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The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ ISSUE 3 2021

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ACT TREASURY EXCELLENCE AS STANDARD

THE GREENING OF BUSINESSES

If we are to address the climate crisis, start to reverse decades of industrially inflicted damage and make our collective way to the UN net zero emissions target, we will need common will and support from governments, regulators, businesses and individuals.

The business world, in particular, has an important role to play. According to PR consultancy Edelman's Trust Barometer Spring Update 2021, the business world outperformed government, media and the not-for-profit sector in addressing health and public safety over the course of the pandemic. And there are other areas where the commercial world seems to be winning over hearts and minds. It surpasses other institutions significantly when it comes to safeguarding the information it holds or communicates, and also when it comes to addressing inequality. Within the Barometer's findings, nearly eight in 10 employees expect their companies to act on societal issues – including climate change. That's a singular development and one that must be viewed as an opportunity.

The Intergovernmental Panel on Climate Change's latest report – the *Sixth Assessment Report* – clearly conveys that we are on a precipice. Businesses are not alone in holding responsibility, but their collective response to COVID-19 appears to have given businesses new backing – even a mandate to act now on greening their operations and renewing that sense of connection with their organisational and social purpose.

The commercial world seems to be winning over hearts and minds

As financial markets work to increase visibility on meaningful environmental, social and governance (ESG) metrics, rating agencies have a pivotal position. In this issue of *The Treasurer*, you can learn about the rationale behind climate and socially linked scenario analysis at the three main players (see page 22).

On page 18, Michelle Perry looks at two companies that have committed to net zero: Drax Group, which began its decarbonisation a decade ago, and Tesco, which has committed to sustainable finance across a range of vehicles including supply chain finance. Treasurers are doing their bit in making companies greener and linking wider ESG initiatives to funding.

We've also turned – as we do each year – to our Future Leaders in Treasury group. On page 14, four members tell us about how they and their organisations have continued to evolve their operations and their view of risk. At a time when the social purpose of businesses is strongly in focus, they discuss how their leaders engaged with them, and about wellbeing and stakeholder engagement.

The past year seems to have created a business world and leadership cohort that is more and more willing to listen and engage. It is incumbent on all of us to continually challenge it to do so.

I hope you enjoy this issue and continue to stay safe.

Liz Loxton

thetreasurer@thinkpublishing.co.uk
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THIS ISSUE'S CONTRIBUTORS

ALEXANDRA LEWIS, National Grid's group treasurer and director of pensions, has been with the utility for 24 years, working in key treasury, HR and upper management roles. Her commentary on how treasurers can incorporate environmental factors in their work and align with their organisations' ESG goals can be found on page 9

PARAG KHANNA, managing partner at advisory firm FutureMap, is a strategic adviser and commentator, who has the ear of governments and global corporates. A speaker and bestselling author, he has written extensively on the future world order. His feature on the rise of ASEAN countries appears on page 30

GOTTFRIED LEIBBRANDT is a former CEO of cross-border payments network SWIFT. A fixation with payments led him and SWIFT's former head of corporate affairs, Natasha de Terán, to write *The Pay Off*, an exploration of how global payments affect us all. Their article can be found on page 36

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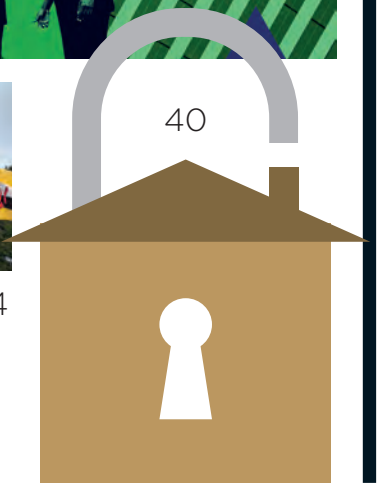


FUTURE LEADERS AND WHAT WE EXPECT OF THEM

THE PAST YEAR HAS CREATED A LEADERSHIP COHORT MORE WILLING TO LISTEN TO YOUNGER GENERATIONS. **EMILIE HELPS** OUTLINES THEIR TASKS AHEAD

The actions taken by businesses during a crisis can typically be grouped into three phases: respond, recover and grow. While recovery and growth may superficially seem easier compared to navigating a business through the turmoil of COVID-19 during the 'response' phase, they can often prove to be the most difficult steps.

During a crisis, the sense of purpose is unequivocal: act now and fast to protect the business. As the sense of emergency wanes, however, leaders may have to face difficult questions and not a little introspection: what kind of leadership style is appropriate now? Have we got what it takes to keep leading? What kind of leadership models will inspire younger treasury professionals?

There are no straightforward answers and no single solution for all circumstances. But consider these points...

1. UNDERSTANDING AND ADAPTING TO THE 'NEW NORMAL'

Recovery presents new challenges for leaders and teams, one of which is to decide on what kind of organisation they want to be going forward. It is critical that we are not complacent and revert back to old habits. Fully embracing the 'new normal' and adopting the positives of the crisis long term will be necessary. More efficient meetings and communications, agile decision-making, added flexibility from work-from-home arrangements and authentic team interactions are just a few of those positives. Furthermore, inspiring leaders will be the ones addressing the difficult questions head-on and challenging the status quo: what did we learn from the crisis? What if this happens again? How would we do things better? Using the findings of these topics to redefine business priorities is key to evolving successfully. New beliefs and behaviours often emerge from a crisis, so inspiring leaders will embed these new attitudes into their new present day.

2. EMPHASIS ON INDIVIDUALS

The crisis has reinstated the importance of individuals. Successful leaders will need to reassess levels of investment in human capital, through training and education for instance. Appreciating and celebrating successes has also become more important. As chair of the Association of Corporate Treasurers' (ACT) Future Leaders in Treasury (FLiT) group, I see this as key to the morale of many young treasury professionals. What's more, FLiT members believe that true leaders will place more emphasis on humane skills. Openness, trust, empathy, accessibility and the ability to communicate effectively will be critical post-crisis. Leading by example will also become more and more necessary – with leaders actively demonstrating work-life balance, for example, by taking holidays and promoting flexible working arrangements to prevent burnouts. Certain leaders also talk of a 'speak-up' culture, fostering a truly collaborative environment, where all views are taken into consideration. Finally, inspiring leaders will also lead by doing and will reposition their own roles from 'managing' to 'enabling' their teams, allowing individuals to perform outside of their job description and develop to their full potential.

3. BIONIC BUSINESS MODELS

The Boston Consulting Group takes this topic a step further and suggests the need for 'bionic' companies where leaders will design new business models that achieve just the right balance between the latest technological advances, such as artificial intelligence, cognitive science, behavioural psychology and human capital. This should allow companies to achieve a greater sense of purpose, focusing on meaningful longer-term objectives.

4. CLAIRVOYANCE OF THE YOUNGER GENERATION

One of the big macroeconomic themes at the moment is sustainability, and the crisis has definitely highlighted its importance, with many businesses bringing their environmental, social and governance (ESG) agendas forward. However, ESG and sustainability ideals have always been close to the hearts of millennials, and it is only now that these views are being respected more widely. The views of millennials – and eventually their younger successors – should be considered earlier on to get a head start on future trends and patterns. Furthermore, this younger generation will bear the brunt of the aftermath of the pandemic and will need to feel more involved in decision-making processes going forward. Inspirational leaders should fully engage with the young, recognise their value and coach them into becoming the leaders of the future.

Find out more about the ACT's Future Leaders in Treasury group at treasurers.org/my-membership/future-leaders

Emilie Helps chairs the ACT's Future Leaders in Treasury group and is deputy treasurer at Eversholt UK Rails Group

THE ECONOMIC LEGACY OF COVID-19

WILL ECONOMIC ACTIVITY RETURN TO PRE-COVID-19 LEVELS? THE BALANCE OF OPINION SUGGESTS IT WILL

Economic history is punctuated by great crises that reshape the ways in which we live and work.

Since the start of the 20th century that list includes – but is by no means limited to – the two world wars, the Great Depression, the 1970s oil crisis, 9/11 and the financial crisis of 2007/08.

It begs the question: will future historians add the COVID-19 pandemic to this list? Although the pandemic is far from over, the answer to this question is certainly yes. In some respects, it has already happened. National leaders, policymakers and the media now commonly refer to the 'pre-COVID-19' and 'post-COVID-19' eras.

While the economic consequences of the pandemic are far-reaching and multifaceted, and many of the long-term effects may not yet be fully visible, three trends seem to have emerged already.

First, working from home is here to stay. Mimicking the working patterns that many of the well-known West Coast tech companies have long utilised, major parts of the services sector quickly switched to the working-from-home model at the start of the pandemic in response to lockdowns.

Some 18 months later, and after the early teething issues have dissipated, the model seems to be working well.

Even though many workers will return to their offices once the pandemic ends, it is highly likely that most will only return on a partial basis. Many companies have already announced that they are formally switching to such practices permanently.

While some commentators argue that working from home prevents the innovation and spirited problem solving that collaborative working in close quarters fosters, there are clear efficiency gains including time saving, less travel and reduced consumption of resources.

Second, reacting to the pandemic-related disruption in global trade flows, manufacturing and production industries are trying to shorten and diversify their supply chains.

As companies bring home parts of the production process that were once moved overseas, they will need to invest in frontier manufacturing technologies to remain competitive.

Expect key innovations – such as big data analysis, three-dimensional printing and advanced robotics – to spread more widely.

A rapid diffusion of cutting-edge technologies can help to accelerate long-term trend productivity growth and lift real wages.

This would be a boon for Western economies, which have in recent years suffered the political consequences of weak productivity and stagnating gains in living standards.

Third, economic policymakers seem to have learned the lessons from the financial crisis and the immediate years thereafter.

When the bubble burst in 2008, policymakers amplified the shock with a series of major policy errors: US authorities allowed Lehman Brothers to fail in 2008, the European Central Bank stepped in far too late as a lender of last resort in the 2011/12 euro crisis and many European governments pursued too much austerity too early.

But as soon as the risks started to materialise in spring 2020, global policymakers unleashed an unprecedented response, which swiftly overwhelmed the nascent economic and financial crisis. Policymakers have subsequently turned up the dial as needed at every stage of the crisis.

By aggressively supporting jobs and incomes, they laid the grounds for the ongoing strong recovery led by robust gains in household demand.

Together, if such trends continue, they point to a potentially auspicious future in which economic performance among major advanced economies is stronger in the post-COVID-19 era than in the post-Lehman decade.

Amid an ongoing rapid recovery, the early signs look promising. By challenging ingrained behaviours, the pandemic has forced the world to adapt. It also provides the chance for economies and societies to reset.

If leaders and policymakers grasp the opportunity, the fresh start provides a chance to take on the key issues of our age, such as climate change and growing political disenfranchisement.

Will it happen? That is for the history books to decide.

Kallum Pickering is senior economist at Berenberg Bank

GETTY; ALAMY

THE ACCIDENTAL TREASURER

MANY FINANCE PROFESSIONALS FIND THEMSELVES IN TREASURY ROLES WITHOUT ACCESS TO SPECIALISED QUALIFICATIONS OR SUPPORT. CAROLINE STOCKMANN EXPLAINS HOW THE ACT CAN ASSIST

I've been an 'accidental treasurer' once or twice in my career, and it can be an uncomfortable position to be in.

What do I mean by this? I mean that as a qualified accountant, but without specialist treasury training, I was faced with treasury-related decisions in several of the organisations I worked for, sometimes making those decisions throughout my tenure.

Finding yourself in this situation, you will probably take a low-risk approach, whatever the type of organisation you are in, as you won't feel confident to stray from 'vanilla' treasury. You might do some hedging against your budget FX risk, you probably will invest funds via an established investment manager, and you might leave acquisitions and their related funding to a third-party advisory firm, or the M&A team, if your organisation has one.

Many organisations have people in roles that are not treasury roles per se, but where they are expected to carry out treasury activity. These are 'accidental' treasurers, as I was, who have no special training in the profession. Roles might range from financial assistant to financial controller to CFO. If this resonates with you, or if you – or an organisation/finance professional in your network – have treasury elements to your role that you have not been trained for, and you want to know/do more than the basics, then the Association of Corporate Treasurers (ACT) can help.

HELP IS AT HAND

We are seen, certainly by our members, as the global professional body for treasurers that helps people become really excellent in their roles. But there is a need as well for us to reach out to others who might not intend to become a group treasurer, but who nevertheless need to gain the knowledge we are able to share, in line with our vision – to ensure organisations and economies remain financially sustainable.

Some individuals may start out as an accidental treasurer and go on to pursue ACT qualifications.

Bhev Chandrasena is a chartered accountant and treasurer (FCA and AMCT) with multi-industry experience in several international leadership roles.

The 'accidental treasurer' idea strikes a chord, as he believes treasury skills have wide real-world applications. Core treasury skills go well beyond risk and cash management, he believes.

"They give us a skill set that makes us resourceful when pivoting into new situations. I found I was able to tackle new problems; for example, forward-pricing curves on recycled products and trading emission rights," says Chandrasena.

"On a more grounded level, cash is always king and working capital management is a 'go-to' skill set in providing value to the business.

"A key trend today is ESG, and the upcoming EU Sustainable Finance Disclosure Regulation gives us treasurers a chance to shine. Our ongoing dialogue with rating agencies makes us perfectly placed to take a lead on this for our CFOs," he concludes.

Many organisations have not yet come around to the view that they need professional treasurers, not realising that in the best case they will be missing opportunities, and in the worst cases risking serious mistakes. COVID-19 has raised awareness of the importance of treasury skills, we believe, and we are seeing organisations that never had treasuries before creating treasury positions and teams. For organisations not resourced to set up a treasury function, we offer public training courses, such as our Treasury in a Day or The Nuts and Bolts of Cash Management courses.

> "COVID-19 has raised awareness of the importance of treasury skills"

Qualified accountants can take our Certificate in Treasury (which has exemptions for certain modules) to gain a greater depth of understanding or our The A-Z of Treasury, a three-day course. Our eLearning series of seven modules presents another alternative.

Another great option is to become an eAffiliate of the ACT – and membership benefits include a PDF version of this very magazine, plus access to the wealth of articles and knowledge residing on our website, career hub and much more.

You can find out more at treasurers.org/membership/become-a-member/eaffiliate

So, if you know someone who you think is an accidental treasurer, please do direct them our way, as we'd love to help.

Caroline Stockmann is chief executive of the ACT

IKON IMAGES

FINANCING WITH A CAUSE

INVESTORS HAVE COME TO EXPECT GREEN AND SUSTAINABLE ISSUANCES – AND COST OF CAPITAL BENEFITS ARE NOT FAR OFF, SAYS ALEXANDRA LEWIS

When I think about my first investor call as group treasurer at National Grid in 2017, I can clearly remember the enquiry: when are you going to issue a green bond?

That question stood out at the time. Back then, perhaps one in 10 investors would ask about climate or environmental, social and governance (ESG) issues. Four years later, the topic colours all of our investor interactions – debt and equity. We don't wait to be asked what National Grid is doing on ESG matters; we ensure our approach to responsible business and to sustainable financing is front and centre in all our investor communications.

That's a rapid evolution and one that will be common to a lot of treasuries. As individuals, we've moved from sceptical to engaged. As a profession, we've moved to a point where – for many sectors and certainly for regulated ones – we must ensure that our financing strategy is in step with and supportive of our overall responsible business strategy.

The pandemic has played its part in this. Perhaps as a result of lockdowns and connecting to our communities more, we've become more conscious of our environmental and social impact. COVID-19 knocked activist Greta Thunberg off the front page, but environmental impact is still very much in our collective consciousness. Talk of the green recovery is everywhere. We hear more about renewable energy and recycling than ever – and while we long to return to some closer version of normality, overall, we are much more aware of making ethical and socially conscious decisions around what we buy, how much we travel and how we invest our money. All of that impacts corporates in a big way.

