CRISIS MANAGEMENT
Navigating the realities of the pandemic and its fallout

CLIMATE CHANGE ACCORD
What do treasurers need to know about progress to date?

HEADING FOR BETTER
Improving standards of conduct in financial markets

The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ APRIL/MAY 2020

DISASTER PLANNING

Talking to treasurers about uncertainty

TREASURY EXCELLENCE AS STANDARD

EDITOR'S LETTER

In the West, it seems like an extraordinarily short period since our world flipped upside down. That is a perception, of course – and an illusory one at best. Bodies such as the World Health Organization have been warning of superbugs and pandemics for decades. In retrospect, it seems astonishingly myopic that governments in Europe or the US would fail to track progress of COVID-19 in Asia or begin work on a coordinated response in the face of the spread of the contagion.

We may never be able to quantify the impact of this period of denial and we are witnessing a wholesale overhaul of our ways of working and our relationship with our neighbours – a new social contract for pandemic conditions.

The great home-working experiment is in full operation and a COVID-19-induced recession has begun. How long will it last? It has been characterised as 'deep and long' and predictions vary as to its length or the shape of the recovery.

At this time of year, we would normally bring you a celebration of The Association of Corporate Treasurers' (ACT's) Deals of the Year Awards (see page 33 for details of rescheduled ACT events). Instead, in this edition, we ask: what are the tasks ahead of us now we've reached 'the end of the beginning'? In our Black Swan edition we chart the immediate responses of treasuries to the need to abandon commuting and office working in favour of isolating as much of the population as possible. Our feature on the short-, medium- and longer-term responses is published on page 12, and practising treasurers share some interesting observations on the need to replicate controls and protocols as closely as is practical and to forward plan in terms of resources, the probability that multiple members of the team will go off sick at some point, for example. Maintaining compliance and measures such as segregation of duties will require some flexibility within new operational plans. And then there is the outside world – counterparty risk, supply chain risk and debt issuance in the face of potential delays will all be front of mind.

Organisations of all types will have a focus on access to finance, liquidity and covenant management as seen in an article from Slaughter and May on page 18. One of the messages here is the importance of personal contact with relationship banks.

Stamina and resilience in the face of turbulence of uncertain duration will be crucial, and on page 16 we offer our own survival guide. The need for clear communication and strong and consistent leadership as we adapt and begin to plan for recovery is explored along with some ideas for refining remote working and staying close to colleagues. Being human in your leadership and vigilant both personally and professionally is the principle to hold to.

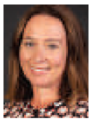
I hope you find this issue useful and that you and yours stay healthy in these difficult times.

Liz Loxton

thetreasurer@thinkpublishing.co.uk
Follow us on Twitter @thetreasurermag

THIS ISSUE'S CONTRIBUTORS

REBECCA BRACE is an experienced freelance business and finance writer and editor with a long track record in treasury and banking. She writes regularly for *The Treasurer* and has covered blockchain, treasury technology and the role of treasury in M&A. Her feature tracking the early response of treasurers to COVID-19 appears on **page 12**



KATHRINE MELONI is special adviser at law firm Slaughter and May with a focus on banking and finance transactions. She writes regularly on banking and related legal topics, and is the author of *The ACT Borrower's Guide to LMA Loan Documentation for Investment Grade Borrowers*. Her article on finance during COVID-19 is on **page 18**

AMANDA BRADLEY is MD of London-based coaching company Liberty EQ. Her coaching is grounded in more than 20 years' experience in corporate treasury and risk management. She appears regularly in *The Treasurer*, writing on personal and professional development. Her feature on managing anxiety can be found on **page 30**

The Treasurer
is the official magazine of
The Association of Corporate Treasurers
69 Leadenhall Street, London EC3A 2BG
United Kingdom
+44 (0)20 7847 2540
treasurers.org

Policy and technical Naresh Aggarwal, Sarah Boyce, James Winterton
Commercial director Denis Murphy
Director of marketing & communications Anne Hogarth
Technical review Joanna Bonnett, Ian Chisholm, Steve Ellis, Anu Mensah, Joe Peka, Alison Stevens, Neil Wadey, Peter Walker-Smith

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For advertising and sponsorship opportunities, contact Simon Tempest
+44 (0)20 7847 2580
stempest@treasurers.org

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Published on behalf of the ACT by **Think**, Capital House, 25 Chapel Street, London NW1 5DH
+44 (0)20 3771 7200
thinkpublishing.co.uk

Editor Liz Loxton
Managing editor Rica Dearman
Designer Grant Pearce
Cover illustration Grant Pearce
Account director Kieran Paul
Executive director Jackie Scully

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
Members, students and IGTA/EACT members
[Self-certified members of National Treasury Associations, including the AFP in the US]
1 year £142 – UK and Europe (MUKEU)
1 year £185 – rest of world (MRoW)
For information, visit treasurers.org/thetreasurer/subscription

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Printed by Pensord
ISSN: 0264-0937

THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

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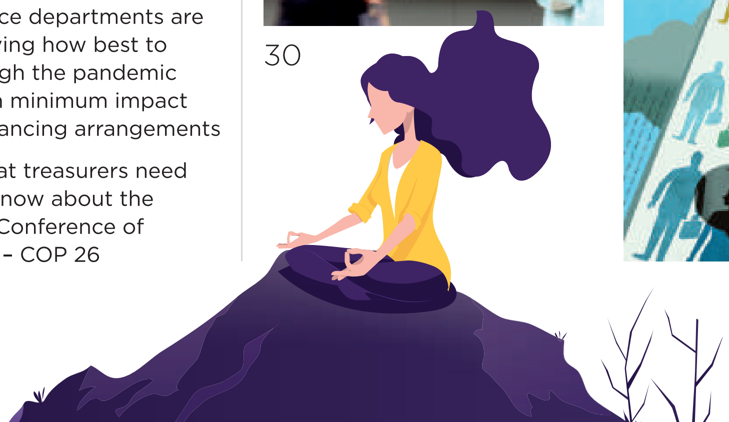

Agenda

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ALAMY

CORONAVIRUS HITS MARKETS AND CENTRAL BANKS

Global financial markets, policymakers and central banks have reacted swiftly and strongly in the face of the coronavirus pandemic.

In the weeks since the crisis escalated, economists scaled back growth forecasts for 2020. The Organisation for Economic Co-operation and Development said that globally output could be 20-30% lower than usual as a result of lockdowns and diminished business activity. As governments moved to suppress economic activity in an effort to curtail the spread of the virus, employment and business activity indices fell sharply.

The US Federal Reserve cut interest rates and said it would buy bonds in unlimited quantities. Additionally, the Fed announced it would buy corporate debt. US Congress support was similarly momentous with a $2 trillion stimulus package, almost 10% of US GDP. At the time of writing, a second round of aid was thought to be planned.

The UK announced stimulus packages that have been put at an estimated £200bn and the Bank of England announced emergency interest rate cuts. The European Central Bank also cut rates and introduced a stimulus package – an €870bn emergency purchase programme.

Businesses reacted by redeploying staff to online and healthcare businesses, while Fiat, General Motors, Tesla and Dyson said they would manufacture ventilators.

STRATEGIC TREASURY

Corporate treasurers are increasingly being asked to take on a more strategic advisory role within their organisations, as the job becomes more forward-looking and they find themselves facing greater demands from their CFOs.

A study of multinational and major corporate treasurers in the US published in February by analyst Greenwich Associates confirmed that corporate treasury continues to develop into a more expansive role in corporate risk management.

Most treasury departments say their key performance indicators have changed and they need additional resources to fully support company

WHAT THEY SAID...

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The Bank of England announced the cancellation of the 2020 annual stress test for the eight major banks and building societies:

> **“The 2019 stress test showed that the UK banking system was resilient to deep simultaneous recessions in the UK and global economies that are more severe overall than the global financial crisis, combined with large falls in asset prices.”**

initiatives, especially in tracking a company’s risks. Nearly one in five treasurers said they were not at all confident about the data they were using to calculate their FX risks.

LIBOR TRANSITION

The withdrawal of Libor from the funding landscape increased recently after the Bank of England told banks to step up their efforts to ditch the Libor interest rate benchmark or risk facing more punitive terms when borrowing from the central bank, according to a report from Reuters.

The Bank of England wants to replace Libor with its own sterling overnight index average (SONIA) rate by the end of 2021. While adoption of SONIA for new futures contracts is ramping up, progress in the cash loans market has been slower, with question marks over what happens to legacy contracts with terms that go out beyond 2021.

S&P STUDY

The amount of European corporate refinancing debt due to mature over the next five years has increased by 6% in the past year to €3.6 trillion. A study by S&P Global Ratings also found that 86% of this debt is investment grade. Annual maturities are set to peak in 2022, when €770.8bn is due.

In 2019, European corporate debt issuance (rated by S&P) rose by nearly 18% to €834.5bn, while non-financial issuance increased the most, up by more than 30% year-on-year.

Nick Kraemer, head of ratings performance analytics at S&P, said: “We expect this maturity schedule for European corporate credit to be manageable as credit markets have shown more than sufficient capacity to fund companies’ refinancing needs.”

EQUIVALENCE RULES

Britain has no plans to rip up the rule book governing its huge banking sector, UK financial services minister John Glen said, in a move that is hoped to pave the way for ongoing access to EU markets after the post-Brexit transition period ends on 31 December if no new trading terms have been agreed.

The EU is the largest export market for Britain’s financial firms, but its access will be cut off in the absence of agreement on trading terms come 31 January. Before granting some access, the EU must assess whether UK-based banks, insurers and asset managers comply with rules that are ‘equivalent’ or as robust as those in the EU.

“There is no secret plan to deviate,” Glen told the UK’s House of Lord’s subcommittee on financial affairs. “The core message that we have is we want to observe the highest standards.”

NUMBERS

$174bn
the amount Chinese authorities pumped into money markets in February to counteract the impacts of the coronavirus

<1%
the yield on 10-year Greek government bonds

4.1%
the fall in euro area industrial production in 2019, the region’s worst performance since 2012

2050
the year when BP will reach net zero emissions, as promised by incoming chief executive Bernard Looney

$50bn
the amount pledged to developing countries by the International Monetary Fund to help manage COVID-19

50%
the increase in internet use in some European countries due to more people working from home

IN THE NEWS...

Solar panels and Chongqing cityscape

ANDREW BAILEY AND CLIMATE CHANGE

Former UK chief scientific adviser Sir David King and former bank rate-setter and Citigroup chief economist Willem Buiter were among more than 100 signatories to a letter urging incoming Bank of England governor Andrew Bailey to ensure climate change remains high on Threadneedle Street's agenda as he takes over at the Bank of England.

The campaign and research groups behind the letter – including Positive Money, the New Economics Foundation and Greenpeace – want Bailey to make it mandatory for firms to disclose their climate risk "as soon as possible" after raising concerns that the Bank is not acting fast enough.

In response to the letter, Bailey told MPs he intends to exclude fossil-fuel assets from its quantitative easing programme – a key demand from campaigners.

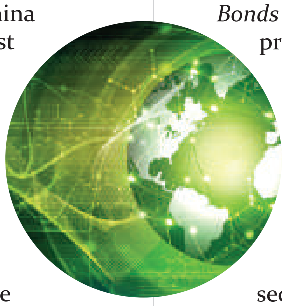
GETTY

Bank of England governor Andrew Bailey

CHINA GREEN BONDS

Total green bond issuance from China in 2018 reached $42.8bn (¥282.6bn), representing a 12% increase on the previous year, confirming China as the second-largest green bond market in the world.

