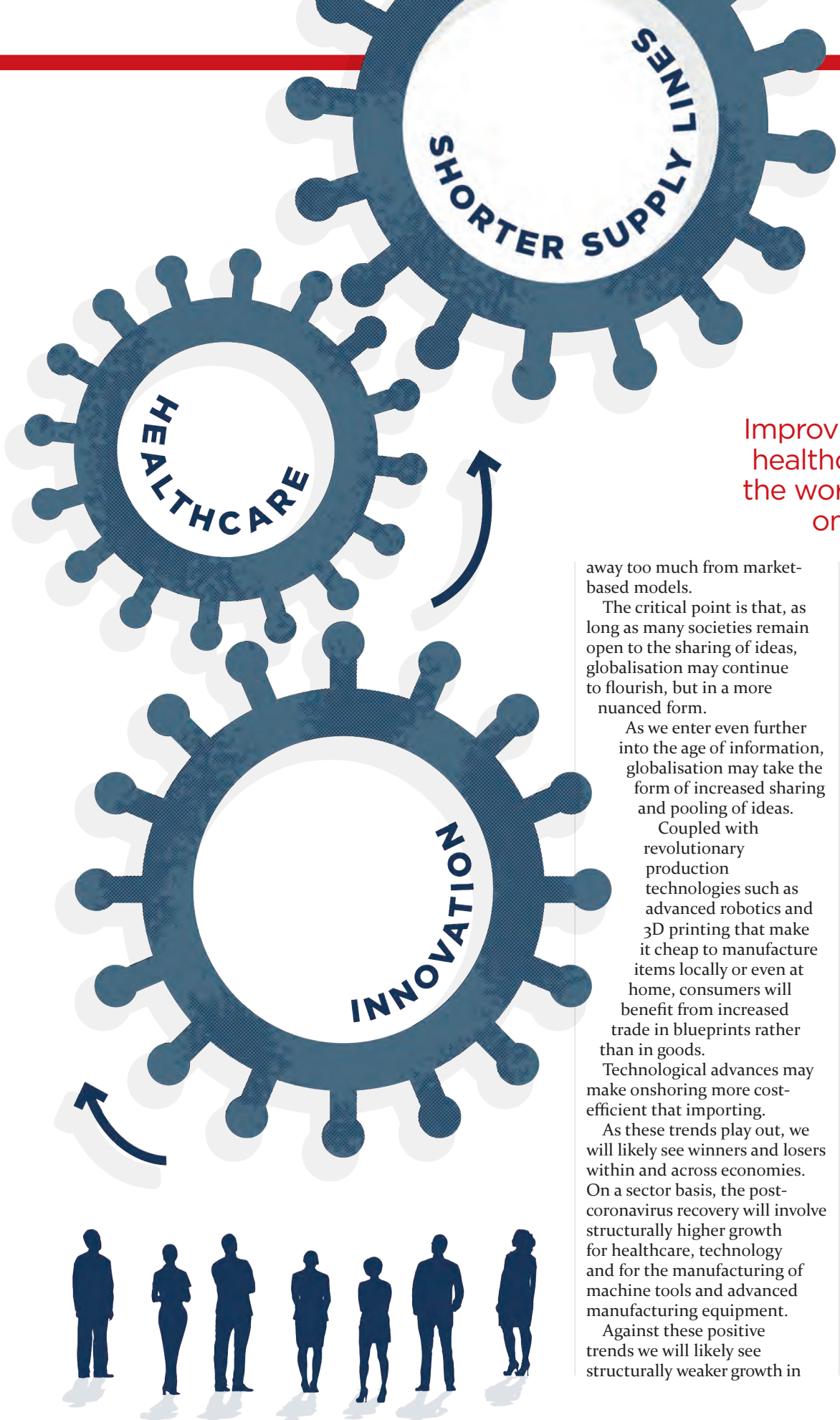
Many companies that have already used such technologies well in recent years, especially those in the US tech sector and in high-end European manufacturing, have vastly outperformed their peers.

If working habits change permanently, especially working from home, that will further raise demand for technologies that facilitate remote working.

Expect higher investment in the years to come as many companies upgrade their capital stock and adjust working practices. This was slowly happening anyway, but now it will happen faster.

Robotics, 3D printing, remote technologies facilitated by cloud computing – these will soon become the standard for many more companies and workers.

In the long run, the resulting jolt to productivity from faster innovation may be stronger than the drag from deglobalisation in goods trade, as long as governments do not turn



Improving and reinforcing healthcare sectors across the world should not drag on economic growth

away too much from market-based models.

The critical point is that, as long as many societies remain open to the sharing of ideas, globalisation may continue to flourish, but in a more nuanced form.

As we enter even further into the age of information, globalisation may take the form of increased sharing and pooling of ideas.

Coupled with revolutionary production technologies such as advanced robotics and 3D printing that make it cheap to manufacture items locally or even at home, consumers will benefit from increased trade in blueprints rather than in goods.

Technological advances may make onshoring more cost-efficient that importing.

As these trends play out, we will likely see winners and losers within and across economies. On a sector basis, the post-coronavirus recovery will involve structurally higher growth for healthcare, technology and for the manufacturing of machine tools and advanced manufacturing equipment.

Against these positive trends we will likely see structurally weaker growth in travel, shipping and traditional store retail.

We may also see interesting distributional trends in commercial real estate, with slower gains in retail and office space set against faster growth in industrial space and warehouses.

Across countries, the winners will likely be those nations with stronger legal systems and transparent institutions that will allow them to benefit the most from enhanced trade of information. Open societies, both advanced and emerging, will do well. Closed societies and those with less-than-transparent institutions, including the likes of China and Russia, will find the new situation less favourable.

An event on the scale of the virus pandemic and the recession will almost certainly have profound economic, financial and political effects that will be felt for a long time.

No one can say for sure what is around the corner. However, economic logic and the lessons of history suggest that the global economy could look very different during the post-coronavirus recovery.

Kallum Pickering is senior economist at Berenberg Bank

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SURVIVAL STRATEGIES

Why now may be a good time for treasury departments to increase automation and strategic technology projects. Lesley Meall explores the issues

As guardians of a company's financial health, corporate treasurers are inherently risk averse. They spend their working lives trying to avoid or mitigate risk, looking ahead and planning for the 'worst-case scenario' – a concept that has been given new meaning and urgency by the pandemic. Likewise, the treasurer's perpetual need to forecast cash flow and have visibility into liquidity, which are being assessed and analysed in more detail and over shorter periods than usual, and informing scenario planning and stress testing that seems more serious than usual.

This existential crisis has reshaped our perspectives on many things, not least, the role and importance of technology. During lockdown, attitudes and approaches have been refined or transformed towards all sorts of technologies – seemingly overnight in some cases. The list of today's potentially mission-critical tech ranges across tools to automate and streamline treasury functions such as: managing liquidity or currency and commodity risks; technologies to support and sustain remote access; and the collaboration and videoconferencing systems that are keeping socially distant colleagues connected. All of which seems likely to be reflected in our eventual 'new normal'.

"In an era of home working, for the treasury team, their banking and technology partners and their customers, effective use of technology is key to ensure that treasury is able to carry out key risk management and operational activities effectively and in a controlled manner," says David Stebbings, head of treasury advisory at PwC. Among the various technologies he cites with potential to assist are cloud-based systems (as the onus is on vendor rather than in-house support) and online trading portals (as they can better mitigate unauthorised or unapproved trading, rather than insecure phones that cannot record calls).

> Technology has certainly flexed its muscles during the pandemic and lockdowns

TOOLS FOR TOUGH TIMES

Treasury technology has certainly flexed its muscles during the pandemic and lockdowns. "Working with our clients, we have seen how technology can help treasury in uncertain times," says Elvadas Balkys, who leads corporate treasury advisory services for Zanders, Switzerland. For example, by improving short- and mid-term cash visibility and enabling treasury departments to think and act more strategically. "Especially during a crisis situation, prompt decisions based on rapidly changing forecasts are needed. Only with dedicated technology can such ongoing visibility and control be obtained," he says, and use such data to manage

The cybersecurity threat to treasury departments has not diminished during the pandemic

liquidity, borrowing and hedging to minimise cost – among other things.

Responses to The Association of Corporate Treasurers' (ACT's) *Business of Treasury 2020* survey indicate that many corporate treasury departments and treasurers were planning to increase their focus on automation and strategic technology projects even before the pandemic. The lockdowns shone a bright light on the benefits of doing so. There was a sense among survey respondents that the profession's evolution towards greater strategic involvement is linked to automation, particularly where it can improve connectivity between systems, eliminate operational and repetitive tasks, and enable treasurers to glean greater strategic insights from data they have access to.

PLANNING AHEAD

These possibilities were reflected in responses to *Business of Treasury* survey questions on how treasurers expect their role to be impacted by fintech developments over the next two years. "Within our treasury department, we automate quite a lot and we are looking at efficiency. As a result, I think we can have a more value-adding and strategic role, rather than focusing on treasury operations," said one treasurer. "We will be relying more on data," another said. "Advances in technology will make more manual processes automated. It will create more time for strategic thinking," said a third respondent.

Justifying investment can be difficult even without a global public health emergency and its dire consequences in the background. On the upside, opportunity cost is regarded as lower in recession than at other times. This may help the more than 50% of treasurers who told the ACT that they expected to spend more time on technological advances during 2020. The areas in which treasurers' organisations are investing a great deal are: cybersecurity (43%), automation (28%) and (for 25%) new treasury management systems (TMS). These objectives seem likely to remain on 'to-do' lists going forward, even if priorities change, timescales shift and strategies evolve.

Levels of automation do seem to have influenced the relative ease, speed and effectiveness with which some treasury teams have been able to respond to the changing demands and working patterns of the pandemic – especially where remote access to the software and systems that treasury relies on was already in place.

Mid-lockdown, Rob Scriven, group treasurer and planning manager at Cairn Energy, told *The Treasurer*: "All our technology works remotely and we are all used to working on the move, so I have not seen any impact. The only problem is when somebody insists on physical signatures and documents. We do need a development in digital signatures."

JOINED-UP THINKING

At Tideway, which is constructing and delivering a sewage tunnel, the Super Sewer, under the River Thames, a treasury technology strategy to maximise treasury efficiency and flexibility, for example, by using tools based on software as a service (SaaS) clearly demonstrated its value. "Our TMS used to be hosted on-premise, and we have recently moved to a SaaS version, so it's now in the cloud and that has been really useful," says Elina Todorova, assistant treasurer, Tideway. Prior to this shift, the team couldn't have accessed the TMS from non-work laptops, and it is now easier to switch modules on and off.

The level of automation and connectivity between the systems used by the treasury team also proved invaluable. "Our strategy takes account of the fact that Tideway is delivering a project. The company and potentially the treasury team will shrink as the tunnel construction nears completion, so for every technology decision we've made, there's been a cost-benefit analysis for the expected time frame," explains Todorova, adding: "We have automated as much as possible and created seamless operational flows as much as we could within our overall strategy. We are not a big treasury team – there are just four of us – and operational efficiency has always been a priority."

Its TMS, FIS Integrity, integrates with its NetSuite accounting system. "Our TMS receives payment files from NetSuite and exports accounting journals into it," says Todorova. "The TMS also integrates with the trading platforms that we use for cash investments in money market funds and it talks to Bloomberg, so that it can import market rates into the TMS." Payments are not as sophisticated as they could be, but after considering

IKON IMAGES

SWIFT a while ago, a business case could not be made for a costly time-consuming installation, because Tideway will only have a high volume of payments for three to four years.