> "We hear more about renewable energy and recycling than ever"

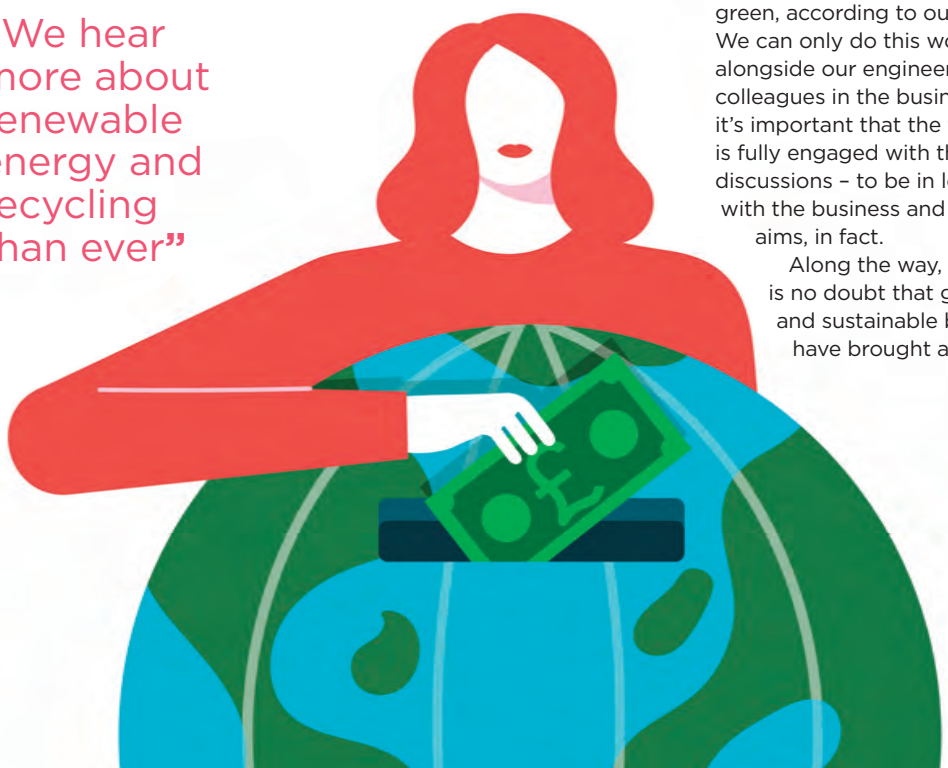
Because of the business we're in, the natural place for National Grid to engage in sustainable financing is around environmental projects – the 'E' of ESG. At National Grid, we issued our green financing framework in November 2019 and issued our first green bonds in January 2020. Since then, we have continued to issue in both green and conventional formats, most recently in the last month. When we make a green issue, we can point to engineering projects that bring renewable energy onto the grid.

We are obliged to demonstrate that those projects are being funded by the green bonds we issue and that the projects themselves are fully green, according to our criteria. We can only do this working alongside our engineering colleagues in the business, and it's important that the treasurer is fully engaged with these discussions – to be in lockstep with the business and its ESG aims, in fact.

Along the way, there is no doubt that green and sustainable bonds have brought a greater administrative load and costs, particularly in the early days. However, I believe we are now reaching a point where the value in issuing sustainable debt (the so-called 'greenium') is meaningful. I would even venture to suggest that the day is coming when not only will there be a cost of capital benefit for corporates that are socially responsible and investing in projects that are demonstrably green, but non-socially responsible corporates may struggle with access to capital if they have not set out plans to address the ESG agenda and become a responsible business.

> "We are much more aware of making ethical and socially conscious decisions"

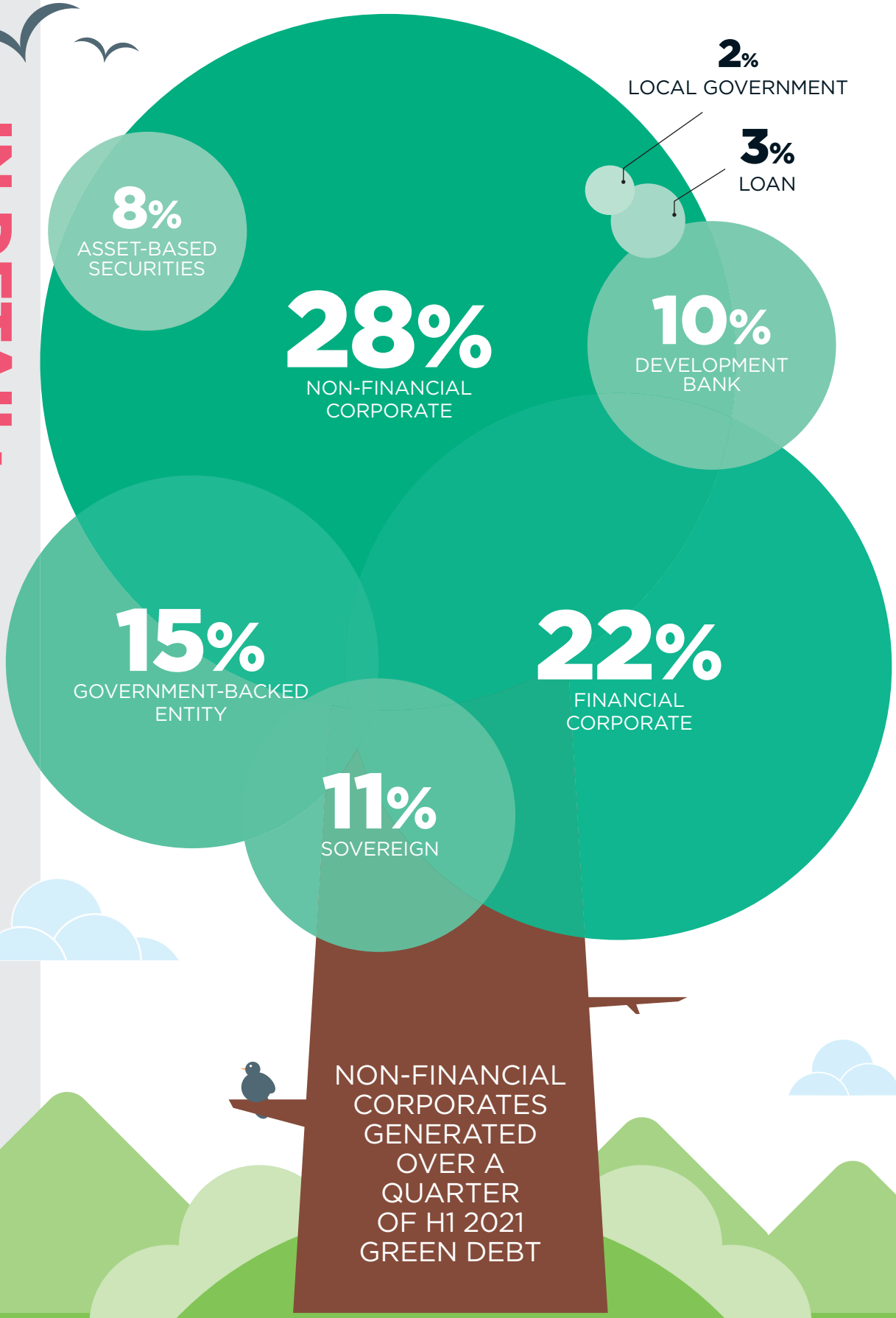
All this will attract public scrutiny as well as auditor scrutiny – and rightly so. We are at a point in both the development of responsible business and the evolution of sustainable finance where connecting results with our actions is paramount.



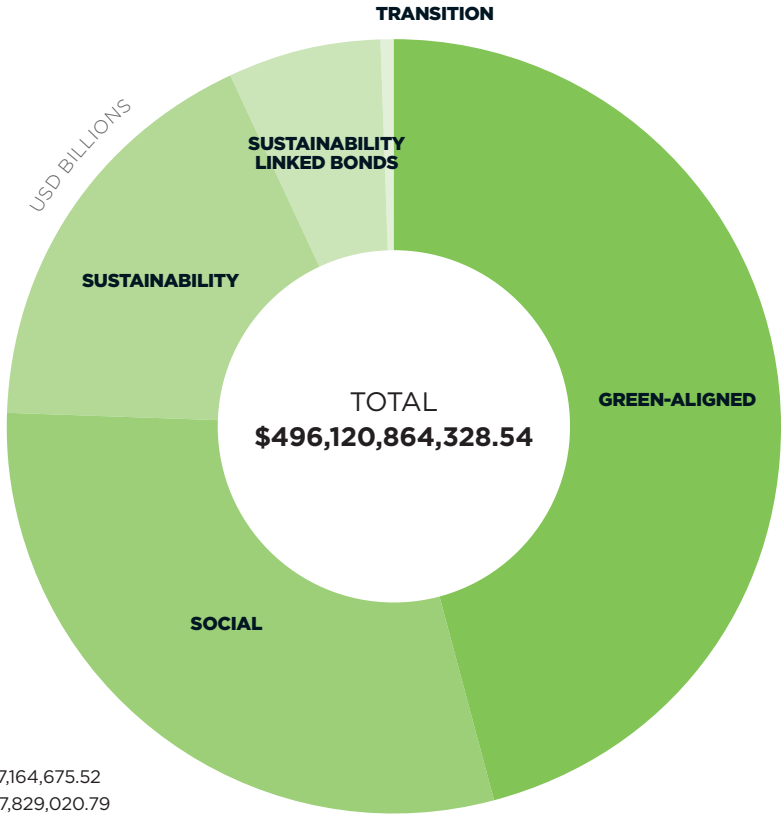
IKON IMAGES

Alexandra Lewis is group treasurer at National Grid

IN DETAIL: SUSTAINABLE DEBT ISSUANCE IN H1 2021



H1 2021 LABELLED DEBT ISSUANCE REACHES NEARLY HALF A TRILLION



- $227,767,164,675.52
- $146,647,829,020.79
- $86,614,833,959.75
- $32,860,585,980.22
- $2,230,450,692.26

HALF A TRILLION DOLLARS

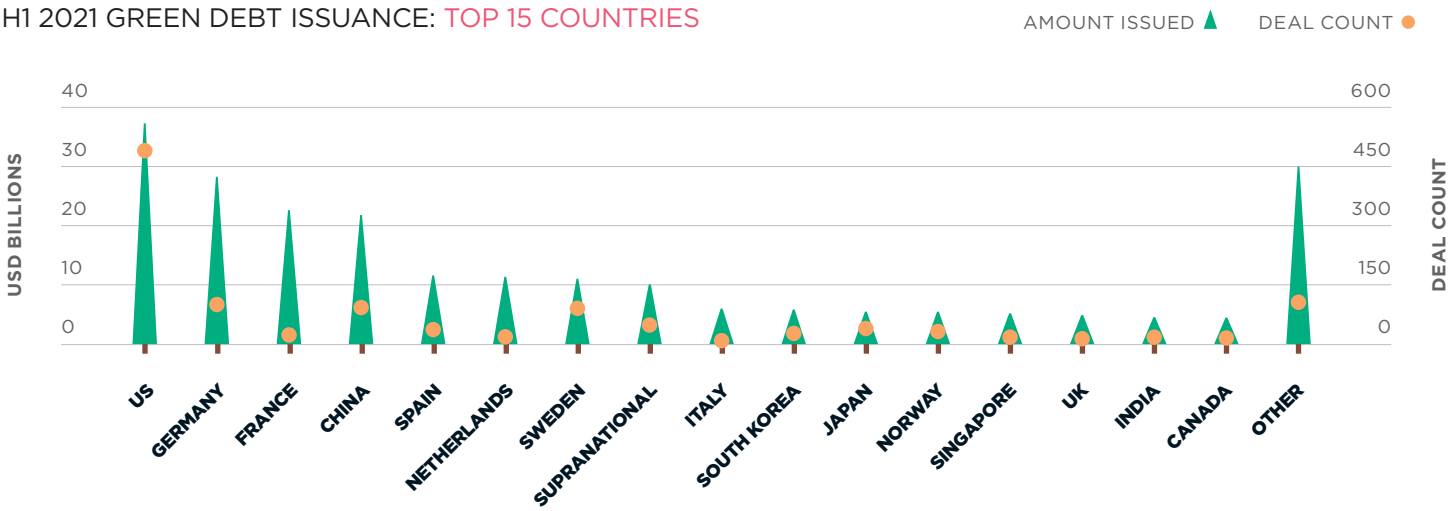
That's how much sustainable debt was issued around the world from the start of January to the end of June this year, according to the Climate Bonds Initiative (CBI) – the most authoritative advocacy group in this particular field of finance.

The sum of $496.1bn represents 59% growth on the same period of 2020, marking a record-breaking phase for the sustainable debt market. At 28%, non-financial corporates (NFCs) accounted for the largest overall share – far eclipsing the contributions from sovereign states and government-backed entities. The figure demonstrates the extent to which environmental, social and governance issues have become significant in the corporate world, with NFCs taking their obligations increasingly seriously.

And lest we assume that issuance under the green banner swamped that of other use-of-proceeds categories, the CBI points out that social and sustainability bonds comprised 47% of all labelled debt issued in the period – a year-on-year rise of 18%. Indeed, bonds issued specifically under the social theme experienced the sharpest year-on-year surge – their volume quadrupling from $36.8bn to $146.6bn.

Source: Sustainable Debt Market Summary H1 2021, *Climate Bonds Initiative, September 2021*

H1 2021 GREEN DEBT ISSUANCE: TOP 15 COUNTRIES



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OUR FOCUS THIS ISSUE...

THE GROWTH OF ESG

More and more organisations are turning their attention to environmental, social and governance matters

VANTAGE POINT

The Treasurer asked four Future Leaders in Treasury group members how their organisations are facing up to risk, leadership and ESG considerations

The ACT's Future Leaders in Treasury group exists to support professionals in the early stages of their career. Here, four members describe their experiences from the past 18 months.

VARUN SRINIVASAN

HEAD OF TREASURY OPERATIONS, ENDEAVOUR DRINKS GROUP, AUSTRALIA

My early career included stints in internal audit at a large Australian financial services firm, a large multinational plus work as a consultant at KPMG, where I gained my AMCT and a real grounding and appreciation of all aspects of treasury. Those experiences put risk at the forefront of my consciousness from day one of my professional life and helped me home in on financial risk management skills.

All this inspired me to move to London, where I worked in fast-paced unicorn Farfetch. I oversaw a treasury management system implementation, set up a multi-currency, multi-entity notional pool, incorporating a hedge accounting framework, and readied the business for its initial public offering on the New York Stock Exchange. Returning to Australia during 2020, I took up a role building a treasury team from scratch for a newly listed liquor and hospitality business that was demerged from the Woolworths Group.

RISK

Liquor shops thrived during the early lockdowns and Endeavour benefitted from considerable investment into e-commerce capabilities across the business, making it easier and safer for our customers to order their favourite beers, wines and spirits to their homes. Although the demerger was put on the backburner during the initial outbreak, it was quickly put back on the agenda by the leadership team and the shareholders in 2021.

Risk appetite at Endeavour has improved significantly post-demerger, with new capital allocated to growing our pubs and hotels portfolio, which should place us in a good position coming out of the pandemic.

WELLBEING AND LEADERSHIP

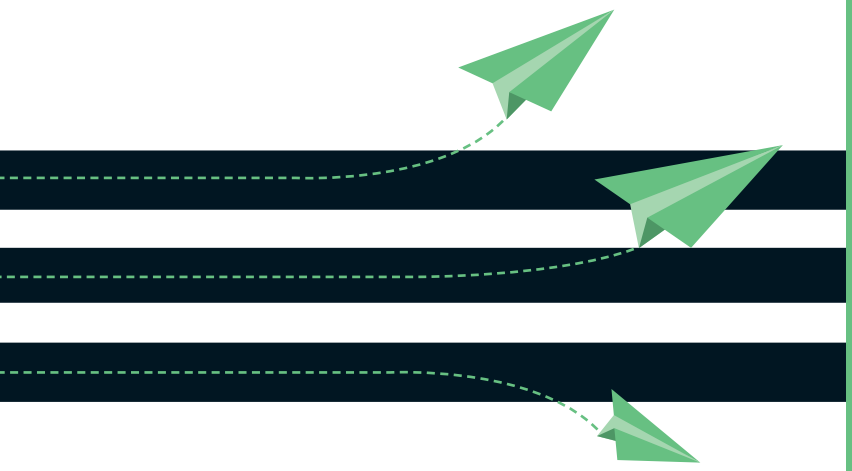
There has definitely been a greater focus on the wellbeing of our retail staff, who are on the front lines of our business day in and day out. The leadership team has emphasised the store experience, training staff to talk to customers as a means of increasing engagement. Staff morale and engagement with customers have seen a definite uptick in our internal scores.

ESG

Environmental, social and governance (ESG) was the reason for the demerger from the Woolworths Group, as activist shareholders were pushing hard for the separation of the ESG-sensitive drinks and pubs business from the grocery business. Endeavour is acutely aware of the social issues that stem from the business and is committed to engage with community leaders to manage this issue. Our pubs and hotels have an affinity to ESG issues due to the presence of poker machines, hence this issue is front and centre as we develop our longer-term strategy with shareholders.

> "There has definitely been a greater focus on the wellbeing of our retail staff"

VARUN



MOHAMED RAGAB

MOHAMED RAGAB

CORPORATE TREASURER, WISE PLC, UK, FORMERLY AT VODAFONE QATAR

I have more than 11 years of multinational experience in treasury and cash management across various Vodafone companies. For the past six years I looked after the corporate treasury function at Vodafone Qatar, where I held wide-ranging responsibilities including debt raising, liquidity management, insurance, FX management, investments, accounts payables and accounts receivables.

Having decided to take on a new challenge, I joined Wise (formerly TransferWise) as a corporate treasurer in July. The role is focused on meeting Wise liquidity and working capital requirements, as well as ensuring control and reporting are efficient and accurate.

RISK

Thinking about risk and looking back to Vodafone, the treasury function updated its risk dashboards, which was important to monitor the organisation's top and emerging risks, which were linked to risk classification and the agreed risk appetite statements for key risks.

Digital technologies to support remote working during the crisis have been a boon for the telecom sector. However, the rapid rollout of technology also created some big challenges and increased the risk of cyberthreats for the industry. Cyberthreats are not new to the sector, because of its rich customer profiles, payment information and highly visible brands. However, the level of urgency and concern clearly escalated during the COVID-19 era, which led to an extra spend to mitigate cybersecurity risk cover.