Quality also improved, with less green bond financing not aligned with international aims (such as those of the Intergovernmental Panel on Climate Change) and a significant improvement in the transparency of the Chinese market; 86% of green bonds benefitted from at least one external review.



Internationally aligned green bonds from Chinese issuers now account for 18% of global issuance, as stated in the *3rd Annual Report on Green Bonds and Green Finance*, produced by Climate Bonds Initiative and China Central Depository & Clearing Co Ltd, and supported by HSBC.

Industrial Bank Co Ltd was the second-largest green issuer in 2018 globally at $9.6bn behind US-based Fannie Mae at $20.1bn.

ESG STOCKS

Stocks chosen for their ESG aspects have outperformed the broader market in the past two years and could also help to combat 'short-termism' in financial markets, the EU's securities regulator said.

Incorporating sustainability considerations into investment strategies and business decisions has accelerated in the past few years, the European Securities and Markets Authority said in its latest *Trends, Risks and Vulnerabilities* report.

Barriers to ESG investment remain, however, with a lack of standardised information and risks of greenwashing, the report warns. Green bonds from private-sector issuers are still a small proportion of the broader corporate bond market in the EU (2%).

FIVE MINUTES ON BLACK SWAN EVENTS

The phrase 'Black Swan' is used to describe rare but highly disruptive events that are largely unpredicted, but subject to hindsight bias – our tendency to retrospectively characterise events as more foreseeable than they actually are.

It was popularised by Nassim Nicholas Taleb, a former option trader and risk analyst-turned-scholar and writer, in his 2007 book, *The Black Swan*. Taleb's analysis of statistics and scrutiny of financial systems led him to believe that the latter were highly precarious. The complexity of modern life means that unpredicted shocks will always occur, he contended.

Widely used in risk management to denote events with low probability but high and lasting impact, the term has found new applicability in the COVID-19 pandemic, which of course has been accompanied by high-market volatility and a radical rewriting of working practices.

SURVEYS AND REPORTS

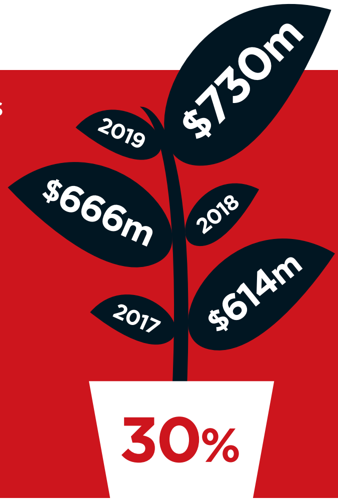
PAYMENTS EVOLUTION

THE GROWTH IN DIGITAL PAYMENTS CONTINUES APACE WITH CASHLESS PAYMENTS APPEALING MORE AND MORE TO CONSUMERS IN EUROPE. SWEDISH FINTECH FINANSO TRACKS THE CHANGES

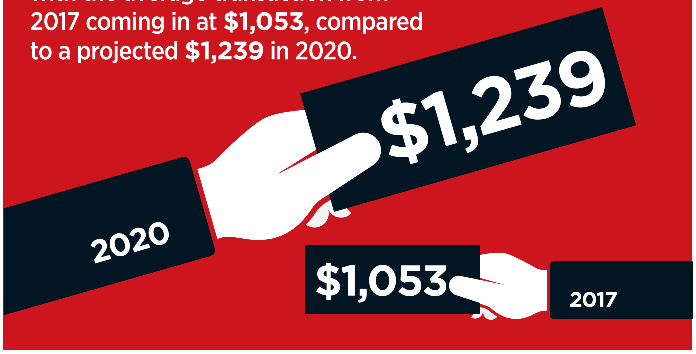
Digital payments are continuing to grow and make significant inroads on other payment methods. In 2020 the European digital payments market will reach **$802bn** in transaction value, research organisation Statista says, and **$1 trillion** by 2023.

The increase represents a **30%** growth in the three years from 2017, when the European payments industry was worth **$614m**.

2017: **$614m**
2018: **$666m**
2019: **$730m**



Transaction values are growing also, with the average transaction from 2017 coming in at **$1,053**, compared to a projected **$1,239** in 2020.

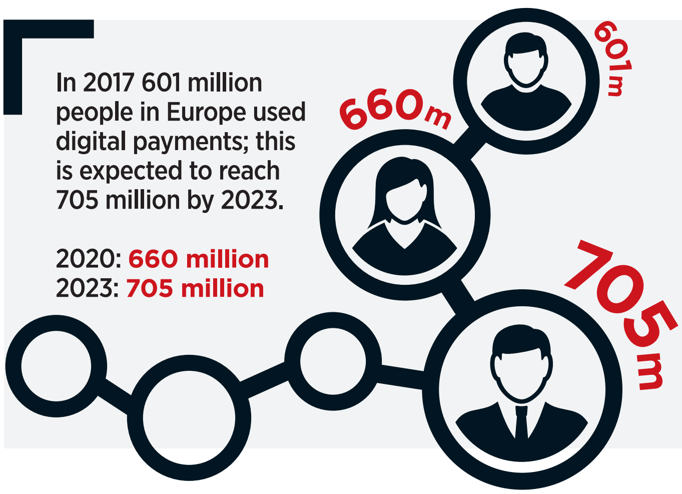


Mobile point of sale payments in particular are expected to see significant growth by 2023.

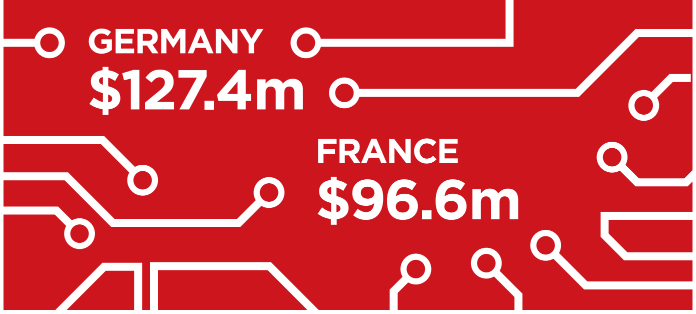
- This sector increased **2.5 times** between 2017 and 2020, reaching **$48m**.
- It is expected to exceed **$111m** by 2023.

In 2017 601 million people in Europe used digital payments; this is expected to reach 705 million by 2023.

2020: **660 million**
2023: **705 million**



The UK leads the way in European digital payments with a market value for 2020 anticipated to reach **$176m.**



LIVING WITH A BLACK SWAN

AS COVID-19 SEES MANY OF US CONFINED TO A HOME BASE, CAROLINE STOCKMANN SUGGESTS WAYS TO BOOST PERSONAL RESILIENCE

Stating the obvious perhaps, but few of us outside of Asia and Africa will have witnessed anything with the current or potential impact of COVID-19. We possibly all started out with a sense of disbelief and denial, but that is quickly disappearing as we witness the evolving situation around the world. People's behaviours are changing – with stockpiling at one end of the scale and acts of great kindness at the other.

Now more than ever, we need to keep calm and think with a risk hat on. What might come next? How bad could it get? How can we mitigate the risk? We need to think for ourselves, our families and for our businesses. It can be very stressful. So, possibly the most important question is: how can we remain resilient through this?

Let's think about breaking the answer down and forming a checklist – something we can revisit as necessary:

1. Read the advice, talk to people, and keep yourself and your loved ones as safe as possible in a physical sense. Work from home, wash hands, avoid unnecessary social contact – and keep doing those things.

2. Think about what an extended lockdown period in your home might look like. Depending on your situation, you may foresee frustration if there are more than one of you living together – or isolation if you live on your own. What steps can you take to reduce that frustration – or loneliness?

3. Plan for the 'other side' – and be ready for disappointments. I have had to cancel a number of things that were really special for me, including a trip to New York to take my husband to the Metropolitan Opera House. My daughter has had to return early from her year abroad in France. I hear of others being equally disappointed by various cancellations. We can try to think positively, however. A missed holiday when weighed against further spread of this virus is something we can put aside. And we can imagine and dream of opportunities in time.

All well and good, you might say, but what can we actually *do* to deal with 2 and 3? I have a few ideas around boosting personal resilience. Why not try:

i) Learning something new. Think about researching something, reading a new book or doing an online course. An Association of Corporate Treasurers (ACT) course would be an excellent use of time – and would add to your qualifications!

ii) Being in the present. Try to focus on everything you are doing, in the moment.

iii) Connecting with friends and family. Use technology to WhatsApp friends and FaceTime family. Indeed, use any means you have to stay connected. You might have some family sessions with board games or a movie night at home.

iv) Giving to others. Think about helping others through this crisis, even if it's just staying connected remotely.

v) Ensuring you keep active. Take some exercise – there are lots of things you can do inside or out in the park, depending on your circumstances. Plan activities to reduce the 'cabin fever' at home – joint gardening sessions or a spring clean. Taking control with positive action helps reduce feelings of helplessness.

Envision a positive future, coming out of this well having learnt some interesting lessons. And tell your mind the things it needs to know: "I can always do that another time; I'm happy I'm protecting myself but also other people; I have more time to do some of the things I've wanted to do for a while." Research shows visioning and mantras can have a positive impact on mood, as well as producing real results.

Do also have a listen to my weekly podcasts, which will be continuing throughout 2020: treasurers.org/strategic-insights-podcasts. Some of the topics covered may be of help right now, and some will prepare you for when we all make a comeback and society starts to function in a less restricted way.

If we can take care of ourselves and keep sufficient reserves in terms of our own mental health during these difficult times, then not only will we make better decisions for our organisations, we'll have a fighting chance of coming out the other side of this pandemic with a sense that we really did ourselves proud.

Caroline Stockmann is chief executive of the ACT

ECONOMIC POLICY CAN PREVENT A FINANCIAL CRISIS

AMID UNPRECEDENTED CIRCUMSTANCES, THERE ARE GROUNDS FOR OPTIMISM

No one can say for sure what the ultimate scale and duration of the COVID-19 recession will be. Fundamentally, this is a medical emergency and containing the virus is priority number one.

However, doing so entails ever-more restrictive social distancing policies across the world that are crippling global demand and supply. As the global economy contracts, the gears and plumbing of the financial system are straining worldwide.

How many companies need a full year of revenues to break even or make a profit? What happens to those firms while economies are partially shut down until the virus is contained? How many firms can suffer a fall in revenues for six weeks while they still have significant costs to pay on leases, taxes, wages and, critically, credit? What if the shutdown lasts 12 weeks? How many firms will default, and what is the knock-on effect to the wider economy?

These are the questions financial markets are trying to contend with as risk assets like equities are sold and investors rush towards safe-haven assets and cash.

Each day the financial press covers more and more stories showing pockets of the corporate debt flashing red – especially high yield and US shale oil – along with surging costs to insure against defaults on such paper.

Across the world, central banks and governments are now working hard to prevent the coronavirus recession from developing into a financial crisis.

IKON IMAGES

The policy response so far is unprecedented: huge central bank liquidity injections plus rate cuts and massive bond-buying schemes alongside government-backed loan-guarantee schemes for businesses and generous employments subsidies.

