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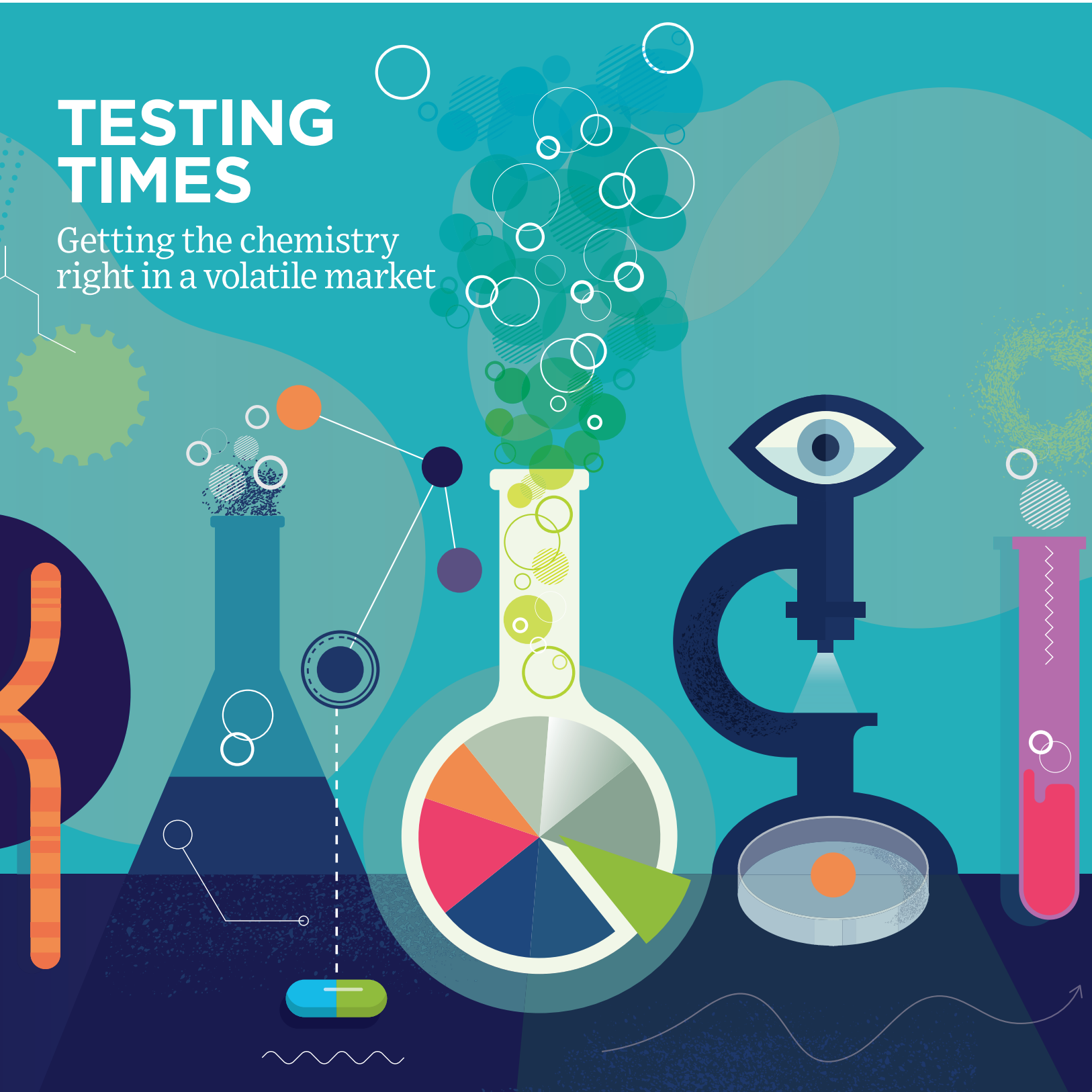
ACT TREASURY EXCELLENCE AS STANDARD

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS

ISSUE 1 2023



TESTING TIMES

Getting the chemistry right in a volatile market

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ACT TREASURY EXCELLENCE AS STANDARD

FOUR SEASONS

There was a distinct feeling of optimism in the room at the recent ACT Treasury Forum, which finally took place after train strikes forced two postponements at the end of last year. In the intervening period, there seemed to be a small shift in the economic outlook, but the key word remained 'uncertainty'. The geopolitical environment is far from stable, inflation may or may not have been contained, energy prices could be falling, and the upward march of interest rates could be drawing to a close. Which is why it still feels we are going through four seasons in every economic day.

How are treasurers faring in this volatile environment? This is the question that Liz Loxton tackles in her in-depth look at volatility (p7): while the previous year may have been exhausting and felt like a rollercoaster at times, treasurers are drawing on their experience of previous crises and crashes to maintain some form of normality in these uncertain times.

However, one certainty is that climate change and the transition to net zero isn't going away any time soon. This was a topic of conversation at the Forum (see p23) but for the first time, the ACT recently held a conference dedicated to ESG. Climate change shared the agenda with social and governance issues, emphasising how much these are now firmly mainstream topics (see p40).

On the people front, we know that recruitment is not an easy process at the moment, but once you have someone on board, what do you need to do to ensure they don't jump ship? Lawrie Holmes spoke to a number of treasury leaders to help provide answers to the talent retention issue, which include making sure your people are exposed to different parts of the business (p16).

You could also take a leaf out of Permjit Singh's book, and suggest they help out with a credit union – he writes engagingly on the social good of these community banks on p28.

I'd also draw your attention to an article from Liz Barclay, the UK's Small Business Commissioner – it is a heartfelt plea to pay your suppliers on time (p22). As she says, while bigger customers may delay payments to make their own books look better temporarily, delaying payment opens up a hornet's nest of knock-on effects. And she warns: "If you don't pay your suppliers fast, they won't be there the next time you need them."

Some of you may have noticed that *The Treasurer* has a new feel – we are now using Forest Stewardship Council-compliant paper. The wrap in which it arrived is compostable, so please use, re-use and recycle accordingly.

Finally, ACT chief executive Caroline Stockmann reflects on her six years at the helm of the association (p50). As Caroline departs, on behalf of everyone at *The Treasurer,* I'd like to add my thanks for all her support and guidance during what has been without doubt a very volatile time, and wish her the very best for the future. Thank you!

Philip Smith

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ACT TREASURY EXCELLENCE AS STANDARD

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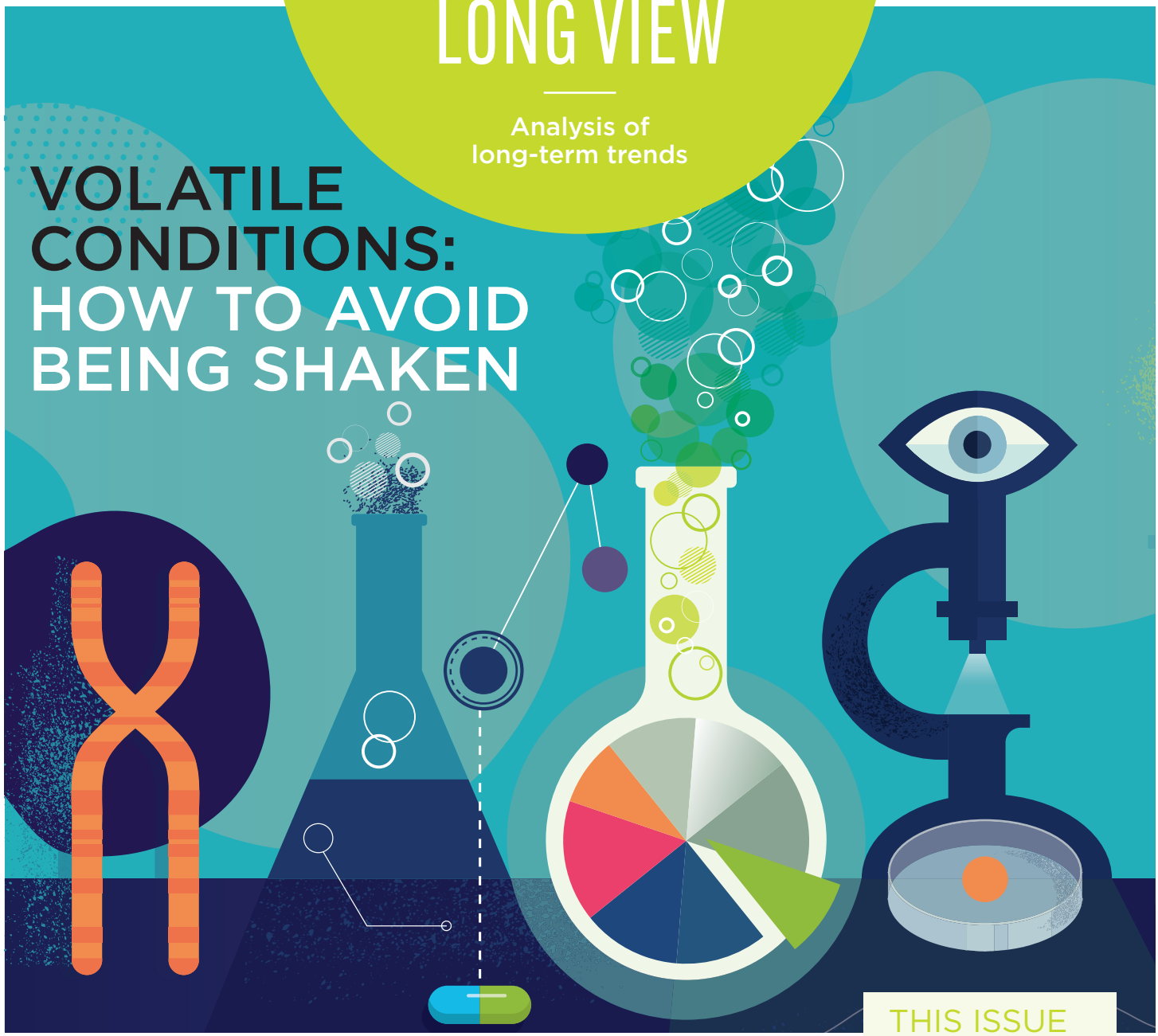
LONG VIEW

Analysis of long-term trends

VOLATILE CONDITIONS: HOW TO AVOID BEING SHAKEN



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Today's difficult and uncertain market conditions have brought fresh but ultimately familiar challenges for treasurers. Liz Loxton reports

With the war in Ukraine, spiralling energy costs, global supply chain bottlenecks, 2022 delivered the biggest inflationary shock for more than 40 years.