The three lines of defence risk operating model has been shown to be an effective framework for risk management and for implementation of an organisation-wide risk appetite.

LEADERSHIP

The core leadership style didn't change, but what did change was how we communicate and to an extent interact with those we work with. There has been a heightened focus on wellbeing, and this has been approached sensitively without intruding in people's private lives, but with an understanding that everybody is working in different circumstances and some are feeling good about it and some less so.

Another crucial part of the leadership role during the crisis, especially in the emotional, tense environment that characterised the pandemic, was promoting psychological safety so that people could openly discuss ideas, questions and concerns without fear of repercussions. This was a paradigm shift for me in terms of changing my perception of the definition of leadership towards a more comprehensive one – and one beyond controls and profitability.

> "The core leadership style didn't change, but what did change was how we communicate"

The other focus was to try to empower my team to take on decisions that they might otherwise have deferred to me – the idea being that I had to make sure that things could happen without me being in the room.

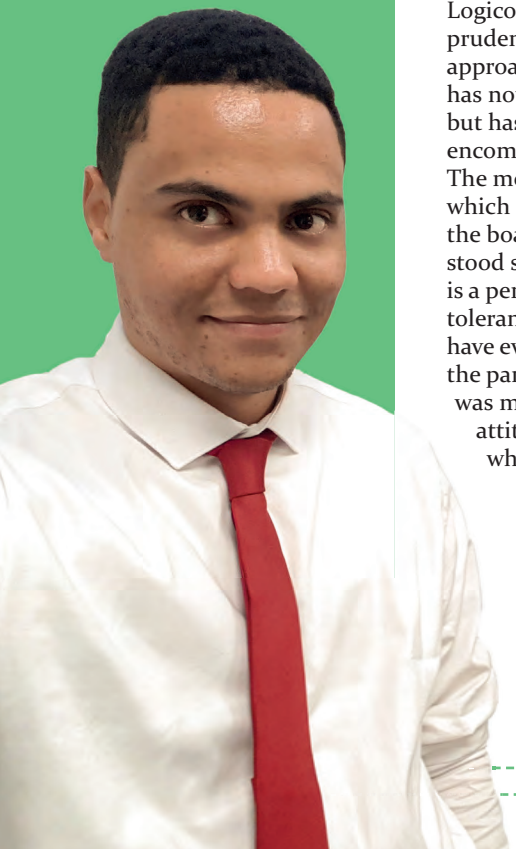
ESG

I haven't raised any ESG debts yet, but as treasurers seek to raise funds, manage cash flow and ensure that their organisations are on a sustainable path, they may attract new investors in financing their activities. These new investors would not be interested in investing in companies that do not improve or maintain good ESG performance.

I can see the advantage of ESG bonds and how a strong ESG proposition helps companies tap new markets and expand into existing ones. When governing authorities trust corporate actors, they are more likely to award them the access, approvals and licences that afford fresh opportunities for growth. I am sure this will be on my agenda shortly.

SRINIVASAN

ALEX GRANT



RISK
Companies have thrived by adopting a 360-degree view of risk

LEADERSHIP
Leaders have impressed with their focus on treasury tasks – and on wellbeing

ESG
Environmental, social and governance criteria have been brought into sharp focus

ALEX GRANT
MIDDLE OFFICE TREASURY ANALYST, LOGICOR

I was born in Botswana and schooled in South Africa, after which I headed for the beauty of Mauritius before finally finding my feet in London. When I eventually decided to bite the bullet and go to university, I studied banking and finance with the aim of establishing myself in a capital markets role. I took a job in the share-dealing department at a bank in Leeds where I decided to move into treasury. COVID-19 struck at this point and I headed to London where the opportunity to join Logicor came up. It took me all of five seconds to accept the role.

RISK
Logicor has always been prudent and measured in its approach to risk. The appetite has not necessarily changed, but has been adapted to encompass new challenges. The most obvious being IT, which is a challenge across the board. This has never stood still within Logicor and is a perfect illustration of the tolerance to risk. IT systems have evolved steadily since the pandemic began. What was most impressive was the attitude of senior managers who adopted a proactive approach to managing risk. What was also notable was the constant communication on updates and changes in processes. You start with one programme and over time many are consolidated.

LEADERSHIP
Leadership in Logicor has evolved to match the circumstances we face. Meetings were not all business but included topics about mental and physical health. Team events were put in place and initiatives occurred at regular intervals to break the cycle of lockdown. C-suite executives were visible and provided updates as well as initiating internal measures to ensure we weren't isolated in lockdown.

Senior managers were even more visible, friendly and accessible, and I'm sure they were going the extra mile in lockdown. I am not sure I know what leadership should look like in times of crisis. As with most things, you know when it is not there. My thinking is that there should be clarity, stability and clear direction for everyone from the most junior to the most senior.

ESG
ESG is important for Logicor, the real estate industry and the treasury team. We released our first green finance update in March 2021, which showcases our vision of providing environmentally friendly assets, contributing to our communities and committing to ethical business conduct. Over the past 12 months we had several charity fundraisers within Logicor that went ahead virtually. In addition, we welcomed Dr Eva Gkenakou, who joined in October 2020 as our first director of sustainability.

> "Logicor has always been prudent and measured in its approach to risk. The appetite has not necessarily changed, but has been adapted to encompass new challenges"

More information on the ACT's Future Leaders in Treasury group can be found at treasurers.org/my-membership/future-leaders

SACHA GUILLEMIN

SACHA GUILLEMIN
MANAGER, CORPORATE TREASURY SOLUTIONS, PWC CANADA

My career started in Geneva, Switzerland, when I joined the treasury service team at Caterpillar as part of the graduate programme. Soon after, I moved to International Workplace Group (IWG, the owner of Regus and Spaces) as a treasury analyst, qualifying at AMCT level in 2015. I became group treasury manager, overseeing worldwide treasury operations and financial risk management across the group.

In 2018 I relocated to Toronto, Canada, joining Celestica, a leading electronics manufacturing supplier, as a senior treasury manager in charge of worldwide FX operations and capital structure. Last year, I became a member of PwC Canada's corporate treasury consulting team.

RISK

Market volatility and uncertainties linked to government restrictions across Canada are prompting companies to ensure they have sufficient liquidity, refinance their debt and review their interest-rate risks. There is an increased focus on FX hedging following the weakening of the US dollar and the recent strength of the Canadian dollar.

The Canadian results of the 2021 PwC CEO survey show that CEOs are expecting extensive growth in the coming year, with 72% expecting global economic growth to improve over the next 12 months. They are also bullish about their own organisations' growth, with most expecting revenues and profitability to increase.

LEADERSHIP

At PwC Canada we recognise that our people are at the heart of everything we do. We have a culture of care. Our priority since the onset of the pandemic has been on leading with calm and care. Mental health impacts us all differently, so different solutions apply to different people.

> "The pandemic has helped us to accelerate digitisation of our processes"

Our leadership team has been great at recognising the additional challenges the pandemic brought, and have implemented many solutions to care for employees' wellbeing, from increased benefits, mental health awareness and additional support to adapt schedules and furnish home offices. Of course, quality of work delivery remains a high priority and the pandemic has helped us to accelerate digitisation of our processes.

ESG

PwC has set a significant and ambitious goal regarding ESG, committing to a net zero emissions target by 2030. Earlier this month PwC globally made an announcement that the network is mobilising around the commitment made last year to achieve net zero, which involves transforming its business model to decarbonise its value chain. It is submitting specific targets to the Science Based Targets initiative, and each member firm has appointed a net zero leader to enable progress based on local plans.

The firm is also a part of a number of initiatives to strengthen its corporate responsibility across Canadian communities, foster diversity and inclusion initiatives to ensure equality and opportunity for all.

FIVE KEY TAKEAWAYS

1 ENDEAVOUR DRINKS
ESG, especially social issues, are front and centre for this growth business.

2 VODAFONE QATAR
Rollout of technology for homeworking meant employees had to be alert to cybercrime.

3 LOGICOR
Evolving technology implementations over the past year saw leaders communicating effectively at each stage.

4 PWC CANADA
ESG goals, clear leadership communication and employee wellbeing have been key themes.

5 OVERALL
A sense of shared purpose around clearly defined responsibilities has led the way during this past taxing year.


ESG
Environmental
Social and
Governance

PLEDGES AND CONVICTIONS

ESG-focused financing has gained ground, but activities still lack a consistent set of standards. Michelle Perry reports

The pace of change among corporates and financial institutions to innovate in a bid to transition away from carbon emissions and to improve social and governance credentials has stepped up a gear in the past two years.

COVID-19 and climate change have acted as amplifiers, galvanising corporates to set more ambitious targets or bring forward environmental, social and governance (ESG) goals. The staging of COP26 in Glasgow in November – the influential UN Climate Change Conference that was delayed by a year due to the pandemic – is also focusing the minds of business leaders to take more decisive action.

"Far from being eclipsed by COVID-19, ESG issues appear to have risen in significance as the impact of the pandemic has become clearer. It's made businesses and lenders more aware of the risks posed by black swan events, and the need for strong governance and resilience," says Rebecca Perlman, the UK, US and EMEA regional lead for the ESG Practice at law firm Herbert Smith Freehills (HSF).

Many organisations, public and private, have responded to the ESG challenge with ambitious targets, but depending on the sector or geographic spread of their operations, corporates are at very different places on the maturity curve.

What is more, there is no one-size-fits-all solution, so treasurers have been working hard with boards – oftentimes with no immediate substantial financial benefit they can promote – to develop financial structures that match corporate ESG targets.

"The challenge around ESG is that it is quite broad. It's got three different components: E, S and G, and so the one that most people have fixed on is the environment. Part of that is because we've got the Paris Agreement," says Naresh Aggarwal, associate director, policy and technical, at the Association of Corporate Treasurers (ACT).

> "Far from being eclipsed by COVID-19, ESG issues appear to have risen in significance as the impact of the pandemic has become clearer"

GROWING POPULARITY

That said, some organisations have been successful in the markets with so-called social bonds. National Australia Bank (NAB) issued a 'gender equality' social bond back in 2017. The NAB bond was oversubscribed, tapping into the trend for ethical investments and allowing the bank to borrow more cheaply and lend to clients with robust gender-equality credentials more cheaply.

The NAB bond issuance is one example illustrating how the markets and treasury functions are responding to ESG-focused products, showing that they aren't

DRAX GROUP – NO SILOS

Renewable energy company Drax Group began its decarbonisation transition process from 100% coal generation to renewables around 10 years ago. The UK company, based in Yorkshire, has pledged to become carbon negative by 2030.

To begin the treasury's ESG journey, Drax group treasurer Christopher King began with a term loan – which are generally easier than bonds. The aim was to develop one clear metric into the financing structure that incentivised the organisation as well as enabling banks to design the appropriate funding structures to satisfy the ESG agenda, King explains.

"It was relatively simple. It was aligned to our sustainable reporting in our annual report, so that made it easier for verification and the audit process for the banks," he says.

King says that the financial implications weren't significant, but it drove change within the organisation to meet the target. The big change for Drax and the treasury team was to provide it with 'a template of a methodology that made sense'.

King and his team then went on to apply that methodology across all its spheres of capital structure and working capital facilities. Later the treasury team enshrined the methodology within the company's revolving credit facility, and more recently the treasury team has also become one of the first to enshrine it in its derivatives book.

A real gamechanger for Drax, and other organisations – including governments around the world – is how to incentivise banks to create funding models for bioenergy with carbon capture storage.

King says: "We're very carbon intense, so therefore thinking about sustainability is key. But still you need to be front-footed to make sure you're not caught off guard."

just the 'right' thing to do, but they make commercial sense, too.

However, overall the focus on new products remains fixed on the 'green' variety of loans and bonds rather than the social or governance aspects of ESG. But what markets are increasingly looking for is the tone at the top of the organisation, and how well embedded corporates' ESG targets are into the wider corporate strategy, as well as the culture of organisations, says Aggarwal.

Kristen Roberts, head of corporate debt at HSF, says: "Sustainability-linked loans are taking off because they're one of the easiest to implement and one of the best techniques of moulding financing to a corporate challenge."

Given that by 2025 more than half of funds in Europe will be ESG funds, according to research by PwC, the flow of capital over the next four years will be increasingly directed towards the more progressive and ESG-focused companies. That should be incentive enough for any treasury function with a long-term profitable and sustainable vision.

"There was a sort of a historic understanding of ESG as being perhaps more a set of reputational, ethical or moral concerns, and therefore possibly dilutive to financial value. But now the predominant view is that ESG factors can be financially material to business," says HSF's Perlman.

NO STRAIGHT PATH AHEAD

Naturally, there are challenges ahead. ESG fundraising is a nascent business and evolving fast, so everyone is learning the ropes. For the treasury team, the exercise of rewiring the capital structure to adapt to a wider corporate ESG strategy is not to be underestimated. It is time-consuming. Then, the process of producing sustainability reports for verification and assurance is equally laborious. And initially the financial gain may not be substantial.

Add into the mix the prospect of greenwashing, and the whole project may sometimes feel like a significant uplift in workload for little gain. Investors are increasingly wise to greenwashing, but it remains a concern.

"Greenwashing is certainly on people's radar. And one of the issues in this context is jurisdiction. In some jurisdictions I can go set up a fund that has oil and gas in it and three wind farms, and say 'this is a wind-farm-inclusive fund; look, I'm green'. The absence of binding standards is a concern," says Silke Goldberg, chair of HSF's ESG Practice.

Europe has now established an ESG taxonomy as a binding standard. The taxonomy continues to evolve, however. There are still gaps in regard to the social aspect of ESG. Goldberg is optimistic that the EU standard will become a kind of 'soft law' irrespective of whether a company is EU-based or not. If a company wants to do business in Europe, ultimately it will have to comply with EU rules.

In terms of ESG standard setting, there are multiple organisations around the world working on different sets of standards. Europe is leading the way on ESG standard setting, but it is hoped a globally accepted set of ESG standards will be

DRAX

The next four years will be increasingly directed towards the more progressive and ESG-focused companies

imminent. The International Financial Reporting Standards Foundation is currently consulting on constitutional changes to set up an International Sustainability Standards Board.

Aggarwal says: "One of the things that we're seeing is a bit more coalescing of standard setters. I think everyone recognises it's a real problem. We're seeing a gradual evolution to more consistent standards and ways of measuring. A lot of work is being done to look at how disclosure can be made easier for companies and more informative for the investment community."

Corporate ratings are also a concern. Are rating agencies keeping pace? There are worries about the risk of downgrades arising from some unilateral change to a ratings methodology, because rating agencies are still developing rules. Methodologies can change from one year to the next and that can result in downgrades.

Goldberg says: "It depends on the standards, and how transparent the rating criteria are. What is acceptable to one rating might not be acceptable in another one or they might focus on different KPIs. To be credible and reliant, the criteria for ratings need to be public; they need to be transparent and follow ESG standards."

Drax's King says: "Credit rating agencies are doing a good job. They're starting to enshrine ESG in their credit rating methodology today, and typically today, it is not a very big impact for most organisations. The bigger question is: what will it be in five or 10 years' time?"

Whatever stage a business is at in terms of embedding ESG into the treasury function, the pressure is on and it's coming from all stakeholders both internally and externally. We are at the beginning of a huge and evolving transition, and it is starting to prove fruitful to the most progressive organisations. Crucially, the clock is ticking. If corporates want to access well-priced funding in the markets in the coming years, their ESG credentials will have to be impeccable. Treasurers can be at the forefront of helping embed that change.

Michelle Perry is a freelance finance writer and editor

TESCO – SCIENCE-BASED CLIMATE TARGETS

Tesco is another example of a corporate taking a lead. In 2017 Tesco became one of the first companies globally to set science-based climate targets for its own operations on the 1.5-degree trajectory of the Paris Climate Agreement. And last year the retailer brought forward its net zero climate target in the UK to 2035 from 2050.

In January Tesco launched its first sustainability-linked bond of €750m, linking its financial strategy to its long-term commitment to tackle sustainability. Natasha Vowles, head of treasury for funding, led on the supermarket's revolving credit facility and the sustainability-linked bonds that the supermarket chain issued in January.

Vowles says the market reacted well. "Investors are very engaged on ESG funding. The transaction was very oversubscribed, and we were delighted with how it went. We were using the proceeds to buy back some of our existing bonds."

Tesco is also set to become the first UK retailer to offer its suppliers sustainability-linked supply chain finance. Under the voluntary programme, due to launch in September, suppliers will provide annual greenhouse gas emissions data that will be independently verified and assessed.

Alex Ashby, head of treasury markets at Tesco, says: "Suppliers can get paid on their invoices, if they choose to do so, early, so it means they're able to unlock that at Tesco's cost of funding or equivalent. It's very cheap for some of them; not every supplier is interested, but what we've done is implemented a sustainability link there."

Vowles says one of the critical starting points for the Tesco treasury team was consistency in the KPIs used and measurability of those KPIs.