These targeted policies are designed to minimise layoffs and bankruptcies so that economies can get back to normal quickly once containment measures are lifted.

Although the hit to global economic activity in the coming months will likely exceed the initial damage from the great financial crisis, it will likely be much more short-lived. Of course, no one can say for sure what the future entails, but this does not look like the early days of a Great Financial Crisis 2.0.

The economic and financial problems facing us in 2008/09 were orders of magnitude greater than today. Years of excess in housing and consumer credit, fuelled by misguided regulation, poor market oversight and reductions to banks' capital – altogether an accident waiting to happen.

The critical lesson from 2008/09 is that policymakers play a major role in deciding the size and scale of the downturn. And 2008/09 would have been a much smaller problem without the huge mistake to let Lehman go under without safeguarding its counterparties. Through trial and effort, and lots (lots) of money, the holes were plugged eventually.

In the end, policymakers stopped the panic that they had partly triggered themselves with their decision to let Lehman fail, instead of winding it down in an orderly fashion, as they had done with Bear Stearns.

Today there are at least three reasons why ending the financial panic should be easier this time around.

First, we know the nature of the financial problem – a potential cash-flow crunch linked to the direct and indirect virus-related disruptions, which could lead to dislocations in credit markets.

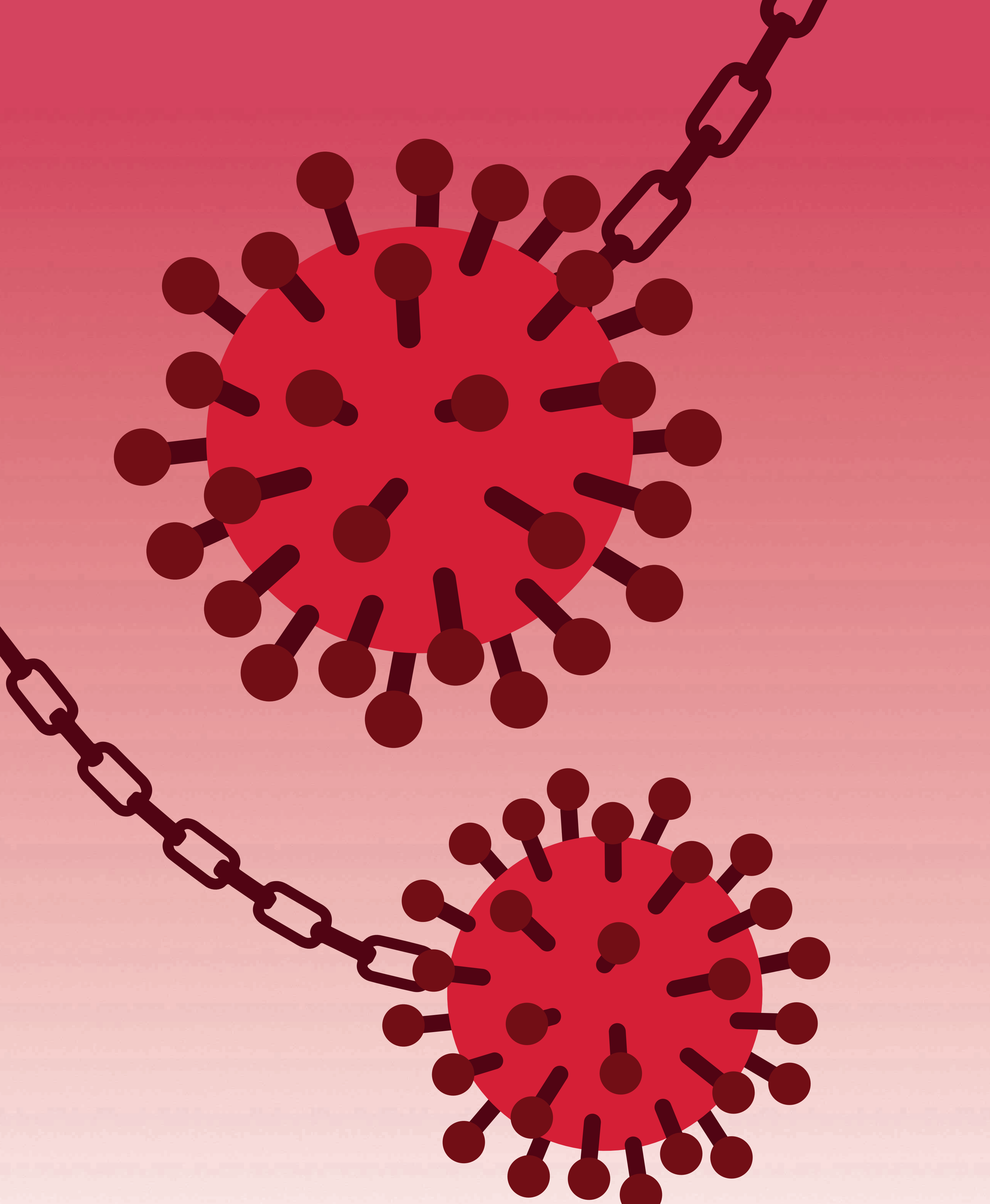
Second, we know that the root cause of the problem will not last forever – eventually we either build herd immunity to the virus, we contain it or we find a vaccine. Central banks and governments can prop up economies for months if they have to – they may indeed have to.

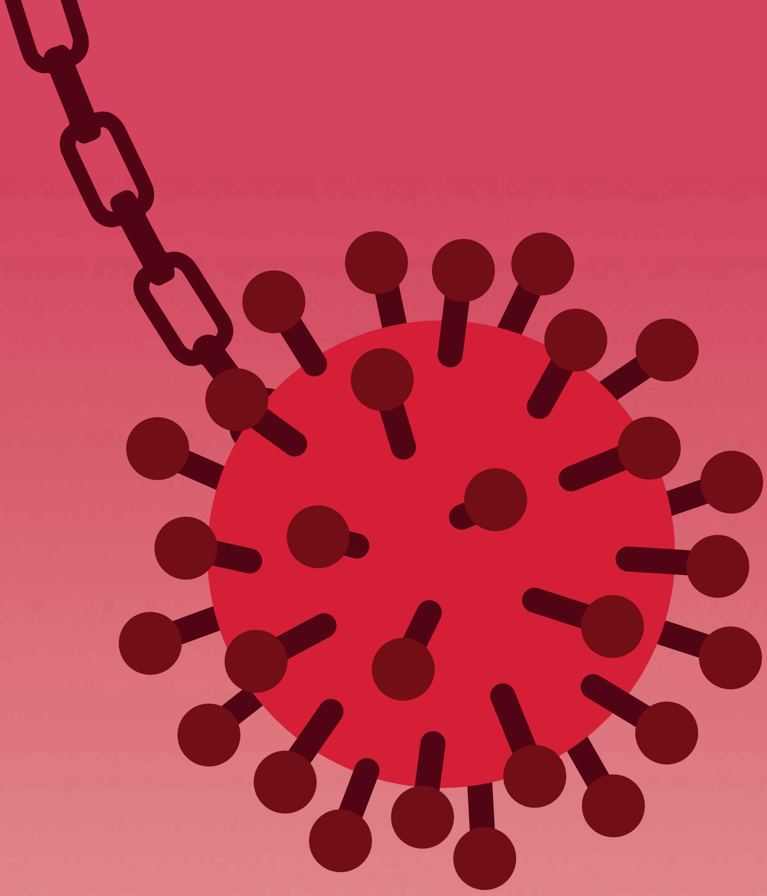
Third, the global economy is fundamentally healthier than it was a decade ago. Fewer excesses and better balance sheets equal less underlying fragility. The problem areas should be easier to spot, while the strong parts of the economy should be better able to cope for a while without much help.

Policymakers cannot stop the pandemic with monetary, fiscal or regulatory tools. However, they can prevent the impact of the pandemic and its economic fallout from developing into a financial crisis on top of the underlying medical emergency.

Today, the message across the world is that fiscal and monetary policymakers will do whatever it takes, and for as long as it takes, until the storm passes. With luck, they will pull it off.

Kallum Pickering is senior economist at Berenberg Bank





NOW AND NEXT

Navigating times of uncertainty requires a realistic approach and far-sightedness. Rebecca Brace talks to treasurers about immediate impacts and the near future

In these unprecedented times, the COVID-19 pandemic is having a profound effect on individuals, families and communities in many countries, as well as on sole traders, SMEs and larger organisations. Where corporate treasurers are concerned, the rapidly evolving situation is bringing different challenges for different sectors. At the same time, there are many common themes for the treasurers we have spoken to, both on and off the record.

Treasurers with business-continuity plans in place are now finding those plans tested in ways that may not have been envisaged when they were first drawn up. "Normally, if a company has a disaster-recovery plan, the focus is on specific situations – such as one where your own office is inaccessible, in which case staff can work from another site," says James Winterton, associate director of policy and technical at The Association of Corporate Treasurers (ACT).

What's unique about the current crisis, Winterton says, is that every element of the business ecosystem is being impacted at the same time – including customers, suppliers and staff, as well as the ability to ship supplies. What started as a social health crisis has led swiftly to an economic crisis. Many governments and central banks have announced unprecedented measures to respond to the crisis by providing liquidity, monetary stimulus and innovative forms of state aid. Nevertheless, the beginnings of the pandemic in Asia gave treasurers in other countries a forewarning of the resulting challenges, and in recent weeks many have been implementing business-continuity plans.

PREPARING FOR IMPACT

While the current situation brings extensive challenges, the focus is relatively narrow in the short term, with treasurers seeking to put in place the measures needed to keep their own operations going. But these measures are likely to be only the beginning of the profession's response to the crisis, which currently threatens the viability of whole industries. As Naresh Aggarwal, associate director at the ACT, comments: "It's unclear how extensively the COVID-19 virus will spread or how long it will continue to disrupt – our initial advice assumes that disruption could continue for up to six months or longer."

In the medium and longer terms, the range of outcomes will be considerably wider, from the impact on liquidity to changes in customer behaviour. "As we move through this crisis, treasurers will need to pause for breath after the initial phase to test their medium-term decisions against the longer-term scenarios in order to navigate the evolving situation," Winterton says.

GRANT PEARCE

Short-term impacts

Treasurers are of course already being challenged with the short-term impacts of the pandemic. Immediate concerns comprise areas such as:

- Business impact – the effects on customer demand, supply chains and working capital.
- Liquidity – treasurers are assessing whether they have sufficient on-demand facilities and liquid assets to support expected business demands, as well as gauging whether additional emergency facilities are needed.
- Operations – treasury staff who are working from home need to be able to access treasury management systems (TMS) and banking services remotely, while still being able to apply the controls needed to mitigate the risk of cyberattacks and payments fraud.

For many treasurers, one of the most immediate aspects of the current situation is the need for individuals to work from home. Treasuries will have been taking strides to ensure they have the necessary processes in place. As we go to print, many governments are extending lockdowns and restrictions on their citizens' movements in efforts to reduce the spread of the virus.

Anu Mensah, head of treasury at residential developer L&Q, says the company recently carried out a trial to ensure that all employees could continue to operate on this basis. She notes that historically things like Citrix access would have presented additional challenges, but today all staff are able to use work laptops to access everything remotely.

The team has technology in place to pick up phone calls for themselves and colleagues remotely. Staff also have card readers at home as well as in the office, and can access business-critical systems using personal laptops if needed. "The only thing we can't access from home is physical post," Mensah adds.