FOCUS ON CYBER

Some costly and time-consuming technology spend is unavoidable. The cybersecurity threat to treasury departments has not diminished during the pandemic and it seems unlikely to do so. Even if the future is not characterised by more social distancing and intermittent lockdowns, now that some of the practical and psychological challenges have been overcome around remote home working, more of this seems likely, although cybersecurity aspects may demand more attention. For example, says Stebbings: "There may potentially be increased cyber risk from less inherent security in home wi-fi networks."

Treasury is having to deal with more and increasingly sophisticated external attacks, but the weakest links in the security chain remains people. "Many of the risks stem not from technology, but simply from human behaviour. Whether it's opening an unusual attachment or providing the IP address for a market news server to a stranger, it is often our human curiosity or desire to be helpful that lets us down," says Naresh Aggarwal, associate policy and technical director at the ACT. So all treasury departments need a formal strategy to mitigate the risks (the ACT shares insights on how at treasurers.org/hub/treasurer-magazine/why-treasurers-must-wake-spectre-cyber-risk).

TIME IT RIGHT

Even with the best-laid plans, objectives, principles and tactics for a treasury technology strategy can be scuppered by bad timing. "How I wish that I had been able to introduce a number of treasury systems before the COVID-19 crisis," says Christof Nelischer, who recently became group treasurer at International Personal Finance. As he told *The Treasurer* in April 2020, he had been planning to launch a TMS project, introduce electronic trading and an intercompany netting system, but the challenges of the coronavirus and the lockdown meant that these plans needed to be put on hold, given the immediate focus on responding to the situation in hand.

Nelischer has extensive experience of formulating and implementing cutting-edge treasury technology strategy in his previous treasury role at Willis Towers Watson, so he is rueful about the missed opportunity at International Personal Finance. "Sadly, the current crisis highlighted how beneficial it would have been, had we been able to implement earlier," he says, before putting an optimistic spin on the situation. "On a positive note, the crisis has shown the benefits of operating from a systems-based set-up, with automated operations and much improved visibility of our financial position," he says. Something good can come out of even the worst-case scenario.

Lesley Meall is a writer and editor specialising in finance and treasury technology

CRISIS TALKS

Positive mental health has become one of the defining issues of our times. Rachel Willcox looks at the impact of COVID-19 and the benefits of paying long overdue attention to mental wellbeing

Even before the spectre of COVID-19 had reared its ugly head, the mental health of employees was already on the business radar, having transitioned from a niche benefit to a mainstream strategic concern. But as the global health pandemic rages on, we face the reality that the relentless task of maintaining positive staff morale in 2020 might just be companies' biggest business challenge to date.

A poll conducted last June by the Reward & Employee Benefits Association found more than two-thirds of organisations had a strategy in place for monitoring employee wellbeing, up from 30% in 2016. Almost two-thirds of respondents said mental health was the number one wellbeing priority in their boardroom, and 46% reported having a dedicated mental health strategy in place in 2019, up from 16% in 2018.

Zoe Sinclair, founder of Employees Matter, launched This Can Happen – a conference dedicated to mental health issues in the workplace – in 2018. "Some companies are box-ticking; some are doing less than they would like; and in some cases there are frustrated people not getting the senior buy-in they need. But without doubt we are seeing more companies coming on board."

The business response to employee mental wellbeing is not all altruistic: research published by Deloitte in January found that poor mental health costs UK employers up to £45bn a year, an increase of 16% since 2016, largely due to a significant rise in mental-health-related presenteeism, absenteeism and staff turnover.

But in the face of a new normal, medical researchers writing in *JAMA Internal Medicine* have set off alarms about a mental health pandemic quietly taking hold internationally alongside COVID-19, warning of an overflow of mental illness that will inevitably emerge from this crisis. It points to the fallout of previous large-scale disasters including the SARS epidemics, hurricanes and the World Trade Center attacks, which were accompanied by increases in depression, post-traumatic stress disorder, substance abuse and a broad range of other mental and behavioural disorders.

> Creating regular opportunities for staff to raise any problems they face is key

Under the current unprecedented situation, leaders and managers broadly understand that personal issues loom large for everyone – from staff dealing with the ambiguity of a furlough situation to those struggling with new ways of working and the challenges of juggling professional and family commitments. Technology has been an enabler to allowing vast swatches of people to work from home, but the 'always-on' culture it facilitates can add to the challenge of maintaining good mental health and make it hard for some to disconnect.

SUPPORTING EMPLOYEES

What is also increasingly obvious is that the mental health backlash of COVID-19 will have a long half-life. Looking ahead to a return to some semblance of normality when teams are at least partially back in offices together and the onus will be on employers to help staff navigate an onslaught of mental health challenges forced upon them by bereavement, the financial impact of the pandemic and a host of other anxieties.

Emma Mamo, head of workplace wellbeing at UK-based mental health charity Mind, says creating regular opportunities for staff to raise any problems they face, whether personal or professional, is key. "As many staff move to remote working, this is all the more important, with check-ins now frequently happening virtually. If you're worried about the wellbeing of a co-worker, try to ask open questions, listen non-judgementally and try not to make assumptions about their mental health. Even if they're not willing or able to talk to you at the moment, you've at least let them know you're there for them if and when they need it."

This situation is a real wake-up call to companies, warns Matthew Steans, a manager in treasury advisory at EY, who set up Stigma Statistics, an initiative aimed at providing real data on suicide and suicide attempts to help formulate suicide-prevention strategies, having confronted his own mental health demons. Steans says middle-aged men at particularly high risk of suicide could well be the hidden casualties of this pandemic.

Steans is hopeful that positive changes over the past few years, such as greater openness in discussing mental health at work and more provision of support overall, including mental health first-aid training, will continue their upward trajectory. "It comes back to having open and honest conversations about how team members are feeling," he says.

For Alex Hyde, a treasury recruitment specialist at BIE Executive, the death of his wife a few years ago sent him on a downward mental health spiral that brought home the need for employee mental wellbeing to be at the heart of business. Hyde believes that authentic leaders who acknowledge that we all have mental health, all of the time, will be better placed to help on this issue and have more engaged, happier workers. They will also then be better placed to support those in their team if they experience mental health problems.

"If you're asking your team not to be on email over the weekend but you do it yourself, it sets the wrong tone. There's a huge amount of pressure on people working in treasury and I think it's definitely harder for people

further down the organisation to speak up. That's why it's so important for leaders to share their experiences – it makes it easier to not be OK," Hyde says.

MENTAL WELLBEING RECOGNITION

Amid employee concerns that admitting to poor mental health would be a career-limiting move, psychotherapist Simon Parke believes that confidentiality is crucial. His company, The Mind Clinic, provides corporate programmes offering employee support and counselling. "Mental wellbeing is a distraction to profit for some companies," Parke admits. "Companies tend to want to stick a plaster over it, but that doesn't work. Good management is preventative – it's about making sure the mental wellbeing of your team is valued."

Considering that even under normal circumstances managers acknowledge the need to do more but say they are hampered by other organisational pressures, the concern is that looming economic instability could result in mental health being relegated further down the list of corporate priorities. "Everyone is so focused on survival and adapting. The next question is, what's going to happen six months from now when budgets are stretched?" Sinclair asks.

But for leaders and management teams to go missing in action on this matter would be a false economy. Deloitte estimates that on average for every £1 spent on supporting their people's mental health, employers get £5 back on their investment in reduced presenteeism, absenteeism and staff turnover.

In the meantime, COVID-19 seems to have tipped the balance still further into accepting how every aspect of life can impact a person's mental health. "For companies to support across these issues requires a culture change and that doesn't happen overnight," Sinclair warns.

Nonetheless, she is confident that we'll look back on this period as a turning point for mental wellbeing recognition.

Reflecting on his own experiences, Hyde says it was the kindness of his line manager that made all the difference. "His response was so kind. You don't necessarily need to have an HR policy, you just need to react in a human way."

Rachel Willcox is a freelance writer and editor

THE RISE OF GREEN AND SUSTAINABLE FINANCE

How straightforward is it for organisations to invest in projects with environmental benefits? Rebecca Brace talks to treasurers about what their firms are doing

For many corporations, green and sustainable financing has become a significant area of focus in the past couple of years. As Tom Bolton, head of corporate finance at Thames Water, points out: "It's something that's been around for a long time, but in what feels like a relatively short space of time, it appears to have become mainstream."

This topic will only become more important in the future. Before the coronavirus crisis escalated, industry commentators had pinpointed sustainability as one of the top considerations for treasurers this year. While the current situation may hinder planned activity for some, sustainability continues to be an important topic for companies around the world.

For treasurers, navigating the green and sustainable finance market is something of a challenge – not least because some areas of the market are at an earlier stage of development than others. At the same time, there's a certain degree of overlap and confusion when it comes to the terminology used to describe the different routes available.

WHAT'S IN A NAME?

Where language is concerned, terms like 'green finance', 'sustainable finance' and 'transition finance' are sometimes used interchangeably, but each has a distinct meaning.

- **Green finance.** Kwok Liu, deputy treasurer, funding & investment at National Grid's group treasury, explains: "We see green financing as a type of financing where proceeds are used to specifically fund certain projects with environmental benefits. The market standard in Europe is for this type of issuance to be aligned with the International Capital Market Association's [ICMA's] Green Bond Principles."
- **Sustainable finance.** Sustainable financing, Liu says, involves linking the coupon paid to a sustainability metric or goal, and aims to promote wider sustainability criteria or commitment to the UN's Sustainable Development Goals – "but it's a product that is perhaps not as well developed as green financing".
- **Transition finance.** As well as green and sustainable financing, another emerging area is that of transition financing. The focus of this is on sectors that are currently 'brown', but are working to transition to green. In March, UK gas distribution network Cadent announced that it had issued the UK's first transition bond in the form of a 12-year €500m issuance. The proceeds will be used to reduce greenhouse gas emissions.
- **Impact investing.** While not a form of financing, impact investing is another term that is gaining traction in the sustainability conversation. "It's about the philosophy of investors when they make a decision on where to allocate their capital," explains Liu, "which includes both financial considerations and the positive impact that can be achieved in terms of social benefits and benefits to the planet."

While ESG factors may be top of mind for many companies, when it comes to debt issuance it's clear that different parts of the market are at different levels of maturity.

At this stage, green bond issuance is seen as a well-trodden path for companies – not least because of the structure brought by the ICMA's Green Bond Principles, which are intended to provide guidance for issuers, investors and underwriters. As Lisa Dukes, deputy group treasurer of power company Drax, says: "If you're launching a green bond, you know what's expected of you." Sustainable finance and transition finance, in contrast, are at an earlier stage of development, and as Dukes remarks, "there is definitely a lack of structure around those markets."

Likewise, green and sustainable financing is more developed in some regions than in others, with Europe appearing to be particularly advanced. Thames Water was the first ›

UK corporate to issue a green US private placement, with a £705.1m issuance in March 2018. "At the time, investors had relatively limited knowledge of concepts such as the green bond principles," says Bolton. "There has definitely been a noticeable change in the past six to 12 months – but not to the extent that investors are bringing multiple ESG analysts along to meetings."

DEMAND AND DRIVERS

Demand is being driven by a number of different factors, including investors as well as the board, the workforce and the company's customer base.

"We see a lot of demand for green bond issues, especially from debt investors in Europe," says Liu. "We see them becoming more focused on ESG, and we know it's becoming an increasingly important part of their investment process." He adds that certain investors have dedicated green bond portfolios, and investors are particularly keen to invest in green assets. "And on the equity side, I know the equity investor relations team gets a lot of questions around ESG as well."

"Investors are showing a lot more interest in green issues, with many keen to make greener investment choices," adds Jay Joshi, treasurer of property investment and development business Derwent London. "I can't remember the last time I went to an investor meeting where climate change and ESG weren't on the agenda."