Central banks had already begun to increase their interest rates – the Bank of England put its rate up from 0.1% to 0.25% in December 2021 as it could already see inflationary pressures gathering. But it then proceeded to increase its rate throughout 2022, including a 0.75 percentage point increase in November 2022, the largest

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increase since the UK crashed out of the European Exchange Rate Mechanism in September 1992.

In February 2023, the Bank increased its rate to 4%, the highest since October 2008 – a time of falling interest rates and financial crisis. But at the same time, the Bank downgraded its stark warnings of recession – having earlier predicted that the UK economy would enter recession in the fourth quarter of 2022, by February 2023 it was saying that it expected a shorter and shallower recession.

Amid these interest rate headwinds, foreign exchange also saw more volatility in 2022 – in January 2022, the pound was worth up to $1.3712. It then spent most of the year falling, most notably in September when it hit the depths of $1.0697. By February 2023, it had climbed back to $1.23. The euro followed a similar, though not as extreme, pattern against the dollar, dropping from $1.1455 in February 2022 to below parity in August, where it stayed until picking up in November, reaching $1.1013 in February 2023.

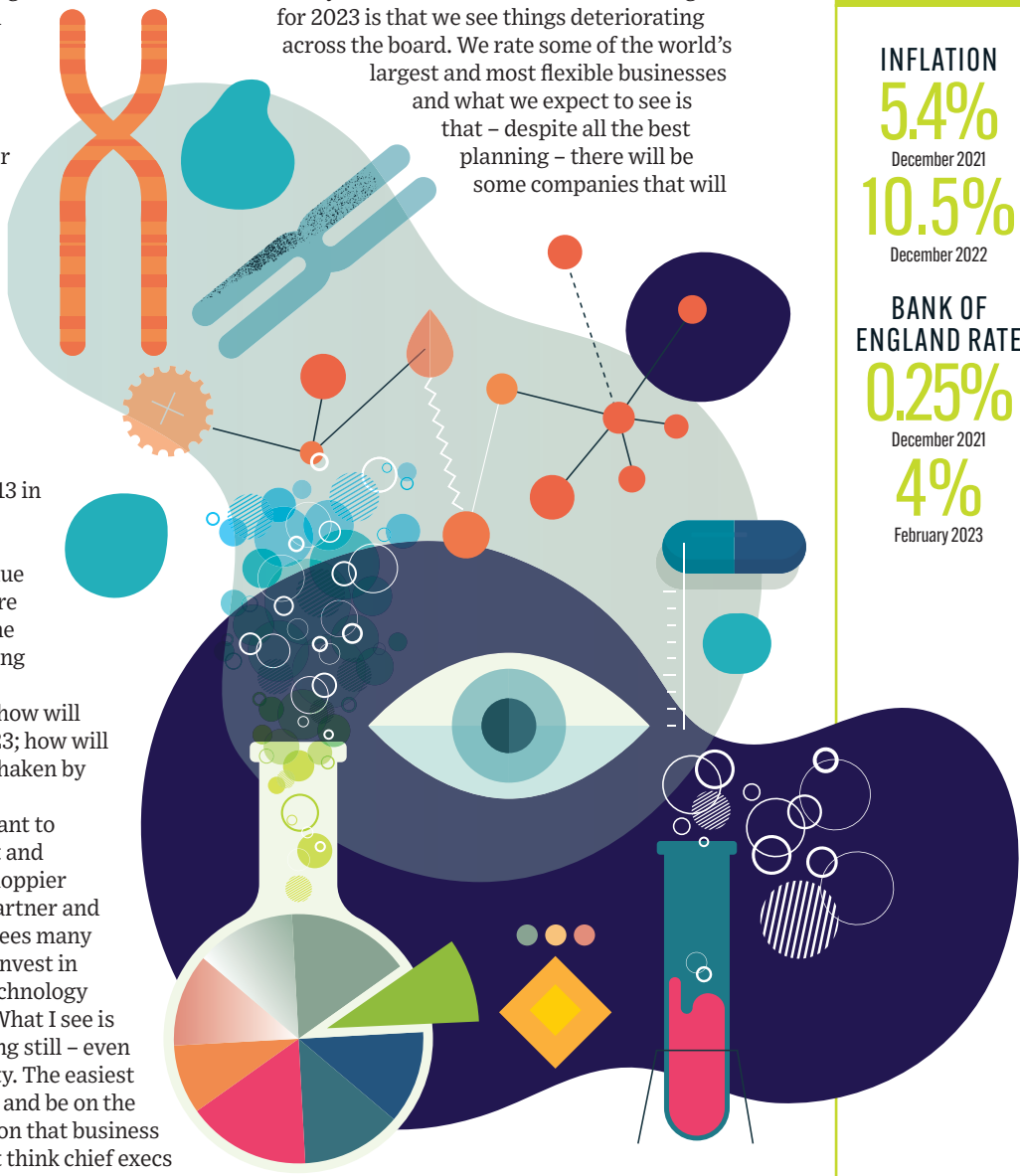
Commentators expect such movements to continue during 2023, although there is a growing view that some economies could be reaching peak inflation.

So the question now is, how will corporates respond in 2023; how will they ensure they are not shaken by this cocktail of volatility?

Many corporates will want to continue their investment and growth path, in spite of choppier waters. Yann Umbricht, partner and head of treasury at PwC, sees many companies continuing to invest in acquisitions and on the technology that underpins growth. "What I see is a lot of companies investing still – even in this world of uncertainty. The easiest option is to stop investing and be on the safe side, on the assumption that business will come back. But I don't think chief execs have that option any more. They have to know the direction of travel and they need information that's going to help them make decisions. The 'stop and go' strategy is less of an option than it once was," he says.

Alex Griffiths, managing director, head of EMEA corporate ratings at Fitch Ratings, says that while conditions for 2023 are undoubtedly challenging for many sectors and industries, that won't necessarily translate into mass downgrades in credit rating terms.

"It's fair to say that the post-COVID honeymoon is over and the overall message for 2023 is that we see things deteriorating across the board. We rate some of the world's largest and most flexible businesses and what we expect to see is that – despite all the best planning – there will be some companies that will



CHANGING RATES

INFLATION

5.4%
December 2021

10.5%
December 2022

BANK OF ENGLAND RATE

0.25%
December 2021

4%
February 2023

end up getting things wrong," he says.

The distinguishing mark of companies that will weather the downturn better, he comments, is forward planning.

"A 2023 downturn has been on the cards for some time, so most companies will have been planning for it. Less forward-thinking ones could be planning for it now. The problems are going to come from that minority of companies that just don't have plans because their situation is so weak."

Outlook for corporates

Current conditions may test the mettle of some newer organisations – those without treasury functions, perhaps. Less so, for those with experienced treasurers, however. "For me, it's a return to normal," says Paul Wilde, treasurer at Shawbrook Bank. "Shawbrook is a domestic bank, so we don't really have FX exposure, but banks, even medium-sized ones like ours, have very big exposures to interest rates. Like most banks, we match all our interest rates assets and liabilities very carefully to limit our net exposure. Where we do have net exposure, we carry out large derivative hedging."

As a domestic bank, Shawbrook Bank gets much of its funding from retail deposits, Wilde says, but accesses debt capital markets for securitisation and Tier 1 and Tier 2 debt. "Those markets have been very difficult, and they've probably impacted the non-bank lending sector even more severely," says Wilde. Treasurers in those companies will be depending on the war chests built up over past years, he suggests.

Even so, interest rates are still some way off their long-run average. Many businesses, especially those that are risk averse, will have hedging policies and procedures that are more than a match for the near to medium-term conditions, says Sarah Boyce, director, policy and technical at the Association of Corporate Treasurers. "A lot of treasurers who have needed to, have seized the opportunities of the past few years. They have hedged themselves out, raised as much debt as they've needed to. They've done as much as they possibly can – because it was never going to last."

Managing risk

Regardless of market sector or geography and the particular risk profile of the business, lessons in risk management are live at the moment, says Wilde. Speed and efficiency in treasury operations must be a priority, he says, along with effective communication with the rest of the business.

> "...THE OVERALL MESSAGE FOR 2023 IS THAT WE SEE THINGS DETERIORATING ACROSS THE BOARD" ALEX GRIFFITHS

Paul Wilde, treasurer, Shawbrook Bank

In easier times, there can be pressure from management to relax policies or guidelines for competitive reasons, he says. Pricing structures are a case in point.

Businesses have to look at their pricing structures and take a measured view of their implications in today's climate. "If you're giving a fixed price to a customer for a certain period up to delivery, if the price of your goods changes – if they go up and you've not priced that in, you suffer a loss. That kind of volatility can really impact businesses," he says.

As treasurers understand full well, there is a triumvirate of risks that will make life harder for some organisations.

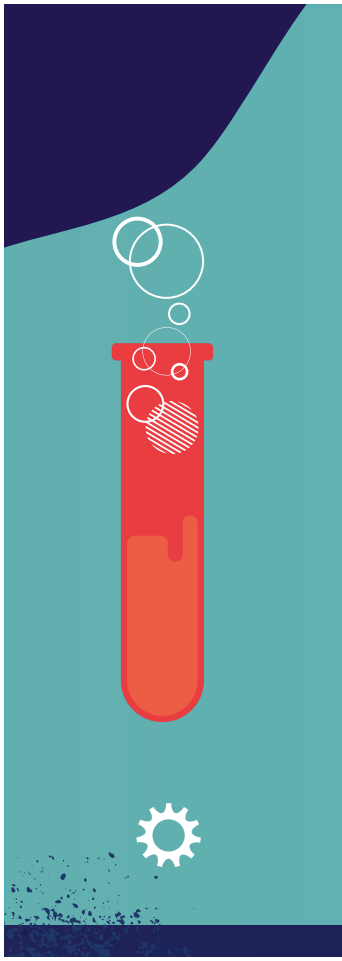
"What you're looking at is a combination of exposure to inflation, consumer focus, plus high leverage and some exposure to floating rates and refinancing," says Griffiths. In particular, highly leveraged companies will be under the microscope, as any further hikes in interest rates impact materially cashflow.