Also essential to a working-from-home treasury model is the ability to ensure controls are in place. Joe Peka, deputy treasurer of nuclear fuel company Urenco, says: "One thing we have been very keen to do is make sure we do not change or alter our control processes." As such, the treasury is applying the same level of scrutiny and review as in the past, but with some different processes in place. "For example, we might give approval via email instead of with a physical signature – but we've also added an extra layer of control in the form of a callback," he explains.

Medium-term impacts

"The mantra we're hearing today is 'liquidity, liquidity, liquidity'," says Winterton. While the present challenges are a major focus for treasurers currently, treasurers are also considering the impact on their businesses over the medium term. This will involve considering whether profits will be affected in some or all jurisdictions, and whether capex-intensive projects will need to be postponed, and how own and counterparty credit ratings may be affected. Treasurers will also need to consider whether the crisis could affect any of their covenants, and whether the timing of planned debt issuance will need to be changed.

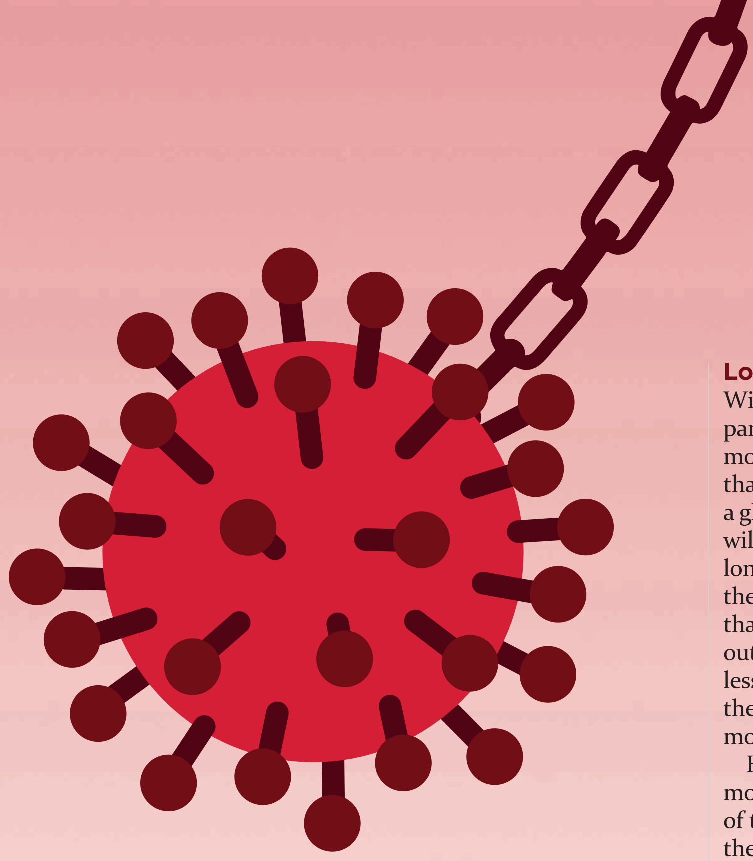
Where staffing levels are concerned, treasurers are adjusting not only to the possibility of longer-term working-from-home models, but also to the prospect of situations in which multiple members of the treasury team may be off sick at the same time. "We're in a fairly good position, in that our team is cross-trained – so if we had a case where two or three people were unable to work, we could shift things around so that we were still compliant with policy and still able to enforce segregation of duties," says Mensah.

In the medium term, working-from-home models may give rise to additional challenges, such as the need to provide physical signatures for some banking or legal documentation. In some cases, this may necessitate individuals printing documents at home and sending them to colleagues by courier – assuming those are still available.

Another consideration is the impact of new working methods on staff wellbeing over time. As the treasurer of a FTSE 250 company remarked: "As treasurers, we will need to think about mental health and the wellbeing of employees through isolation and the undue pressure of continuing work through difficult periods." For some companies, collaboration tools such as Slack and Microsoft Teams may play a role in helping maintain strong communication within the team. Many are using WhatsApp groups to stay in touch with their teams – if only to check on everyone's wellbeing once a day.

Other considerations over the medium term include:

- **Counterparty risk.** Peka says this is a key area of focus – "meaning customers as well as our banking counterparties. We will be enhancing our review of those counterparties going forward." He points out that banks have largely separated staff into A and B teams that do not come into contact with each other in order to minimise the risk of infection. "They are also doing what we are doing and working from home where they can," he says.



> “The way to get through it is the way treasurers always cope: we put in the hours and deal with it”

• **Supply chain risk.** Where this type of risk is concerned, Peka says preparations for Brexit had already prompted the company to review its supply chain. “Fortunately, we have operations in the UK, the US, the Netherlands and Germany, with some flexibility around fulfilling our contracts,” he says. “Clearly, cross-border supply may become challenging, but at present our contingency plans allow for flexibility around fulfilment of our contracts.”

• **Debt issuance.** One FTSE 100 treasury professional said: “One place where we may see delays is access to the debt capital markets. In volatile market conditions, organisations that require access to debt capital markets may find the markets closed for extended periods. However, given the history of debt capital markets, this is something they should plan for when they review their (re) financing requirements and liquidity facilities.”

• **Access to credit.** A number of treasurers are monitoring the situation and gauging what the triggers might be to draw on credit facilities.

• **FX liquidity.** Peka notes that recent FX transactions revealed potential stresses and strains in the market. “We had some feedback from the bank that liquidity was very thin for these FX deals,” he says. “That didn’t stop us from being able to do those transactions – but that was quite surprising, given we only deal with major currencies.”

Meanwhile, some companies may be facing more substantial threats in the coming weeks – potentially bringing personal as well as professional challenges for the treasury teams affected. One treasurer pointed out that some professionals “will be seeing the numbers before anyone else in the organisation and will know if the company is going to run out of money”.

Long-term impacts

With the possibility that the pandemic will continue for six months or more, and the fact that it has already triggered a global recession, treasurers will also need to consider the longer-term implications for their businesses. Mensah says that L&Q’s business plan extends out to 30 years: “We tend to be less affected by fluctuations in the economy in general than most companies.”

However, the organisation is monitoring the possible impacts of the crisis. “We already expect there will be implications for things like demand for our sales properties, and perhaps even our private rented properties,” she explains. “There may also be an increase in rental arrears – all of which may impact on our medium- and long-term liquidity.”

Depending on how the situation develops, one option could be to switch tenure, meaning that buildings that had been planned as sales properties could be switched to rental properties – although the two models have very different liquidity profiles.

While business survival to the end of this year seems to be an immediate concern for many in the current environment, another consideration is that following any recession or crisis, companies may face further challenges as they move eventually into the recovery phase. “When companies start producing more goods to sell, they incur higher costs but may not have cash coming in from debtors for more than 30 days if they are selling on credit,” says Winterton. “In such situations, companies’ cash flows will become stretched.”

Balancing existing priorities

Last but not least, in the coming weeks treasurers will be considering how the current crisis affects other activities that had been expected to be a major focus in 2020, such as the transition away from Libor interest rate benchmarks and Brexit preparations.

“In light of Libor changes, one of the things we are planning to do is adopt a new TMS,” says Peka. “We are still planning to do that, although it certainly presents some logistical challenges. You would normally expect in-person training and lots of meetings through the implementation – but we will have to do a lot by phone call, WebEx and online presentations.” Conversely, another treasurer who wished to remain anonymous was less certain that a planned TMS upgrade would still go ahead in the summer.

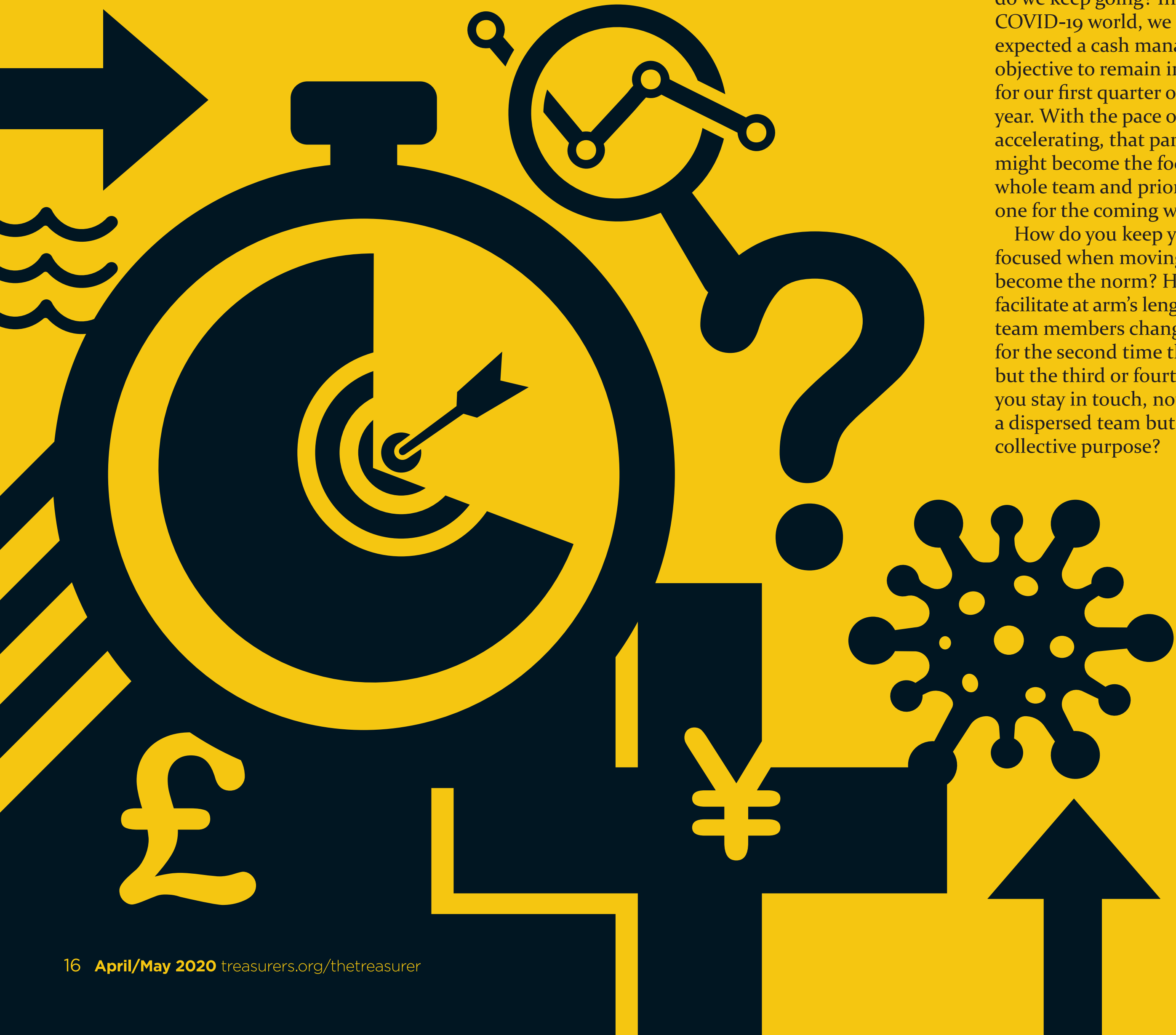
“Most of it comes down to time,” Mensah concludes. “There are going to be some long days and nights ahead of us. It may become crucial to have teams that are cross-trained; that are able to pick up more. It will eat a lot of time that we didn’t originally plan for, but the way to get through it is the way treasurers always cope: we put in the hours and deal with it.”