But demand isn't just coming from investors. As Liu explains: "The board cares; our equity investors care; and our stakeholders care. National Grid plays a very important part in the UK's transition to net zero, so demonstrating our commitment to that is really important."

Another consideration is the role that green and sustainable financing can play in improving a company's reputation, and thereby increasing its appeal as a place of work – for both current and prospective employees. Bolton says, "Staff are interested. We have got a big commitment to what we call public value – it's one of our strategic goals. And staff certainly buy into that." Likewise, he says that prospective employees are taking a keen interest in the organisation's environmental credentials: "We are attracting a lot of highly motivated graduates, and they are asking questions."

More broadly, customers are increasingly driving demand for evidence of organisations' green credentials. "We have a customer arm that supplies electricity to B2B," says Dukes. "We are the largest provider of renewable energy, and there's a massive demand for that type of energy. People want green energy – they want to be able to say in their annual report and to all their stakeholders that all their energy is green." She also points out that individuals are mandating investment managers to take on more green and ESG investments within their portfolios.

GREEN AND SUSTAINABLE FINANCING IN ACTION

Different companies will approach this area in different ways, whether their focus is on green revolving credit facilities (RCFs) or sustainable bonds. Drax, for example, was the first global generator to issue an ESG-linked term loan. "The margin was adjusted based on carbon intensity achieving a benchmark," says Dukes. She adds that while the company has also been reviewing green loans and green bonds for some time, "given that we already had a strong ESG slant to both our core and working capital finance, we didn't see green bonds as a compelling addition at this stage."


More companies are looking to invest in green finance

Joshi, meanwhile, says, "the property and construction sector has a large carbon footprint, so we have a responsibility to do what we can to reduce that."

> Customers are increasingly driving demand for evidence of organisations' green credentials

In the case of Derwent London, this has included putting in place a five-year, £450m RCF, which includes a £300m 'green' tranche – the first such facility to be agreed within the UK's real estate sector.

"Lenders have a green agenda, too, and want to issue green products," Joshi comments. "You're effectively pushing on open doors. If you go to your bank and want to talk about green financing, it's probably already on their agenda."

In January of this year, National Grid issued a €500m green bond, with the proceeds set to finance electricity transmission projects with environmental benefits. "We went for green because it's the most developed market," Liu says, although he adds that the organisation is monitoring the market to see how different

Sustainable practices include supporting wind-energy generation

areas develop. "We could certainly look at transition financing, and in the future we could look at sustainable financing," he says. "But we're waiting to see how the market develops, because those two forms of financing are currently somewhat behind green financing."

DOWN TO THE DETAILS

For companies looking at green and sustainable financing, the cost of going down this route will be a major consideration. While companies may save a couple of basis points on margins, this may be erased by the cost of carrying out necessary verifications.

Nevertheless, as Joshi points out, "It's not actually about reducing margins on the debt facilities or savings on the associated costs." He argues that the more significant benefits lie in strengthening the company's relationships with stakeholders, from employees to policymakers and investors. "When you embed a green agenda throughout the whole business, you've then got to look at the cost or the benefit across the whole business, too, because the benefits will really come further down the line – and not specifically on the cost of the debt," he says.

Alongside costs, treasurers will also have questions about the practicalities. Liu says that where legal and administrative requirements are concerned, a green bond is not very different to a standard bond. "The only thing that's different is the use of proceeds statement in the documentation, and there's the green financing framework that you have to put in place, the cost of which is relatively small," he explains. "You also need to get a second-party opinion on the framework."

In addition, Liu says the process involves reporting on the impact of the projects funded by the financing. While this does take more work, he notes that there is generally a greater demand for this type of information from stakeholders, "so we are probably going to be producing this information anyway."

FINAL THOUGHTS

With some parts of the market more developed than others, it's clear that more progress is needed in some areas. "There are a few things that we need the green product markets to do before things can develop further, and this is mainly around transparency, disclosure and standardisation of the terminology," says Joshi. But he also notes that if requirements become too onerous, investors may be deterred – "so it's about getting that balanced approach."

Meanwhile, although not all companies will be focusing on green or sustainable financing at this stage, there may be other steps available to them. Dukes, for example, notes that Drax has embedded ESG metrics into the company's working capital programme. And as she points out, a further consideration is that listed corporates that do not issue debt are still likely to be rated by one of the ESG rating providers. She advises that companies should find out whether they have a rating, determine how this compares to their peers and take steps to improve the rating if necessary.

"While you may not be looking to issue debt, there is genuinely an increase in other stakeholders – whether that's customers, suppliers or even future employees – that are looking at that type of information and assessing you against it," she concludes. "You might not be getting finance on the back of it, but it's still important to be able to say, 'we are doing the right thing for the right reasons, and this is what we're doing to improve'. And if you do then decide to embed that into financing, you'll get an easier life and will hopefully be appropriately rewarded."

With thanks to Naresh Aggarwal for his assistance

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THE RISE OF MODERN SLAVERY IN GLOBAL SUPPLY CHAINS

WHAT CORPORATE TREASURERS NEED TO KNOW

Businesses, governments and the public are all showing greater interest in supply chains and their potential for exploitative practices. Patricia Carrier sets out the issues

Tackling modern slavery is increasingly a pressing topic for company boards and between corporations and their investors. Modern slavery – defined as making people work against their will and under threat of punishment – is understood as part of the 'social' element of ESG considerations, and as such ought to be on the radar of corporate treasurers.

At the Business & Human Rights Resource Centre (BHRRC), we track and analyse how companies report on their

GETTY

A child working inside a pot-making factory in Bangladesh

anti-slavery initiatives through our Modern Slavery Registry and through our influential reports on FTSE 100[1] companies. We've seen this issue taken up by governments as well as responsible companies and investors as an urgent risk demanding serious action.

A 2016 report by Hult University in the UK found that 77% of companies surveyed thought there was a likelihood of modern slavery occurring in their supply chains. The same report found engagement by senior business leaders to be the strongest enabler of corporate action on modern slavery, with more resources allocated to address this issue when those senior people were engaged.

Their engagement is partly driven by a recognition that greater attention on modern slavery, prompted by media coverage or the introduction of national legislation, brings increased reputational risk to companies.

INVESTORS

What's more, investors are increasingly vocal about the risks of modern slavery within companies' operations and global supply chains. The UN-backed Principles for Responsible Investment (PRI), representing more than $86 trillion in assets, is increasingly engaging on the issue as part of the S in ESG. The FAST Initiative (Finance Against Slavery and Trafficking) is a multi-stakeholder initiative that has developed a blueprint for the financial sector and professional service providers to speed up action to end modern slavery. The Organisation for Economic Co-operation and Development's Responsible Business Conduct for Institutional Investors references the UK Modern Slavery Act in the context of the need for transparency around due-diligence practices of companies operating in high-risk sectors.

On an individual level, investors are asking companies about their policies and due diligence on modern slavery. They use civil society research and materials such as the KnowTheChain[2] benchmarks and BHRRC's data on companies' modern slavery policies and practice to ask these questions. For example, in 2018, a shareholder resolution put to drinks company Monster Beverage demanded the company assess its risk for modern slavery after it stated it had a minimal risk in spite of scoring poorly on the KnowTheChain benchmark. As a result, the company undertook an impressive overhaul of its policies and practices. Similar shareholder pressure was applied to Coles and Woolworths in Australia.

> Investors are asking companies about their policies and due diligence on modern slavery

This momentum is causing companies and investors to rethink their fiduciary duties to shareholders – looking beyond short-term profits and more about long-term societal good. This has received a boost from Larry Fink, CEO of BlackRock, the huge US investor with $6.84 trillion of assets under management. Rathbones Investment Management, meanwhile, is using compliance data on the FTSE 350 provided by the Modern Slavery Registry to push companies to raise their human rights standards.

Environmental awareness has also helped to drive change. Climate change is causing more people to migrate, which has the potential to create a growing population of migrant workers at risk of exploitation. National policies, such as the UK's post-Brexit immigration and visa schemes, are likely to increase risks to vulnerable migrant workers seeking work.

Businesses are also finding modern slavery is an issue receiving greater attention from rating agencies and governments. As investors continue to demand data on modern slavery, rating agencies will have to respond and provide comparable, consistent data that can be used as part of an investor's own due diligence into companies.

The EU's non-financial reporting directive (EU NFRD) links modern slavery to statutory Strategic Reviews within corporate reporting. As part of a renewed sustainable finance

Modern slavery awareness protest in London


Women and children workers after a day working at a construction site in India

strategy, Valdis Dombrovskis of the European Commission has announced a revision of the NFRD, which requires companies to disclose material environmental and social information, including on human rights.

Recent analysis by the Alliance for Corporate Transparency of more than 1,000 companies found disclosure under the EU NFRD to be very poor in the area of supply chain management and human rights. This supports the rationale behind the revision called for by Dombrovskis, namely that information being provided is not comparable or reliable and does not meet users' needs. Internationally, Modern Slavery Acts, placing reporting and other requirements on companies, have been introduced in the UK and Australia, with an Act being considered in Canada, and amendments being considered to strengthen UK legislation.

Meanwhile, there is a growing movement in Europe to introduce mandatory human rights due diligence (mHRDD), requiring by law that companies identify and prevent adverse human rights impacts, including modern slavery and other labour abuses. Initiatives for such laws are gaining ground in Germany, Finland, Switzerland, the Netherlands, Norway and recently in Mexico, with talk of pushing mHRDD across the EU.

All of this being said, it's important to see modern slavery as at the extreme end of a spectrum of labour rights abuses, all of which represent a risk to businesses. Modern slavery is one of the most difficult abuses to police given that it occurs far down the supply chain where there is low visibility. The best way to combat modern slavery, therefore, is to address other labour rights issues. For example, modern slavery is directly linked to fair pay practices, so enforcing decent and timely wages for workers in supply chains makes modern slavery less likely.

Action on issues such as living wage, freedom of association, health and safety and collective bargaining throughout supply chains will help mitigate the risks of the most severe forms of exploitation. Treasurers have a crucial role in protecting companies from such risks, supporting best practice by matching the proactive steps taken by companies and investors, and thereby helping to eradicate modern slavery.

1 B&HRRC reports, which can be found at modernslaveryregistry.org/pages/FTSE_100_ reports, highlight best practice among corporates and include recommendations for companies, investors and governments
2 A resource for companies and investors to help understand and address forced labour risks within supply chains at knowthechain.org

Other resources:
unpri.org
fastinitiative.org
mneguidelines.oecd.org

Patricia Carrier is project manager for the Modern Slavery Registry at the Business & Human Rights Resource Centre in the UK; www.modernslaveryregistry.org; business-humanrights.org

CLEAR SIGHT LINES IN SUPPLY – PUMA

Keeping supply chains free from exploitative labour or unsustainable business practice is an imperative that is climbing ever higher up the corporate agenda. For high-profile consumer brands, in particular, sustainable supply chain finance (SCF) is proving an effective means of building brand loyalty and safeguarding corporate reputation.

For sports brand Puma, building a sustainable SCF programme across its supply chain has had some desirable outcomes, enabling it to support its suppliers financially and incentivising them to become more sustainable. Partnering with HSBC and leveraging the bank's global footprint, the sports brand has created a tiered pricing structure for suppliers based on an internal set of sustainability criteria – facilitating supplier payments via its purchasing and logistics platform, GT Nexus.

The financing programme, which went live last year, represents a multimillion-dollar facility, covering suppliers across 17 mainly Asian countries.