"If you look across the rating spectrum – we look at a lot of leveraged companies. These have typically arisen from leveraged buy-outs and often carry a huge amount of debt. If you are talking about five, six, seven-times cashflow leverage and your effective interest rate goes from, say 4% to 10%, that is a material change in the cashflow.

"This is the sub-group we're really most concerned about – in particular, those entities that have not recovered from the pandemic. Companies in consumer-facing sectors such as restaurants and lodging will face pressures.

"The good news is we think the ratings for those companies already reflect these risks, so we don't expect blanket downgrades. The rating tells the story quite clearly."

Alex Griffiths, head of EMEA ratings, Fitch Ratings



"

IT HAS BEEN A TURBULENT COUPLE OF YEARS FOR GLOBAL SUPPLY CHAIN MANAGEMENT... EXPOSING DEPENDENCE ON A 'SINGLE SOURCE'" KEMI BOLARIN

Bonds and access to capital

The ability to access capital markets will also be a carefully watched area in the months ahead. More than ever, treasurers will need to be in a state of preparedness.

The market for investment grade debt has been relatively stable, Griffiths points out, albeit more expensive. High yield has been highly volatile, however. "I suspect things will gradually improve next year," he says.

"We've seen in the last month or so mild improvements in conditions, and when that happens, we often see companies go to market. Demand is definitely there. Market activity was dampened in 2022 because a lot of the companies that would have refinanced last year had already done so in 2021.

"So, you had a combination of rates getting higher and very few companies actually having to access the market because the maturities got pushed out so much when rates were cheap in 2021.

"If you step right back from it, you start to see maturities and they get really quite substantial in 2024. Typically, companies will start thinking about a refinancing about a year before they have to, which means that in 2023 there is going to be a lot more demand for new debt."

One side of that equation is going to be very different to what it was in 2022. "One of the problems financial markets – bond markets – have had is working out where the peak interest rate is. If you can work out peak inflation, you can start to price things properly. If you simply don't know, it becomes very hard to take a view," says Griffiths.

Investor relations

The volatile situation has increased interaction with investors and backers. "We've done a lot of work with our debt and our securitisation investors," says Wilde. "We've created an investor relations team to reach out to them regularly. With investor relations, you do the work beforehand," he says.

With liquidity and access to capital markets more constrained, both investors and issuers will have to move more swiftly to get deals away. The danger is that investors may have to walk away from deals if they lack time to carry out the necessary due diligence, Boyce suggests. Non-deal roadshows, which were more of a feature prior to the Global Financial Crisis, are increasingly back on the table, she says. "Potential issuers can position themselves and everybody can be lined up and ready to go, so that when the market opens everyone can move very quickly," she says.

Geopolitical risk and sanctions

With recessions a reality for key economies this year, companies will continue to grapple with uncertainty, scanning the horizon for changes in outlook. Kemi Bolarin, head of treasury for Europe at contract logistics giant GXO, is keeping geopolitical risk firmly in her sights. Where and how the company operates, the reality of complying with international sanctions and the need to consider client businesses as well as their own

GLOBAL OUTLOOK

Overall, the picture might not be as limiting as it first appears. JP Morgan expects sluggish growth of around 1.6% in 2023 for the global economy, as financial conditions tighten. But as Deloitte chief economist Ian Stewart points out in a recent economic bulletin from the firm, pockets of growth persist. "The IMF's widely reported forecast that one-third of the world economy will fall into recession in 2023 could more optimistically be expressed as meaning that two-thirds of the world economy will avoid recession. The reality is that the global economy will continue to grow this year, albeit at a slower pace than in 2022."

personnel makes for a delicate and complex monitoring task.

As a logistics company, GXO works with a vast range of customers and partners that also have these risks front of mind.

"It has been a turbulent couple for years for global supply chain management where the COVID-19 pandemic and the Russia-Ukraine war delivered disruption to supply chains and exposed global dependence on a 'single source'. The silver lining here is the emerging theme of near-shoring and moves towards reducing reliance on foreign imported materials and the shortening or near-shoring of supply chains to mitigate risk from future disruptions," she says.

Recession in Europe is an inevitability, whatever the views on its duration or severity relative to other parts of the world. "It presents itself for us as increased costs. Interest rates are going up. We have corporate debts that we are managing, so that manifests in increased costs that go to the bottom line," says Bolarin. "We have always run a conservative hedging portfolio, hedging interest rate risk, so interest rates are actually core for us."

Increasing communication

Communication with banks likewise has an increasingly frequent place in Bolarin's working week. Not only do they offer market intelligence and insight into geopolitical headwinds and their fall-out, but banks are becoming instrumental in speaking to the specifics of the business. They are offering advice about conditions and indicators globally, as well as looking at GXO balance sheets to identify where efficiencies can be gained, such as replacing revolving facilities with supply chain or lease finance. "Our expectation is that our banks will continue to offer us strategic advisory services that are tailored to GXO specifically," she says.

Kemi Bolarin, European head of treasury, GXO

For all the challenges, Bolarin sees 2023 as a renewed opportunity for the prepared treasurer to shine. "While we talk about geopolitical risks and economic risks, I still see this time as bright and exciting for treasury. It's a once-in-a-lifetime opportunity and one that anyone who is in a constant state of preparedness will be ready for."

Liz Loxton is a freelance business writer and former editor of *The Treasurer*

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ARE YOU IN SCOPE FOR GREENHOUSE GAS REPORTING?

Finance providers need to understand their value chain's impact on carbon emissions, which, in turn, will force corporates to disclose Scope 3 data. Gavin Hinks reports

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In the fight against climate change the core issue is greenhouse gas (GHG) emissions. But for corporates trying to force emissions down, the most complex issue may be addressing indirect emissions in supply chains, otherwise known as Scope 3 emissions.

Corporates are under pressure even now to reveal the value chain emissions for which they're responsible. And they are not alone: Scope 3 GHGs are set to play an important role in the future work of credit providers and investors who will need to disclose the emissions they finance through investments or loans.

According to Ioannis Ioannou, a professor at London Business School and an expert in sustainable business, the issue of Scope 3 emissions and how they affect the relationship between credit providers and their clients is only going to grow in significance.

"It's a huge issue, and it's an issue that will increasingly be on the agenda." He adds: "There is no way to underestimate the importance of Scope 3 emissions because they are such a huge chunk of the carbon emissions problem."

Scope 3 emissions are indeed a looming issue. They include emissions attributable to an organisation in their supply chain, including those produced in the production of purchased goods and services, business travel, transportation and distribution, and waste.

Putting the data together will not be easy. As Ioannou says, the complexity cannot be "understated". But it is inevitable. And that will place key individuals on the front line, according to Pietro Rocco, a senior manager and expert in green finance at the Carbon Trust. "A corporate treasurer and the finance function in general will need to take emissions very seriously."

Significant volume

Though largely invisible to upstream value chain members, Scope 3 can potentially account for a significant volume of the emissions attributable to an organisation. According to the Carbon Disclosure Project (CDP), Scope 3 emissions make up just under 30% of total emissions in the steel and transport industries, and about half of all emissions produced by electricity utilities. In the cement industry, often viewed as a high emitter, Scope 3 may be less than 20%. But when ›

"A CORPORATE TREASURER AND THE FINANCE FUNCTION IN GENERAL WILL NEED TO TAKE EMISSIONS VERY SERIOUSLY"

it comes to financial services, Scope 3 can be almost the entirety – an estimated 99.8% – of a firm's GHG production.

Rule-makers have noted the importance of Scope 3. The Task Force on Climate-related Financial Disclosures (TCFD) "strongly encourages" Scope 3 disclosures, with Premium-listed firms, including financial services, mandatorily using TCFD for the first time in 2022.

Last year also saw the International Sustainability Standards Board (ISSB) agree at its Montreal meeting that disclosure of Scope 3 emissions would be mandatory if using its reporting scheme. UK Prime Minister Rishi Sunak, when Chancellor of the Exchequer, pledged that the UK would adopt ISSB standards when they have been approved.

Elsewhere, financial institutions that joined the Glasgow Financial Alliance for Net Zero – established at COP26, and now with more than 550 members following COP27 – must come to terms with guidance issued in November 2022 that deals in large part with Scope 3 originating in client and portfolio companies.

Positive influence

The sheer proportionate scale of Scope 3 emissions for financial services firms makes them a critical factor in the contact between credit providers and their clients. If finance firms have to disclose their Scope 3 emissions, they have to collect data from corporates. Doing so places credit providers on the leading edge of corporate efforts to tackle GHGs.

Many have made commitments to work towards net zero by 2050 and must now deliver, even though it remains early days.

"Scope 3 emissions of credit providers are important from a global perspective," says Ian Bhullar, sustainability lead for UK Finance, the trade association for banks and financial services. "Financiers have the ability to positively influence a wide variety of existing and potential clients."

And that would inevitably change the relationship between financial institutions and their clients.

Broadly speaking, credit providers will be managing two issues: on the one hand, they face disclosure requirements; on the other, judging creditworthiness is now no longer a question of financials but also the climate change risk. Rocco says: "The pressure that the banks are facing in terms of reporting will inevitably have to pass through [to clients]."

According to Howard Shih, a research associate with the Science Based Targets initiative (SBTi) – a not-for-profit organisation consulting with companies on how to set and meet science-based climate change goals – credit providers will not only collect data but will engage with clients on how their emissions can be reduced. "In order to achieve these goals, financial institutions must reduce emissions associated with their Scope 3 investments

and lending activities, which account for the vast majority of emissions from the finance industry," he says.

Need for data

Financial services firms have two options when it comes to reducing Scope 3 emissions: either cut ties with a high-emitting client, or work with them to reduce their volumes.

Both will require data. For most financial institutions it is still early in the process of reporting emissions and setting targets, which means they will have to use estimates, as noted by the Financial Services Authority in its review of TCFD reporting last year. As Shih notes, these calculated guesses "may not provide a complete picture". As time passes and institutions demand better information, emissions data gathering is expected to improve.