A final thought from Winterton is that the present focus necessarily is upon staff welfare and business survival. “But those businesses that succeed in navigating COVID-19 will be keen to ensure that their plans for a return to growth will be sustainable against the threat of climate change.”

Rebecca Brace is a freelance business and finance journalist

IN IT FOR THE LONG HAUL

The time for dusting off the contingency plans has already passed. Treasurers are now managing newly dispersed teams against rapidly changing conditions. Here, *The Treasurer* offers a survival guide



Year in, year out, when asked about their role, respondents to The Association of Corporate Treasurers' *Business of Treasury* survey identify emphatically with the core principles of cash, liquidity and financial management. Under current conditions, the collective treasury mind is more thoroughly concentrated around those issues than ever – and even more resolutely than we could have imagined at the turn of the year.

So, how do we operate under such circumstances – and how do we keep going? In a pre-COVID-19 world, we might have expected a cash management objective to remain in place for our first quarter or half year. With the pace of change accelerating, that particular goal might become the focus of the whole team and priority number one for the coming week.

How do you keep your team focused when moving targets become the norm? How do you facilitate at arm's length and help team members change pace, not for the second time this month, but the third or fourth? How do you stay in touch, not just with a dispersed team but with your collective purpose?

EFFECTIVE LEADERSHIP AND COMMUNICATION

Many of our leadership and organisational models are militaristic in their origins. It's easy to see the appeal – and the applicability. Distinctive cultures, clear reporting lines and clear messages: these principles hold good for many organisations and are aspired to by many a business leader. They are also highly relevant in crisis situations.

"Leaders must be visible with their plans, honest with their words and adaptable with their actions – all while maintaining compassion for the situation and the impact it is having on their team," argue Stanley McChrystal, founder, and Chris Fussell, president, of leadership development firm McChrystal Group, in a letter to *The New York Times*.

A former army general and Navy SEAL respectively, McChrystal and Fussell draw parallels between their experiences following 9/11 and the current crisis. In today's situation, the business leaders McChrystal and Fussell interact with are already fatigued – faced with constant decision-making, employee and customer questions and radical changes within their businesses.

Nevertheless, they cannot afford to wait the situation out and must tackle both operational issues in the business along with the human issues – the risk of social isolation among staff and the impact of COVID-19 on them personally. Now is not the time to hunker down, they contend. Candour and frequent contact are the order of the day.

McChrystal and Fussell embraced regular videoconferencing in the field and say business leaders and managers must do likewise. They concede it might not come naturally – it is harder to pick up non-verbal signals or deliver nuanced messages – but these are skills that must be honed and regular contact via these means must become habitual. "You can and must learn these skills, but it will take focus and effort. If you embrace it, you can form a new and stronger culture."

Effective delegation is also crucial – and there is good news to be derived from Harvard Business School research into businesses that recovered well following past recessions. Researchers found that dispersed, decentralised organisations actually performed better in a crisis because when decision-making is delegated away from a central hierarchy, managers and team members are better able to adapt to changing conditions and information on the ground. Clear communication on overarching goals will be crucial – as will trust.

And what about the potential for shortened time spans on projects and targets? In the current climate, businesses must prioritise agility over detail. Leaders and managers redrawing the parameters will need a pragmatic approach. If your operational reality is a drastically shorter time frame, there may be parts of normal procedure that will have to be set aside.

In treasury language, *dynamic balance* – the sharing of responsibility between the centre and subsidiaries via continuous dialogue – will be important here (see wiki.treasurers.org).

REFINING REMOTE WORKING

By the time this issue of *The Treasurer* reaches you, a cohort new to remote working will be growing acclimatised, adjusting to the reporting lines and dynamics you have established.

> "Leaders must be visible with their plans, honest with their words and adaptable with their actions"

But the learning journey will be far from over.

Many colleagues will increasingly miss the social interactions that work brings. Finding ways to humanise contact and restore that social interaction as far as possible will be important. To be blunt, leaders and managers should make time to chat – and will need to bear in mind as well that some colleagues will adjust to the new way of working better than others. Silence from a remote co-worker may not be a sign of industry. It might indicate a personal crisis.

Research demonstrates that over time, individuals who spend more and more time online can show signs of diminishing levels of inhibition. Social conventions online are different to day-to-day and face-to-face interactions. It is possible for people to become increasingly informal and potentially unkind. Teams should set their standards on these issues from the outset, stick to those standards and be ready to weed out less courteous communication.

And the human element of home working amid potentially worsening conditions should not be underestimated. Colleagues may be grappling with anxiety about vulnerable relatives or dealing with the practicalities of having school-age children at home. The pandemic is a situation that hits us personally as well as professionally, something all of us need to bear in mind.

STAMINA

Another hallmark of today's situation is that it is very hard to quantify how long the pandemic will take to run its course and what the long-term impacts will be. The COVID-19 recession is already here.

The expression 'behavioural fatigue' surfaced recently as the UK government's rationale for not introducing social distancing too early and it is a notion that does have a basis in psychology. Research shows that the longer we have to maintain new more rigorous patterns of behaviour, the more difficult that becomes. It's an idea that can be applied to persisting and maintaining high standards while remote working as well.

Once again, leaders will find themselves in the frame. The longer they can visibly meet and even exceed their commitments, the more their teams will be encouraged to do their best also.

Nevertheless, we'd do well to remember that if everyone is to operate well and exist as human beings under these conditions, it will take more than grit and a few good role models. Making space for colleagues to step back and restore themselves will be crucial as will understanding the realities of team workers' home lives. We are currently living Kahler's 'be strong' behavioural driver. Being strong, however, can't be maintained 24/7 and doesn't mean we won't need to take time out.

Liz Loxton is editor of ***The Treasurer***

With thanks to Amanda Bradley and Doug Williamson for their contributions

COVID-19: TRIAGE AND TREATMENT

ACCESS TO FINANCE IS UPPERMOST IN THE TREASURER'S MIND DURING A CRISIS. KATHRINE MELONI LOOKS AT RESPONSES SO FAR

As governments and central banks across the globe intervene to address the impact of COVID-19, finance and treasury departments are working to determine how best to mitigate the impact of the pandemic on their financing arrangements. Many of the challenges resulting from the current crisis are of almost universal application. The solutions are likely to be more fact-specific.

LIQUIDITY

Liquidity concerns are at the top of the agenda for most corporates, as travel bans and national lockdowns continue to proliferate. For some businesses, this is due to a sharp reduction in cash flows. For others, the opposite is true: increased working capital demands may be due to needing to ramp up production, for example, to meet medical or stockpilers' needs.

Options include drawing on existing revolving credit facilities (RCF), using accordion or incremental facility mechanics to increase facility limits or raising new sources of finance. We have seen companies use all of these options in recent days, the most appropriate choice being fact-dependent.

The decision to draw an RCF might be perceived as aggressive (as readers may recall from 2008), particularly when good grace from relationship banks might be required down the line. Organisations are generally prompted by a need for immediate cash flow. However, given that conditions for rolling over revolving facility drawings are typically less onerous than for new utilisations, treasurers might be more concerned that drawstop defaults could emerge in the future if conditions deteriorate.

Additional liquidity facilities are being sourced in multiple forms. Bank loans are often the first port of call, given the currently limited access to the bond market. We have also seen corporates looking at alternative sources of finance, such as receivables and payables financing arrangements. The US private placement market appears open for business, particularly for borrowers with a track record. There is also, of course, widespread interest in government schemes aimed at supporting liquidity.

Governments around the world have acted swiftly to support corporate lending. In March, the Federal Reserve launched a bond-buying programme on both primary and secondary markets and the Bank of England introduced the COVID-19 Corporate Funding Facility (see panel opposite). A number of other countries are working on or have announced similar national schemes.

COVENANT MANAGEMENT

Many companies are concerned about actual or anticipated covenant-compliance issues, which if not appropriately managed have the potential to hinder access to liquidity. The immediate concern for many is financial covenant compliance. Companies are debating covenant holidays, leverage spikes (perhaps operated at the election of the borrower) and the merits of pre-emptive waivers.

A key challenge for treasurers entering any dialogue with lenders is that they are able to provide sufficient information on the base and worst-case impact of COVID-19 on the business, against a backdrop that changes from day to day. While this may change as the scale and scope of available government support becomes clearer, covenant holidays are emerging as the preferred option for a number of borrowers, as companies struggle to pin down quite how much headroom might be required to weather the storm. Banks are examining requests very carefully and are generally keen to limit waivers to the necessary minimum. Waivers may be combined with further information requirements and additional restrictions on other activities, for example, dividend payments.

Treasurers are also seeking advice on areas of vulnerability within financing arrangements beyond financial covenants. Whether waivers are required is heavily dependent on the business and the terms of the documentation. The most common questions we have faced so far concern material adverse change representations and events of default that apply on a suspension or cessation of the borrower's business in light of widespread enforced closures. Reporting and disclosure obligations are also key.

AUDIT

For many, the escalating situation has coincided with the annual reporting and audit cycle. As well as broader disclosure considerations, those facing funding, liquidity or covenant-compliance issues may need to demonstrate to auditors that appropriate arrangements are in place to support customary going-concern statements.

More generally, significant post-balance sheet adjustments as well as practical issues presented by working restrictions imposed by companies and audit firms may delay timetables for completing audits and finalising financial statements. These delays may have knock-on implications on the ability of treasurers to comply with information and reporting covenants under public and private borrowings.

BANKING SECTOR REACTIONS

Our general experience so far is that banks are doing their best to be supportive. However, credit committees will inevitably have questions and the sheer number of companies requiring attention will have an impact on time scales and, potentially, outcomes. Individual contact with relationship banks is likely to be very important. Banks' tolerance for covenant relaxations and requests for additional liquidity should become clearer, as well as the terms on which such requests are likely to be granted.

Kathrine Meloni is a special adviser at Slaughter and May; slaughterandmay.com

SLAUGHTER AND MAY

UK GOVERNMENT SUPPORT FOR BUSINESS

The main news for larger and UK-focused businesses is the opening of the UK government's COVID-19 Corporate Funding Facility (CCFF) on 23 March. This has generated significant interest among corporates, including many enquiries about eligibility.

The CCFF is operated by the Bank of England on behalf of HM Treasury. It will be available for a minimum of 12 months and thereafter as long as required. A special-purpose entity operated by the Bank will purchase commercial paper issued by businesses making a 'material contribution to the UK economy'. UK-incorporated companies with a genuine business in the UK will likely be considered to meet this requirement whether or not they have a foreign parent. However, eligibility decisions will be made at the discretion of the Bank and applicants will be required to explain the basis of their contribution in their application.

The CCFF is focused on non-financial corporates. It is also designed only for firms in sound financial health prior to the economic shock of COVID-19. Companies with investment-grade ratings from the main rating agencies at 1 March 2020 will qualify, subject to meeting the other eligibility criteria. The Bank's CCFF web page encourages currently unrated issuers to speak to their bankers in the first instance to determine whether they viewed the internally as equivalent to investment grade as at 1 March 2020. If so, the Bank will then make an assessment of whether the issuer can be deemed as equivalent to having a public investment-grade rating. This assessment 'will draw on a range of information, including the range of banks' internal ratings across all of a firm's commercial bank counterparties. A firm will need to be rated consistently by its banks as investment grade in order to be deemed equivalent to having a public investment-grade rating". Alternatively, the issuer or its bank can get in touch with one of the major credit rating agencies to seek an assessment of credit quality for the purposes of the CCFF, in a form that can be shared with the Bank and HM Treasury.