"We've made sure that there's consistency in how we've approached the ESG linked to our financing. That we've used consistent KPIs throughout and it has all been based on our sustainability strategy. That was our starting point, and just making sure that the KPIs we had were measurable, robust and ambitious."

She adds: "As the market grows, it will indicate to others that having a really strong corporate social responsibility strategy is beneficial to your funding, and hopefully that will help people see the benefit."

RATING ESG RISK

Financial markets have a major role to play in the transition away from carbon and towards a more socially responsible world. Rating and evaluation tools are evolving. Here, the major credit rating agencies tell *The Treasurer* the rationale behind their ESG ratings

Technologies and innovations that will move towards net zero emissions require the support of capital markets. And those companies in less environmentally or socially responsible sectors also require the input of the financial community and regulators if they are to offset their more harmful activities and evolve their operations. So, how do the main rating agencies evaluate companies on ESG?

RATINGS, ESG AND TIMESCALES

Alex Griffiths, managing director, head of corporate ratings EMEA, Fitch Ratings

Environmental, social and governance (ESG) issues touch every part of the investment process, with credit being no exception. Our goal at Fitch Ratings is to capture all factors – including ESG related – which affect relative default risk.

Our ESG Relevance Scores (ESG.RS) are designed to highlight the intersection between factors we consider germane to credit quality, which we include in our rating methodologies, and the broader universe of ESG risks and considerations. For each individual rating decision, ESG.RS quantify the importance of each of these overlapping factors. A score of 4 indicates a material impact on our considerations; a 5 that the ESG factor was sufficient by itself to change the rating.

Empirically, around 25% of corporate ratings are moderately (4) or highly (5) influenced by one or more ESG factors. Most impactful are governance-related factors, with environmental factors the least impactful. Only 3% of ratings score 4 or 5 for environmental factors.

This finding jars with most mainstream climate scenarios, which show either massive economic or physical changes affecting more than 3% of companies long term. The difference is due to timescale. While our ratings have no finite horizon, the near future – where we can be relatively confident of the key factors affecting industries and how companies will respond – receives greater consideration than the distant future. Uncertainty building over time is why forecasts underpinning our corporate ratings typically look only three to five years ahead.

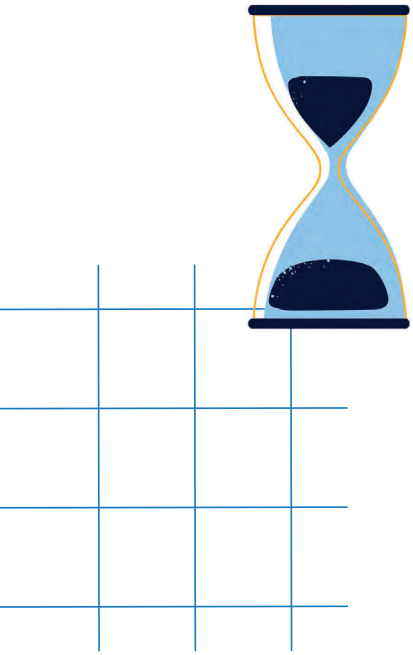
Our ESG Vulnerability Scores bridge this gap. We assign scores at five-year intervals to 2050, to sectors and entities illustrating their relative vulnerability to climate change. The scores differ from ratings in various ways, most notably that they are explicitly scenario based.

Our core case is the UN PRI's Inevitable Policy Response Forecast Policy Scenario (FPS), consistent with limiting global warming to around 2°C. This would require serious changes to how economies are run. Crucially, the FPS is grounded in the policy assumptions that show what may be needed to get there.

Combining this detail with our knowledge of sectors and industries, we can begin to draw some interesting conclusions very different to those of a less-informed analysis, particularly one focused only on a company's carbon footprint. For example, we can draw distinctions between the gas-fired generation sector and gas distribution, recognising that the latter will be more sticky, as consumers with gas-fired appliances adapt more slowly, and that infrastructure could distribute alternative fuels such as biogas or hydrogen. In carbon-intensive sectors like cement we can point to a lack of substitutes, meaning that carbon costs are more likely to be passed on to end consumers than in others where there are ready alternatives.

Assigning scores at five-year intervals allows us to understand how risks could build under a scenario. Some, such as coal-electricity generation in EMEA, are at heightened risk even in 2025, our earliest data point; whereas vulnerability in the oil sector builds more slowly, becoming truly meaningful from 2040 onwards.

These time sensitivities are actionable for investors. It is easy to look at carbon emissions data, for example, and impute performance risks. But if the company is in a sector or geography where emissions won't become the target of policy for 20 years, that has major implications for the credit risk embedded in a specific investment, particularly over a shorter time horizon.



TRANSPARENCY AROUND ESG RISKS IS CRITICAL

Colin Ellis, chief credit officer for EMEA and head of UK at Moody's Investors Service

The importance of ESG risks and opportunities is increasingly recognised across financial markets, and at Moody's as well. Our sister company, Moody's Analytics, was an early provider of climate-linked scenario analysis and default predictions; and the Moody's ESG Solutions Group, launched last year, brings together capabilities from across the company to provide meaningful measurements and insights.

Within the rating agency, our focus is currently on enhancing transparency about how ESG factors affect our credit ratings. Those credit ratings will always speak to our assessment of whether creditors will be paid in full and on time, but investors will be able to see more clearly the role that ESG factors play in that risk assessment.

An important step this year was the launch of our Issuer Profile Scores (IPSs) and Credit Impact Scores (CISs). Using a five-point scale, the IPSs indicate the respective E, S or G exposures of an individual issuer or transaction, using general ESG principles set out in our published methodology. In this way, investors and other stakeholders can clearly see our assessment of the different risks and exposures individual firms face.

These scores are complemented by the CISs, which are our assessment of the impact of ESG considerations on the credit rating of an issuer or transaction. Measured again on a five-point scale, CISs indicate the materiality of ESG risks for our assessments of creditworthiness.

The granularity and comparability of these scores across sectors and geographies enables us to paint a clear picture of the impact of ESG risks, and indeed for investors and other stakeholders to conduct their own analysis. For example, across our universe of rated sovereigns, environmental risks are most often moderately negative – or neutral at best – while social risk tends to be moderately or highly negative. Governance is typically a strength for most advanced economies, but varies for emerging markets.

It is important to note that our five-point CIS and IPS scales are non-linear: 2 represents neutral-to-low impact, with 1 positive and 5 very highly negative. This reflects how we broadly see ESG risks; while there are some positive opportunities, the risks are weighed to the downside. There are 11 sovereigns where we see ESG factors having a positive overall impact, including Denmark, Ireland and New Zealand. However, for 20 sovereigns we see ESG considerations having a very highly negative impact on credit quality; this group includes Angola, Argentina, Bangladesh, Nigeria and Suriname.

We are in the process of publishing these scores for all our ratings. For instance, among corporates we think ESG factors are moderately negative for most packaging manufacturers. And while ESG considerations are more negative for coal producers than for metals and mining firms generally, some ESG factors can still be positive: for example, we think governance has a positive impact for BHP Group.

> "Investors and other stakeholders can clearly see our assessment of the different risks and exposures individual firms face"

These ESG scores are already helping us to explain our thinking and analysis in a more transparent manner. They will also complement the expertise we continue to build in assessing the materiality of ESG risks; and ultimately in appropriately reflecting these risks in our credit ratings.

REFLECTING ESG CREDIT FACTORS

Pierre Georges, sector lead, EMEA Utilities, S&P Global Ratings

S&P incorporated ESG factors material to credit quality long before it was known as 'ESG'. We are focused on increasing transparency on how we incorporate these ESG credit factors and publishing on key ESG-related themes, such as physical climate risks.

Our approach to reflect ESG factors is multifaceted, but broadly relies on the following five main principles:

1 Our long-term issuer credit ratings do not have a predetermined time horizon.

2 The current and potential future influence of ESG credit factors on creditworthiness can differ by industry, geography and entity.

3 The direction of and visibility into ESG credit factors may be uncertain and can change rapidly.

4 The influence of ESG credit factors may change over time, which is reflected in our dynamic credit ratings.

5 Strong creditworthiness does not necessarily correlate with strong ESG characteristics and vice versa.

While we can delve into our detailed methodology at length, it's worth noting it is available freely on our website. We've also published extensively, detailing our approach to reflecting ESG factors that are material to credit and also on the sectoral ESG risks in our ESG industry report cards.*

Yet it is also important to look at the methodology in motion and the rating actions that our analysts have taken where ESG factors had a material influence.

At times, an entire sector will have its prospects impacted by ESG considerations. At the start of the year, we updated our industry risk assessments on all corporate sectors, and revised downwards our score for the oil and gas, exploration and production industry to incorporate several increasingly material risks, including the energy transition.

This action is an example of longer-term ESG risks being factored into our ratings. There is a common misconception that ratings are focused on a short time horizon of two to three years. On the contrary, if we have a sufficiently high degree of visibility about material factors that may crystallise well beyond that period – even a decade out or longer – we would incorporate those factors into our current ratings via our qualitative assessments.

Following the change to our industry risk assessment for the oil and gas industry, we lowered our business risk profile and issuer credit rating for ExxonMobil. The ExxonMobil rating action is one of the nearly 2,500 ESG-linked rating actions S&P Global Ratings conducted from Q2 2020 to Q1 2021. In addition to sharing ESG credit factors on individual rating actions, we summarise ESG-related rating actions globally in our ESG in credit ratings newsletter, a monthly publication also freely available.

Looking to the future, we are soon to launch ESG credit indicators as we intend to enhance our existing communication to the market about the extent to which ESG factors influence our credit ratings. These alphanumerical ESG credit indicators are to supplement our current qualitative ESG insights and the information we provide on ESG factors when they are key drivers of our rating actions.

While we have made tremendous strides in furthering transparency on how ESG credit factors are reflected in our credit ratings, ESG risks and opportunities are dynamic and evolving fast. But we remain as committed as ever in providing market participants with our analytical opinions.

*spglobal.com/ratings/en/research/articles/200604-table-of-contents-s-p-global-ratings-corporate-criteria-5475113

HEAVY METALS

Transitioning away from fossil fuels means moving from a carbon-intensive to a metals-intensive one. The ESG implications, however, are stark, as Frances Coppola explains

The world is at last responding to the threat of climate change. Solar, wind, hydroelectric and geothermal energy capture are gradually displacing fossil fuels. Electric vehicles are being rolled out – and not a moment too soon. The Intergovernmental Panel on Climate Change report released in August 2021 warned that unless we significantly reduce carbon emissions within the next few years, we face extreme and dire consequences.

But reducing carbon emissions at the pace needed to slow global warming creates significant environmental, social and governance (ESG) challenges. Low-carbon technologies are considerably more metal-intensive than fossil fuel technologies – and metals production is currently neither clean nor green.

For example, solar-energy generation uses large amounts of copper. A typical solar plant contains about 5kg of copper per kilowatt, as against 2kg per kilowatt for a coal-fired power station. Wind turbines also use copper wiring in their generators. An electric car typically contains 80kg of copper – four times as much as a petroleum-fuelled car. It is estimated that an extra 7-10 million tonnes of copper will be needed to meet demand for solar power out to 2030.

There's a similar projected rise in demand for steel, which wind turbines need in large amounts. One 2 megawatt geared turbine contains approximately 296 tonnes. Recycled steel is insufficient to meet rising demand, so there will also be a continuing need for iron ore and coking coal – 'greening' of steel production is an ongoing challenge[1], not helped by rising demand.

Metals extraction and processing is plagued by unsafe mining practices, contamination of water supplies, destruction of ecosystems and disruption of agriculture and forestry. For industrial metals, these problems are exacerbated by the scale on which miners and processors operate. Iron ore mining, for example, produces enormous quantities of toxic semi-liquid residues, known as 'tailings', which are usually

parked in large reservoirs. In January 2019, collapse of the Brumadinho tailings dam killed 270 people and destroyed agriculture over a wide area; compensation to those affected has topped $7bn. This was the second such dam failure in four years. In June 2021, a Brazilian government report said that a third dam managed by the same company was in danger of "imminent rupture".

Copper mining has a similar history of environmental disasters – the Marcopper incident of 1996 caused long-lasting pollution and health problems affecting local people. There are also fatal accidents, such as the 2019 mine collapse in the Democratic Republic of Congo (DRC) that caused the deaths of dozens of 'artisanal miners'. And the dramatic rescue of 33 Chilean miners in 2010 followed the partial collapse of a gold and copper mine.

Metals mining also conflicts with indigenous land and water rights. In 2020, Rio Tinto destroyed two aboriginal rock shelters in Australia in a search for higher-grade iron ore. The ensuing international outcry resulted in the resignation of its CEO and led to the creation of no-go areas for iron ore mining.

RARE EARTH MINING

Despite their large scale and history of disasters, it is not the industrial metals that pose the most significant ESG challenges. Permanent magnets in wind turbines use rare earth metals such as neodymium and praseodymium, and the thin films on photovoltaic solar panels use metals such as tellurium, cadmium, indium and silver. Batteries for electric vehicles currently rely on lithium, nickel and cobalt. Demand for all these metals is set to rise sharply as the adoption of low-carbon technologies gathers pace.

A paper published by the influential *Nature* magazine in September 2020[2] identified platinum, cobalt and rare earth metals as the most problematic from an ESG perspective. They are only used in small quantities, but the environmental and social costs of extracting them are very high, and recycling is all but non-existent.

Platinum is used in catalytic converters on internal combustion engine (ICE) vehicles, and as an industrial catalyst. Phasing out ICEs could be expected to reduce demand. However, platinum is also used as a catalyst in hydrogen fuel cells, increasingly seen as a potential alternative to lithium-ion batteries in electric vehicles. The rare earth metal palladium can be used as a substitute for platinum, but has ESG risks of its own. Research is proceeding into substitutes such as a mixture of iron, nitrogen and carbon.

Cobalt is used in lithium-ion batteries, for which demand is set to escalate as electric vehicles replace petrol and diesel vehicles. Nearly two-thirds of known deposits are in the extremely poor and war-torn DRC. An estimated 15-30% of cobalt mining in DRC involves 'artisanal miners', who are often children.

However, cobalt mining is immensely important to the Congolese economy. In 2019, the DRC government granted a monopoly licence for the processing and sale of artisanal cobalt to Entreprise Générale du Cobalt, which is 95% owned by Gécamines and 5% by the DRC State. Giving the DRC's move a cautious welcome, the commodities consultancy Roskill commented that "the development of a properly

> It is not the industrial metals that pose the most significant ESG challenges

organised and thriving cobalt ASM [artisanal and small-scale mining] sector in the country could be an immense force for good and one of the few positive legacies likely to arise from the growing demand for battery raw materials". Calls to produce cobalt-free batteries are increasing.

Mining of rare earth metals has left a trail of toxic waste across China. However, in 2020 the Rare Earth Industry Association reported[3] that China was closing down highly polluting "clay mining" operations, and mining companies around the world were beginning to develop primary deposits. Diversification of supply and improved mining standards should, over time, reduce the ESG risks of rare earth mining, and some analysts think they may become a sustainable investment.

However, rare earth metals are not necessarily directly mined. They are often a by-product of a base metal production process: for example, indium, germanium, bismuth and tellurium are by-products of zinc smelting. Unless alternative ways of extracting rare earths are developed, meeting demand for rare earths could result in overproduction of associated base metals, resulting in market gluts and storage problems.

Although not top of the *Nature* researcher's list, lithium and nickel also pose ESG challenges. Lithium is abundant, so does not pose significant geopolitical risks, but *WIRED* magazine reports that lithium production in water-scarce areas has devastating consequences for agriculture, while the chemicals used in the extraction process can pollute waterways many miles from the site.

IMPROVING STANDARDS

Metals mining and processing companies are under pressure to respond to ESG concerns. Institutional investors are demanding more transparency and better safety standards: for example, following the Brumadinho disaster, the Church of England pension fund's intervention led to the development of a global safety standard for tailings. And banks, concerned about their own ESG targets, are increasingly demanding that companies clean up their acts. In a 2021 survey by White & Case, 45% of mining companies said that ESG was the biggest risk to the sector.

Improving ESG standards could make it difficult for producers to meet demand for essential metals. This would raise the price of renewable energy itself as well as downstream technologies such as electric vehicles. There will be pressure to sacrifice ESG standards to keep prices low in order to hasten adoption of low-carbon technology.

But the *Nature* paper warns that if ESG risks are not mitigated, opposition to mining and processing projects could in fact inhibit progress towards a low-carbon future. Addressing ESG concerns – even if it means higher prices for energy and transportation in the future – is essential for a sustainable low-carbon future.

1 carbonclean.com/blog/steel-co2-emissions
2 nature.com/articles/s41467-020-18661-9
3 global-reia.org/wp-content/uploads/2020/09/REIA-Policy-Brief_Final.pdf

Frances Coppola is a speaker and writer on finance

FIVE WAYS TO HEAD TO THE TOP

What do business leaders have in common? James Ashton identifies five themes

Identifying future leaders is an imprecise science that even the fanciest algorithm has yet to crack. It's best to start with today's corporate titans and work backwards for clues on how to make it to the top. The only drawback with that process is it reinforces a system that does not score highly for encouraging diversity.