However, picking a methodology for an emissions target could make for subtle, but significant, differences in the demands made on client companies.

Shih notes that institutions that choose the so-called 'portfolio coverage' method can set an emissions target without data but must engage with clients to ensure they set their own science-based targets.

Using a 'temperature rating' method means collecting organisation-level data from client companies, upping the pressure on corporates to do their homework.

Greenium reduces costs

The extent to which a Scope 3 discussion could change the relationship between credit provider and client remains unclear. Talks are, after all, still in their infancy. Ioannou says credit providers will want to know that clients have a "plan in place to reduce emissions". Rocco says there is evidence of a 'greenium' – cheaper costs of borrowing associated with some green products, though this may be caused by factors other than low emission volumes. Still more observers believe credit providers are split on how they might adjust the cost of, or access to, credit depending on client emissions. Some institutions have, however, shown a willingness to take drastic steps. Both HSBC and Société Générale have said they will no longer finance new coal-fired power and coal mining.

What observers also expect is new thinking. Already, institutions have moved from 'ring fencing' the use of finance to green projects, to tieing loans to KPIs and targets. "There's plenty more scope for innovation," says Rocco.

SCOPE 1, 2 AND 3 EMISSIONS: WHAT TREASURERS NEED TO KNOW

Scope 1, 2 and 3 is a way of categorising the different kinds of carbon emissions a company creates in its own operations, and in its wider value chain.

The term first appeared in the Green House Gas Protocol of 2001 and today, Scopes are the basis for mandatory GHG reporting in the UK.

If you're hearing about Scope 1, 2 and 3 emissions for the first time, it's unlikely to be the last. Think of it in terms of three categories of emissions:

Scope 1 emissions cover the GHG emissions that a company makes directly – for example while running its boilers and vehicles.

Scope 2 emissions are those it makes indirectly – such as when the electricity or energy it buys for heating and cooling buildings is being produced on its behalf.

Scope 3 emissions cover the emissions not directly associated with the company itself, but those it is indirectly responsible for up and down its value chain. For example, from buying products from suppliers, and from its products when customers use them. Emissions-wise, Scope 3 is nearly always the big one.

Source: Deloitte

What corporates can expect is growing demand for emissions information.

"There is an expectation," says Bhullar, "that if regulators require clear reporting by financial services firms they are going to pass that requirement to the firms in their value chain. So, everybody will find themselves exposed to requests for better data and potentially expectations to manage their emissions in line with the financial services firms' climate goals."

Bhullar is not the only observer to raise a flag. In a review last year, the FCA recognised the difficulty of managing Scope 3 GHGs, expressed slight disappointment with reporting but also gave fair warning that it will in time move to ISSB standards where disclosing value chain emissions is compulsory.

Gavin Hinks is a freelance business journalist

PAYING ATTENTION TO RETENTION

Strategies for keeping your best staff can take many forms and are not just about the money, say experts

In recent years, employers have come under growing pressure to retain staff as the motivations for walking out the door have increased. A combination of factors – such as an increasingly competitive marketplace, a change of values exacerbated by the COVID-19 pandemic, and increasing career expectations – have all combined to raise that pressure.

A December 2022 report by management consultancy McKinsey said: "Motivators to stay in the job include flexibility, meaningful work, and supportive co-workers – factors that have grown in importance for Europeans during the pandemic."

In treasury, there are plenty of elements determining whether staff stay or leave. François Holzman, partner and treasury and commodities leader at EY, says the firm has identified numerous factors that can help talent retention, as well as what can happen if those factors aren't present.

Focusing on organisation and people when assessing triggers in its Target Operating Model for Treasury, EY found that training programmes, career opportunities, international exposure and innovation were all motivators for staying in an organisation. Smart working solutions – preferably the more flexible, the more differentiating and the more attractive – were also a factor.

More broadly, EY identified diversity, equity and inclusion, corporate social responsibility actions, work and personal life balance, access to C-Suite and decision-makers, and brand quality, as important factors for retention, says Holzman.

Not just money

Such a broad set of considerations clearly demonstrates that retaining treasury talent is about so much more than money. Alexander Ilkun, a consultant in treasury technology and risk management, who worked in treasury roles at GE and Moody's Corporation, says that reasons for staying could be cultural or personal as much as financial, although he believes financial incentives still play an important role.

"In all cases I can think of, people didn't just move for money," Ilkun says. "While it may have been an important consideration, there were other things the new jobs were offering in terms of career advancement or personal growth – as, longer term, it's non-financial aspects that will be more impactful to one's career. Money will follow.

"They moved to learn even more, while pursuing their career goals and keeping their own interests at heart. As a manager, I feel it's important to express genuine interest in what people want from their careers – to look for opportunities to give them what they want to grow professionally and not hold back on

iStock / Eoneren

knowledge sharing, supporting them in whatever choices they make, even if it means they leave."

He continues: "If people stay, they stay because they feel they can get more out of the job or the company. They stay because they feel their manager provides them with the support necessary to thrive and shine. They stay not because you desperately want to keep them, no matter what. If, or when, people leave, they leave because you, hopefully, helped them to grow and develop and move towards achieving their potential. It's a cause for celebrating their achievement, even if it means embarking on another search."

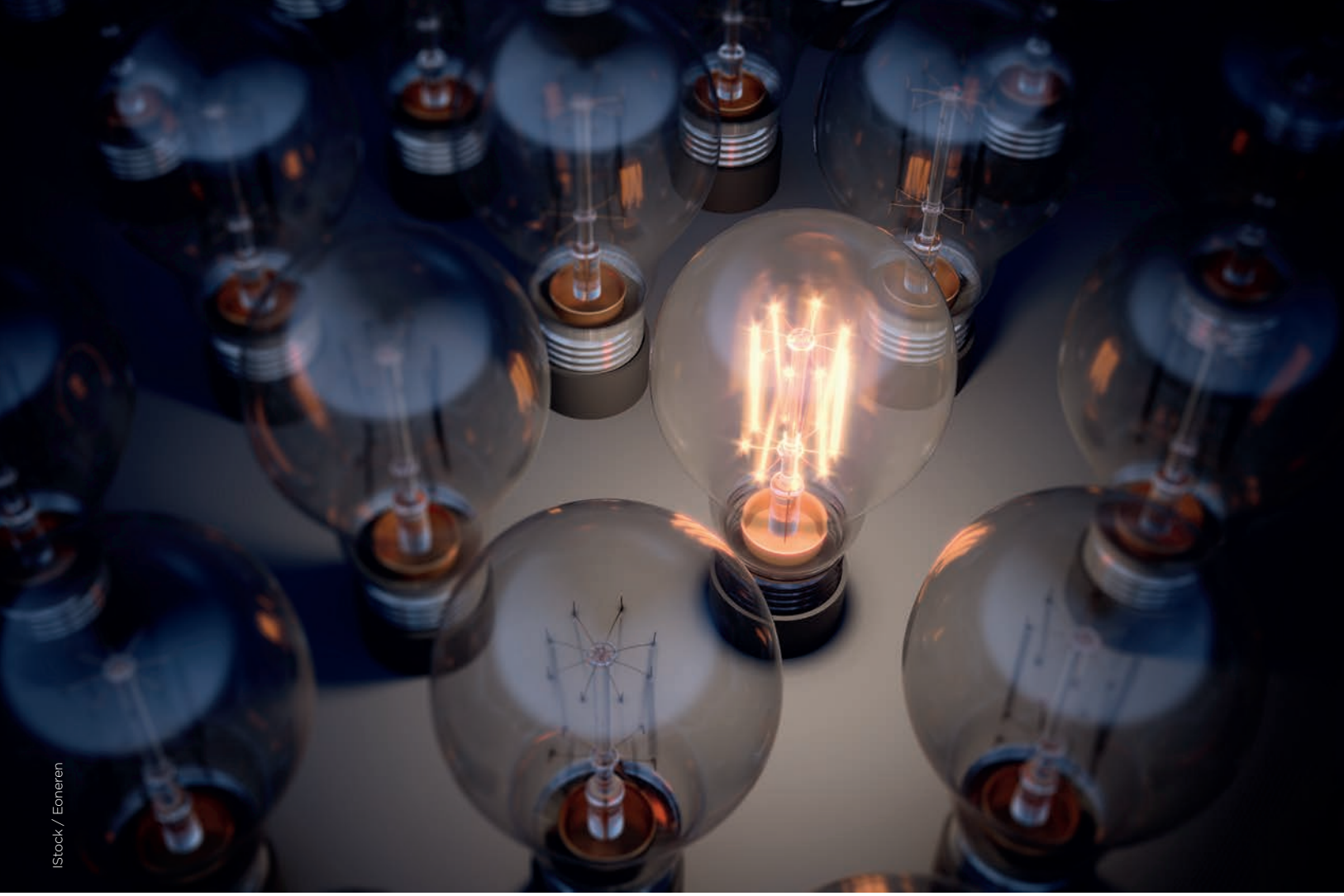
All-round skills

Colin Evans, director of treasury consultancy firm Elite Treasury Services, which works with corporates and private equity firms, says that non-financial factors alongside a competitive financial package can be a winning combination for attracting talent.

Having worked in senior roles in several treasury functions, Evans' own experience is that there are people willing to move for broadly similar packages if the breadth of work on offer or overall seniority of a role is more attractive, and will help build the individual's CV and earnings power in the medium term. ›

"

I FEEL IT'S IMPORTANT TO EXPRESS GENUINE INTEREST IN WHAT PEOPLE WANT FROM THEIR CAREERS – TO LOOK FOR OPPORTUNITIES TO GIVE THEM WHAT THEY WANT TO GROW PROFESSIONALLY"



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"If you've got good people, and you don't want to lose them, then offering interesting treasury functions, such as those that overlap with many other areas of business, are more likely to attract and keep them. This could be having an influence in areas such as accounts payable, accounts receivable, accounting, and sometimes even in commercial areas, as well as banking and finance," says Evans.

The problem is that organisations often don't recognise the value that treasury functions and individual members of the treasury team bring to the business, he adds.

"I think leadership in some corporates equate treasury staff with accountancy people of similar experience and qualifications. Whereas accountancy can be very mechanical, structured and task-orientated, the nature of treasury work attracts people who want to become more independent and, ultimately, help lead decision-making in the business," says Evans, who worked in financial services firms including HSBC, NatWest and London Scottish Bank.