The Bank's CCFF guidance specifies eligibility requirements for commercial paper purchased by the CCFF, which include a minimum amount of £1,000,000 and a maximum maturity of 364 days. The paper will need to be guaranteed if issued by a finance company or where otherwise required to ensure it ranks on an equal footing with the senior unsecured debt obligations of the issuer's group. The authorities may impose limits on individual issuers, but these will be communicated privately by the Bank of England.

As the Bank refines its CCFF guidance, treasurers are advised to refer to their banks, their advisers and the latest version on the Bank's CCFF web page (see bankofengland.co.uk/news/2020/march/the-covid-corporate-financing-facility) for up-to-date information. Those interested in the scheme will need to consider and engage with the Bank on how to fulfil the eligibility criteria. Questions about eligibility can be sent to the Bank using CCFFeligible.issuers@bankofengland.gsi.gov.uk

Other considerations for potential participants include the impact of CCFF participation on existing financial instruments, for example, borrowing limits and limits on indebtedness. Participants are also asked to confirm to the Bank the absence of Events of Default or similar under other financing arrangements, meaning any covenant-compliance issues, technical or otherwise, will need to be addressed as part of the process.

Further information

To find out more about any of the issues addressed in this article, please contact Philip Snell, Oliver Storey, Matthew Tobin or Kathrine Meloni at Slaughter and May.

INTERNATIONAL ACCORD

INTERNATIONAL CLIMATE CHANGE CONGRESS COP 26 IS DUE TO TAKE PLACE IN THE UK THIS YEAR. WHAT DO TREASURERS NEED TO KNOW?

In November 2020, the UK is due to host the next Conference of the Parties – COP 26. The conference is important for a number of reasons, as the aim is to set non-binding but agreed limits on greenhouse gas emissions. Last year's COP in Madrid fell short of desired outcomes, so expectations are high for COP 26 in Glasgow.

The agenda will include how to attract global climate finance, and further work on international carbon markets. It is a key meeting that will – if expectations are met – affect citizens, countries and the private sector. Treasurers will need to be ready for potential outcomes of COP 26 and the broader ESG road map, as many proposals will have significant financial implications for corporates.

The ACT Annual Conference later in the year will be a good opportunity for the treasury community to learn more about ESG and share ideas on creating a more sustainable planet.

What happened at COP 25 in Madrid?

Nearly 27,000 delegates arrived in the Spanish capital in early December 2019. For various reasons (including the importance of preparing for COP 26), expectations were limited, with many countries focusing on technical issues such as the carbon markets via which countries buy and sell carbon credits based on their emissions-cutting efforts.

The global carbon market was established by the 2015 Paris Agreement, and setting up its rules (Article 6) is a key task that should have been completed by COP 24.

Despite the limited ambitions for COP 25, the talks were unable to reach consensus on many topics. The parties could not agree on the remaining rules for the Paris Agreement, especially common time frames for nationally determined contributions (NDCs) and the carbon markets with decisions pushed into 2020.

What makes Article 6 so important?

A key component of the Paris Agreement was setting up a new global carbon market system to help countries decarbonise their economies at lower cost. It is the last unresolved section of the rule book and has the potential to make or break efforts to curb emissions.

BACKGROUND TO COP

The UN Framework Convention on Climate Change (UNFCCC) is an international environmental treaty that came into being in 1994. Its objective is to 'stabilise greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system'. The treaty sets non-binding limits on greenhouse gas emissions for individual countries and outlines how specific international treaties (referred to as protocols or agreements) may be negotiated to further the UNFCCC's objectives.

The Conference of the Parties (COP) is an annual event that supports the UNFCCC and assesses overall and specific progress in dealing with climate change. Since 2011 the meetings have also been used to negotiate the Paris Agreement.

Key decisions include:

- The 1997 Kyoto Protocol, which established legally binding obligations for developed countries to reduce their greenhouse gas emissions in the period 2008–12;
- The 2010 United Nations Climate Change Conference, which produced an agreement stating that future global warming should be limited to below 2°C relative to the pre-industrial level; and
- The 2015 Paris Agreement, which set emission reductions from 2020 onwards through commitments of countries in nationally determined contributions, with a view of lowering the target to 1.5°C.

The use of carbon markets is a key component of the majority of national climate plans to deliver reductions in emissions. It enables governments and the private sector to buy carbon credits to develop green projects designed to cut emissions in another country. Countries that have cut emissions beyond their target could sell their surplus to countries struggling to meet their goals. Depending on the specific NDCs, the trading of carbon credits may not help reduce global emissions.

Key questions that need resolving include:

- Should double counting be avoided completely or sometimes be allowed?
- Should a selling country's inventory be adjusted for any emissions reduction sold to international airlines (as aviation emissions are not counted in national emissions inventories)?
- Should a single international body oversee carbon trading?
- Should emissions targets be set as absolute emissions, a reduction relative to business-as-usual, or as a ratio of emissions to GDP?

Getting Article 6 right will be crucial, as weak rules could lead to an increase in emissions and the carbon markets could be used to meet emissions reduction targets on paper while avoiding any real action.

For the treasurer, this may have a significant financial cost. CO_2 emission allowances have doubled in just over a year to approximately $25 per tonne and some organisations think a more realistic price is closer to $70 per tonne.

COP 26 in Glasgow

In 2015, 196 countries adopted the Paris Agreement with the core objective of keeping the global average temperature increase to under 2°C above pre-industrial levels, while pursuing efforts to keep it to below 1.5°C. It was also agreed to present revised and more ambitious commitments by 2020 and every five years thereafter. COP 26 sets a deadline for countries to present this first revision, and as a result, will be an important milestone for global climate action.

Although there is currently no final agenda for COP 26, there is some consensus that it needs to:

- Mainstream the objective of net zero emissions and carbon neutrality by 2050, or very soon after, as the basis for every action;
- Call on businesses to present their commitments for 2030 consistent with the long-term objective; and
- Set up an organised and consistent finance plan providing real leverage between the different financial actors.

The Association of Corporate Treasurers (ACT) will be monitoring preparations for COP 26 as well as the various other initiatives in the ESG space during 2020. Treasurers are encouraged to explore the ESG landing page within the Knowledge Hub section of the ACT website (see treasurers.org/hub/technical/hot-topics/esg-sustainable-finance), which contains a wealth of material and links to useful information produced by other organisations.

Naresh Aggarwal is associate director, policy and technical, at the ACT

ARE YOU READY TO SEIZE THE API OPPORTUNITY?

REGULATION IS A KEY DRIVER OF INNOVATION IN BANKING AND FINANCIAL SERVICES, AND THIS IS CLEARLY EVIDENCED BY THE ADVANCE OF OPEN BANKING AND APIs. VILMOS LORINCZ PROVIDES AN UPDATE

Many of us are using application programming interfaces (APIs) in our day-to-day lives, perhaps without realising. When we book a flight or a hotel we are often using an API, as they are already used extensively in telecommunications and retail. Indeed, they have had a fundamental impact on the ways that these industries operate, exchanging data and delivering value propositions.

APIs are now beginning to do the same in banking and financial services, and their rise has been largely accelerated by recent regulatory interventions: PSD2 in Europe and Open Banking here in the UK. Both were designed to drive innovation and increase competition as well as making payments faster and more secure.

Since the launch of Open Banking in the UK in 2018, we have seen a wealth of innovation in banking, not just across the retail or consumer landscape, but also in commercial banking. If you look at the range and diversity of the new third-party providers (TPPs) in the Open Banking Directory, more than half focus on retail, a third look to address commercial propositions and an increasing number are looking at both. In short, we are starting to see tangible commercial-use cases emerge through the use of APIs.

The bulk of these TPPs are account aggregators, allowing clients the ability to see all account data in one single place. We are starting to see an increasing number of payment initiators, which allow a third party to initiate a payment, with consent, on behalf of the account holder.

What could APIs mean for treasurers of the future?

It is easy to look at some of the more immediate roles of treasury teams and envisage how APIs could streamline and automate day-to-day activity and improve efficiency:

- **Immediate FX rates** – avoiding the need to consult a day-rate sheet or Bloomberg, by using an automated API call-out for immediately applicable exchange rates ready for execution.
- **Instant balance reporting** – with intraday positions across corporates' counterparty banks available automatically via a simple API call, the days of relying on a previous day's MT940 are numbered.
- **Instant data-driven payments** – rather than having to rely on email, phone handovers and manual entry via a login screen,

you could immediately issue an API to instruct a payment when a defined number of decision points have been met.

Beyond these examples we see a broader more strategic opportunity for treasury teams, the opportunity to engage across the company's wider value chains and customer interactions. From this perspective APIs are not just a tool or a channel, but a key enabler that can provide better client propositions, deliver enhancements to customer experiences and simplified processes that deliver operational efficiencies.

One of the use cases we are bringing to life includes an API-led solution that could enable you to issue GBP immediate payments in real time using automated decisioning and critically on a 24/7, 365-day basis. This new capability, for example, could be used to pay contracting staff on completion of a shift, ensuring they are paid in a way that meets their needs.

Other areas of additional capabilities we expect APIs to offer:

- **Claim settlement** – one of the challenges facing the insurance industry is expedient and client-centric claim settlement – an API-led journey can enable an insurer to issue payments to claimants more quickly and in a way that will simplify the decision-making process, ensuring more accurate forecasting and enhanced claimant satisfaction.
- **Cash-flow forecasting** – an issue for receivables management that an API solution could address is the need to identify and reconcile specific transactions in an automated, real-time manner that simplifies their reconciliation and provides a more accurate position and releases working capital.
- **Instant funding for financing** – an opportunity for motor finance companies now realised through the use of an API was to streamline the decision-making process and make funds available to car dealers within seconds of the customer gaining credit acceptance.

Each of these API-delivered solutions offers businesses the chance to truly transform their clients' experience. Looking at APIs as an enterprise capability, we can see broader benefits:

- Value creation and competitive advantage in developing new propositions;
- Speed of execution, due to highly automated processes on both sides;
- Operational simplicity, as human intervention is removed;
- Speed of deployment, we have seen the lag from agreement to testing to be as little as four weeks; and
- Moving beyond a traditional working day to a 24/7 automated environment.

Things to think about when setting your API and technology

Self-assessment is key to understanding your current appetite for investment in areas such as artificial intelligence, automation, the cloud and the development of APIs.

We spoke to more than 100 senior decision-makers for the latest Lloyds Bank's *Financial Institutions Sentiment Survey*, and 60% of our respondents said cloud adoption would be an investment priority in the coming 12 months, while 49% said they were looking to invest in APIs in the same time frame.

Investment will of course tie into the core priorities of a treasury function and business. Consistent themes from a treasurer's perspective have been:

- Managing liquidity;
- Access to funding;
- Predicting and managing risk; and
- Enhancing operational efficiencies.