HSBC's Burcu Senel, head of propositions, global trade and receivables finance, says the bank looks at sustainable finance from a number of angles. "The ways we engage with our clients are multiple – and this is a fast-moving space," she says. "We really want to partner with our clients, to understand their goals and challenges and then co-create with them and place rigour around supply chain finance."

Sustainable SCF is attracting interest from intergovernmental bodies, businesses and the public. "The amount of impact you can create by making the supply chain sustainably based is far greater than by trying to support a single client on their sustainability goals," says Senel. Puma's approach is a sophisticated one, she says, resting on a strong internal model of sustainability key performance indicators (KPIs). The bank is agnostic as to whether companies should use third-party mechanisms or rely on their own sustainability rating system, but they need to be clear about desired outcomes.

"What needs to be in any client conversation is a clear sustainability goal – an established target that they want to meet through their supply chain."

For corporate treasurers, two key points for building or maintaining a sustainable SCF programme is buy-in from sustainability representatives and procurement colleagues to work against an agreed set of KPIs. "The dialogue completely changes when procurement, treasury and banking partners are aligned. The treasurer's role is in bringing everyone to the table."

She sees a positive future for sustainable SCF. "Every client is on a different type of journey, but we do see a lot of co-creational opportunity."

IN SEARCH OF A RISK-FREE RATE

REGULATORS HAVE RENEWED THEIR CALLS FOR CORPORATES TO PREPARE FOR THE END OF LIBOR. JAMES LEATHER TALKS TO EDWARD OCAMPO ABOUT INTERNATIONAL BENCHMARK REFORM

As a former senior adviser at the Bank of England, where he led work developing and promoting alternatives to LIBOR and contributed to the 2014 Fair and Effective Markets Review (FEMR), Edward Ocampo has had a close involvement on the development of alternative benchmarks. Currently advisory director at Quantile Technologies and a non-executive director at the FICC Markets Standards Board (FMSB), here Ocampo talks to treasury consultant James Leather about LIBOR transition.

What are the main drivers behind LIBOR reform?

Interest rate benchmark reform stems from the decline in confidence in the reliability and robustness of the major interest rate benchmarks, such as LIBOR, EURIBOR and TIBOR. Cases of attempted manipulation and false reporting had undermined confidence in these benchmarks. An evolution in bank sources of funding, including the decline in interbank unsecured lending transactions – the key inputs for IBOR settings – has also been a factor. Uncertainty surrounding the sustainability of these reference rates represents a potentially serious source of vulnerability and systemic risk. In 2013, the G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of major interest rate benchmarks and plans for reform to ensure that those plans are consistent and coordinated, and that interest rate benchmarks are robust and appropriately used by market participants.

Alongside that, derivative markets had decided as far back as 2008 that IBORs were not the ideal rate for valuing derivative contracts; the financial crisis made it clear they were not risk free. This created a huge move to value derivative contracts off risk-free rates (RFRs) such as SONIA. Once this happened, the risk management benefits of adopting RFRs as the reference rates for these contracts, rather than IBORs, became apparent.

Finally, in 2017, the Financial Conduct Authority (FCA) made clear that LIBOR's availability could not be assured beyond end-2021 due to the absence of active underlying deposit markets. So, for LIBOR, it is about transition to alternative rates, rather than further reform.

Market participants who fail to transition to alternative rates over the next two years face many risks, including legal uncertainty and unforeseen changes in the value of their financial contracts.

KEY RATES

EURIBOR – Euro Interbank Offer Rate

IBORs – Interbank Offered Rates

LIBOR – London Interbank Offered Rate

SARON – Swiss Average Rate Overnight

SOFR – Secured Overnight Financing Rate

SONIA – Sterling Over Night Index Average

TIBOR – Tokyo Interbank Offered Rate

Edward Ocampo, advisory director at Quantile Technologies

So, which currencies are impacted?

All major IBORs across the G20 are undertaking benchmark reform. However, it is the sustainability of LIBOR that is imminently in peril. LIBOR is published in five currencies: USD, EUR, GBP, JPY and CHF. USD, GBP and CHF are most impacted because there are no IBOR alternatives for these currencies. The plan is to move completely away from IBORs to new RFRs: SOFR, SONIA and SARON respectively.

Other FSB members, including those in Europe and Japan, are pursuing a 'multi-rate' approach, whereby they have reformed their existing IBORs to strengthen them, while also encouraging adoption of alternative RFRs. There is still some debate as to whether reformed IBORs are a long-term solution. The drivers to move away from these are strong and may accelerate as derivatives markets in major currencies move to robust, transaction-driven RFRs.

EURIBOR SONIA TIBOR

Typically, how has each country gone about transitioning?
The work relating to RFR transition is being taken forward by national working groups convened by supervisory authorities (a recommendation of the FSB). While this work is market-led, the official sector is taking meaningful steps to support and encourage the transition process. National working groups are providing guidance, helping to establish RFR infrastructure and product conventions, as well as setting targets for key transition milestones. The International Swaps and Derivatives Association (ISDA) is also playing a critical global role through the implementation of robust contractual fallbacks in the event of a LIBOR discontinuation.

Where is the transition most advanced and where is it least advanced? Why do you think that is?
Across currency areas, sterling markets have made the most progress. That is mainly due to the choice of SONIA as the RFR alternative. Other alternatives were considered, including the Bank Rate and a Gilt repo rate. SONIA – an unsecured overnight deposit rate – was eventually chosen by the UK national working group after the Bank of England took on and reformed it to ensure its reliability and robustness. SONIA is well established, having been in use since 1997. It is stable and closely tracks Bank Rates, off which the SME and retail banking sectors price their lending. For all of these reasons, SONIA enjoys broad-based market buy-in. In sterling markets there is now little interest in a credit-sensitive GBP LIBOR alternative, with the prevailing view being that markets can adapt to overnight RFRs for most applications.

USD market transition has so far proceeded at a slower pace. SOFR, an entirely new rate introduced by the Federal Reserve in 2018, was selected as the RFR. It is a secured rate that tracks the US Treasury repo markets, and these markets experienced unexpected technical volatility last autumn. While SOFR enjoys strong support among major participants in derivatives and capital markets, some US market participants – including regional and mid-sized banks – are keen to explore a credit-sensitive USD LIBOR alternative for lending markets. For such a rate to take hold, it will need to be robust, representative and compatible with a SOFR-centric ecosystem in derivatives and capital markets.

The status of the USD as a major international reserve currency also increases the complexity and scope of transition efforts.

What do you think are the most useful lessons for other markets?
I think the most useful lesson from sterling markets is that transition from LIBOR to RFRs is feasible. We are not there yet, but progress has been encouraging, plans are in place and implementation is well under way.

Do you foresee any consequences of the transition from LIBOR to RFRs that have flown under the radar to date? What might the impacts be?
Without meticulous planning, cessation of LIBOR poses systemic risk. Market-wide LIBOR transition efforts need to accelerate as we approach the end of 2021. However, one consequence of LIBOR transition is that new RFR curves need to be adopted as the discount rate for valuation and margining of cleared derivatives. This is currently planned for EUR and USD in July and October 2020, respectively. It is not necessary in GBP because SONIA is already used for discounting. Transitioning the curve is particularly challenging for bilateral swaptions with post-July and October exercise dates. Consultations are ongoing, but it may be challenging to avoid unforeseen value transfer in some swaption contracts due to the change in cleared discounting.

Another consequence is that we might see the splitting out of multi-currency borrowing facilities into their separate currencies, since different currencies have selected different RFRs and are transitioning at different speeds. So, what was once a relatively simple facility that had one margin and referenced one family of rates (IBORs) would probably need to incorporate different reference rates and different margins.

What should we expect from the rest of 2020 and beyond?
I will focus on sterling markets, as these are the most advanced and will hopefully establish precedents for other currency areas. I would highlight five key milestones in rough order of when we should expect them:

1 A change in sterling interest-rate swap conventions from LIBOR to SONIA. This is important signalling and will further encourage liquidity in SONIA products. This shift began in March and will continue to accelerate.

2 Publication of the ISDA fallback protocol, expected late Q2 2020. This is a crucial step that will allow market participants to mitigate the risk of LIBOR cessation in bilateral derivatives markets.

ED OCAMPO

Edward Ocampo worked at Morgan Stanley for 24 years, where he was an MD in the fixed-income division and a member of the board of directors for its UK bank. In 2014, he joined the Bank of England as a senior adviser, where he led the work to develop and promote alternatives to LIBOR and contributed to the FEMR. He is now an advisory director at Quantile Technologies, which provides portfolio risk management services for derivatives markets, and a non-executive director at the FMSB (fmsb.com), a standards setting body that aims to raise standards of conduct in global fixed-income, currencies and commodities markets so that they are more transparent, fair and effective for all participants in those markets.

3 The daily publication of a SONIA-compounded index by the Bank of England, expected to be available in Q3 2020. The availability of a single unimpeachable source should greatly facilitate the use of compounded SONIA.

4 The cessation of new GBP LIBOR cash products by the end of Q1 2021 (formerly Q3 2020). This will be facilitated by the implementation of loans systems enhancements to support compounded SONIA in syndicated lending (targeted for end-Q2) and the availability of the new SONIA compounded index.

5 A significant reduction in the stock of LIBOR referencing contracts. This will mitigate the significant operational risks associated with a big bang transition through the operation of fallbacks. The target for this in GBP markets is Q1 2021.

If I were a borrower with LIBOR exposure in loan contracts and I wanted to transition, what do you think my first steps should be?

STEP 1
Carefully consider the publicly available guidance on LIBOR transition provided by national working groups and international authorities. For example, the Working Group on Sterling Risk-free Reference Rates has recently published a very helpful paper detailing the path to discontinuation of new GBP LIBOR lending.

STEP 2
Familiarise yourself with all available alternatives to LIBOR-based instruments and the product conventions associated with each of these. Identify and implement system changes which may be required to accommodate these conventions.

STEP 3
Don't hesitate to seek out independent advice from relevant professional service providers.

> The FCA is very focused on ensuring that customers are treated fairly when replacing LIBOR

How will I know if I am getting a fair deal?

The FCA is very focused on ensuring that customers are treated fairly when replacing LIBOR and has published a helpful paper *Conduct risk during LIBOR transition*[1]. Banks and other wholesale market participants are also focused on facilitating a fair and effective transition. The FMSB is planning a paper on conduct risk in LIBOR transition that will include case studies relevant for members of The Association of Corporate Treasurers. While there are many issues to consider, I think it is particularly important that service providers price instruments linked to new RFRs transparently and, wherever possible, cross-reference relevant inputs against independent pricing sources.

How has LIBOR transition been impacted by COVID-19?

There have been large moves in LIBOR-RFR spreads, but no material change in ISDA's plans at this time. And while the spread might make it more expensive for borrowers to transition during the crisis, recent rate moves do demonstrate that RFR-linked loans can provide materially lower borrowing costs in a period of financial distress. On the other hand, corporates are facing so many challenges right now that LIBOR transition may be well down the list of priorities. Despite the widening of the spread, new SONIA loan deals are still getting done.[2]

Recent deals have evidenced solid progress in SONIA and SOFR take-up. In December of last year, Shell signed a $10bn SOFR-linked revolving credit facility (RCF). In March, BAT signed a £6bn multi-currency RCF linked to SONIA and SOFR. And in April, Riverside signed a £100m SONIA-linked RCF, the first facility to complete following the onset of COVID-19.

Although the aim to cease issuance of all new LIBOR-linked GBP products by the end of Q3 this year has been moved to end-Q1 2021, authorities have not so far made changes to the end-2021 timeframe.[3] So the issue of LIBOR transition will require continued focus.