He feels that treasury leaders should recognise that, often, what attracts staff to the treasury function, as opposed to other areas of finance, is the opportunity to build a skill set for leaping forward, career-wise, with an unconventional CV.

"If someone from an accountancy background were to follow the vertical route through the accountancy profession, they'd find there are thousands of people like them, so it's really competitive and hard to stand out," says Evans. "However, in treasury, you will learn a wide range of new skills and can take on a lot more responsibility; you are not just churning out task-orientated deliverables in a large finance function.

"In treasury, you're presented with everyday, real-life challenges around managing the business and you're much closer to having a commercial impact on the business than may be the case in a traditional finance role. Therefore, you can attract and keep staff for a while if the work is stimulating and they are learning new skills."

"YOU CAN ATTRACT AND KEEP STAFF FOR A WHILE IF THE WORK IS STIMULATING AND THEY ARE LEARNING NEW SKILLS"

New challenges

Ultimately, talented people will get bored "for the same reason they joined your department or accepted a role in your treasury function", says Evans, "as those individuals tend to be hungry; they need to be fed new skills and experience new challenges; they want to be enriched, given responsibility and promoted. The treasury function can certainly offer all of those."

Evans believes treasury functions are being taken much more seriously since the pandemic, when they proved their worth guiding organisations through often extreme uncertainty. This has translated into greater recognition of the value creation that treasury can bring, through greater understanding of its role in areas such as maintaining working capital and more proactive cash management.

When it comes to keeping strong performers, however, treasurers may be limited by their ability to gain greater resources or to support staff retention.

"A treasurer might be brilliant at articulating financing or working capital strategy to the board, or how to manage their banking relationships. But they may struggle to make the argument to the CFO, or other members of the board, that you need to either maintain or strengthen the team that's going to deliver those goals or risk failure, as, quite often, non-treasury decision-makers still undervalue the function and think they can do it on the cheap," says Evans.

He says the treasurer may be faced with budget holders "who quite often think that there's a conveyor belt of treasury individuals, so, if one leaves, you slot another one in and they just keep doing the same thing as before". "That's just not true."

Blueprint for success

EY's Holzman says it's possible to devise a plan to retain the strongest performers in treasury, especially when there is wider buy-in from across an organisation.

An example, he adds, might be when there are projects that affect the treasury department, where the CFO and treasurer can ask staff to reduce their routine work to participate more actively in key projects.

"They can delegate their day-to-day work to consultants and temp workers. It is a way to value their contribution to building a better department," Holzman says.

He recommends that treasurers develop new ways of working in their department through approaches such as the Agile method, Kotter framework [of change management], and collaborative brainstorming techniques, and by organising work in the form of a 'project factory'.

He also suggests moving staff away from repetitive tasks by offshoring or outsourcing those jobs, which will help them focus more on understanding and driving treasury activities.

While traditional skills – such as cash management, cashflow forecasting and risk management – are still particularly needed, various other proficiencies are now expected, says Holzman: "Treasury teams must showcase skills such as data science and behavioural science – notably for cashflow forecasting – to easily turn data into fresh perspectives and insights for the business.

"Volatility of markets, and especially commodity markets, raises the need for risk-modelling experiences within the treasury community. Those new skills can be recruited or would need specific training in a department, which helps retention.

"Based on this, finance leaders agree that they will increasingly need to recruit finance executives with technology and data-science skills and experience in the future."

Ultimately, Holzman adds, treasurers should seek to make treasury a landmark brand. "That means creating the capacity to transform the way treasury is viewed in the company by transforming it from a cost centre or support function to a business partner," he says.

Lawrie Holmes is a freelance business writer

'ONE-THIRD EXPECT TO QUIT SOON'

The McKinsey analysis, which included a survey of more than 16,000 respondents in nine European countries, shows that one-third of respondents expect to quit their jobs in the next three to six months.

While that slice of the workforce is lower than the 40% in the firm's global survey from April, it is a remarkably high churn rate for Europe, where labour protections and cultural factors — not to mention a likely economic slowdown — tend to favour remaining in a job.

Companies that believe attrition is a problem limited to the US should understand that one in three of their workers may quit over the near term.

The top three reasons Europeans give for leaving their jobs are: inadequate compensation; lack of career development and advancement; and uncaring and uninspiring leaders.

Read the report at mck.co/3HqJsgL

LESSONS FROM THE CRYPTO COLLAPSE

While debate rages over whether cryptocurrencies are Ponzi schemes or a legitimate means of exchange, surplus liquidity could still drive up returns

Cryptocurrency markets have suffered through several well-publicised debacles, most recently, the spectacular downfall of their golden goose, the FTX cryptocurrency exchange. Consequently, the market capitalisation of cryptocurrencies has fallen from almost $3tn in late 2021 to less than $1tn now.

As dramatic as these changes seem, little has changed in terms of the structure of the crypto market. Consolidation among the smaller coins and exchanges is ongoing, but the market shares of the biggest three – Bitcoin, Ethereum, and Tether – are almost unchanged.

The crypto market is still plagued by the accusation that it is a supersized Ponzi scheme – as long as it remains hard to define an economic case for the existence of cryptocurrencies it will be a challenge to defend a price level for any of them. Still, despite the size and scale of the crypto scandals, the overarching impression is how little seems to have changed. This may have implications for other financial sectors.

When compared with traditional financial markets, the demise of crypto is not that unusual. Fixed-income categories also took a heavy beating, as did the tech sector. True, the valuations of the largest cryptocurrencies seem rich for an asset whose real economic use is yet to be established, but their poor performance this year is not that uncommon.

> "IT IS RISK PERCEPTIONS THAT HAVE BROUGHT PRICES DOWN RATHER THAN THE LACK OF LIQUIDITY"

Case to answer

The use case for cryptocurrencies – from providing an alternative to expensive and entrenched traditional finance to enabling anonymity and an escape from government-held monopolies – seems feebler after the many scandals and frauds that have plagued the sector. The idea that cryptocurrencies are an inflation hedge, which is supposed to work thanks to crypto's limited supply, took an especially hard beating. It turns out that not only do cryptos not hedge against inflation, but they act as a typical risk asset, so are extremely cyclical – the demise of the sector has been very similar to the wider tech sector pullback.

It is perhaps worth pointing out that the economics use case for cryptocurrencies is not to be confused with the use of blockchain technology. Solving an important economic problem – that of trust between contractual counterparties – blockchain is probably here to stay, especially after improvements in its appalling energy inefficiencies.

It's true that commercial blockchain technology applications have also experienced several significant drawbacks lately. But this seems more a part of a wider tech downcycle, which blockchain is likely to survive – especially as computing power gets cheaper still.

Regulation and policy

Feeble economic use case notwithstanding, where cryptocurrencies will go from here, in terms of price and trade, will probably be determined by regulation. Without an outright ban on holding and trading in cryptocurrencies – such as that enacted in China – the industry is likely to survive and share the destiny of the wider risk-asset class.

You could argue that the industry itself (at least the fact that it managed to grow to the extent that it has) is a consequence of policy decisions –

primarily monetary, but also fiscal – that enabled global liquidity to balloon. From this perspective, excessive liquidity looks a probable driver of both the crypto and wider risk-assets upsurge and a probable determining factor of where the prices will go next.

Looking at global liquidity today, it might be a surprise to some that, even though central banks are now well on their way to tightening monetary policy (through hiking interest rates and shrinking balance sheets), they haven't got too far in withdrawing excess liquidity from the system. Rising interest rates surely work even in the world of excess liquidity – there's no reason for an investor to brave a risky asset investment if a riskless option is producing 4% returns.

For this reason, a lot of liquidity – or if you will, cash – that the post-pandemic recovery policies created is now sitting idle. This fact is masked if you only consider metrics such as the credit impulse or global money creation, as captured by the change in M2, a metric related to money supply.

There's nothing wrong with these measures – they are intended to gauge trends in the availability of credit and money, and they do just that. However, in times of great change, or structural breaks as we call them in econometrics, these movements can be deceiving.

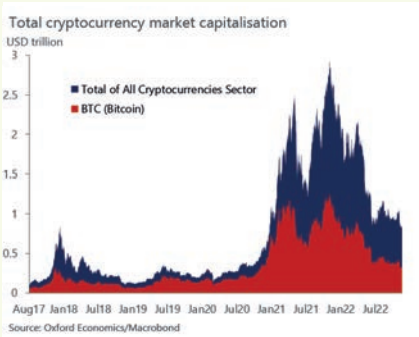
Dormant cash

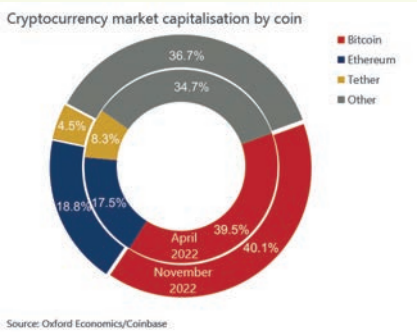
The post-pandemic world is just emerging from a very large monetary structural break. In that sense, yes, both credit and money are pulling back, and an activity slowdown is thus inevitable. That does not mean, however, that money is scarce – it is not. It is still extremely abundant and lying dormant. A metric of US broad money supply is still 16% higher in real terms than just before the onset of the pandemic crisis.

It is this abundance that has enabled record valuations for cryptocurrencies in the past two years, and it is risk perceptions that have brought prices down rather than the lack of liquidity.

Still, prices for assets, be they equity, real estate, or cryptocurrencies, will depend on more than just money stocks – not least productivity, regulation (especially taxation) and uncertainty. But other things being equal, money stocks will play a role. If we assume that there will be no major changes in productivity, regulation and uncertainty from the pre-pandemic era (say, 2019) to the world that we will be facing once inflation is back under control and policy rates reach their terminal stages, we will still be living in a world with a 15% bigger stock of money that has to find an outlet in asset valuations.

THE STORY OF CRYPTO IN FOUR CHARTS





Whether it will be crypto, some old or new tech, broader indices, or even meme stocks that benefit is another matter. The big lesson from crypto might well be that it is monetary profligacy that has enabled stratospheric valuations, and while it may have subsided, it has never truly gone away.