With employers and shareholders more enlightened today, it must be hoped that different thinking – and those with different backgrounds – can get ahead, even if they must adopt the same playbook to do so.

When I wrote my book on leadership, I reviewed all the chief executives I had interviewed as a financial journalist over 20 years. I explored their leadership type, which set groups of them apart from one another – as Alphas, Fixers, Campaigners and so on – but I also identified what bound them together.

There were commonalities at the start of their career, such as obvious entrepreneurial spirit, sporting success and joining the right graduate programme. The future CEOs who ran a money-making scheme at school, excelled at horse riding or in the pool, or came through the Procter & Gamble or McKinsey talent factories were surprisingly common.

But after the right start, what did they do to grind their way up through an organisation? What career choices did they make that put them in pole position to become CEO when the vacancy arose? It is to be hoped that everyone in a position of seniority worked hard to get there. Stories of taking two jobs to get through college and strained marriages often run parallel to a glowing CV. And business schools are still good places to top up skills.

The question is: how did these candidates work smarter, too? Here are five ideas as to why early fast-trackers finished as strong as they started.

1 CHALLENGE YOUR SUPERIORS

"Leaders are obligated to respectfully challenge decisions when they disagree, even when doing so is uncomfortable or exhausting," states Amazon, in a list of 14 leadership techniques it is on the lookout for when hiring. An 'obligation to dissent' has been a core principle at McKinsey for years. It was first expressed by one of the management consultancy's founding partners, Marvin Bower, who understood that disagreement – without wrecking professional relationships – was a powerful tool. It is also one that must be skilfully deployed. Calling out missteps is one way to get noticed by the higher-ups – as long as it does not expose their personal failings. And try to do it constructively, without marking yourself out as a member of the awkward squad.

2 FIND A MENTOR

Learning from the best at close quarters creates a halo effect. The boss's bag carrier gets remarkable insight into an organisation's culture and decision-making at close quarters and, as long as they gel, a vital executive sponsor. The chairman of Inter IKEA since 2016, Anders Dahlvig was the personal assistant to IKEA founder Ingvar Kamprad, while the London Stock Exchange's chief executive, David Schwimmer, was chief of staff to Lloyd Blankfein during his 20-year rise at the investment bank Goldman Sachs. Dara Khosrowshahi, the chief executive of ride-hailing app Uber, owes much to tech investor Barry Diller, who parachuted him in to lead travel website Expedia in 2005.

3 FAIL EARLY

Getting it wrong is a badge of honour, especially in Silicon Valley. Reid Hoffman is feted for co-founding LinkedIn, the online network for professionals that was sold to Microsoft for a cool $26bn. But his early social networking effort, Socialnet.com, did not get far. Evelyn Bourke, who became chief executive of Bupa, the private healthcare insurer and provider with 33 million customers, recalls a formative flop was trying to build an Italian financial advice firm. Now she is one of the UK's most in-demand non-executive directors, having joined the boards of Marks & Spencer, the insurer Admiral and funds platform AJ Bell. At Deloitte, the future UK chief executive David Sproul made partner at 30, but was brought down to earth with a bump when the first team away day he led ended in disaster.

4 BROADEN OUT

It is remarkable how siloed even the most senior divisional leaders remain in a large organisation. Their operation is what concerns them. But it is often those who juggle their role with something else that cuts across the entire company who prosper, for example, the finance director who segues into chief operating officer. In the pandemic, demand for a different mix of skills emerged. What were once regarded as junior or lightweight disciplines – people, communications and technology departments – are now being evaluated differently. Once dismissed as mere cost centres or support functions, they are revealed to cut vital horizontals across their organisations. The breadth of these leaders means they have never had a better shot at the top job, following in the footsteps of General Motors' Mary Barra – a former vice president of global human resources – and Ulrik Bengtsson, who was made up from chief digital officer to chief executive of bookmaker William Hill in 2019.

> It is to be hoped that everyone in a position of seniority worked hard to get there

LinkedIn founder Reid Garrett Hoffman (centre) and CEO Jeffrey Weiner (right) at the New York Stock Exchange in 2011

ALAMY

5 EXUDE SAFETY AND SUCCESS

"Always associate yourself with success," one CEO told me years ago. Judging by her career, she has done just that. This idea does not need to be at odds with failing early. It revolves around becoming a safe pair of hands within your organisation and earning respect. Alpha-style leaders are out and the much more consensual Diplomats are in. Combining purpose, authenticity and delivery is the key to success, and the best leaders bring their people with them. They still need to be smart, but EQ – emotional intelligence – has become just as important as IQ.

An enlightened chairman will take background soundings from the ranks below to see if the top internal candidate really has what it takes to lead. Boards prefer to appoint the next boss from within but will always benchmark against who is available in the wider market. The trick is to be regarded as the best who gets tested out against the rest when the time comes. And that combines years of performance, a dash of marketing – and no shortage of luck.

James Ashton is a financial writer and author. His book, *The Nine Types of Leader*, is available now (bit.ly/NINEbook)

ALL EYES ON ASEAN

Treasurers must regard the thriving trading bloc as a strategic focal point for the foreseeable future, writes Parag Khanna

In 1989, well before eighth grade broke for Christmas, my parents took me on an impromptu holiday to Germany. The occasion? To experience the collapse of the Berlin Wall. Once we arrived, we paid five Deutschmarks to some East Germans to rent a hammer and chisel, and began chipping away. I returned to New York with little bags full of pieces of the wall I'd collected for my classmates. More than three decades later, I still cite this as the most important moment of my life – and I imagine it always will be.

However, that same year, we saw the launch of the worldwide web – and I think it's clear which of the two has had a greater, shaping impact on our lives. If we trace the story of the past 30 years, we see the end of the Cold War, the expansion of global capital markets, the privatisation of economies, global investment in infrastructure growth, Europe's eastward expansion and now, the westward expansion of China – all spurred by the digital revolution. This has brought us to a point that I call total globalisation.

Over the past two decades, numerous events – most vividly the 9/11 attacks and the 2007/8 financial crisis – have prompted commentators to pronounce the death of globalisation. But in my assessment, globalisation will always win. Therefore, to ensure that their firms are in lockstep with emerging megatrends, treasurers must harness the geographies that are globalising the fastest. And for the foreseeable future that means looking East.

INNOVATION SURGE

Before the pandemic, Asia saw average growth of between 4% and 6%. Given that COVID-19 is exacting a heavy toll in nations such as Malaysia, Indonesia and the Philippines – and is mounting a swift resurgence in Vietnam and China, which had initially met with success in their efforts to contain the virus – we shouldn't expect an entirely smooth, 'classical' V-shaped recovery. It will be more of an uneven one. Yes, with appropriate stimulus and further pandemic controls, those countries could yet make up for lost ground. But instead of dwelling on those short-term factors, we should focus on the fundamentals that are likely to ensure Asia's recovery will have some semblance of a V-shape, albeit somewhat jagged.

Those fundamentals are rooted in demographics. Asia remains a very youthful region – and one that is gravitating heavily towards urbanisation. That's a critical difference between the ASEAN bloc and other parts of the world. In the West, people's take on the sharp increase in homeworking can be summed up as: "OK, we'll leave the big cities now and go live on a farm." But outside the first-tier cities, Asia doesn't have an equivalent quality of life. So young Asians will continue to flock to their nearest big cities and stimulate the service economies, which are already major growth drivers.

> Treasurers must harness the geographies that are globalising the fastest

In parallel, the global step change in digitisation is particularly pronounced in Asia. That surge of innovation has produced a series of high-profile unicorns that have reached some impressive financial milestones. In April, Grab Holdings – headquartered in Singapore, where I'm based – was valued at almost $40bn in a deal to go public through a special-purpose acquisition tie-up with Altimeter Growth Corp. Just two months later, payments platform Gojek and e-commerce specialists Tokopedia unveiled a merger, marking the largest business deal in the history of Indonesia. The resulting firm, GoTo, has been tipped for a valuation of anything between $25bn and $40bn – a range that would comfortably make it Indonesia's first 'decacorn'. Those examples are just component parts of a fast-paced growth tangent that is new in the Asian experience.

PRIME BENEFICIARY

Other, equally compelling factors underscore Asia's favourable position. The majority of sovereign debt in the region is in local currency, which provides a sizeable cushion. Even the poorer countries have been able to roll out generous stimulus packages because the finance isn't US-dollar denominated. As such, we don't have to worry about a 2013-style 'taper tantrum' derailing any further fiscal measures of that nature.

It's important to bear in mind that ASEAN doesn't yet function as one cohesive region in its own right

Most of the region's governments are more or less pragmatic. Infrastructure spending remains very strong. Social spending is improving and the capacity for welfare delivery is higher than ever. Meanwhile, there's a positive outlook for privatisation. Governments want firm control over their current accounts to keep them in sound, pre-pandemic condition. That will require them to raise more capital. So, countries such as Thailand, Indonesia and the Philippines – plus India, too – are signalling that they will have to make good on recent proposals to float more assets. And I certainly think that will happen.

Which leads me back to my opening theme of globalisation. Multinationals based outside Asia have exciting futures within it. My company has just completed a study on the supply chain patterns taking shape in the region, and we've noticed that Australian, EU and US corporates are diversifying away from having all their eggs in China's basket. ASEAN is the prime beneficiary of that shift. A number of countries in the bloc already have free-trade agreements (FTAs) with the US – and in our view, amid rising suspicions over China's trade-war stance, corporate America is set to double down on getting behind that tariff wall, diversifying its labour arbitrage and heavily investing in the ASEAN market. At the same time, Europe is increasingly keen on an EU-ASEAN FTA. Within Asia itself, corporates in Japan and Korea are also gravitating away from China and towards the ASEAN bloc.

QUEST FOR COHESION

So, which ASEAN trends should corporate treasurers monitor going forward? First of all, it will be vital to assess how national markets are recovering in a secular way, and what that tells you about your own firm's positioning: where do you want to be that you may not be right now?

It's important to bear in mind that ASEAN doesn't yet function as one cohesive region in its own right – so a lot of this monitoring will be country specific. For example, there's a widely expected political transition coming up in Indonesia that will be worth keeping a close eye on. What sort of financial reforms will flow from that? And what similar developments are under way in other ASEAN nations?

While each country is its own beast, there are also pan-ASEAN trends to track: could we see further regulatory harmonisation around banking licences and other, key triggers that would unlock more liquidity across the region? Cross-border fintech is a great example of a sector that could benefit from such reforms. In addition, look out for any improvements around labour mobility and recognition of educational certificates. These are all potential points of deeper, pragmatic integration that will enable ASEAN to take on more of a unified, regional feel and become a whole greater than the sum of its parts.

Parag Khanna is founder and managing partner of strategic advisory firm FutureMap, and author of *MOVE: The Forces Uprooting Us* (Scribner, 2021)


TILNEY

NATURAL CAPITAL

THE STORY CONTINUES

THE FINANCIAL WORLD IS DOUBLING DOWN ON CLIMATE CHANGE AND A FINANCIAL LANGUAGE THAT SUPPORTS IT. HERE, NARESH AGGARWAL PROVIDES AN UPDATE ON NATURAL CAPITAL

For governments and the financial world, most of the last century was focused on the need to rebuild the economies devastated by war and reduce levels of absolute poverty in much of Africa, Asia and Latin America. As a consequence, it was natural to focus on the accumulation of produced capital (roads, machines, buildings, factories and ports) and what is termed human capital (health and education).

With almost every week that passes, the impact of climate change has become more pressing and apparent. Sustainable Development Goals (SDGs) came into force at the beginning of 2016 with the objective of setting a new global development agenda to eradicate poverty and shifting the world onto a sustainable development path by 2030. The 17 SDGs and their 169 targets include goals to reduce poverty and promote education, health, the environment and peaceful and inclusive societies. SDG 17 aims to "strengthen the means of implementation and revitalise the global partnership for sustainable development" with 17.19 specifying the following goal:

- By 2030, build on existing initiatives to develop measurements of progress on sustainable development that complement gross domestic product (GDP), and support statistical capacity building in developing countries.

Setting a common framework for assessing sustainable development is therefore a key component to delivering SDG 17, and one of the tools for achieving this is the further development of natural capital. Earlier this year we introduced the concept in an article outlining the background and concept using the Forum for the Future's definition of natural capital (which other sources sometimes refer to as environmental or ecological capital). That definition comprises "any stock or flow of energy and material that produces goods and services" (*The Treasurer*, Issue 1 2021, page 40).

The following is an example of what happens when we ignore natural capital.

A woodland is destroyed to build a shopping centre. GDP calculations record an increase in produced capital. However, there is no adjustment for any impact on natural capital and the environment that currently absorbs carbon, prevents soil erosion, creates a habitat for much-needed pollinators and provides direct benefits such as recreation (which can reduce burdens on health services). Such losses carry economic costs, which are currently not recognised, let alone measured.

In 2021, we have seen two key milestones in the development of natural capital. The first was the release of the 610-page *The Economics of Biodiversity: Dasgupta Review*; the second was BS8623, issued by the British Standards Institute, which provides specifications and guidance on the preparation of natural capital accounts.

The remainder of this article focuses on the *Dasgupta Review* and what it may mean for treasurers.

BACKGROUND

In his 2019 Spring Statement, the then Chancellor of the Exchequer Philip Hammond announced plans to commission a comprehensive global review of the link between biodiversity and economic growth to support the plans to mandate biodiversity net gain for development in the

Understanding and measuring natural capital will not happen immediately

UK. Hammond recognised that other targets (such as delivery of infrastructure and housing) should not be achieved at the expense of biodiversity. The resulting *Dasgupta Review* includes the following thoughts:

- If society is to address the rapid decline of biodiversity that threatens civilisation itself, it can no longer measure success using conventional metrics such as GDP.
- Demands on nature far exceed its capacity to supply them, putting biodiversity under huge pressure and society at risk.
- The stock of natural capital per person declined by nearly 40% between 1992 and 2014, a period when produced capital per person doubled, and human capital per person increased by about 13%.
- Sustaining and growing natural capital must become a central pillar of global economic decision-making.

KEY RECOMMENDATIONS

Demands on nature must be limited

A combination of technological developments and a move towards more sustainable food systems will have an impact. However, this is unlikely to be enough in both the long and short term, and changes to consumption and production methods will also be required.

Legislation through new taxes and standards on recycling coupled with the embedding of environmental objectives across supply chains will also need to play a role.

Supply must be increased

The management of legally protected areas must be improved.

Investment in nature-based solutions that address biodiversity loss, contribute to climate change mitigation and adaptation, and create jobs is also necessary. The report noted that it is far less expensive to conserve nature than to restore damaged or degraded resources.

A new measure of economic performance

The current measure – GDP as a sign of national economic output – has been the primary measure of economic success. However, it has been criticised for its failure to take account of natural capital and for incentivising activity that depletes ecosystems and habitats.

Some countries have taken steps to incorporate natural capital and ecosystem services into national economic metrics, for instance, China with its Gross Ecosystem Product and New Zealand's Living Standards Framework. These measure how well societal wellbeing is being protected by aggregating the value of produced capital, human capital and natural capital. Approaches such as these highlight the benefits from investing in natural assets and allow for a more balanced trade-off between produced, human and natural capital when it came to investment and business decisions.

The report expects that conserving and restoring natural assets will reduce poverty, given that natural capital forms the bulk of wealth in low-income countries, and those on low incomes tend to rely more directly on nature.

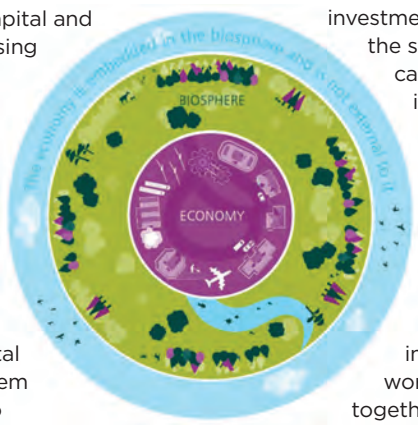
Improving natural capital reporting

Significant design and measurement challenges remain with work required to boost reporting and create assessment frameworks that accurately value soil, trees, water, air, minerals and other resources.

There needs to be international collaboration on the construction of new natural capital accounting methodology to ensure standardised data and modelling approaches.

Refocus of the financial system

The current system is characterised by significant subsidies to exploit natural resources and relatively limited investment in improving the stock of natural capital. The report insists this has to change with the public sector (through governments and central banks) and private financial institutions working together to improve biodiversity, support measures to increase sustainable consumption and production, and encourage the reporting of nature-based financial disclosures by businesses.



Implications for business and treasurers

Governments and regulators will at some point turn their attention towards natural capital in the same way as they have on environmental, social and governance (ESG). When they do, companies will need to be ready. Whatever the agreed methodology of accounting is adopted, it may have a material impact on balance sheets, income statements and how investment projects are appraised.

There is already guidance from a number of different sources on natural capital methodology and calculations, such as:

- UK government[1];
- Capitals Coalition[2]; and
- System of Environmental Economic Accounting[3].