1 fca.org.uk/markets/libor/conduct-risk-during-libor-transition
2 risk.net/derivatives/7523706/lloyds-and-riverside-sign-sonia-revolving-loan
3 fca.org.uk/news/statements/impact-coronavirus-firms-libor-transition-plans

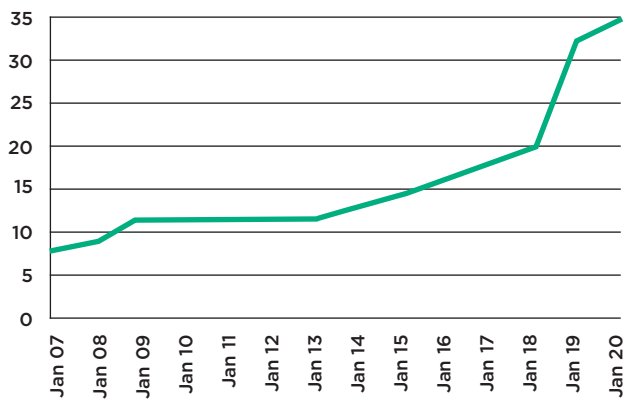
James Leather is a freelance treasury and finance professional with an interest in international benchmark reform

CASH GETS A CONSCIENCE

WITH THE NUMBER OF ESG FUNDS AND ASSETS UNDER MANAGEMENT GROWING, OPTIONS FOR INVESTORS ARE OPENING UP. ALASTAIR SEWELL SETS THE STAGE FOR A GROWING ESG PRESENCE AMONG MMFs

Expanding number of named ESG MMFs

(Number of funds)



Source: Fitch Ratings, Lipper

ESG matters are increasing in prominence in financial markets, and so it comes as no surprise that money market funds (MMFs) have been among the latest adopters of ESG practices.

Defining ESG in MMFs

MMF managers are increasingly incorporating ESG in their investment processes, either as part of their traditional investment underwriting process and risk/return analysis or, more explicitly, as what we would characterise as 'named' ESG MMFs. We define an ESG MMF as one that has a specifically stated ESG element in its investment objective or strategy description. Most such funds will also feature ESG, or an ESG theme, prominently in the name of the fund.

Regardless of the approach, the reality is that ESG-orientated investment strategies are in high demand. We estimate that assets under management (AUM) in named ESG MMFs grew by around 30% in 2019, which is well ahead of the 15% growth in all MMFs globally. These assets are benefitting from a low base effect. We estimate euro-equivalent AUM of just €70bn for the year ending December 2019, compared with more than $6 trillion across all MMFs.

This is not to diminish the impact of the broader ESG processes that investment managers are either implementing or already have in place. On the contrary, we see investment managers strengthening their ESG processes and resources, and also more traditional MMFs adding some element of ESG to their governing documentation. By our count, around two-thirds of European short-term MMFs had some element of ESG language in their governing documentation as of the end of December 2019. This year we have already seen more funds added to that list.

Applying ESG

Some funds pursue exclusionary approaches to ESG, whereby they seek to exclude either specific

issuers (for example, issuers subject to elevated political or public scrutiny) or issuers from certain sectors, such as thermal coal producers. Others will use internal or external ESG ratings, both to exclude issuers with low ESG ratings or, in a more integrational approach, to underweight lower-rated issuers while overweighting higher-rated issuers.

The consequence of these differences in approach is that named ESG MMFs may have quite different asset allocations. That being said, governance tends to rank highly in most named ESG MMFs' investment processes. MMFs invest heavily in financials. Fitch's ESG relevance scores, which show the extent to which environmental, social or governance factors influence our credit-rating decisions, show that governance is the most common factor influencing our credit-rating decisions on financial institutions. In a way, this focus on governance is nothing new for MMFs: they have always reacted to headline news relating to governance events. What has changed is the formalisation of ESG risk processes around these types of issues.

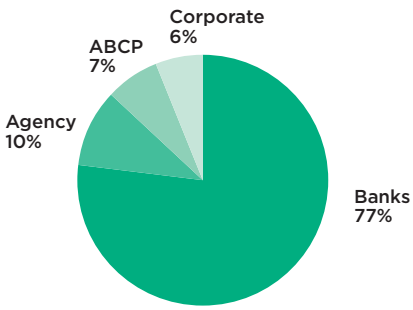
Conclusion

The combination of AUM growth, new fund launches and increased adoption of ESG supports our view that demand for, and assets of, named ESG MMFs will continue to rise. However, there are differences in the way managers adopt ESG. Some take a broad-brush approach, while others provide named ESG funds. It is important that investors understand exactly how fund managers approach ESG and, for named ESG funds in particular, how the ESG process can influence fund allocations.

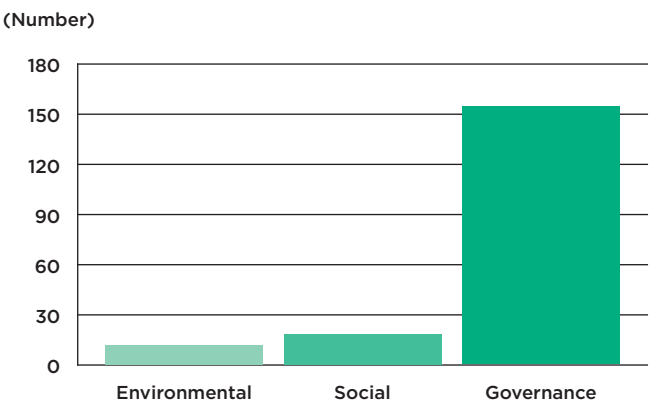
Alastair Sewell is senior director at Fitch Ratings

FitchRatings

Financials dominate MMF allocations



Governance is the ESG factor affecting Fitch's financial institution ratings most often
(ESG relevance score of 4 or 5)



Source: Fitch Ratings

UNDERLYING ASSETS

IS TRADE RECEIVABLES SECURITISATION RIGHT FOR YOUR ORGANISATION? TOM HUNTINGFORD SETS OUT THE POSSIBILITIES

Trade receivables securitisation enables companies to access committed financing by selling their receivables, at an interest cost that compares favourably to many other forms of funding – as long as certain criteria are met. So how can businesses decide if this route is a competitive form of financing for them?

Trade receivables securitisation: an overview

Securitisation is the issuance of securities based on underlying assets. In the case of trade receivables securitisation, the assets are trade receivables – in other words, invoices issued to clients that are fully payable and enforceable, but not yet at their due date.

While trade receivables securitisation comes in many different forms, broadly speaking it involves transferring receivables to a special purpose vehicle (SPV) on a true sale basis. The corporate remains responsible for collecting payment, with underlying customers unaware that securitisation has taken place.

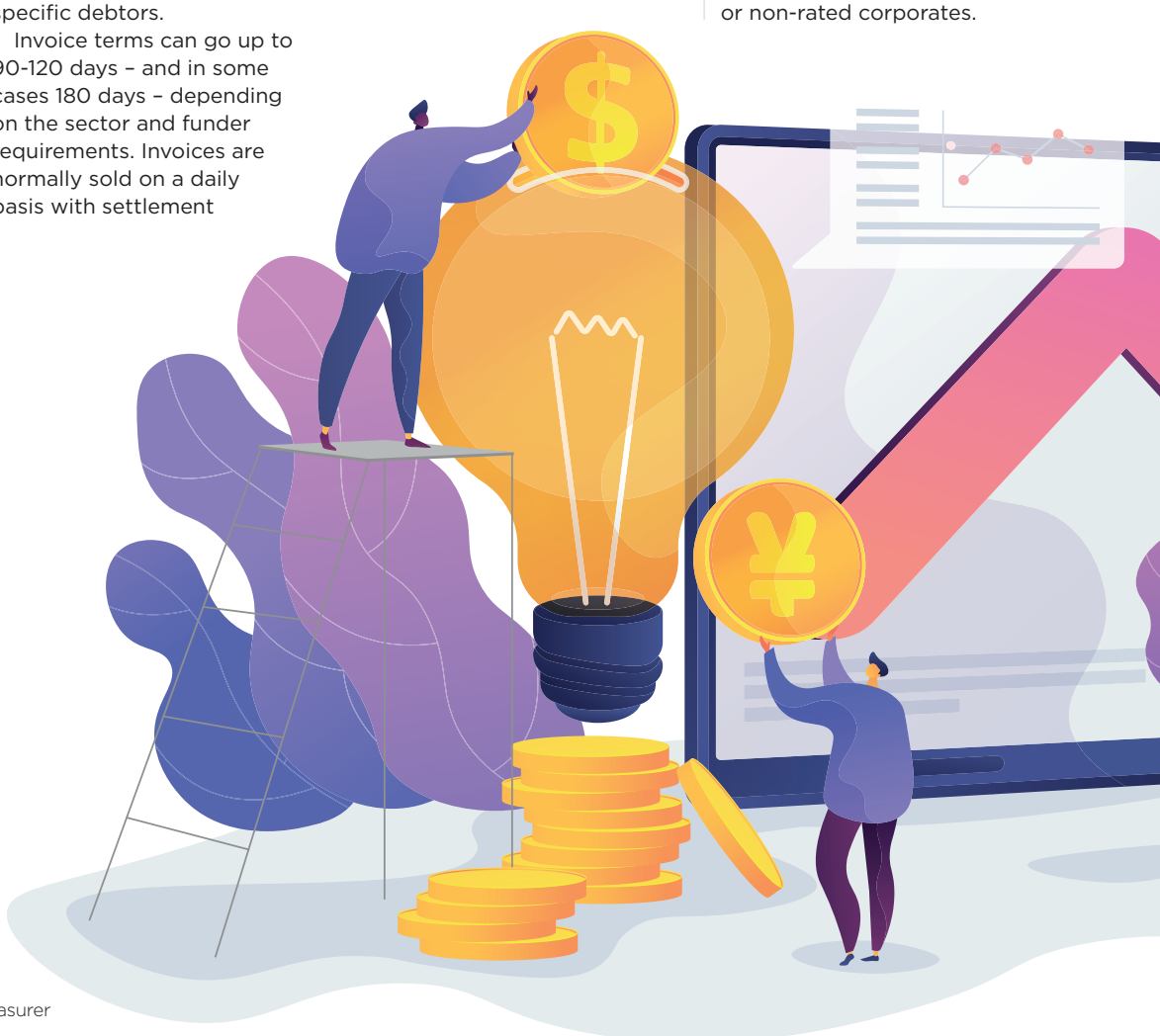
With the receivables sold to the SPV, the company applies a methodology to determine the advance rate, which can be up to 90% of the value of the receivables, depending on the transaction capital structure. The advance rate will be determined by factors like the number of late payments by customers, the number of dilutions or credit notes offered, and the extent to which receivables are concentrated on specific debtors.

Invoice terms can go up to 90-120 days – and in some cases 180 days – depending on the sector and funder requirements. Invoices are normally sold on a daily basis with settlement out of collections daily/weekly and out-of-funder drawdowns monthly or multiple times a month, depending on client requirements.

The SPV then issues a note to the senior funders – typically via a conduit set up by a bank. Drawdowns or repayments of notes happen generally monthly, but can be structured to happen more frequently where required. The bank, or the vehicle supported by the bank, typically funds itself by issuing asset-backed commercial paper. (The assets that support the bank conduits asset-backed commercial paper are the senior notes that are issued by the SPV, which in turn are backed by the receivables held at the SPV.)

Who can use trade receivables securitisation?

Trade receivables securitisation is most likely to be adopted by non-investment grade or non-rated corporates.



Investment grade companies will likely already have a low cost of funding – so the lower the company's rating, the more attractive this approach becomes. That said, companies which are in a very precarious financial position may not be in a position to undertake securitisation.