> We are starting to see tangible commercial-use cases emerge through the use of APIs

But according to research in the UK, by 2022 the top priority is expected to be real-time data and payments (*IDC Corporate Treasury Survey, 2019*).

Embracing APIs can be a quicker way to access change and deliver innovation, so treasurers should be thinking about how best to prepare for using APIs. This can include:

1) Investing in your people so they have the best skill sets;
2) Building the right foundations – be ready to test and learn with partner developer portals;
3) Building and investing in platforms, which are API-enabled; and
4) Creating API propositions that transform your customers' experience.

The number of UK financial institutions using APIs to strengthen their proposition has increased significantly in the past 12 months and APIs will deliver great changes for the financial services sector.

As more firms invest in their own digital transformation, we're set to see even greater and more sophisticated adoption of APIs across banking and finance.

Open Banking in the UK has resulted in the open availability of APIs, assisted by developer portals with clear documentation and standardised terms of use. This in turn meant that individual businesses do not need to form bespoke agreements with providers of APIs (and vice versa) also driving innovation with the relative ease with which APIs can be embedded.

Continued efforts at standardisation, at a time when payment infrastructures and schemes are working to upgrade their infrastructures to become API and ISO 20022-enabled, will in turn deliver wider international interoperability.

With the regulatory requirement of PSD2, banks across Europe are also seeking to leverage the substantial investment in PSD2 compliance into their own bespoke API propositions, to deliver bilateral APIs with specific commercial agreements.

As development and deployment with the right partners becomes easier and quicker, the opportunity is out there – seize it!

Vilmos Lorincz **is managing director data, APIs and working capital at Lloyds Bank**

LLOYDS BANK

This article is produced for general information only and should not be relied on as offering advice for any specific set of circumstances.

HEADING FOR BETTER

THE FMSB HAS BEEN AT THE HELM OF INITIATIVES AIMED AT IMPROVING STANDARDS OF CONDUCT IN FINANCIAL MARKETS. LIZ LOXTON LOOKS AT ITS STANDARD-SETTING WORK AND ASKS CEO MARTIN PLUVES WHAT'S IN IT FOR CORPORATES

The features of the global financial crisis – failing financial titans, government bailouts and only lacklustre levels of growth in the years since – remain hard to fathom. In the aftermath of the crisis, governments, central banks and regulators began to assess the damage and to look for its sources. In the UK, conduct within fixed income currencies and commodities (FICC) markets fell under the spotlight.

In 2015, the Bank of England, HM Treasury and Financial Conduct Authority's Fair and Effective Markets Review found that the informal codes of conduct that wholesale FICC markets were notionally bound by had been routinely misunderstood or disregarded.

Efforts to establish higher standards of conduct in financial markets and restore faith have been in the foreground ever since. Notable among these efforts, and supported by The Association of Corporate Treasurers (ACT), are the FX Global Code, first published in May 2017, and the UK Money Markets Code, applicable to corporates engaged in unsecured deposit and repo markets and due for review this year.

Since 2016, the FICC Markets Standards Board (FMSB) has engaged fully with the business of delineating standards and good practice, delivering a suite of published standards and statements of good practice covering subjects including conduct training, monitoring electronic communications and suspicious transaction reporting. It also published its seminal *Behavioural Cluster Analysis*, which identifies archetypal patterns of misconduct in financial markets.

The FMSB's standards and statements of good practice represent painstaking work – the bringing together of parties and counterparties to identify core principles that will improve transparency, fairness and effectiveness in wholesale FICC markets. As Martin Pluves, the FMSB's new CEO puts it: "The aim is to make practices that are undertaken in those markets predictable. It may sound boring, but actually this is a laudable goal – to see to it that participants to trading activity, if they are trading with and between FMSB members, know what's happening behind the scenes. Opaque activities are made more transparent, so different actors in the market understand what will and will not be going on in that trading activity."

Treasury involvement

One of the FMSB's current activities is exploring the field of large trades – specifically the rights and obligations of participants to trades that are significantly larger than typical liquidity levels in the relevant product market – in particular, where those trades have the potential to impact market pricing requiring additional 'handling' in order to mitigate risks and protect the interests of those taking part.

Michael Dawson, head of liquidity and FX at Shell International, chairs the FMSB working group focused on developing the *Standard for the Execution of Large Trades in FICC Markets* – an area of particular significance to corporate treasurers. Involvement in the standard-setting exercise is important, he believes, not just for Shell, but for the wider corporate treasury world and for financial markets.

> Pluves' objective is to ensure the FMSB can deliver benefits in a rapidly changing context

The conversations that take place within the working groups have the broad aim of reinforcing good conduct and eradicating ambiguities that might otherwise arise when buy- and sell-sides come together in the discussions that precede transactions. "We [corporate treasurers] provide a perspective on the issues that matter to the buy-side," says Dawson. "The FMSB's work is relevant because by holding these discussions and working towards common codes of conduct we can help to drive good standards in markets."

As more standards are developed and as more corporates, banks and investors refer to them and use them as model ways to engage with each other, greater consensus and commonality will be achieved. "My expectation is that banks will not just conduct themselves according to these standards in their relationship with Shell, but with all their corporate clients. That's how we establish fair and effective markets – through driving better standards for all," he continues.

As Pluves says: "What we would seek to do as a standards setter is to set out good practices that apply to the relationship between corporate treasurers, banks and investors, to protect all participants without inhibiting access to open, fair and liquid markets. These matters are typically more complex than you might think once you get into the detailed mechanics of trading and information asymmetry in capital markets."

The FMSB's working groups bring together a full range of participants to look at areas where that unhelpful ambiguity exists, so that they can clarify common understanding and define practice. "It's not about wilful misconduct," says Pluves. "The most extreme cases of fraud and manipulation of markets are of course a matter for the law courts. But aside from clear abusive activities, there remains a significant regulatory void. When is it appropriate and expected that a bank will pre-hedge a client trade? When does that cross the line and become a case of market manipulation? We seek to answer very important and difficult questions, to identify potential areas of business practice risk and help members to mitigate these with clear and practical guidance."

As CEO, Pluves' objective is to ensure that the FMSB can continue to deliver benefits in a rapidly changing context. "We see an ever-faster pace of change and growth of the role of technology. For example, the expanding use of algorithmic trading and increased reliance on machine learning – predominantly in surveillance rather than the execution of trades, but that use is expected to increase in the near term."

These developments can alter parameters very quickly. "If new practices evolve without full scrutiny on what's really going on, there is room for misinterpretation of what constitutes fair and effective behaviour. Before they know where they are, participants can find themselves on the wrong side of a line that they weren't fully aware existed."

Clarifying practice in some of the oldest markets

Away from the bleeding edge of technological innovation, what the financial crisis showed was that traditional markets – left unexamined – can be open to abuse. The FMSB has found that even in some of the oldest markets, there remain significant areas for clarification.

"In fixed income currencies and commodities markets, some of the oldest means and mechanisms of raising capital or transferring risk, there are still practices that are opaque and perhaps not fully understood," Pluves says.

The FMSB's most recent work looks at primary issuance of corporate and government bonds investigating the primary auction process into the secondary trading market, to ensure that information flows are understood and that practices undertaken by all participants are clear and consistent. And specifically for corporate treasurers, work around capital raising, bond issuance and in FX markets is the mainstay of the FMSB.

"Those markets where corporate treasury is most engaged are the areas where we're focused as an organisation," says Pluves. "We run a very open approach to maximise engagement and support from across the markets. We have industry association support for FMSB activities, we have members on the standards board and on our advisory council from the ACT, and also other bodies, looking at FX markets and beyond."

Avoiding surprises means all parties can be confident about reliable, predictable ways of engaging and dealing. "Any surprises in these processes are generally bad news. When participants realise something is happening in a way that they had assumed it wouldn't, that creates financial, reputational and regulatory risk for everybody involved, and damages the fairness and effectiveness of financial markets. Our aim is always to promote open, transparent, predictable and repeatable market practices where participants' time and energy is focused on managing financial risks and opportunities."

fmsb.com

Liz Loxton is editor of ***The Treasurer***

Work around capital raising, bond issuance and in FX markets is the mainstay of the FMSB

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THE TREASURER TALKS TO ACT VOLUNTEERS ABOUT THE BENEFITS THEY GIVE AND RECEIVE

Association of Corporate Treasurers (ACT) members and volunteers help the ACT make a lot of great things possible, including raising the profile of treasury and strengthening the profession.

So, why volunteer?

- It's a great opportunity to give back to the profession and be involved with leading bodies, such as the Bank of England and the European Association of Corporate Treasurers.
- It provides a chance to discuss areas of interest (such as cash management, funding and financial products/markets) with like-minded colleagues.
- It provides access to significant networking opportunities with treasurers and other finance professionals, and can help you build your personal profile and brand.
- If you are in transition or going into retirement, it provides a great way of keeping involved with treasury issues.
- Volunteering is excellent continuing professional development (CPD) – a wonderful addition to your CPD record and your CV.

We speak to Fadey AbiDaoud, instructor, College of North Atlantic, about volunteering on the Middle East Advisory Panel.

You are a member of the Middle East Advisory Panel. Why did you volunteer to join this group?

I was introduced to the ACT while I was in Abu Dhabi back in 2011. It became clear to me that the association was interested in promoting industry best practices and was the only real place where treasury and banking professionals could converge to share their ideas. I was asked to participate in an ACT event in 2011 and I was hooked.

Why do you think it's important to volunteer your time?

It's all about return on investment. I believe I have received more from the ACT than my individual contribution. I have learnt a lot and have enjoyed contributing to the discussion on treasury in the Middle East. I have also enjoyed accessing the huge amount of information available via the treasurers.org website, ACT publications and ACT events.

What would you say to anyone thinking of volunteering with the ACT?

Volunteering opens up new opportunities, new networks and new ways of thinking. Your investment in time will be worth it as you will gain a new perspective, and I have found access to the latest treasury information particularly helpful. The ACT will provide a return over and above any investment you make.

Volunteering opens up new opportunities, new networks and new ways of thinking

As qualified treasurers, ACT members have a unique mix of experience and knowledge. Through our voluntary roles page we provide information on roles in the charity and not-for-profit sector as well as information on non-executive director roles.

We ask Gary Williams, former director and deputy CFO, Mitsubishi Corporation International (Europe), about why it's important for those with treasury skills to volunteer.

You are a trustee for a charity – how did you get involved and what are the key things you do?

I already had some experience volunteering for a local charity, although I sometimes felt that my contributions were mainly at trustee meetings. I later found a trustee opportunity at a local environmental charity (through Reach Volunteering) where advice and hands-on assistance were a key requirement of the role.

There are parallels between the mindset and make-up of a treasurer and what a trustee needs to bring to the table. A treasurer needs to be forward-thinking, consider all options and opinions, embrace partnership, be good at listening, be a team player, understand the brand, be aware of regulations and fully understand the risks. All these same attributes are required of a trustee, although for no remuneration!

In terms of the key things I do, to date I have been working on HR aspects such as job descriptions and contracts of employment. As a former board director I have also helped with governance matters. When working as a trustee it's important to be flexible and to help where you can. I do a lot of this via email, but I also work on-site, as I think it's good to have first-hand understanding from employees, especially the large number of dedicated volunteers.

Why do you think it's important to volunteer?

I reached the point in my career when I felt it was time to give something back, especially to local causes. Smaller charities are heavily reliant on volunteers, as they don't always have the funding to pay for staff.