Understanding and measuring natural capital will not happen immediately given the complexities involved, and it is so important that boards and other stakeholders are encouraged to understand the concepts. Treasurers are ideally placed to lead these conversations in conjunction with their sustainability teams.

This will become increasingly important as government subsidies that are currently typically skewed towards nature-negative activities (often involving the exploitation of a scarce resource) pivot towards nature-positive activities. Businesses will need to assess the impact of this, as nature-positive activities will be well-positioned to pick up additional public subsidy and investment from the ESG-conscious private sector.

1 www.gov.uk/guidance/enabling-a-natural-capital-approach-enca
2 capitalscoalition.org/wp-content/uploads/2020/04/NatCap_VisFinAccount_final_20200428.pdf
3 wavespartnership.org/en/system-environmental-economic-accounting-seea

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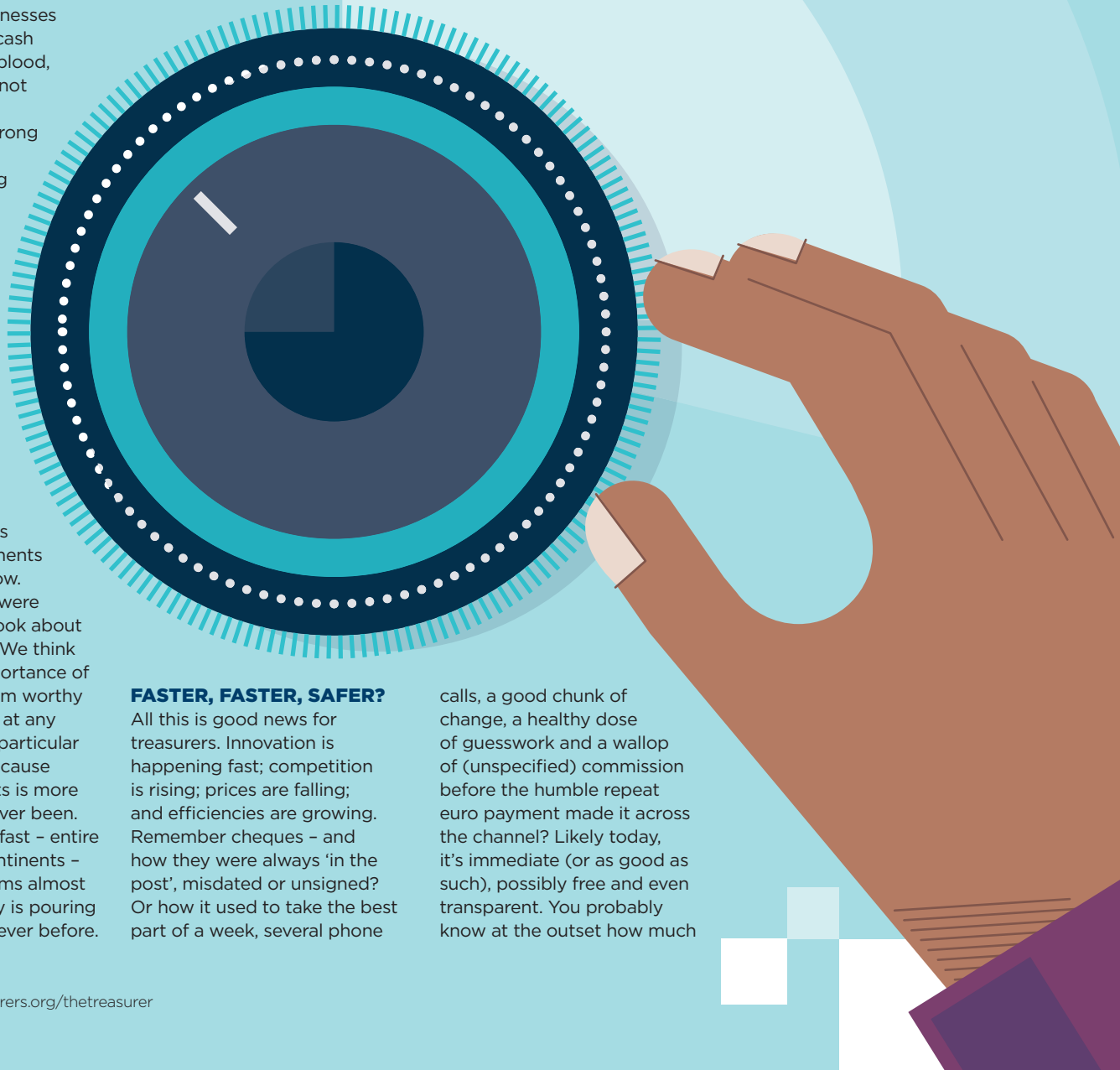
LESS CASH MORE TECH

THE STORY OF PAYMENTS AND THE WORKLOADS OF TREASURERS ARE INEXTRICABLY BOUND. **GOTTFRIED LEIBBRANDT** AND **NATASHA DE TERÁN** TAKE UP THE TALE



For all that businesses recognise that cash flow is their lifeblood, payments is an area not widely understood.

When things go wrong in either treasury or payments, everything else can grind to an abrupt halt. All too often both functions rise to prominence only in times of stress – as we've seen recently.

But the good news for both the treasurers who depend on payments and the specialists who work in the payments industry, is that payments are big news right now. So much so that we were inspired to write a book about all that's happening. We think the richness and importance of payments makes them worthy of a reader's interest at any time, but they merit particular exploration today because the 'now' in payments is more exciting than it has ever been. Change is occurring fast – entire countries, indeed continents – are subverting customs almost overnight and money is pouring into the sector like never before.

FASTER, FASTER, SAFER?

All this is good news for treasurers. Innovation is happening fast; competition is rising; prices are falling; and efficiencies are growing. Remember cheques – and how they were always 'in the post', misdated or unsigned? Or how it used to take the best part of a week, several phone calls, a good chunk of change, a healthy dose of guesswork and a wallop of (unspecified) commission before the humble repeat euro payment made it across the channel? Likely today, it's immediate (or as good as such), possibly free and even transparent. You probably know at the outset how much

it will all cost, when it will arrive and you'll even receive confirmation when the beneficiary is credited. The difference these (albeit small) changes make to a treasury function are (we humbly presume) hugely impactful.

Or consider application programme interfaces (APIs), which promise to greatly ease connecting treasury systems to banks. While much of the talk on the EU's Payment Services Directive PSD2 and Open Banking is on the consumer side, the impact on the treasury side could be just as significant, as cumbersome host-to-host connections are replaced with simple API calls.

A RISING PROFILE

It's hard to put an exact date on when payments started to get exciting to the outside world, but it was collision of the smartphone, the rise in e-commerce and the technology boom with the post-financial crash strictures that really proved transformational. Unencumbered by regulation, legacy systems and the less profitable parts of payments, newcomers stormed into the industry, cherry-picking the richest business areas and client types.

Consumers have benefitted hugely from the advances in payments – it's easier and faster to pay (and receive goods) – but it is really the merchant or corporate sector that has won the most from advances in payments. Business operations that were previously unthinkable are now multibillion-dollar prospects. Think about Amazon without digital payments or eBay without the leg-up it got from PayPal. Think about Klarna, ClearPay and all the new buy-now-pay-later payment products that transform the desirable into the affordable. Or the e-shops that have no tills; the supermarkets that can choose whether to staff tills; and even the humble café, which can be card only – or, for the more modern, QR only.

The move away from cash predated the COVID-19 pandemic, but was rapidly accelerated by it, allowing more businesses to reduce – and some even eliminate – their reliance on cash takings, presumably reducing huge overheads in cash management, transport, security, surveillance and the rest.

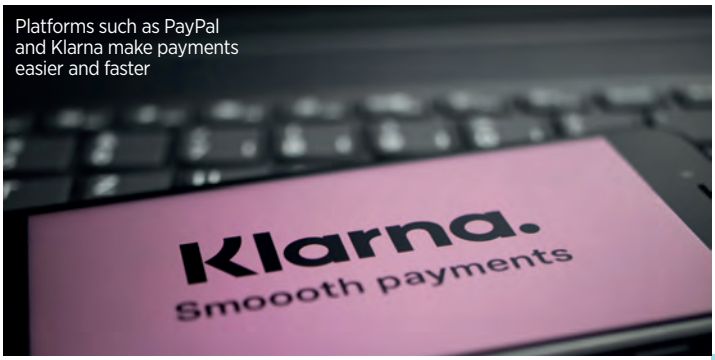
Of course, from a treasurer's point of view all this change may look rather different. Faster payments means money moving faster out, as well as in. E-payments and remote payments mean cyber risk, card-not-present risks, insider fraud and more. Overhauling systems is expensive, time-consuming and challenging. Alongside systems, there are standards – think ISO 20022 and all that will involve, regulations, such as AMLD-IV (and now V) and the rest. For the importer or exporter there is Brexit and all that it involves, and now there's the prospect of entirely new currencies – Stablecoins and central bank digital currencies – or, for those with more robust risk appetites, Cryptocoins.

Perversely, these 'modern' manifestations of money may present fresh challenges to the treasurer, just at the time that technology promised to eradicate silos and presage a fresh new barrierless era.

Of course, the promises that technology offers could go only so far in payments. As long as we have local payment preferences and national conventions, currencies and laws, there will always be frictions. The likes of TransferWise – now Wise – have done much to eradicate some of these, along with bank-led initiatives such as SWIFT's gpi – but the promise first held up by Facebook with its global currency Libra is (at best) light years away from reality. Payments may be prosaic, painful and personal – but they are also potent and political. One country can cripple another by preventing its payments to flow easily – just think of the US and how it has repeatedly flexed its payments power doing just that. Or it can use the richness of payment data to monitor its citizens, to build big data banks and huge artificial intelligence capabilities. Don't expect governments to give up their control of payments any time soon.

Fintech, big tech, banks and central banks all have their eyes squarely on payments. Some are in it quite literally 'just for the money', others to propel their businesses, to standard set or protect their bottom line. The resulting valuations are literally stratospheric; take Visa, which is now worth more than any bank! Even the back office boys, the likes of Adyen, Square, Stripe and Paytm – unheard of less than a decade ago (and to some even today) – are worth tens (if not hundreds of billions) more than many banks.

That's clearly good news for the payment tech sector and its investors. What's more, there is plenty for treasurers to look forward to in the rapidly changing world of payments.



Platforms such as PayPal and Klarna make payments easier and faster

Gottfried Leibbrandt is the former CEO of SWIFT; and **Natasha de Terán** is a former journalist and former head of corporate affairs at SWIFT. Their book is called *The Pay Off* (Elliott & Thompson Ltd, 2021)

THE TIME IS NOW

REASSESSING RISK MANAGEMENT STRATEGIES FOR THE POST-PANDEMIC WORLD

AFTER A YEAR THAT TURNED MANY PRACTICES UPSIDE DOWN, **COLIN MCKEE** LOOKS AHEAD AT HOW TREASURERS MIGHT ADJUST THEIR STRATEGIES GOING FORWARD

When the first UK lockdown was announced in March 2020, few of us would have anticipated that we would still be living and working under such uncertainty well over a year later.

For many treasury teams, those initial months could probably best be described as firefighting. As well as operational challenges – such as supporting colleagues through the shift to remote working – businesses have had to deal with the immediate impact of lockdown on operational performance.

Cash flows fell sharply as lockdown took effect, so securing liquidity and shoring up balance sheets was the initial priority for many.

The ongoing uncertainty and resulting market volatility have prompted many companies to review their strategies across transaction and balance sheet hedging, as well as interest-rate risk management. This has involved revisiting the rationale for their hedging policies and looking back at the issues faced during the crisis to understand what lessons can be learned.

With senior management increasingly focused on what their treasury team does and the value it brings, treasuries are being given the platform to brief a wider range of stakeholders within their company on the value of financial risk management. This includes what the current strategies are designed to achieve, whether they are still fit for purpose and what can be done differently going forward.

In 2021, senior management and boards are more open to new ideas, giving treasurers the chance revisit their strategic planning and refresh old policies.

It's an opportunity that should not be ignored. The question is: what should treasurers be prioritising when reviewing their treasury policies?

TRANSACTION HEDGING

Transaction hedging has been one of the most challenging areas for treasurers to grapple with throughout the pandemic. Typically, companies hedge forecast cash flows for FX or commodity risks in a systematic manner – for example, via layered or rolling strategies using forward contracts out to 18 to 24 months. But these strategies are built on having stable and predictable forecasts.

During the initial months of the crisis, operating cash flows declined dramatically in numerous sectors and we saw large market movements and high volatility. This left many companies overhedged, needing to unwind, restructure or roll forward trades, adding to liquidity pressures.

In many sectors, uncertainty in cash-flow forecasts remains one of the key difficulties, and having the confidence to re-engage in the market and restart hedging programmes has been challenging at best. This is forcing treasurers to look again at their hedging strategies and whether they are fit for a riskier economic environment.

IKON IMAGES

What treasurers can do now
To respond to the ongoing uncertainty, many treasurers have worked to develop their forecasting approach to build in and stress test a range of scenarios for both cash flows and market rates rather than relying on a single 'central' forecast. This enables them to assess the impact of uncertainty on their key financial metrics, review whether their risk appetite may have changed, and analyse the pros and cons of their existing hedging strategy.

In the sectors most negatively affected by the pandemic, businesses have been working to build greater flexibility into their hedging strategies. Examples include hedging for shorter periods – perhaps for 12 to 15 months instead of 18 – and providing the ability to flex hedge ratios within a range – such as covering 50% of forecasts instead of 75%.

Many companies have also considered the use of option-based strategies to reduce the risk of overhedging, maximise credit line availability and avoid the hedge portfolio moving significantly against them.

A number of treasury teams have also looked to develop their execution strategies, such as leaving limit orders for trades that will be executed should the market reach a certain level in order to avoid missing favourable movements.

Whichever approach fits best, treasurers should look to take the initiative, monitoring markets and making decisions according to the circumstances rather than following a 'mechanical' policy. They should be proactive in communicating their strategy to senior management and stakeholders so that they understand exactly what hedging is designed to achieve.

It's important for everyone to understand, of course, that while transaction hedging can defer or smooth market movements, it cannot avoid them forever.

INTEREST-RATE RISK MANAGEMENT

Before the pandemic, many companies had grown accustomed to low, flat interest-rate curves and low volatility. Because of this, they had perhaps taken a more tactical than strategic approach to their interest-rate hedging.

While market volatility is currently relatively low, there is still a great deal of uncertainty around the potential future path of interest rates, not least due to the monetary and fiscal response to the crisis, the pick-up in inflation during 2021 and the ongoing debate over how central banks will respond.

Cash balances have also increased significantly through the pandemic and now need to be factored in, given the low returns they earn and the impact this has on the cost of carry – the difference between the cost of debt and return on cash.

> There has rarely been a more opportune moment to review treasury strategies

What treasurers can do now
Treasurers should review their interest-rate risk management policies and consider whether they need to find a new balance between strategic and tactical factors.

This could include revisiting the connection between operating cash flows and the interest rate and inflation environment, or the impact of increased liquidity buffers and cash balances on the company's fixed or floating mix.

The steepening of interest-rate curves in the first half of 2021 provided an opportunity for many companies to rebalance their debt portfolios away from fixed rates and towards floating rates. This reduced their overall cost of carry while offsetting the risk of low near-term rates on their increased cash balances.

Many companies are continuing to monitor market levels, hoping to increase the proportion of floating-rate debt in their businesses to address these issues.

Others who continue to see longer-term rates as historically low may take the opportunity to lock in for the foreseeable future, both by issuing longer-dated debt and pre-hedging future debt maturities.

CURRENCY MIX OF DEBT

Like interest-rate risk management, before the pandemic many companies had become used to low FX and interest-rate volatility and stable market conditions. In that environment, they focused more on reducing the overall cost of funds by having a greater percentage of debt in currencies with historically lower interest rates, like the euro, rather than aligning the currency mix of their debt portfolio with EBITDA or operating cash flows.

This approach may have worked well when market conditions were stable, and the companies had sufficient headroom in their key financial metrics to accept greater risk in return for cheaper funds. However, we've seen the pandemic's impact on credit metrics and the relative 'compression' of interest rates between different currencies.

What treasurers can do now
Treasurers should review their company's currency mix of debt to understand the balance between risk and reward, and determine if it is still appropriate for them. This might mean using current market rates to rebalance towards a strategy designed more to mitigate risk than to achieve cost savings. The key to any strategic review is to fully understand the trade-off between risk and reward, and to articulate this to senior stakeholders to get their buy-in.

NO TIME LIKE THE PRESENT

There has rarely been a more opportune moment to review treasury strategies. Against a more benign but still challenging backdrop compared to the past 18 months, the treasury teams that prosper will be those that balance managing risk with ensuring their business has the tools to capitalise on growth opportunities.

The Financial Risk Advisory team at Lloyds Bank can help with analysis and guidance for treasurers approaching a review of this kind. The timing might never be better for initiating strategic change.

Colin McKee is head of the financial risk advisory team at Lloyds Bank Corporate Markets

LLOYDS BANK

HYBRID THREATS

IN A PART-HOME, PART-OFFICE MODEL, KEEPING ON TOP OF SECURITY BECOMES A KEY TASK. **MATT PACKER** REPORTS

'Adapt to survive' has been the workforce mantra of the COVID-19 era, as staff in firms of all sizes have strived to adjust to new work styles based mainly at home; however, the same mantra has also applied to cyberthreats.