This may be the reason that crypto endures and it might also be the reason that we will see other recoveries in financial markets before news on the real economy is signalling the all-clear. For crypto, at least, the impact on the real economy will remain negligible.

As much as cryptocurrencies resemble alternative risk assets, they never did (nor probably ever will) support real economy activity the way that stocks and fixed income do. They will probably, therefore, remain of less systematic risk importance – but as global liquidity remains excessive, there may still be room for future upswings in risk assets and crypto alike.

Though the real economy is likely to worsen before it gets better, excess liquidity is still sloshing around, so the crypto story – and, perhaps, broader rich valuations – may yet swing around.

Tamara Basic Vasiljev is a senior economist at Oxford Economics

2023: THE YEAR OF BETTER PAYMENT PRACTICES?

Small suppliers rely on fast payments, so pay them before they disappear, urges the Small Business Commissioner

As the economic climate worsens, some bigger firms seem to have made a resolution, or used an excuse perhaps, to pay more slowly. We've seen examples of firms that previously paid their small suppliers in 30 days unilaterally changing payment terms across the board to 60 or even 90 days.

While bigger customers may delay payments to make the books look better temporarily, delaying opens up a hornet's nest of knock-on impacts.

Smaller suppliers are facing gaps in their forecasted cashflow. They're struggling to fill those gaps as credit tightens. The full range of finance options isn't usually open to them. It's often cheaper to use any available overdraft facility or max out the personal and business credit cards anyway.

Bills are going unpaid. For many there's been nothing with which to pay themselves a salary. Fears and mental health problems are building. The cost-of-living crisis that reduced spending over the holidays (on which lots depend to survive for the rest of the year) is bringing many small businesses to their knees; some 50 shops a week are already closing. Across the sectors, vacancy numbers are falling, investment is on hold and redundancy notices will follow.

If you don't pay your suppliers quickly, they won't be there the next time you need them. It's costly to find new ones and risky, too. They may not deliver, and you could lose your customers to your competition. Working in partnership with suppliers to get them and you through this cost-of-doing-business crisis will be a smart move.

> "IF YOU DON'T PAY YOUR SUPPLIERS QUICKLY, THEY WON'T BE THERE THE NEXT TIME YOU NEED THEM"

LEADERSHIP

The good news is that this particular penny is beginning to drop. Many bigger firms are spending huge amounts getting to know their suppliers, on stewardship and on updating payment practices. Boards are approving spend on new procurement and payment systems, and approval systems are being overhauled. It can take time and money to update processes to pay invoices quicker and improving payment behaviour is a leadership issue.

It's more important now than ever to get money to smaller firms faster. They depend on income to pay wages and bills. They need certainty as to when the money will arrive in their bank account. Without that certainty there's no investment in digital transformation, equipment, or additional people. For bigger customers, the benefits of paying quicker are less tangible but just as important: an enhanced reputation as a good payer; investors interested in ethical businesses; and good people wanting to work with you.

If you make your payment commitments public by signing up to the Prompt Payment Code, or you're a large enough firm to log your payment performance via the reporting scheme to the Department for Business, Energy and Industrial Strategy, potential suppliers can choose to work with you rather than a slower-paying competitor.

Boards, non-executive directors and chairs should ask: how well do we treat our suppliers? Payment practices are a governance issue, not just an operational issue, for all the reasons already discussed. They are also a social issue.

Good firms pay quickly, and small suppliers, rooted firmly in their communities, provide jobs, donate to local ventures, understand the demographics and ethnic makeup and, therefore, the needs of local people. They do the levelling up. They need your support to achieve that. Without your payments coming in quickly they won't reach net zero and if the UK's 5.6 million small businesses don't get there, the UK won't reach its targets. That makes payment practices an ESG measure.

Recovery and success depend on your resolution to pay fast and fair. #PayDontDelay #EveryoneBenefits

Liz Barclay is the Small Business Commissioner

HSBC's global economist James Pomeroy at the ACT's Treasury Forum

Treasury Forum: glimmer of optimism found in uncertain times

Economic uncertainty, geopolitical instability, climate transition and a variety of practical topics were all covered during the ACT's first in-person Treasury Forum since 2019 – in alliance with HSBC

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In January, 172 members of the treasury community gathered at the Grosvenor House Hotel in central London to discuss many of the pressing issues they currently face. And they will have taken away a sense of optimism that, while the economic and geopolitical outlook remained uncertain, there were signs that the future may not be as volatile as the past year. As the event's chair, group treasurer of Grosvenor Group Ian Chisholm said, there was "a degree of optimism in the room".

James Pomeroy, HSBC's global economist, told the audience of experienced treasurers: "The economic outlook is dark, it is uncertain, but there is a glimmer of optimism." Uncertainty was Pomeroy's watch word – growth is uncertain, inflation is uncertain and therefore it is very uncertain what central banks will do to combat inflation. "The economy has kept turning despite all these challenges, though the big question in 2023 will be whether this will continue."

He welcomed the quicker-than-expected reopening of China, which would go some way towards fixing broken supply chains, though a question was raised over whether this could stoke commodity prices.

In a discussion on the geopolitical outlook for 2023, the audience heard how, although Prime Minister Rishi Sunak had at the time only been in the job for 85 days, there had been a restoration of market confidence in the UK government – the ship had been stabilised. However, it was acknowledged that underneath this veneer of calm, a great deal of uncertainty remained, with the impact of public sector strikes and a cost-of-living crisis still taking their toll.

Net zero

Throughout the day, there were reminders of how climate change was affecting the day-to-day work of treasurers. Speakers urged their treasury colleagues to engage with their organisations so they could understand their climate strategy, and how treasury can play its part.

"The economy has kept turning despite all these challenges, though the big question in 2023 will be whether this will continue"

The forum heard from Viktoria Hadarits, assistant treasurer at Lightsource bp, who outlined her organisation's journey towards net zero. She described how, when she joined the team, she made a point of understanding the company's net-zero journey. "It is very important for the treasury team to be aware of the goals and objectives of the company so that… having people with a sustainability mindset within the treasury team will help embed those [sustainability] processes much faster within our function."

Tatiana Slepova, HSBC's sustainability lead for Europe, told the forum audience that companies could expect more sustainability related questions from their banks regarding their transition strategy, and potentially about a company's KPIs in this area. But banks can also help their clients on their transition to net zero.

The forum also offered an opportunity to discuss practical issues such as credit risk, export finance, supply chain disruption and the future of treasury, including the metaverse.

Credit risk

The credit risk session covered credit conditions and the importance of credit analysis during a recession. It considered what a recession might look like, how it may differ from previous recessions, and what effect this may have for treasurers. Participants noted how rapidly market conditions were changing – the conversation could have been different as recently as November. There was the view that out of the US, EU and UK, it would be the latter that was most likely to enter into recession as it had the strongest headwinds, but that this recession was unlikely to look very like any previous one.

Participants in the session believed that staying on top of credit risk analysis was very important – for corporates, this included the need to understand the quality of their counterparties and their indirect exposure to changing market conditions.

Discussing the road to net zero

It was noted that different sectors faced different challenges, which could affect investment decisions, as well as the importance of an up-to-date and appropriate risk management policy that was actively monitored.

Rising rates

Inflation and rising interest rates were the subject of another breakout session. Most participants felt that inflation had been on the treasurer's radar screen since the pandemic but had become of heightened interest to their CEOs and boards since the Russian invasion of Ukraine in February 2022.

A number of those present had conducted timely reviews of their treasury policies or funding requirements and so had not been caught out by the speed of the rate increases, though representatives of HSBC observed that there were also many who were unprepared. Treasurers were taking a number of different actions to protect their businesses against higher inflation. These included analysing supply chains to understand flexibility and costs, and switching suppliers if required.

Treasurers also noted the move from 'just in time' to 'just in case' inventory management. Some were looking at direct inflation hedging or inflation-linked assets, while others were reviewing secondary impacts, such as whether operations and systems needed to be updated in areas including payment size approvals, bank limits and transaction limits. Key takeaways included the need for better connections between treasuries and their organisations, the power of good data, the importance of reviewing policies and increasing their flexibility, and that higher rates could affect banking and investor relationships.

Supply chains

In a session dedicated to supply chain disruption, key points included how businesses often fail as they have not managed their working capital as well as they could have done while not being aware of the financial security of key suppliers and customers. In addition, communications within a business and across supply chains are often inadequate – leading to cashflow problems.

Treasurers noted the benefits of getting close to key suppliers – especially those in the Far East, the increasing importance of ESG and understanding the risks across the supply chain in a number of different areas including reputational and social considerations. It was also felt there was a need to educate C-suite and board members about the benefits of supply chain financing.

However, it was also felt that businesses had become accustomed to some of the earlier disruptions and had workarounds or permanent solutions in place and also that the environment had become more 'normal'.

It was felt that organisations needed to make conscious decisions about the balance between supply security and efficiency, and this needed to be communicated across the organisation. Failure to do so could lead to unnecessary working capital strains and impact relationships with suppliers and customers. It was noted that there was a wide range of financial products available, including many new hybrid supply chain financing structures, so treasurers were urged to engage with their bankers, which would also have access to good practice ideas and technology solutions. Success could result in more secure value chains.

In a separate discussion group, it was observed that companies were accessing government-supported working capital facilities as an attractive alternative to traditional debt products.

Future of treasury

New treasury models, financial industry developments, innovative technology and digitisation will all have a bearing on the future direction of treasury. But the key to understanding this future will be through understanding where the business is going. Treasurers at the forum were therefore urged to get involved with business strategy and understand the 'what if' scenarios so they are able to help their business before it knows it needs the help.

A session exploring the possible impacts of the metaverse wrapped up the day. In his concluding remarks, James Mortimer, HSBC's UK head of corporate banking, summed up the attributes that make a good treasurer in today's volatile environment: "We need to be nimble, forward-looking and flexible."

DINNER WITH THE STARS

Following the Treasury Forum, more than 1,200 guests attended the ACT's Annual Dinner at the Grosvenor House Hotel. This was the first time the black-tie event, sponsored by HSBC, had been held since 2019. The guest speaker was Dr Maggie Aderin-Pocock, presenter of *The Sky at Night.* In addition to looking at the wonders of space and what it can teach, she also tackled science education and public understanding, and women in science and engineering.