Securitisation will typically be used for a portfolio size of $80m-100m – but companies that opt for a simpler structure may occasionally be able to use this approach for a $70m or even $50m portfolio, depending on funders' appetite.

Other considerations are as follows:

- **Enforceability.** The receivables should be enforceable once the due date comes, without any further action needed by the company.

CASE STUDY: GLOBAL FREIGHT AND LOGISTICS PROVIDER

Acting as both adviser and reporting agent, Demica structured and put in place a €550m trade receivables securitisation for a global freight and logistics provider.

The $7bn global player, with 160 operating companies and a presence in 17 countries, had $1bn in receivables and a B+ rating. Its aim was to secure an efficient, scalable framework to include 17 of its operating companies across eight countries, with additional countries to be included in over a second phase.

Indications from banks suggested that advance rates of 65-75% would be achievable, due to high customer concentrations and reserve-related issues. The company, however, was seeking advance rates of around 75-80%. In addition, the client wanted to include numerous contracts agreements with differing terms and a committed three-year revolving facility.

The structure involved the set-up of an Irish orphan SPV using the client platform, rather than a bank platform, to maximise refinancing options.

The outcome included:

- Senior notes structured to an implied AA rating, priced at base + 120bps to balance price, structure and flexibility;
- Cash release mechanics to optimise liquidity;
- Platform-enabled inclusion of un-billed receivables, which increased the programme size;
- European Securities and Markets Authority-compliant transaction reporting via Demica's platform.

- **Contracts.** Some contractual agreements with customers will stipulate that receivables cannot be transferred or financed, although this may not be insurmountable.
- **Carve-outs.** Highly levered companies will also need to make sure there are carve-outs in place in their existing facilities allowing for the sale of receivables or that these can be waived by existing lenders.
- **Portfolio performance.** Companies should consider whether the receivables portfolio has a historical performance of at least 12-18 months, and preferably 36 months. They should also ascertain whether the portfolio shows low defaults and low dilution levels, and whether the portfolio is highly concentrated.
- **Location.** If the seller of receivables is in a non-Organisation for Economic Co-operation and Development (OECD) jurisdiction, the sale of the receivable to the SPV may be complicated. Likewise, for debtors based in non-OECD jurisdictions, it may be difficult to determine whether receivables are enforceable.

Advantages of trade receivables securitisation

For companies that fit the criteria, the benefits of trade receivables securitisation can be considerable. If companies are selling in multiple countries, securitisation tends to be a much better tool than traditional asset-based lending or factoring facilities – not least because it is easy to add new countries, new debtors and new sellers.

In addition, factoring and other facilities are typically uncommitted, or committed for only 12 months. With securitisation, companies can generally get a commitment of three years for most programmes. What's more, funding is not dependent on the performance of specific debtors – provided the portfolio's performance continues to be good, the company will continue to access funding.

The transparency associated with securitisation is another benefit. A company that sets up an SPV will know at any given point what the costs will be and how much funding it will receive. The ability to tailor a programme also makes it straightforward to assess the optimal accounting treatment.

Last but not least, the cost of funding will be substantially lower than for other forms of funding, such as corporate funding including a direct corporate loan or public bond issuance and asset-based lending – and although factoring can be very competitive in certain markets. In other cases, securitisation is likely to be a cheaper option.

In conclusion, trade receivables securitisation won't be the right solution for every company. But for organisations that meet the criteria outlined above, the benefits can be considerable.

Tom Huntingford is senior director, structuring, at Demica

DEMICA
UNLOCK POTENTIAL

PASSING THE CRISIS TEST

MONEY MARKET FUNDS ARE PROVING THEIR WORTH DURING AN EVER-CHANGING LANDSCAPE WHERE CASH IS KING. TONY CALLCOTT AND CAROLINE HEDGES SET OUT SOME KEY ADVANTAGES

COVID-19 has presented numerous challenges for money market funds (MMFs); challenges that have really tested their resilience. Common questions investors are asking us include: are MMFs still a viable option for your cash, even during these unprecedented market conditions? Also, do they still deliver capital preservation, daily liquidity and yield?

The global financial crisis and the eurozone sovereign debt crisis led to an overhaul of regulation across banks, insurance companies, repo markets and MMFs. The January 2019 European Money Market Fund Reform followed similar regulations of the US Money Market Fund Reform in 2016.

What are the regulations?

As a recap, the regulations were designed to ensure short-term MMFs would be well-positioned to withstand another crisis – ie they would continue to function during times of extreme stress and cope with abnormally large redemptions. Aviva both contributed to, and lobbied for, these changes. They represent a total reform of the industry and a new type of fund was created – a low volatility net asset value (LVNAV) fund.

The regulations are too comprehensive to cover here, but here are a few key points:

- Only government funds would be allowed to remain as a constant net asset value (CNAV) fund. A newly created LVNAV, which sits somewhere between CNAV and variable net asset value (VNAV), enabling funds to price at the risk they represent.
- Prime MMFs are either LVNAV or VNAV, with LVNAV funds priced at 1.00 as long as their 'shadow NAV' remains within a collar of 20bps.
- The new regulations stipulated minimum thresholds for liquidity – LVNAV funds must have a minimum of 10% daily and 30% weekly liquidity. These thresholds did not exist before and they have come to play a very important role for short-term MMFs.

So, how have MMFs fared in the COVID-19 crisis?

Liquidity

Around the middle of March, as the pandemic took hold throughout Europe and the US, it became apparent that more serious and unprecedented measures would be needed to contain the virus. Lockdowns, store and school closures, national border closings and airline fleet groundings became normal. This severe and sudden stalling of the global economy created market volatility, with some of the largest consecutive daily drops in equity markets we have ever seen. There were large redemptions from all asset classes, which led to fire sales as investors flocked to safe havens. Liquidity diminished and central banks acted swiftly around the globe by cutting rates and injecting liquidity back into the markets. Having learnt from the lessons of the last crisis – ie that fast and drastic action is essential – central banks made it clear that they would take all necessary action to support financial markets.

MMFs were not immune from this sell-off. Liquidity dried up in the assets that both MMFs and treasurers purchase for short-term investment purposes. US MMFs saw large movements in assets under management, as investors withdrew cash from MMFs back to bank accounts as a perceived safe haven. Though not a crisis anyone was expecting, MMFs were able to perform their key role of providing liquidity. This was done by repositioning their own, already high levels of liquidity, which in turn decreased demand for longer-term paper. To ensure continued confidence in USD funds, the Fed also announced support for MMFs. Some euro and sterling funds also experienced outflows.

This unprecedented event tested the money market industry to its extremes. So far, it is encouraging to see that the new regulations appear to have ensured that the industry met its obligations during this volatile period. You could view it as a real-life stress test. Not only did funds meet the need for cash from their clients, but they were also able to enhance their short-term liquidity by 30-50%, proving that MMFs are agile and able to adapt quickly to stresses in the markets when required.

Capital preservation

Crucially, MMFs continue to provide more diversification than bank deposits: the benefits of not placing all your eggs in one basket can be amplified during a crisis. There will be winners and losers from this crisis.

It is here that strict regulatory criteria over the credit quality assessment of the underlying issuer should come into effect. MMFs invest in very highly rated assets: AAA-rated funds have additional restrictions requiring high proportions of AAA- and AA-rated assets in the portfolio, with low exposure to A-rated issuers that have long maturities (beyond six months). The regulations also refer to a diversification framework that stipulates maximum allocations at not only an issuer level, but a product level, too.

In practice, for investments beyond a one-day maturity in our prime funds we target a maximum exposure to each issuer well inside the regulatory cap of 5% of NAV. During an evaluation of negative rating action, we also stress the portfolios for a two-notch downgrade of the underlying issuers, reduce the weighted average maturity and life (WAM and WAL) of the portfolio and ramp up liquidity. This is done while still providing all the diversification benefits of a pooled fund. Therefore, to

ensure capital preservation, MMFs can adapt their portfolios quickly and efficiently.

Yield

Although yield is a secondary consideration both for money managers and investors when market conditions are volatile, MMFs can deliver yield. During the wave of COVID-19-induced central bank rate cuts across the globe, MMFs held on to higher yields for longer by taking the weighted-average duration of the portfolios out to 60 days.

The current steep and upward-sloping yield curve makes overnight rates look particularly unattractive. This is not due to any increased risk of default for issuers MMFs invest in, but due to an increase in term and liquidity premium. MMFs tend to be highly invested in banks, which the then governor (Mervyn King) of the Bank of England said would not be the cause of the next crisis, but the solution. Banks are now well capitalised as a consequence of the post-global financial crisis regulation and the central banks have used them to not only inject liquidity into the market, but also to support the real economy. This benefits MMFs as clients can obtain more attractive yields than a bank deposit during a time of unexpected interest-rate cuts.

How have MMFs adapted to this crisis?

Technology has enabled us all to adapt and deliver a seamless transition for clients. Group video calling is the new norm and essential in a fast-changing market. This applies both to internal communication between investment desks, as well as for dialogue with clients. By leveraging technology, we are able to keep clients comfortable with our overall strategy and relay notable changes quickly and efficiently. This enhanced two-way conversation also allows for better transparency of future cash requirements to aid effective portfolio management.

Government funds have been in demand. In the US, clients are more agile in moving from prime MMFs to government funds – as evidenced by the large migration in 2016 when US reforms were implemented. Demand for our Government Liquidity Fund (GBP) has increased, indicating the importance of these funds as investors using bank deposits seek alternative ways of finding safety.

Although it is too early to make any lasting conclusions, so far MMFs have navigated their way through this crisis successfully, delivering capital preservation, liquidity and yield. In large part, this is down to the enhanced regulations implemented in recent years that require high degrees of liquidity to manage volatile markets. One thing we can be sure of, they will continue to provide an essential tool for investment and liquidity management.

Tony Callcott is global head of liquidity sales; and Caroline Hedges is global head of liquidity portfolio management at Aviva Investors

AVIVA INVESTORS

MANAGING RISKS AND C-SUITE EXPECTATIONS DURING A CRISIS

TREASURY FUNCTIONS ARE OFTEN THE FIRST PORT OF CALL WHEN IT COMES TO BOARDS SEEKING CLARITY ON RISK AND LIQUIDITY. SIMON SHORTHOSE OFFERS SOME POINTERS ON EIGHT KEY ISSUES

During times of crisis, treasury and finance are often called upon to answer strategic questions from the CEO, CFO and board, and to ultimately calm the storm within the organisation. As they look to balance policy changes while assessing news and data in uncertain times, it is up to treasury to focus on business continuity, activating liquidity and minimising the disruption to the global supply chain.

CEOs and CFOs need quick answers to questions they get from the board and investors about the company's financial state. Do we have enough liquidity for the next week? The next month? Can I trust my liquidity forecast? Are we suffering fraud losses? How can we sustain supply chain disruptions?

What CEOs, CFOs and boards expect from finance

In a crisis, the emphasis is obviously first put on people – focusing on employee safety and ensuring customers have what they need. After these concerns have been addressed, executives turn their focus to the business, asking whether or not they have access to the right data, making sure there is enough cash, figuring out what key person risks they have and how they can support that.

Ultimately, there are eight main risks CEOs and CFOs will tend to focus on. It is up to treasury and finance to be able to address and mitigate these risks:

1. Human resources;
2. Internal processes, tools and controls;
3. Liquidity instability;
4. Fraud;
5. FX and interest rates;
6. Debt and counterparty risk;
7. Revenue volatility; and
8. Supply chain disruption.