In June US cybersecurity specialist VMware Carbon Black published its latest *Global Security Insights Report*. Three-quarters (76%) of the respondents said that the number of cyberattacks they have experienced rose in 2020. Within that segment, 78% said that the incident rate had increased as a direct result of the homeworking boom, while 79% said that attacks had become more sophisticated.

In his foreword, VMware Carbon Black principal cybersecurity strategist Rick McElroy writes: "Digital transformation programmes advanced rapidly as the cyberattack surface expanded to include living rooms, kitchens, home networks and personal devices."

OPEN GOAL

COVID-19 has indeed left an indelible mark, shaking the white-collar workforce free from the traditional berth of the office and reframing the home as the primary site of production. 'Hybrid working' is the buzz phrase on everyone's lips.

But how can corporates avoid leaving a permanently open goal for cybercrime? That question is high on the agenda for Jason Harrell – executive director and head of external engagement at US post-trade financial services firm DTCC. As the company's cyber resilience lead, Harrell is taking a keen interest in how cyberthreats are evolving in line with the hybrid-working boom. And the past 18 months have already produced some lessons.

"The shift from an 'everyone at HQ' model to a 'corporate office plus an array of home networks' set-up increases the available surface area for attacking the corporate network," Harrell explains.

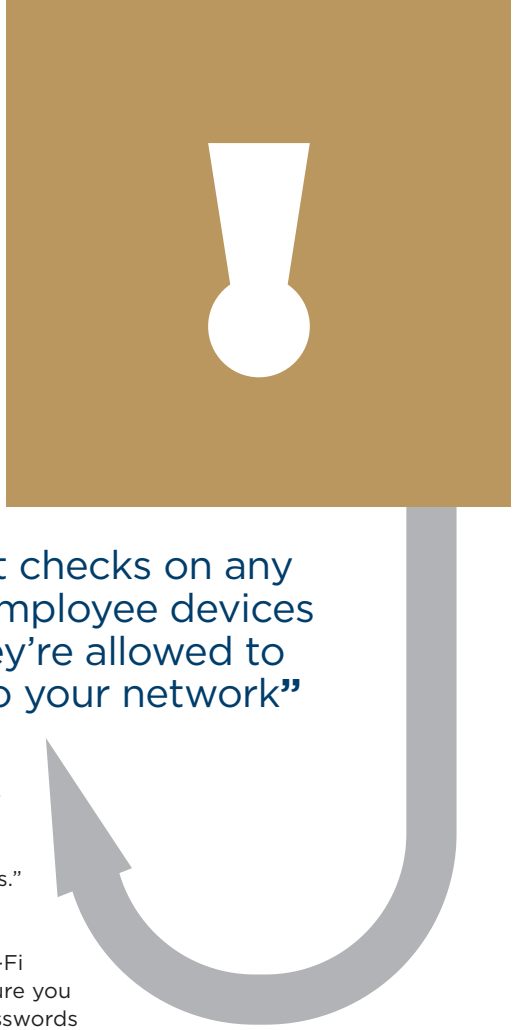
He notes: "At home, we have Internet of Things (IoT) gadgets, streaming TVs, mobile devices, smart-home features for tasks such as temperature control – all of which could be operating on the same network as hardware used to access the corporate office. Domestic devices' security status is often unknown. And if staff don't know how to protect those household devices, they will provide a vector for malicious actors to gain proxy access to the corporate network."

78%

said that the incident rate had increased as a direct result of the homeworking boom

CONTINGENCY PLAN

Another factor that Harrell warns corporates to be more aware of is that stressed staff working from home could be more vulnerable to phishing, where hackers masquerade as trusted individuals or parties. "At home, there are more distractions," he points out. "And with COVID-19 continuing to dominate the news cycle,



> **“Carry out checks on any relevant employee devices before they’re allowed to connect to your network”**

this event will probably continue to be used as bait for links in phishing messages.”

Harrell advises treasurers: “For your domestic Wi-Fi networks, make sure you choose strong passwords and change them on occasion. That’s one simple way to prevent people from accessing your home network. Another is that if you’re not actually using your corporate device, just turn it off. Don’t have it active-but-idling on the network.”

From a management perspective, he urges: “Carry out checks on any relevant employee devices before they’re allowed to connect to your network, so you have some level of assurance around their baseline security.”

Patrick Verspecht is group treasurer at a multinational firm and a director at the Belgian Association of Corporate Treasurers. In his corporate work, he explains, his department managed to anticipate the COVID-19 era’s requirements for cyber resilience: “Our treasury team was prepared for an era of working from home, because in 2019 the business set up a contingency plan for remote working. Every member of the team now has a company printer, company cell phone and company notebook. Those devices all have network access – but we use a highly secure VPN to connect to people’s homes.”

In addition, he notes: “We launched cyber-fraud training for all our people across the globe. Periodically, we test our processes by simulating issues such as CEO fraud, fake emails and other security risks. The results are improving dramatically and we believe that we have the right tools and processes in place to protect us from those risks. Even while we acknowledge that a 0% risk environment does not, and will never, exist.”

BOOSTING RESILIENCE

In the long term, then, which cybersecurity considerations should be front of mind for treasurers as hybrid working cements its position as the dominant work style?

Verspecht notes: “The budget impacts of boosting cybersecurity may be higher than we expect. Perhaps we, as corporate treasurers, will need to invest in new tools, or review and update existing ones. Another major question that corporates must ask themselves is: do we have broad cyber coverage in our insurance? Very often you will need to purchase a separate policy. Last year I asked our broker if any of our policies would cover cyber fraud, and the answer was not fully positive. We do have comprehensive cyber insurance now – but we expect a double-digit rise in premiums this year.”

Turning to emerging threats, Verspecht says: “I see potential for risks to emerge from some of the new functionalities in cash management, such as instant payments for the euro area. That is something that corporates will need to monitor and prepare for. In parallel, it’s important to educate all of our employees about how different threats work and how they can be stopped or contained.”

On a broader level, Harrell notes: “Organisations must think about how to implement remedies in a meaningful and thoughtful way. Leaders must document the performance of their chosen solutions, and ensure they have understood the risk factors within their new working environment. They must also explore new technologies that boost resilience – for example, tools such as artificial intelligence, distributed ledger and the cloud. How can we better utilise those resources to automate activities and remove the human element?”

He adds: “My hope is that hybrid working will allow organisations to tap into talent that may not be resident near corporate offices, and that it will provide a healthier work-life balance. My concern is that there will be increased compromises of popular IoT devices, and that those devices will create new security breaches for corporate networks.”

KEY LESSONS

- Regularly screen employees’ devices for potential cyber risks;
- Switch off corporate devices at home if you’re not actually using them;
- Routinely change your home Wi-Fi password, and ensure each iteration is strong;
- Build awareness through companywide tests that simulate different threat scenarios;
- Ensure your firm is covered with comprehensive, up-to-date cyber insurance; and
- Find out how new technologies can enhance your cyber resilience.

Visit the ACT Cash Management Hub at: treasurers.org/research/cash-management-lessons-2021

You can find a Barclays guide on cyber fraud prevention at barclayscorporate.com/insights/fraud-protection

BARCLAYS

Matt Packer is a freelance business, finance and leadership journalist

WINNING WAYS

FOUR WINNERS FROM THE ASSOCIATION OF CORPORATE TREASURERS DEALS OF THE YEAR AWARDS TELL **LIZ LOXTON** THEIR STORIES

This year's ACT Deals of the Year Award winners, for deals in 2020, showed leadership in terms of managing uncertainty against the onset of the pandemic. Others demonstrated their engagement with environmentally and socially linked finance initiatives. Here, we look at the stories of some of those winners in more detail.

AHOLD DELHAIZE

Green and sustainable finance vehicles have been growing in sophistication and levels of accountability.

Today's transactions and financial instruments have become more closely tied to measurable targets and widely supported goals. That's an unavoidable conclusion looking at Ahold Delhaize's win in the ESG Finance category.

Last year, the international food retailer agreed a €1bn revolving credit facility (RCF) with a group of 16 banks, tying key performance indicators around ESG to its financing in such a way that the group would incur either reduced or increased margins according to results.

The RCF links to goals in three specific areas, with performance measured as follows:

- Food waste reduction, linking to a specific percentage drop in tonnage of waste for every €1m of food sales;
- Measurable reductions in carbon emissions across its operations, aligned with goals set out by the Science Based Targets initiative; and
- Promotion of healthier eating, measured by a set percentage of own-brand food sales from healthy products.

"Our ambition," says Charles-Edouard de Terwangne, group corporate finance manager, "has been to link the financing strategy with the 'healthy and sustainable' growth driver of the company."

> The company's standards were more stringent than those of other retailers

Challenges emerged early on in the process. The proposals led to some challenging initial discussions with the two coordinating banks. Although the rigour of those discussions proved helpful when it came to winning over the rest of the banks, however.

Ahold Delhaize's own targets, around food waste, for instance, also proved controversial when it emerged that the company's standards were more stringent than those of other retailers.

Once agreed, there was an internal education task

ahead to ensure healthy and sustainable teams across the business understood the reporting commitment involved. "We needed to make sure that each team in every country was able to pull that reporting information. We worked to drive awareness to ensure they knew that on an annual basis we'd have to report on those points," says Dickson Aladesanmi, CFO at Ahold Delhaize subsidiary FreshDirect.

The task was then to ensure that teams across the company understood accurate and timely flow of information was crucial to avoid incurring costs. It speaks to a wider communication task around sustainable finance, he explains. Ahold Delhaize issued a use-of-proceeds bond in 2019. Funds from that issuance are restricted to sustainable initiatives as defined in the Sustainable Bond Framework.

"At operating company level, teams need to come up with initiatives that would drive compliance against the targets set. Intellectually, that is tough to explain to people and that is where an element of education comes in," says Aladesanmi.

BP

One of the hallmarks of the business world's response to COVID-19 has been its willingness to adopt strategies that might otherwise have been set aside or languished in five-year plans.

For BP, that trend played out when – among a range of other fundraising activities in 2020 – the company issued long-dated bonds for the first time in the company's history, as well as completing the complex $12bn-equivalent hybrid bond that won it the Deals of the Year Bonds Above £750m award.

Facing a sudden fall in oil prices and stark demand impacts as lockdowns began to bite, BP's treasury set about addressing immediate liquidity and balance sheet needs – but in a way that would match broader corporate aims.

"Our industry was facing some pretty major and immediate challenges and threats," says Richard Wheatley, vice president for liquidity at BP. "This hybrid financing that we worked on was part of a series of actions in response to the pandemic predominantly, but also as part of a wider strategy to diversify our investor base."

The successful hybrid issuance meant BP could reach that ambition, as hybrids tend to attract a different investor group to other vehicles. And on the day of the issue, investors responded enthusiastically and BP's ambitions for the issuance were more than met.

"Having initially targeted $12bn of hybrid financing across a series of visits to debt markets, we found ourselves with a $40bn order book and decided to fulfil our financing needs in one visit," he says.

More than 1,000 investors registered their interest, and the team was able to reach its target with a hybrid issuance across five tranches, three currencies and with maturities between five and 10 years.

The oversubscription amply repaid the team's efforts, which included virtual roadshows and investor calls crossing continents and time zones. "We had a couple of teams doing investor marketing, starting at 6am with calls to New Zealand and Asia, and finishing at 8pm with investors on the west coast of the US. Virtual roadshows became the norm in the pandemic and that really allowed us to access a lot more investors directly," says Wheatley.

"The reception we received from investors was so overwhelming that we issued the whole programme on one day," says Patrick Halpin, capital markets senior manager.

> "The reception we received from investors was so overwhelming that we issued the whole programme on one day"

GETTY

Having weathered the short-term impacts of the pandemic in 2020, Informa's view of 2021 is that it will be a transition year

One of the other successes of the offering lay in the contribution it made to BP's plan to deleverage, says Halpin. "The transaction helped us reduce our net debt towards our $35bn target as well as reinforcing the balance sheet and maintaining a strong investment-grade credit rating," he says.

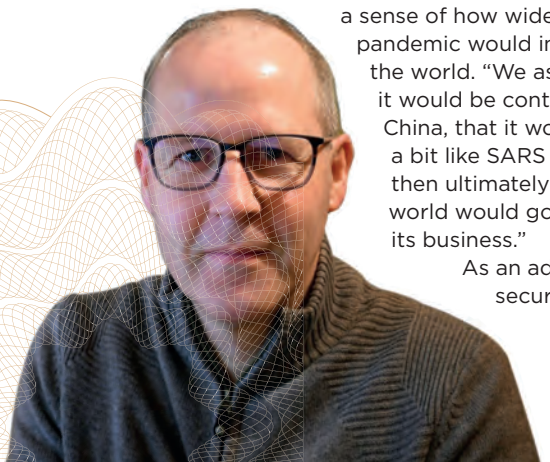
Investor diversification is also important to the company's ambition to become a net zero company by 2050 or sooner, and to help the world get to net zero, announced in February 2020, providing an opportunity to communicate those aims to a broader range of market participants, Wheatley explains.

"We want to be as investable as we can be to as many people as we can be – and key to that is making sure that our strategy is well known and well understood," he says.

INFORMA

With events staged around the globe, exhibition company Informa had its own early-warning system on the advance of COVID-19 and formulated a financing response that won it an award in a new category in the ACT Deals of the Year: Most innovative response to the COVID-19 crisis.

"As a business, we started to deal with COVID-19 in January, because we run events in China, which obviously was impacted severely, early on," says Richard Garry, Informa's group treasurer. Nevertheless, Informa didn't necessarily have a sense of how widely the pandemic would interrupt the world. "We assumed it would be contained in China, that it would be a bit like SARS and then ultimately the world would go about its business."



As an added security, and having spoken to banking partners, Garry proposed putting in place a credit facility and – once the CFO and CEO were on board – the treasury team put in place a £750m facility with three of Informa's relationship banks, with BNP Paribas, HSBC and Santander underwriting £250m each. The team turned the work around in time for Informa's financial results announcement on 9 March.

The loan was subsequently syndicated out to a wider group of banking partners, resulting in discussions that went back and forth during April and May – a time when the rest of the market had very much caught up with the need for credit. "There were a lot of companies chasing facilities and access to facilities in a market where banks were scared about what the future held." The uncertainty, Garry says, made for tough negotiations. However, the wider syndicated banks proved supportive, taking the full £750m with no change in terms.

With a syndicated facility in place and buoyed by an equity issue for £1bn, executed in April, Informa successfully returned to the bond markets in late September. This enabled the company to cancel the whole facility, which had remained undrawn throughout, and remove all financial covenants from the balance sheet by repaying all remaining covenanted debt. The ultimate result was a fully restructured balance sheet with no financial covenants and increased liquidity. It was a textbook exercise, Garry says, securing initial liquidity to manage the initial risk, before a refinancing for longer-term stability and security at a time when the bond markets were in good shape.

The issuance was good news for Informa's banks as well, he says. "They'd demonstrated support of our business in February when the global outlook was uncertain and what we'd demonstrated in turn was that we could subsequently mitigate that risk by refinancing in a different market."

Having weathered the short-term impacts of the pandemic in 2020, Informa's view of 2021 is that it will be a transition year. Events are being staged in China, the US and the UAE. Other parts of the Far East look favourable.

"We've always believed that people want to be together. The human psyche is such that people want to meet and do business face to face. And given our rights issue last year, our shareholders support that belief. Customers believe it and – once the vaccine news came out in November last year – the wider markets started to believe it as well."

PEARSON

Pearson's single-tranche, 10-year social bond of £350m was issued in May last year, with a use-of-proceeds plan reflecting the company's digital-first and educational purpose.

This was not the first time that Pearson had established a link between its funding and its purpose as an education provider. In March the previous year, it became the first business to link the margin on an RCF to UN Sustainable Development Goal 4 (SDG 4): 'Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all'.

For its 2020 bond issuance, group treasurer James Kelly wanted to issue an education-focused bond and link fundraising to UN SDG 10: 'Reducing inequalities'. "Pearson is quite mission-driven," he says. "I wanted to make a statement." The

result was a highly successful issuance, oversubscribed 10 times in the GBP market in May 2020's difficult conditions.

Education is a sector that most sustainable investors look to invest in, Kelly explains. To maximise the appeal of the bond, Pearson decided to focus the use of proceeds entirely on education rather than include any environmental spend or spend in other areas. "If we had issued a bond addressing multiple objectives, investors would have needed to decide on how to allocate it within their investment portfolio, with only a proportion allocated to education. This makes the story more complicated and less powerful."

Pearson decided to focus the use of proceeds entirely on education

Pearson produced its social bond framework in accordance with the International Capital Market Association's social bond principles with a second-party opinion provided by Vigeo Eiris. "Our question became: how do we build an offer within a best-practice regulatory framework? That's to give credibility to the market as well as to work with investors, so that they have all the Kitemarks they need to feel satisfied that the bond genuinely will do what it says on the tin."