Aligning finance with ESG

In the future, aligning environmental, social and governance targets within the DNA of their organisations will be vital for corporates looking to raise finance

How corporates fund their ESG strategies will become increasingly important as their investors and other stakeholders demand evidence that they are hitting or exceeding climate change and other environmental, social and governance targets.

In turn, this will place treasury teams at the centre of corporate decision-making processes as boards face increasing pressure from investors and other key stakeholders to act and report on their ESG policies and how they translate into their organisations' financial strategies.

And accurate, timely data will be key to understanding how boards, and treasurers, are responding to these pressures.

These ESG themes were at the centre of the discussion with treasurers at the Association of Corporate Treasurers' recent ESG conference, which included a panel featuring BNP Paribas CIB, BNP Paribas Asset Management and a panel of experts from Anglo American plc.

BNP Paribas Exane recently asked 375 managers at 322 listed companies across Europe, representing more than €6 trillion in market capitalisation, what they considered to be the key ESG challenges that now face their companies and investors. The results are illuminating.

According to three-quarters of the survey respondents, less than 5% of ESG issues addressed by investors have a financial impact, and while two-thirds of companies say they integrate ESG into their financial strategy, less than half define key performance indicators for ESG. And although almost all respondents want to retain ESG investors in their shareholder base, only 6% set quantitative targets.

But one of the most important findings is that almost half say their sustainability departments report to the CEO and that two-thirds have a board member appointed to monitor ESG issues.

"Corporates absolutely need to position ESG at the C-suite level," says Constance Chalchat, BNP Paribas CIB's head of company engagement and global markets' chief sustainability officer who led the panel.

"This is probably the key question that investors or suppliers will ask of their corporate clients; where is ESG positioned in your organisation? ESG should not be placed 'on the side', it should be integrated into the organisation in a very comprehensive manner. Investors expect to see it within the DNA of what the corporates are doing."

The implication is clear – if a corporate fails to tackle its ESG issues, and report on how they are doing so, then investors will have less trust in the organisation and increase the cost of finance accordingly.

Translate into financial strategy

However, it is equally important to translate an ESG strategy into a financial strategy in a credible way – ambitious ESG targets, which can be measured and reported, will lend credibility to the ESG strategy and how it impacts financial performance.

"KPIs will drive ESG in an organisation, and the underlying data is critical," says Edward Lees, co-head of the environmental strategies group at BNP Asset Management who shared investor perspectives on the panel. He mentions that without clean or complete data you can arrive at

false conclusions, either positive or negative. He says: "Corporates also need to be careful about how they use and interpret the data as different companies face different situations, including different countries and different sectors. Focusing on impact can help our understanding. For instance, at BNP Paribas we consider the main activities of a company, look through supply chains, and take engagement very seriously."

Chalchat agrees, calling for "bullet-proof" data that can stand up to close scrutiny. "This can be one of the biggest challenges," she says, "but it isn't a challenge that will disappear."

So how can companies, and their treasury teams, translate this advice into their own organisations? Aaron Field, assistant treasurer at Anglo American plc, a UK-listed multinational mining group, who gave a corporate perspective on the panel, says that it is important that the group continues to be "investible".

In September 2022, Anglo American plc issued its first sustainability-linked bond, which included performance targets to reduce greenhouse gas emissions and fresh water abstraction, and to support job creation in host communities. The €745m bond was the first instrument issued following the publication of Anglo American's Sustainability Financing Framework. The financing mechanism will see a coupon increase of 40bps accruing from September 2031 for each of the selected KPIs that do not achieve its target or if the verification of the target being achieved has not been published.

Sustainability is fundamental

"A key issue for us is that we continue to be widely 'investible', meaning that we are able to raise cash from banks and the broadest range of investors in the future," Field says. "When we brought this bond to market, we felt that we were working off a strong foundation. We have had our Sustainability Mining Plan since 2018, where we have integrated the UN's Sustainable Development Goals into our sustainability strategy, and our senior leaders would say without exception that sustainability is fundamental to the business of mining."

For instance, the group is committed to using less water and energy in its mining processes, which can be good for the business as well as the environment. "We really wanted to underline what those commitments and activities meant to us and the market," Field says.

The process of bringing the bond to market involved prior engagement with investors and holding a number of workshops with subject matter experts to test the KPIs. "We knew we wanted targets on greenhouse gas emissions, and we felt we needed to include social goals, but also wanted to know what was on investors' minds."

Field says it is important to give investors time to digest and question the KPIs, and that there is a real need for financial and accounting rigour when measuring ESG data. While the treasury team led the bond issue, Field stresses the important role of the senior leadership team in getting across the line.

"Treasury was at the heart of the bond issue, but it was made possible with the support from the C-suite, who remained engaged throughout the process," Field says, a position that is reflected in the results of BNP Paribas' ESG survey.

10 KEY ESG CHALLENGES

In its inaugural *International ESG Corporate Survey*, BNP Paribas Exane identified 10 key ESG challenges for investor relations and how corporates can respond:

1. Position ESG at a C-suite level
2. Integrate ESG into the equity story
3. Explain again and again to convince
4. Translate ESG into financial strategy
5. Understand both specialist and generalist ESG investor expectations
6. Engage diverse stakeholders
7. Anticipate new ESG-related shareholder activism risks
8. Master ESG regulations
9. Align your reporting with ESG standards
10. Allocate the right level of resource to ESG challenges.

Source: BNP Paribas Exane International ESG Corporate Survey, November 2022. See: bit.ly/BNPESG

COMMUNITY BANKING WITH A DIFFERENCE

Corporate treasurers are well placed to lend their experience and knowledge of treasury management to credit unions, while their own companies can benefit as well, writes **Permjit Singh**

According to the trade body ABCUL, there are 88,0000 credit unions (CUs) across 118 countries, holding deposits of $2.9 trillion and providing loans of $2.1 trillion. CUs in the US have more than 100 million members, and India, South Korea, the Philippines, Kenya and Mexico, each have more than five million. By contrast, the UK collectively has a little over two million members, and by far the largest concentration of them are in Northern Ireland, which along with England, account for 78% of all UK members.

CUs play an important financial role in their communities, but what do they mean for the treasury community? The answer is two-fold: first, by serving on a CU board, corporate treasurers will be adding value to individuals and businesses in their local community, especially those excluded from mainstream financial services. Second, by using a CU's services or products, corporate treasurers will also be adding value to their own companies or to their fellow employees.

Like any organisation, CUs need to cover their costs to remain going concerns, but part of those costs do not include payments to the board of directors; they give their time freely and voluntarily. They hire paid employees and/or other volunteers to undertake the day-to-day management of the CU, or they outsource those functions to paid specialists.

Member value

Like most other financial services organisations, CUs aim to maximise shareholder (member) value, but in addition to paying them a dividend, CUs also add value to their members in ways that set them apart from mainstream credit organisations.

Members must reside in the community their CU serves, a condition that reflects CUs' community spirit. CUs are described as 'community banks' because their members' savings are lent out to other members, and because net income (essentially the difference between interest on loans to members less operational costs, loan provisions and loan write-offs) is distributed to members.

Empowering its members to be financially capable is a key objective of CUs, and it is all the more important for members on low incomes, excluded from mainstream financial services, susceptible to predatory lenders, or who have little to no understanding of personal finance.

In addition to sharing their expertise with boards of CUs, corporate treasurers could also help individual CU members learn about, and then apply, cash forecasting, budgeting, savings and loans, macroeconomics, risk, and financial markets.

For example, I am working with an organisation to offer members of my CU nationally recognised qualifications on financial capability. Less formal or bespoke courses may also be designed to suit members' aspirations, needs and abilities.

With the current energy crisis and high inflation making it hard for some members to make ends meet financially, it would be worthwhile discussing with them the importance of budgeting, and the dangers of predatory lenders, or buy-now-pay-later schemes.

Bite-size courses could explain the practical application of basic maths and numeracy for everyday use, such as percentages, compounding, calculating interest and tax, discounts, ratios, or fractions.

Payroll savings and loans

CUs are able to help their members through forging partnerships with local employers that agree to offer free CU payroll schemes to their employees, for little administrative cost to the employer.

Payroll schemes encourage employees to get them into the habit of regular saving, and also enable them to borrow from the CU. The employer benefits, too, because such employee welfare schemes are likely to improve their business's environmental, social and governance (ESG) rating.

Employers can also benefit from employees becoming more productive

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UK CREDIT UNIONS AT A GLANCE

Community-based, member-owned cooperatives offering fair, affordable and accessible savings and loans to individuals and businesses.

- 2.1 million members
- £3.8bn invested by members
- £1.4bn liquid assets
- £544m total capital
- £1.9bn of loans to members
- £2.6bn of other investments
- 6.9% of loan value held as a provision
- 388 credit unions
- savings protected by the FCA's FSCS
- regulated by Prudential Regulatory Authority (PRA) and FCA
- authorised by the PRA
- incorporated under the Credit Unions Act.

(source: Bank of England)

at work because they are more confident about their finances, or they feel more positive about their employer because they care about employee welfare.

With the employer, CU, and employee working together, and the synergistic combination of savings and loan products, a safe environment and affordable solution are created for individuals to manage their personal finances.

Yoga and the habit of saving

Corporate treasurers can be creative in how they choose to help their local CU, drawing on their other skills and interests. For example, I'm planning a course of 10 'yoga-plus-exercise' classes for low-income students in my community who sign up as CU members. All of their class fees will then be credited each week to their CU savings account. If they stay the course, then after 10 weeks, they will have saved a significant sum of money, and will have become healthier for free.

Local employers could benefit themselves, not only from the increased productivity of happier employees, but also from taking business loans from their local CU. Not all CUs offer such loans, perhaps because they don't have the necessary skills, knowledge, or infrastructure. This is where corporate treasurers could help – by applying their knowledge of credit risk, technology, banking, loan documentation, and policies and procedures, to the underwriting and administering of CU business loans.