Human resources

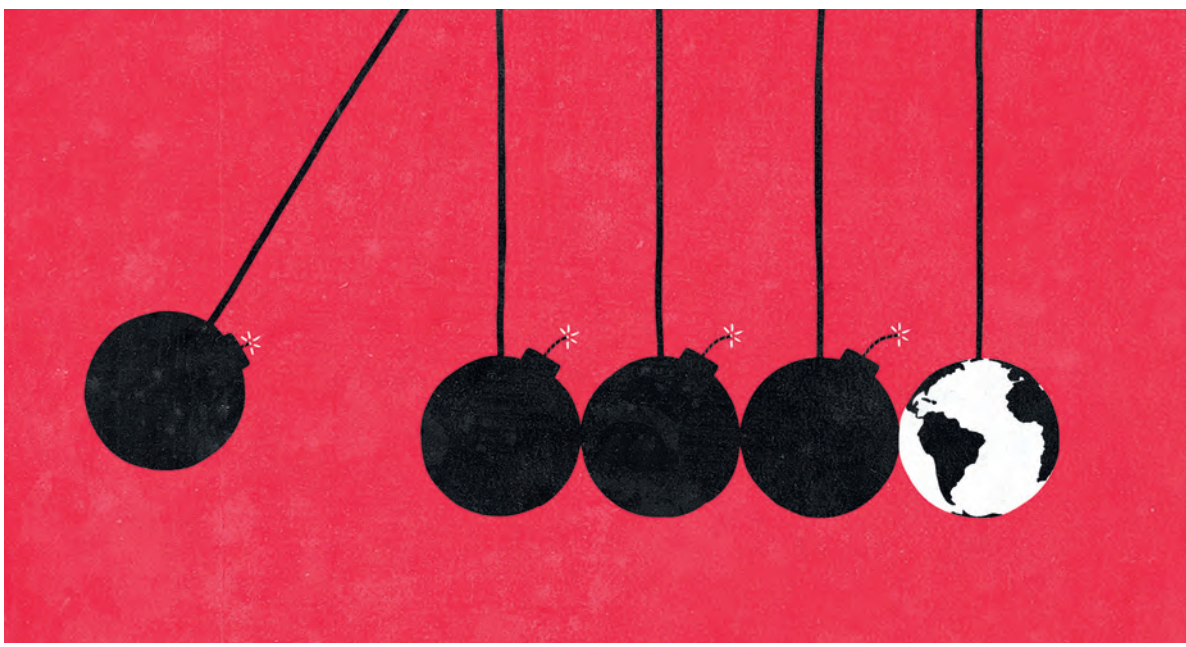
A major concern to CEOs, CFOs and the board when it comes to treasury and finance is key person risk and competency reduction. Boards and investors ask: what will happen if a portion of the finance and treasury function is unwell, hospitalised or taking care of loved ones? What happens if there are layoffs? Are employees able to perform all of their day-to-day duties from home?

Now more than ever there is an increased importance in embracing automation and technology. Working with software as a service-based solutions (SaaS) ensures employees can access the data they need and carry out everyday tasks no matter where they are. Automating manual processes not only mitigates some key person risks, but also reduces errors.

Internal processes, tools and controls

As companies adjust to new processes and mandates, business continuity issues are sure to arise. And business continuity plans (BCPs) that weren't made to be long-lasting will, over time, show gaps in processes and systems that can become increasingly dangerous to the business, especially if an organisation is reliant on manual processes and spreadsheets.

Investing in systems that support automation, business



continuity and expansive connectivity with other systems can help identify and fill gaps, as well as facilitating disaster recovery and enhance visibility into cash, liquidity and financial exposures.

Liquidity instability

In times of economic crisis, companies often have to deal with delayed cash collection and uncertain revenue. Customers may pay late or renegotiate payment terms to buffer cash reserves and stay solvent, or they may defer purchasing decisions until conditions stabilise.

So how can companies stabilise their liquidity? By forecasting liquidity and setting limits. Forecasting liquidity with scenarios and internationally helps companies better understand their liquidity needs. Additionally, undergoing stress testing to determine what happens if customers pay late, don't pay at all or if expected revenues don't materialise, and automating limit managements for counterparties can help mitigate liquidity instability.

Fraud

When normal processes are disrupted due to a crisis, there is often an increased risk of fraud, especially if approval processes are being bypassed in order to continue operations. In fact, there was a 667% increase in the number of phishing emails reported from February to March of this year as fraudsters looked to exploit the global disruption resulting from the COVID-19 pandemic. Disruption to business as usual (BAU) presents ideal conditions for fraudsters, and if a company is reliant on spreadsheets, there is an increased risk of financial fraud, not just to treasury, but to the entire organisation.

One of the simplest ways to improve controls and combat fraud and cybercrime is to digitise payment workflows and automate fraud protection and detection. Doing so standardises payment controls to comply with internal payment policies, approval procedures and limits so that only authorised payments are executed. And real-time fraud detection screens payments against government sanction lists, corporate payment policies and historical data patterns to automatically quarantine suspicious and non-compliant payments for threat assessment.

> Supply chain bottlenecks and supplier bankruptcy are common concerns, especially in a time of crisis

FX and interest rates

Fiscal strength of individual countries and their recovery timelines can greatly affect currency rates. Hedges may be skewed/incompliant and fluctuations in currency valuations can cause unforeseen losses. Additionally, forecast inaccuracy can shift the hedging focus away from cash flows and towards balance sheet protection.

The best way to manage FX risk is to have insight into all company currency exposures, from which the exposures can then be mitigated via hedging or internal exposure elimination. And having insight into how currencies are impacting financial results at all times is imperative to cost-effectively managing FX exposure and risk, and avoiding unnecessary impacts to the company's bottom line.

Debt and counterparty risk

An increase in debt and counterparty risk is common when BAU is interrupted. Debt may be increased or managed differently, potentially increasing unplanned costs. In regard to counterparty risk, some banks in certain regions may have an increased risk of insolvency, creating concern among the C-suite and board.

To decrease debt and counterparty risk, it is necessary to manage debt and counterparty limits. Companies need to demonstrate their capacity to responsibly increase leverage, refinance debt where appropriate, reaffirm covenant compliance and automatically manage board compliance limits for all counterparties.

Revenue volatility

Revenue volatility can irreparably impact a fixed-cost structure. But adapting to the cost structure can save a business.

Reducing costs is the key to managing revenue volatility. This can be done by reducing bank fees, and companies can save up to 80% on bank connectivity, allowing them to repurpose headcount for better uses. Additionally, forecasting of cash enables companies to align to revenue and associated accounts receivable, and ensures shortfalls are covered and surpluses are concentrated to earn some yield on excess cash.

Supply chain disruption

Supply chain bottlenecks and supplier bankruptcy are common concerns, especially in a time of crisis. And in order to stay afloat, suppliers may request early payment to buffer cash reserves and stay solvent.

In cases like this, treasury needs to explore supply chain alternatives and working capital solutions. By implementing working capital optimisation programmes like supply chain finance and dynamic discounting, companies can reduce the cash conversion cycle/supply cash flow, provide financial support for suppliers with internal or external funding, gain preferred buyer status, and support alternate supply chain sourcing and diversification.

While the current crisis will hopefully end as quickly as it began, treasury teams can improve their preparedness for temporary and longer-lasting scenarios by practising BCPs, implementing an active liquidity strategy and pre-emptively managing the aforementioned risks. Treasurers who excel in each of these areas will not only support their management teams, but also emerge as valued strategic advisers, creating further opportunities to influence and drive success.

SaaS-based solutions support treasury and finance with rapidly deployed solutions for cash management, risk management, payments and working capital, ensuring CEOs and CFOs can answer the board and analysts confidently when it comes to the amount of cash the company holds, what their FX exposure is, how they can sustain supply chain disruptions, how they are preventing fraud and more.

These solutions can deliver automation, mitigate human competency risk and decrease costs, create a unique control and risk offering for crisis management, build best-in-class business intelligence and guaranteed business continuity. This is so that treasury and finance will always be armed with the tools they need to weather any crisis.

Simon Shorthose is managing director, northern Europe, Kyriba

kyriba

IKON IMAGES

GLOBAL BANKING REALITY CHECK

LIQUIDITY MANAGEMENT IS THE TREASURER'S MOST POWERFUL DEFENCE IN THE CURRENT CRISIS, BUT IT IS HAMPERED BY DIVERSE TECHNOLOGIES AND APPROACHES. BILL WREST LOOKS AT A CHALLENGE WHOSE TIME MAY HAVE COME

Invisible liquidity is unmanageable liquidity. This inconvenient truth remains as valid today as it was when the discipline of liquidity management first emerged. Furthermore, while it may be widely acknowledged, it certainly isn't widely resolved. The number of global multinationals who can honestly claim that their treasuries have 100% real-time visibility of all bank accounts worldwide is probably a figure tending towards zero.

Simple day-to-day processes have been exacerbated by the current crisis and treasury has been thrust to the strategic forefront of the battle in terms of group-wide focus on supply chain management, cash flow and protecting working capital. There has been a lot of talk recently about digital transformation and clearly now is the time to address systemic risk and key addressable gaps within the treasury function.

Yet the underlying problem that creates this situation is hardly a secret: effective plumbing, or rather the lack thereof. Ultimately, treasuries need a single consistent and increasingly immediate view of *all* bank accounts irrespective of the number of banks involved, but that requires consolidating multiple data streams that use myriad data formats and underlying technologies. A single consistent view of all accounts is perfectly achievable, but involves accepting that it is not a challenge that banks and corporates can readily resolve, either individually or together. Realistically, the involvement of a specialist fintech with extensive application programming interface, SWIFT, secure file exchange and financial data format expertise will also be required.

Global banking

Nevertheless, this is still by no means universally accepted. One frequently cited alternative is to use a single global banking relationship that fulfils all a corporation's transaction banking requirements worldwide. While this seems plausible at a superficial level, regardless of whether it is commercially advisable, it fails upon closer inspection of the practicalities. Firstly, is there really such a thing as a truly global bank that can offer 100% coverage worldwide using just its own network? Secondly, can such a global bank also deliver 100% consistency of technology and data formats worldwide? In either case, perhaps 90% at best, or maybe in exceptional circumstances even 95%, but not 100%.

As a result, for many global corporations, multiple bank relationships are simply a fact of life. In some industries, such as petrochemicals, relationship proliferation is an everyday reality where the winning of a new contract almost inevitably also involves opening an account with the same bank as the customer. It's therefore easy to see how treasuries can find themselves with hundreds of bank relationships and systems to manage.

Access to this brave new world inevitably depends on having the right connectivity and visibility

The environment we are all having to come to terms with and the new norm in terms of the way we deal with things has evoked dramatic changes to our working lives. Treasury needs to be proactive rather than reactive, and to do this decisions need to be based on real-time or near real-time reporting and reconciliation. System connectivity, future-proofing of file formats, multiple payment siloes and reporting systems are key to treasury's ability to efficiently manage liquidity, mitigate risk exposure and protect working capital.

Some corporates have already invested in top end treasury management systems (TMSs) that are also sometimes promoted as potential solutions to multi-bank (in)visibility. Again the reality is more prosaic, because the core competence of a TMS is sophisticated financial analysis rather than systems integration. Therefore, a TMS will only usually be connected to just the top few of the corporate's bank relationships.

Logon and system proliferation

Probably the starkest physical illustration of the gulf corporate treasuries have to bridge in their liquidity management is the proliferation of bank logon tokens. It's not uncommon for larger treasuries to have a drawer full of tokens that they must search through just to assemble a report on their overall cash position. Then rinse and repeat for all the possible investment opportunities they need to screen before placing any cash surplus. Realistically, no single bank is going to be able to cost-justify building a single logon capability that includes all of a client's other banks. However, this is something a suitably qualified fintech can provide, by aggregating access to all of a corporate's electronic banking systems behind a single logon. Then a treasury only needs to sign on once to see and manipulate *all* the corporation's balance information across *all* its bank relationships. By the same token, they can also use the same portal to screen and place investments across their bank relationships, plus enjoy a consistent and enhanced experience for making payments more generally.