What advice would you give to someone thinking of volunteering?

It can increase your skills and expertise while bringing you into an environment where you can make a difference. I would look at local charities where you may have a strong alignment with their purpose, aims and objectives. Finally, I would say don't go in with fixed ideas – be open, as the landscape can be very different to the corporate world.

If you would like to volunteer with the ACT, we have a number of initiatives that you might find interesting. Visit treasurers.org/my-membership/get-involved for the latest opportunities, or contact Zoe Norris, head of member engagement, on znorris@treasurers.org or +44 20 7847 2548.

For information about voluntary roles, including trustee and NED positions, visit treasurers.org/latest-jobs/voluntary

IN SEARCH OF

WORRY IS A NATURAL PART OF OUR PSYCHOLOGY – ONE THAT CAN SPIRAL OUT OF CONTROL. **AMANDA BRADLEY** OFFERS A METHOD TO MANAGE ANXIETY

I would be lying if I said there was nothing to worry about right now. As I write, people are self-isolating and, apparently, toilet roll is the new gold. The adage 'keep calm and carry on' is an apt mantra as the uncertainty of COVID-19 impacts households and companies alike.

So now seems as good a time as any to focus on worrying. What is it for? Why do we do it? How do we keep on top of it? And can it actually be helpful? In short, does it really help to keep calm and carry on?

Action stations

Worrying is a natural process. It's our mind's way of making us pay attention to something. Noticing what we are worrying about gives us clues about actions we need to take. The point at which worrying becomes unhelpful is worrying without action. This is ruminating – going over and over something in our minds, endlessly looping over what we said or did not say, what we did or did not do. This is a passive state, where we are ignoring our agency in the situation.

It is there to keep us in stasis, not moving forwards, not moving backwards, paralysed by the act of worrying. It's an ingenious way of avoiding something that could be frightening, unpleasant or just too much hard work.

So, what can we do when worrying takes hold? Grab a pen. Sounds like an odd solution – but bear with me. Grab a pen. And a piece of paper. Write down your name in the middle of it. Draw a stalk coming out of that. Now just take three minutes and scribble down all the things that are pressing on your mind – one issue per stalk, and just one word, not the whole story.

Now take one stalk and think of up to three main things you could do to resolve that worry. Keep going with the next stalk, and the next. You may not find an action for each one but that's OK. Just keep going. Then put your pen down. Take a step back and look at what's on the page, focusing on the actions. Are any of them already happening? Strike them through with a clean line. Are any of them someone else's job? Strike them through – they're someone else's to worry about. You might struggle with that; but remind yourself about effective delegation and not rescuing other people from their responsibilities (see *The Treasurer*, December 2019/ January 2020, page 42). Strike them through. If they're actions that you can take yourself, put a circle around them.

Now look at the circled items. Are they truly your actions to take? Do they need to be yours? Or would it be better if someone else owned them? Are they actually someone else's job? Either allocate these to you or make a note to delegate them to someone else and strike them through.

So, what's left? Take a good look at these unactioned worries and ask yourself what you are minimising or ignoring in yourself, the other people involved or the wider environment that makes you think of them as worries.

The heart of the matter

What is it that you're truly worried about? If you can't trust others to get on with their job, whose problem is that? It might be yours. You might have the wrong people working with you, so plan to manage them better (we'll cover this in the next issue of *The Treasurer*) or work with HR if their performance is so bad it requires deeper measures to be taken.

If you're ignoring feelings that something will be painful or difficult, seek support from trusted colleagues and friends. If you're worried about getting into trouble about something that is totally out of your control, ask yourself whether that's a realistic worry. If it is, and the item is truly out of your control, ask yourself whether you want to keep working where you are! The important thing is to keep asking yourself what you are ignoring or discounting in the situation. Then you can start to see the true situation and start to get a foothold into resolving your worry.

This bit is important. You might not resolve the thing you are worrying about. It might not be resolvable. But you might be able to accept it for what it is and find the smaller areas where you can exercise

CALM

choice for yourself to be able to resolve your worrying.

Take another look at the worry map you've drawn for yourself. Is there anything on that piece of paper that you have always known that you had to do but you were really trying to avoid? If there is, this is the source of your worrying. What resources do you have already that will make doing that thing possible? What do you need to get for yourself? Who do you need to talk to? What do you need to ask for? How can you steward yourself through the task? And how will you reward yourself once it's done? Hopefully by now you're starting to feel a bit better about all this stuff.

It might also help to know why this process makes us feel better.

We are basically animals. Way back, our ancestors had to outrun tigers to survive. Today, our big scary animals may be that board presentation you've got to make or explaining to the boss that your hedging strategy hasn't saved what you hoped it would.

When we over-worry, we can start to panic. At this point, the body's survival centre (the limbic brain) takes over from the sensible, thinking part of the brain, the neocortex. The amygdala fires off the fight, flight, freeze, flop alarm. The hypothalamus, the pharmacist of the brain, orders the release of adrenaline and cortisol into your system via the sympathetic nervous system. These mobilise your organs to be ready to run or fight the tiger. The downside is that these chemicals also switch off the hippocampus, your brain's memory recorder, and the thinking neocortex part of your brain. This is because the limbic brain is busy surviving. You don't need to do sums or remember things when you're being chased by a tiger. Breathing in and out quickly is much more important.

Just breathe

So, we need to stand the sympathetic nervous system down and get the parasympathetic system working. That's why people give the deeply patronising advice to "take a deep breath". Annoyingly, it works. It signals that the danger is passing and tells the parasympathetic nervous system to switch off the chemicals, bringing the body out of its highly activated state. Next, we ask ourselves questions. What is worrying me? What action can I take? Questions come from the higher brain function in the neocortex, further decommissioning the sympathetic nervous system – there really can't be a tiger there if you're forming questions.

The hard bit comes when there are things that you just can't do anything about. I can't stop my mother from hang-gliding. She loves it. There's nothing I can do about it. I wish she wouldn't. I have to work on letting that one go. You're already taking action to change the things you can change. Accepting the things that you can't is the next step. And, if you've done everything you can, and you're still worrying, it's time to talk to someone you trust about your worrying.

Keeping calm and carrying on doesn't mean ignoring what you're worried about. It works best if we listen to and resolve our worries so we *can* keep calm and carry on.

Sometimes acting as if everything is going to be all right is the best course of action, but as is so often the case, it's better if we actively choose to do that rather than ignoring ourselves altogether.

Amanda Bradley FCT is an executive coach at Liberty EQ

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treasurers.org/events/conferences/international-treasury-week-20

■ **13 September, Dubai**

ACT MIDDLE EAST TREASURY AWARDS

Nominations for the ACT Middle East Treasury Awards are open! Now in it's sixth year, the awards celebrate the achievements of the corporate treasurer and recognise deals, projects, companies and individuals that have shown innovation and excellence in the region.
treasurers.org/middle-east-awards-20

■ **14-15 September, Dubai**

THE ACT MIDDLE EAST TREASURY SUMMIT

The summit is the principal event in the region for corporate treasury. This year's theme is 'Furthering innovation, developing sustainability', and the key topics to be covered include fintech, sustainability, payments, divesting from oil and developing an inclusive treasury community.
treasurers.org/middle-east-summit-20

■ **POSTPONED**
TO 17 September, London

THE ACT'S DEALS OF THE YEAR AWARDS

The Deals of the Year Awards play a crucial role in championing the outstanding work of treasurers and their contribution to their organisation's success. Watch this space for details on the winners.
treasurers.org/deals-of-the-year-19

■ **POSTPONED**
TO 6-7 October, Harrogate, UK

ACT ANNUAL CONFERENCE 2020

The theme of this year's ACT Annual Conference is 'Balancing Risk: Championing Sustainable Growth' and will focus on how treasurers can balance risks, while promoting sustainable growth and profitability.
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This two-day course looks into practical cash management, bank account structures, payables and receivables, liquidity and finance, cash management solutions and real-life case studies.
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IKON IMAGES

"THE SMALL TEAM BRINGS VARIETY: EVERY DAY IS DIFFERENT"

CHALHOUB GROUP'S NEW TREASURY BUSINESS PARTNER, JAMES WESTERBY-JONES, ENJOYS A VARIED ROLE AND A BUSY AGENDA AHEAD

As the newly appointed treasury business partner at Chalhoub Group, I feel very fortunate and have a fair amount to look forward to this year. A new job, a new city, in a new country with perfect golfing weather – what more could you wish for? Opportunities abound, professionally and personally.

Working for the leading partner for luxury brands in the Middle East in the glittering metropolis of Dubai, I am based at the group's headquarters in Jebel Ali Free Zone (the admittedly not-so-glittering side of Dubai). With more than 12,000 employees across the Middle East, the group focuses on retail franchising and joint ventures, distribution and marketing. For those of us with a penchant for the big names, Chalhoub can claim partnerships with Louis Vuitton, Christian Dior, Sephora and Swarovski.

Chalhoub's treasury function is in a very different place to where it was five years ago. Starting out with two employees, the headcount has more than doubled and is due to increase again. In line with the group's focus on digitalisation and operational efficiency, we are now embarking on a processes and systems refresh that will enable us to focus on value-adding initiatives across the group. This will look to provide a good boost, and hopefully reduce the caffeine consumption of the hard-working and dedicated team on the ground.

You may think that a treasury function with fewer than 10 employees is small for a company of this size – and you would be right. However, the small team brings variety. Every day is different and provides an opportunity to wear one of many different hats.

Hat 1: treasury business partner

This is the people-person hat and the role that allows me to build relationships across the business and our joint ventures. The part of my day spent in this role has increased my knowledge of the business tenfold and has been vital in providing an understanding of projects from a very early stage. It has also taught me valuable lessons about Middle Eastern culture, from how to order a coffee with medium 'wassat' sugar to how many dates you eat in one go (three, apparently).

Hat 2: regional treasurer

This part of my role focuses on governance and operational efficiency – vital to any business – and involves working closely with local finance directors and managers. It includes a broad spectrum of tasks from funding local business units, supporting payment solution and point-of-sale machine projects across our large network of stores to implementing our cash-flow forecasting processes across the group.

> Every day is different and provides an opportunity to wear one of many different hats

The remaining hats

Systems expert, project manager, payment expert, public relations manager, general firefighter and 'people experience champion' within the wider finance team at Chalhoub. Reading this list, you may question when I have time to watch or play golf, and to this I would say that none of the work I do on a daily basis would be possible without an incredible treasury team on hand.

Adding to the above, I have recently joined the ACT Future Leaders in Treasury group and will be supporting its development in the Middle East.

In the meantime, the Chalhoub treasury team agenda includes a treasury management system update, with the potential for a full request or proposal (RFP) later this year and a new centralised group treasury entity.

This will create operational efficiencies, transparency and prepare the group for the ever-changing global regulatory environment, and will result in coordinating an RFP with group, finance, accounting, HR, payroll, IT, tax, legal and external advisers to determine the requirements and next steps.

All in all, I'm anticipating a very busy year with an increased workload, growing team and ongoing immersion in a new environment. The rest of 2020 is looking like a great year.

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treasurers.org/hub/technical

COMMUNITIES AND NETWORKING

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treasurers.org/internationaltreasuryweek20

Future Leaders in Treasury group: Provides resources and networking for younger members working at a tactical level.
treasurers.org/futureleaders

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