Pearson's approach to the bond is to focus on key educational offerings and outcomes where the link to the UN SDGs is clear-cut and measurable. Demonstrating the outcome of the expenditure of the bond proceeds for annual reporting required some thought. For mature learners going back to school to retrospectively achieve their US high school diploma, the link between certification and prospects of the student was clear. For younger learners with more years to graduation, the impact is less clearly demonstrable.

That shouldn't and didn't stop Pearson in its precedent-setting efforts. It may be harder to demonstrate, but there are school-age learners in Pearson's sights who are currently underserved, perhaps because of adverse experiences at school or because of particular educational needs. Tracking the percentage of students each year who complete a qualification without having to resit will provide usable metrics.

In data-driven markets, providing figures to prove benefits is an area that will hopefully evolve. "At present there isn't a requirement to report annually on an ESG bond either via the bond trustee or via the listing authority, instead asking only for publication on the issuer's website. Hopefully we will start to see more demand for this, as it will help build credibility in the market."

For more on the Deals of the Year winners, see our coverage at treasurers.org/events/awards/doty-20/winners

Liz Loxton is editor of *The Treasurer*

THE WINNERS IN FULL

Bonds above £750m
Winner: BP

Highly commended: **Intercontinental Hotels Group**

Bonds below £750m
Winner: Pearson

Loans above £750m
Winner: GasLog

Highly commended: **Tesco**

Loans below £750m
Winner: Riverside

Corporate Finance and Overall Winner
Winner: Rolls-Royce

ESG Finance
Winner: Ahold Delhaize

Highly commended: **Etihad Airways**

Most innovative response to the COVID-19 crisis
Winner: Informa

Small team
Winner: Froneri

Highly commended: **Burberry**

Medium team
Winner: Mitie

Large team
Winner: BAE Systems

Highly commended: **National Grid**

ADVISORY PANELS WITH INTERNATIONAL FOCUS

THE ACT HAS A NUMBER OF PANELS AND OTHER GROUPS THAT SUPPORT ITS ACTIVITIES. **LOUISE TATHAM** TALKS TO THREE PANEL REPRESENTATIVES

Advisory panels provide support and input into important areas of the Association of Corporate Treasurers (ACT), helping Council and the executive team to deliver our strategic objectives through their expertise, market knowledge and contacts.

Although all of our panels provide an international focus, we have three whose role it is to specifically look at development in the regions in which they work, namely, East Africa, Asia and the Middle East advisory panels.

For individuals, these groups provide a way to get involved and develop their own personal networks. Participation is a rich source of CPD. They are also a great way for talented members to build experience for potential future Council membership. For the ACT, the most important function of these groups is their representative role, providing insight and a means to gather views and feedback from the wider membership.

Here, representatives from each international panel describe their involvement with their local advisory panel.

EAST AFRICA

John Tumwine, head, treasury and capital management, Stanbic Bank

What impact do you think the East Africa panel has had on treasury? I think it is important to recognise the unique challenges and opportunities facing those working in treasury in East Africa. The ACT has run events where finance and treasury practitioners have interacted with experts in different fields and heard their experiences. Networking, whether remotely or face to face, has been an invaluable part of this, and the ACT has facilitated by building networks and a community in this region. The events have covered cash-flow management, technology, future-ready skills and regulatory and market developments such as reference rate changes. We have also discussed other local issues like oil and gas investment in the region and their impact on our different entities.

How has your relationship with the ACT helped develop decision-making in Uganda? There have been a number of initiatives, but I would like to highlight two. The ACT made introductions between the Central Bank of Uganda and the Financial Conduct Authority (UK), and the two bodies held discussions on LIBOR transition. Subsequently, the Central Bank of Uganda issued market guidelines on the subject. The ACT also facilitated a learning session in November for members of the Uganda Bankers Association. Sarah Boyce, a member of the reference rate reform global working group, and associate director of policy and technical at the ACT, provided clarity and shared information and insights on the preparation needed for a smooth LIBOR transition.

What event have you most enjoyed being involved with? The 2021 ACT East Africa Annual Conference – it provided great insight and collaborative learning, while also enabling us to get together (albeit virtually).

ASIA

Veronique Lafon-Vinais, associate professor of business education, department of finance, the Hong Kong University of Science and Technology

Why do you think it's important for the ACT to have an Asia advisory panel? The ACT provides an invaluable network for treasurers and corporate finance professionals to keep current on matters related to their work. Each region has unique challenges, and it is very useful to have a forum to share important developments and keep up to date on regional issues. It also helps develop connections locally and regionally, and to brainstorm ideas for events useful to our members. Asia is a huge and ill-defined region, with a heterogeneous economic and political landscape: each country has its own language, currency, legal and tax systems. For regional and local treasurers, the Asian advisory panel enables sharing the latest news in economics, geopolitics, regulations, technologies and any events that might be of interest to the membership locally. Most importantly, we make and build friendships!

You have spoken at a number of ACT events, including 'The Group Treasurer: the first 100 days'. What three pieces of advice would you give to those within their first 100 days of a treasury role? Be humble – you have a lot to learn. Be adaptable – things will inevitably turn out different than you expect. Be resilient – you will make mistakes, and need to learn from them.

What initiative have you most enjoyed and why? Every event that I have been involved in with the ACT has been great, ever since the very first conference in Hong Kong. I love the audience of true professionals; they are very

down to earth and practical. It is so refreshing after attending so many banking events.

MIDDLE EAST

Matthew Hurn, chief financial officer, disruptive investments, group finance, Mubadala

The Middle East advisory panel was established in 2008. What impact do you think the ACT's initiatives, which include the ACT Middle East Summit and Middle East Treasury Awards, have had on treasury in the area?

We have built an incredible network of like-minded individuals all focused on similar issues. With the delivery of quality events, training and qualifications, we are seeing the significant impact and contribution that qualified treasurers are able to bring to their organisations.

We are also able to use our collective voice to help influence regulatory bodies to ensure the profession is considered when adopting policy and regulation.

How has the treasury profession evolved in the Middle East over the past 15 years?

The pace of change in the treasury profession in the Middle East has reflected the pace of change seen in the economic development. Organisations are growing, becoming more complex and more international in their outlook. As a result, the demand for qualified treasurers, capable of managing the complex array of financial risks, has increased significantly. Things have moved on significantly.

What initiative have you most enjoyed being involved with?

Watching the network grow in size and scale, and the impact of the annual summit and awards dinner has been humbling and thoroughly enjoyable. It's taken the time and effort of many to achieve, and I am grateful to everyone who has played a part in making it happen.

Louise Tatham is head of professional development at the ACT

ACT DIARY DATES

ACT EVENTS

■ **September to November | ACT Webinar Series**

DIGITAL ASSETS & CRYPTO CURRENCIES 2021

Start your digital asset and cryptocurrency journey now

The ACT presents a unique series of four webinars starting this September, in partnership with Arca and Copper, exploring digital assets and cryptocurrencies, guiding you on a journey to an in-depth understanding of the topic.

Register for each of the four webinars individually, invite your teams and attend live or watch on-demand later. Attend the first three and get a complimentary place to the virtual ACT Festival of Treasury Transformation on 23-25 November, where the final webinar will take place. Book now at:
treasurers.org/digitalassetseducationseries

■ **23-25 November | A virtual event**

ACT FESTIVAL OF TREASURY TRANSFORMATION 2021

The ACT Festival of Treasury Transformation is unique in its structure, format and delivery, and provides an unmissable opportunity to gather resources and information that will re-energise treasury and finance functions, both organisationally and technologically.

The conference is for professionals around the world, at all levels, looking for the latest technology innovations and best practices relating to strategic change within treasury. Book your place now at:
treasurers.org/festivaloftreasurytransformation21

To attend an ACT event or webinar, book online at treasurers.org/events. For more information, email events@treasurers.org or call +44 (0)20 7847 2589.

ACT LIVE ONLINE TRAINING COURSES

Join our interactive sessions in the virtual classroom.

■ **19 October**

TREASURY IN A DAY

An introduction aimed at anyone new to treasury, looking to broaden their understanding of the function or wanting to improve their ability to have better conversations with management, operations and banks, or with treasurers as customers. In just one day you will learn about the role of a treasurer, and will be introduced to key treasury concepts and commonly used financial instruments.
academy.treasurers.org/training/treasury-in-a-day

■ **21 October**

THE NUTS AND BOLTS OF CASH MANAGEMENT

In just one day you will explore the principles and practices of cash and liquidity management, and their importance to the business and treasury function.
academy.treasurers.org/training/cash-management

■ **1-5 November**

THE A-Z OF CORPORATE TREASURY

This overview of the fundamentals of treasury management is perfect for new entrants to the profession, bankers and those working alongside the treasury team. Learn about corporate treasury within the context of international markets, and build a deep insight into the core areas.
academy.treasurers.org/training/corporate-treasury

■ **16-19 November**

ADVANCED CASH MANAGEMENT

This course covers practical cash management, bank account structures, payables and receivables, liquidity and finance, cash management solutions and real-life case studies.
academy.treasurers.org/training/advanced-cash-management

Preferential rates for ACT members and group discounts available. For more information, contact academy@treasurers.org

Simon Olver: *Having pleaded guilty to, and been sentenced to prison on 25 June 2020, for a charge of two offences of Fraud by Abuse of Position and one offence of Creating Articles for use in Fraud, Simon Olver, a former associate member of the ACT, has been found by the ACT's Case Examiner to be in breach of the ACT Ethical Code. On the Case Examiner's recommendation, in accordance with the Disciplinary Rules, the ACT's Council has resolved that Simon Olver be excluded from membership.*

"THE CENTRAL FOCUS OF MY ROLE IS BUSINESS ENABLEMENT"

NINA TABATA ENSURES DAY-TO-DAY OPERATIONS GO TO PLAN IN HER ROLE AS MANAGER IN GROUP TREASURY AT ETIHAD AVIATION GROUP

I'm responsible for managing the treasury systems in group treasury at Etihad Airways, reporting to the senior treasury manager, group treasury for cash management and middle office. My responsibilities encompass managing several areas, with a heavy focus on overseeing the day-to-day operations of our centralised treasury and risk management system (CTRM).

Some of my responsibilities include monitoring system interfaces, providing users with production support, managing change requests and developing treasury reporting. I also oversee in-system controls such as segregation of duties, compliance of treasury systems with internal policies and external regulations, as well as planning and implementing system upgrades.

A TYPICAL DAY

I normally start the day by checking our overnight exception reports to see if there have been any reported system downtime or overnight process failures. This control measure is designed to highlight items that require immediate corrective action. In particular, I closely monitor the daily CTRM's end-of-day processing and ensure that it has been successfully completed before the start of our business day. The end-of-day processing is a critical task as it wraps up the daily operational functions that manage trades in our system. It is intended to close the book on that day's open positions and prepare the system for the next day's activities. If the end-of-day processing is not complete, it might result in delays in the daily operational cycle for the users of the system.

> "We have built an efficient and robust reporting mechanism"

Setting up automated email alerts to highlight exceptions and process failures is very helpful, especially if you are monitoring multiple applications with various dynamic data-processing streams. So, I'm proud of our team, to say the least, because we have built an efficient and robust reporting mechanism that enables us to focus on value-add activities.

During the course of the day I juggle and balance my time – attending to enquiries, responding to user production issues, and planning and managing development work on the side. Every day is unique and eventful in its own right.

Every month end is a critical period for any company. In finance, we stick to a well-defined closing process. This requires controlled and coordinated activities. Our team contributes to the process by ensuring that transactions are accurately recorded in our CTRM and that the accounting entries for these transactions are accurately generated and posted on time.

I am fortunate to work in an environment with a lean organisational structure, and where learning and development is encouraged and supported not only at a departmental level, but at an organisational level. We are offered plenty of opportunities to be involved in meaningful initiatives. In the finance division, I am currently a member of the finance innovation committee, which was formed by our CFO in the middle of the pandemic last year. Our mandate is to help translate business or innovation challenges into work streams.

Some of the things that we are looking at would come under identifying opportunities for automation,

IKON IMAGES

> "It is amazing to see how much progress the whole finance division has made together in such a short space of time"

such as increased practical use of artificial intelligence and machine learning. As part of that, we organise what we hope are insightful sessions, making innovation workshops accessible to the finance community and also assisting with facilitating the 'CFO Challenge'. This a friendly competition within the finance division that encourages the finance community to come up with a proposition in response to the CFO's challenge statement around a particular theme.

It is amazing to see how much progress the whole finance division has made together in such a short space of time. With the right collaboration, energy and drive from all our internal and external partners and stakeholders, we are able to achieve positive results.

COLLABORATIVE EFFORTS

The central focus of my role is around business enablement, and this translates into collaboration with different parts of the business and cross-sectional interactions. Most of my interactions are with the various teams across group treasury and financial reporting and control. This is because our team manages the tools used by several teams in these areas for their day-to-day activities. This may be as simple as granting a user with the right access to a system, ensuring that payment files are processed and transferred to banks without interference, processing of inbound bank statements that are translated to cash and working capital reports, and ensuring journal entries are interfaced to the enterprise resource planning system, to name a few. We also collaborate and partner with our technology and innovation stakeholders for planning, prioritisation and execution of wider technical projects.

SIGNS OF SUCCESS

A successful day for me is when colleagues can carry on with their day having uninterrupted use of the treasury systems. It is when the systems that our team is responsible for are working as expected and one where we are able to pick up issues and resolve them before end users would even detect them.

A more unusual day would be one where everything rolls out as it should and goes according to plan! Operational resilience and business continuity planning are vital so that when something goes wrong, the disruptions can be treated just like they are all in a day's work.

One thing I have realised over the past months is how much we are all dependent on technology today than just a couple of years ago. Due to the pandemic, the adoption of digitisation has accelerated and increased exponentially – so much so that sometimes I am surprised that a small change we have implemented has such a far-reaching impact.

ABIGAIL IRELAND TALKS ABOUT GREAT LEADERSHIP IN A NEW WORLD

HOW EFFECTIVE LEADERS ENABLE THRIVING, HIGH-PERFORMING WORKFORCES

Working with individuals and teams over the past 18 months, I have noticed consistent leadership challenges around motivation, resilience, connection, productivity and energy management.

Forward-thinking leaders know it takes skill and adaptability to balance the focus on results with an individualised human touch that fosters motivation, engagement and wellbeing throughout uncertain times. Moreover, progressive organisations are proactively investing in personal development to equip their people with the skills needed to thrive in this new world.

Great leaders reflect before rushing back to old ways, keeping what works and discarding what doesn't – whether this relates to remote-working flexibility or how meetings are run. Those forcing people to conform to previous methods are ignoring that attitudes to work have changed, as have customer and client needs. This is an era for disruption and innovation, so we need to embrace that.

Here are seven areas in which leaders must strike a healthy balance:

- **Self vs others orientation:** This requires leaders to first manage their own energy and headspace, before they can effectively support others. Getting this balance right is healthy and impactful, remembering that idea of 'putting your own oxygen mask on before helping others with theirs'.

> "The best leaders know how powerful it is to be human"

- **Empathy vs productivity:** The best leaders know how powerful it is to be human and acknowledge what could be going on for others. Gone are the days of getting results at any cost. Employees are voting with their feet and empathetic leadership is a draw when it comes to acquiring and keeping the best talent.
- **Connection vs hyperconnectivity:** We have all experienced 'Zoom fatigue', blurred boundaries and overwhelm over the past year. Ensuring we are staying connected with our teams but not overloading them with information and communication channels is both an art and a science.
- **Individual focus vs team dynamics:** When faced with challenges, we often go into survival mode. It's important to acknowledge that everyone has different preferences and we need to generate a thriving team spirit while checking that each person is empowered to be productive in their own way.
- **Support vs micromanaging:** Top-performing teams thrive on trust and so it's crucial not to erode this by micromanaging your people or being overly strict about how and where they work. Offer guidance, but allow individuals to take more control. This is especially important given the lack of control we have all experienced in recent times.
- **Acceptance:** Tough times can make us stronger. However, we must also accept that not everyone may be equipped or in the right state to adopt a robust mindset. As a leader, encourage and support – but do not push people to breaking point.
- **Structure vs agility:** While it is important to have a dynamic approach to changing circumstances, routines can really help. Humans are creatures of habit and it takes a significant amount of brainpower to manage constant change. Create underlying structures that promote familiarity and consistency despite the disruption. This could be as simple as a regular monthly gathering that everyone can plan for and look forward to.

Abigail Ireland is a peak performance specialist, accredited executive coach and facilitator; she is also a director at Understanding Performance, which focuses on improving team and executive performance

FIVE KEY TAKEAWAYS

1 EMPATHISE We're all human. Treat others how they want to be treated, and lead by example.

2 EVOLVE Be proactive and let go of old methods. Mindsets have changed, so embrace what works over what once worked.

3 EXPERIMENT Instead of shutting down ideas, be open to suggestions from your team. If it doesn't work, try something else.

4 EMPOWER Get input from your people before making decisions that impact them. Seek out team members' perspectives.

5 ENJOY Interaction and connection are crucial performance drivers. Make time for fun and reinvigorate team spirit.

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