The easier placement of investments ultimately benefits both corporates and banks. Some banks offer excellent liquidity products, but in the current environment these are missing out through opportunity leakage. Treasurers have to traverse so many bank accounts and investments in such a fragmented manner that they may simply miss some of the most attractive opportunities, to the detriment of both parties. By contrast, in a single consolidated environment where all of the necessary plumbing has already been done behind the scenes, filtering and accessing the best investment opportunities becomes trivial. This can be done manually or automatically with preconfigured rule sets.

Real-time liquidity management

The already strong growth of real-time payment systems around the globe looks set to persist, with some research predicting close to 30% compound annual growth rate between 2019 to 2024[1]. This trend is fundamentally changing the whole business of liquidity management. Treasuries no longer need to be constrained by only having access to end-of-day batch-based data; real-time intraday liquidity management across a growing number of countries is now an achievable reality rather than just an aspiration.

However, access to this brave new world inevitably depends on having the right connectivity and visibility. While some bank liquidity platforms offer some additional visibility of third-party bank balances by polling for MT940s, this still constrains treasuries to 'following day' liquidity management. On the other hand, real-time balance visibility means that investments can be made before daily payment cut-off times, adding an extra day of return to surplus cash. At the same time, far more efficient management of intraday overdraft limits becomes possible, which is a key risk area if limits become a scarce commodity, because in normal times they are the rails that enable the flow of payments throughout the day. Granted, the extent of these opportunities will to some extent depend on individual banks' capabilities – for example, not all support intraday balance reporting – but in most cases treasuries will be able to make appreciable gains and/or savings.

This real-time balance visibility also opens the door to simpler and more cost-effective methods of intercompany funding and the optimal use of internal liquidity. Rather than the cost and administrative/legal burden of creating an entire physical pooling structure, a treasury with real-time visibility has the alternative option of funding subsidiaries on a just-in-time basis through an in-house bank structure.

Optimal versus suboptimal

One of the ironies of the current crisis and its unprecedented economic and market effects is that in a sense it re-emphasises the sheer scale of the liquidity visibility problem that has plagued treasuries for decades. It represents a vitally important new opportunity, but one that is effectively inaccessible without consolidated multi-bank connectivity. A further irony is that complete connectivity and visibility are already readily achievable with the assistance of the fintech community, but banks and corporates have hitherto opted to use suboptimal alternatives. Financial plumbing in and of itself may not be particularly enthralling, but the benefits to treasuries and banks of its correct deployment most are. Perhaps for treasury, this is one of the few positives to emerge from the current crisis in terms of now being the perfect time to evaluate the overall operation and whether it is truly fit for purpose against the backdrop of unforeseen challenges that now seem like daily occurrences.

1 feedroad.com/global-real-time-payments-market-2020-growth-analysis-and-forecast-to-2024

Bill Wrest is director of sales and strategy at Gresham

Gresham

PLAN TO LEAD

LEADERSHIP STYLES DON'T NEED TO BE RIGID. IN FACT, MINDFULLY AND FLEXIBLY ADAPTING TO TEAM OBJECTIVES AND PERFORMANCE WILL YIELD BETTER RESULTS. AMANDA BRADLEY EXPLAINS

We humans love to plan. We plan our workday, our home life, what we'll do and who we'll see. We set objectives and decide on strategies to maximise delivery. But when was the last time you planned *how* you will be?

It might sound like an odd question, but think about it for a minute. You wouldn't execute a bond without planning. So, why wouldn't we plan how to lead? When the difference between great contributors and great leaders is the ability to deliver through others, planning our leadership style is one of the best ways to make progress on the journey to great leadership.

Planning to lead brilliantly

Just like good delegation, good management is mindful. It might look like it just happens, but once you start to understand the mechanics of leadership styles, you can flex your behavioural choices to maximise your team's performance. Your first step is to choose a working model

for leadership styles to help you plan your leadership interventions.

There are many models of leadership and you or your company may already have one you prefer. My personal favourite is Daniel Goleman's six versions described in his book, *Leadership That Gets Results*. In the book, Goleman lays out the following leadership styles: Commanding, Visionary, Affiliative, Democratic, Pacesetting and Coaching.

The Commanding style is all about control: "Do this now". Visionary leaders say: "Come with me – it's going to be great", while Affiliative leaders strive for harmony, putting people first. Democratic leadership gives everyone a vote. Pacesetting leaders are out in front, sleeves rolled up, doing awesome work and expecting their teams to keep up. Coaching leaders answer questions with questions. "I don't know how to do this" elicits the response "Where do you think you would start?", followed by some suggestions to try.

All styles have their place. But overusing one style makes us rigid leaders who only succeed some of the time. Take Commanding, for example. This might be familiar to many of us – hierarchical and manager dominant, Commanding leadership is useful because it's quick. "Do this and come back to me." But it trains people to come back to you over and over again. I won't spend this article elaborating more on the styles. Goleman does a much better job and his book is mercifully short, so I'll leave you to pick your model for yourself. The important thing is to do just that.

So, let's assume you have a model in mind. Now you need to plan how you'll deploy it.

To do that, grab a pen and jot down your team's three biggest deliverables over the next six weeks. Think about who is on point for each task. What do you know about that person? What are their strengths? What leadership style would best enhance those strengths and compensate for their weaknesses? What elements are there to the project? And what will those elements require of the person delivering them? So, which style would work best for each phase of the project? As the work evolves, how can you best support that team member in getting a great result?

Imagine you are the head of treasury and your analyst, Sam, is overseeing a capital injection into an overseas subsidiary. Sam is a diligent, meticulous person, if a little shy and under-confident. He is excellent at building one-on-one relationships, but finds speaking in groups harder. You could be purely delivery-focused and only talk to Sam about meeting project milestones. Or, you could plan your management style, tying the project to the overall departmental objective to set direction in the first instance using the Visionary style, then planning to be more Democratic whenever you join Sam's project meetings to make sure he has the opportunity to lead. In one-to-one conversations, you plan to adopt a Coaching style to give him the space and support to think through his options. You're also aware that on the day the injection settles, you'll need to be willing to move into Commanding if things get a bit tight. Given the potential for negative interpretation, you and Sam talk about that in advance and agree that you'll take that role if the need arises.

> Great managers are generous with their knowledge and create opportunities for other people to shine

Because you've spent time observing yourself and have created a positive feedback culture in your team (see *The Treasurer*, Deals Edition, February/March 2019, page 44, for a refresher), you know you're at risk of stepping in and taking the lead, particularly as your natural leadership style is Pacesetting. And you know that given Sam's quieter nature, you could be tempted to step in and rescue him. So, you will also contract with Sam that he can call you out if you start to step in, using the Affiliative style to create the psychological safety needed for Sam to feel comfortable to do this.

Learning by doing

Great managers are generous with their knowledge and create opportunities for other people to shine. So, another question for you – how can you maximise Sam's learning opportunity while he delivers the work for you? Sharing the way you think and why you are making the decisions you are making is another great way of building capability in your team. Yes, it will take you and Sam a bit more time, but it will build your working relationship and make him more effective and less reliant on you in the future.

Your leadership aim is to always give people the appropriate support for the task. If it's the first time a person has carried out a capital injection, you can expect to manage them more closely. But if this is Sam's 21st capital injection, this could patronise and alienate him. To decide how much support is needed, I think of a two-by-two matrix with level of task challenge on one axis and level of support on the other. If the task is low challenge and I give low support, Sam could be demotivated if he works for too long on this type of work. High challenge task with low support will cause stress. Low challenge but high support will patronise. The sweet spot for management is high challenge, high support. I think of this like scaffolding. You give the support while the new learning is being built, and then as the task becomes more familiar, you take the scaffolding off, before thinking about how to give individuals their next challenge once they're comfortable and thirsty for new learning.

So, there it is: a leadership plan for the project. You might have to flex as you go, because the one thing you can guarantee about a plan is that it will change, so accept this and be willing to go with the flow a little. Here's my challenge to you: make 2020 the year of mindful management. Tell your team what you're doing and ask them to help you in your experiment. Seek feedback along the way. Then, the next month, take what you learned and do it all again, but better. Together, you'll work out which styles work best for you all in given situations. Outputs will improve. Objectives will be met. And by the end of 2020, you'll know exactly why you're a good manager and where your growth opportunities lie.

Amanda Bradley FCT is an executive coach at Liberty EQ

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"NO MATTER THE ASSIGNMENT, I NEED TO ESTABLISH A ROUTINE THAT WILL DELIVER RESULTS"

TREASURY CONSULTANCY SERVICES' NICHOL BURGESS ON THE IMPORTANCE OF PLANNING, DEADLINES AND DELIVERY

As a treasury consultant, my day-to-day work is focused around client project work, so typical days are few and far between. I spend a lot of time prior and during the early stages of an engagement working on a project plan, outlining time frames, responsibilities and allocating resources – my own input and the client's. Once I'm working on a project, I keep key information on progress to hand at all times.

A bit about myself – I am a qualified treasurer and accountant with experience gained across organisations including British Airways (BA) and charitable and private equity organisations. This includes significant commercial finance, project and treasury experience. My sweet spot is very much around ensuring I am part of the business rather than back or middle office finance.

While at BA, I spent a period of time in risk management, hedging FX risk, investing cash and managing counterparty risk through the financial crisis – and I loved it. I pursued my career in treasury, gaining my AMCT qualification, with absolutely no regret. I then worked at Travelport where I managed the treasury transformation project.

In 2017, I took the plunge and became a treasury consultant. My work is diverse. I can be working on a multi-year treasury transformation all the way through to smaller projects such as advising on establishing key risks, which could be a matter of a few days.

I recently worked on a global banking implementation for recruitment firm PageGroup. It was very much a collaborative effort, with key support provided by the in-house treasury team, along with other external consultants, who were crucial in terms of helping us achieve global reach. The key objective was the consolidation of 19 bank partners to a core global provider in 36 countries, resulting in significant efficiencies and an improved control environment.

> I want to ensure we have a strong start and good foundations for a successful outcome

The scope included managing cross-departmental activity, including treasury, external consultants, central and local finance teams, IT bank relationship and IT specialists, third-party payment file and invoicing providers. A critical element was ensuring treasury delivered the new banking provider and new payment channels in time for the roll-out of a global finance system. So, managing the project on time, with scheduled phasing, was key.

Projects by their nature are a bit of an unknown. No matter the assignment, I need to establish a routine that will deliver results on time and to budget.

With contract work, it can take some time between early discussions and the beginning of a contract. Upfront I devote time to researching potential clients and their contract requirements. Only some conversations with agencies or potential clients reach the go-live point, but when they do, I want to ensure we have a strong start and good foundations for a successful outcome.

I love the independence of having my own company and the flexibility and diversity that brings, but you do need to have the courage and be in a position to take on that risk. My role is about collaboration, so I also work with a couple of other consultants, substituting for each other and swapping expertise.

Skills and tips for success? Be realistic about timescales, allow adequate time. Get all work streams into action as soon as possible, as delay in one area will impact other parts of the project. Absolutely key is understanding what your client's needs are and helping to ensure the solution you provide will meet them, but also assist on what they may not have considered.

Build and keep momentum. Be very organised and schedule short, regular meetings for each key piece. You can always cancel a meeting, but it is often harder to schedule an emergency one at short notice.

Lastly, and importantly, work hard but enjoy yourself. That sense of achievement in the end for you and your client is priceless.

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