I am, for example, trying to introduce business products at my local CU, such as revolving credit facilities (RCFs) and invoice finance for working capital, and term loans for capital expenditure. CUs might also be able to offer currency exchange and transfers, or forward contracts to hedge currency risk, by partnering with regulated money service businesses. An ABCUL consultation revealed 71% of its CUs are interested in offering car finance.

I can't say my CU will securitise its loan book, not yet at least, or that it will issue a eurobond, partly because CUs are already flush with cash, but it makes sense financially and in terms of ESG, for CUs to use their cash to also help businesses in the communities they serve.

Business deposits

By investing their surplus cash in the subordinated debt of their local CU, businesses would not only be earning a relatively high interest rate, they'd also be helping to ensure their CU maintains a satisfactory regulatory capital ratio.

Local businesses' cash deposits could be deployed by CUs to regenerate local communities deprived of funding and investment, and to enable CU members to realise their entrepreneurial and business aspirations. Their success could then increase local employment and inspire other CU members.

CUs and corporate treasurers working together, for mutual benefit and for the benefit of their local communities and their employers, are all worthwhile pursuits. I'm finding this out for myself with my local CU, and I encourage other corporate treasurers to do the same.

Permjit Singh is a director of a London-based credit union, a Fellow of the ACT, a former head of treasury of a mortgage company, and a technical reviewer for the ACT's examinations

View from... relationship banking

In times of volatility, relationship banking assumes even greater importance. *The Treasurer* asked two relationship bankers how they work with treasurers

MIKE RIGBY is head of UK Cash Management, Corporate Banking, Barclays.

MR: The banker/treasurer relationship is a key relationship point at any point in the economic cycle. When we have one of the most interesting economic backdrops for more than two decades and we have huge pace in technological development, the relationship becomes critical to successfully navigating a path through choppy waters.

The economic backdrop has been relatively benign for well over a decade. Inflation has been low and controlled. Global central bank rates have been low and predictable. Global economies have been growing, wage inflation has been controlled and supply chains have been reasonably robust. This has all changed in the past 12 months.

At the same time, we have seen some significant technological changes to challenge treasurers to consider new ways of managing customer interactions as well as the cashflows through their business. On their client journey, we have seen companies use treasury solutions to change their business models through API real-time payment instructions. On liquidity management, we have seen treasurers increasingly use automatic sweeps to liquidity portals where their treasury policy is enacted instantly. On reconciliations, we can see more treasury software providers offering solutions that automate more and the arrival of ISO 20022 (an ISO standard for electronic data interchange between financial institutions) will only accelerate adoption to enhance the management information available. So, technology is changing the role of the treasurer, taking them closer to the client journey and elevating their strategic influence over their business.


Mark Rigby

These two external factors have meant that the banker and the treasurer have more reasons to talk than ever before: to understand how the strategy of their client is adjusting to the market; to share how the bank is investing to keep pace with technological change; to share market commentary on economic metrics and how these impact the client; to discuss regulatory change and understand its impact and any opportunity it presents; to understand even better how cash flows through their business and where it sits and collects; to share experiences from technology providers and how real-life adoption has progressed, as well as how they connect to bank systems; to share thoughts on treasury policies and how to ensure compliance to them.

WHAT'S ON THE AGENDA?

So how should bankers acclimatise to this and what will be on the agenda to talk to their clients about this year?

Bankers should be talking to their clients regularly and that interaction should, wherever possible, be face to face. This is the time for open, honest discussions about what their clients' priorities are. Be that driving greater efficiency of their treasury function, a cost focus, or greater control of available cashflows. The likely topics that make the agenda will be:

- Greater adoption of APIs to drive efficiency of payment journeys and improved reconciliation
- Liquidity management to reduce working capital balances and drive revenues (real-time visibility of cash), including consideration of alternative solutions such as money markets
- A focus on the management of physical cash to reduce cost
- Innovation/leveraging technology and how it connects to bank systems.

How do the best bankers and treasurers achieve this? By having a relationship build on trust, understanding, honesty and delivery.

"Our job is to get behind their business and almost be an extension of their team"

JONATHAN GRAHAM

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JONATHAN GRAHAM is managing director, head of Large Corporates, HSBC UK Bank plc.

JG: There are aspects to good professional relationships that never seem to change. We know that personal relationships remain important to our clients – and they expect us not only to understand their business, strategy and proposition but also their industry, supply chain needs, capital working requirements and future aspirations, and how we can support them in achieving these.

Our research shows more than half (58%) of our large corporate clients want to share their strategic thinking with us. To aid successful collaboration, it's vital we understand the overall structure and resource capacity of their business to work together most effectively. For example, if it's a small team, we need to be able to work in a way that enables us to deliver a seamless service tailored to their needs and requirements.

For more than a fifth of UK businesses, this includes a focus on international expansion. While this is a particular area of expertise for HSBC, we know they also really value advice and guidance on everyday operations, funding options, debt appetite and clear communication around any changes – be that borrowing terms or renegotiation of interest rate margins.

Many companies are still adapting to a new working environment following COVID-19, including real-time data management and supportive technology to enable their digital transformation plans to add value to the business and overall bottom line. Our research shows that 84% of trade transactions in 2021 were initiated digitally, up from 69% in 2020 – a trend that was accelerated by the pandemic and lockdown restrictions but is now here to stay.

NAVIGATING UNCERTAINTY

Alongside this, they also look to us to understand more about emerging risks, challenges and 'what if' scenario planning and how they can best prepare for them as well as how to navigate uncertainty, such as inflation, supply chain, ESG and interest rate fluctuations. While the pandemic and rising cost of living presents a challenge, a lot of businesses have built up cash reserves and are now considering strategies against treasury policies that are not necessarily aligned to the current environment of interest rate and macro volatility.

Our job is to get behind their business and almost be an extension of their team; working together on ideas and solutions to help streamline and simplify their business to enable them to focus more time, resources and investment on their growth plans.

To this end, we're also making banking easier and more convenient, for example by introducing more self-serve and digital-first propositions and sustainable initiatives such as e-signatures and a continued drive towards paperless as well as ensuring faster response times.

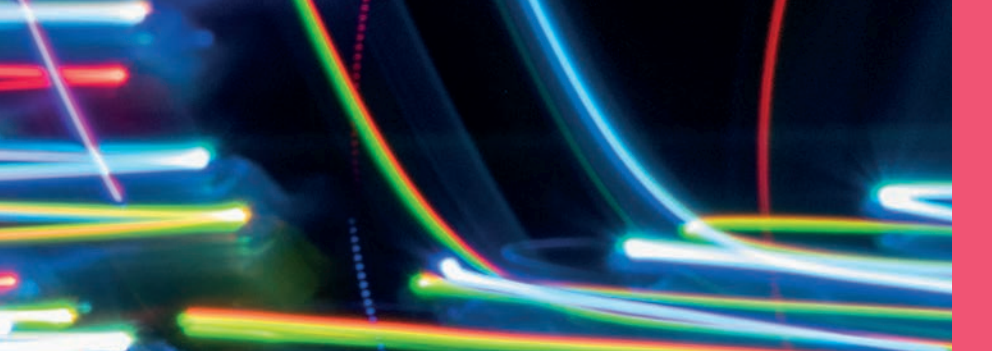
Jonathan Graham

While there continues to be uncertainty in the world around us, investing in the fundamentals of client/bank relationships remains of paramount importance and will serve and benefit and protect both parties into the long term.

If we have learned anything from the recent past, it is that change is certain but trusted and effective relationships can help us to navigate these times of uncertainty.

Predicting the future – forecasting or fortune telling?

At times of volatility, technology can be a powerful ally as treasurers need to look beyond the cash horizon, Lesley Meall reports



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Cash forecasting has always been fraught with difficulty. Whether you are relying on spreadsheets, using a sophisticated treasury management system (TMS), the cash forecasting capabilities of an enterprise resource planning (ERP) system, or adding a dedicated cashflow tool to any of these, each approach has its own pros, cons and risks. Your options for addressing or exploiting these and other support tools will often be determined by factors beyond your control.

Jean-Baptiste Gaudemet

During 2023, the risks may have multiplied so much that you could be forgiven for thinking crystal balls, numerology or tarot cards should be on your list of support tools. Forecasting is sometimes described as a judicious blend of art and science. Yet, while prudent treasurers understandably rely on scientific methods for predicting the future, what's possible with increasingly smart tech-enabled tools may sometimes seem like magic.

Whether you want to reconcile all your prior-day bank files with yesterday's expected cash position in the blink of an eye, generate a less biased and more accurate cash forecast thousands of times faster than you could manually, or provide the CFO with an extra data point to prepare them for what's coming, the software can frequently produce it. So when Philipp Leitner, co-chief technology officer and managing director at ION Treasury, provider of cloud and on-premise TMS, predicts that "machine learning capabilities will be applied more and more in treasury", this forecast will certainly prove very accurate.

Science of data

Quality, quantity and reliability of data are key. But even when treasurers have large volumes of reliable historical cash transaction data, even originating from trusted sources, it can be impossible for the human eye to detect significant trends and patterns. Sophisticated software can do this and enable the treasurer to combine their data with industry trend data, statistics and scenario analysis. This helps to create and adjust cash forecasts quickly and easily, and better inform human insights and the decision-making process.

In 2020, ION was first to launch its treasury and risk management software cash forecasting solution powered by machine learning. Now, machine learning techniques are embedded in software and services that treasurers use and these help to enhance cash positioning, planning and forecasting. Even spreadsheets data such as those that originate from Microsoft Excel and Google Sheets can be used by machine learning, as such automated machine learning is increasingly within reach of treasurers.

During 2022, for example, Kyriba launched Cash Management AI, which uses machine learning to automatically learn from historical data and improve projections with new data inputs. "CFOs are demanding greater accuracy and reliability from their cash forecasts," ›

INCREASING CASH VISIBILITY AT OATLY

Learning from the pandemic has accelerated innovation in this area and the importance of accurate and timely cash and liquidity forecasting has been heightened by more recent and ongoing trends. These include supply chain challenges, high inflation, rising interest rates and price volatility in business gas and electricity markets. As the recent Deloitte Global Treasury Survey found, all of this has and will continue to shape the plans and actions that organisations take to address risks and increase efficiency and drive initiatives to enhance liquidity management and improve cash forecasting activities.

When the Swedish-based New York-listed oat milk group Oatly chose a TMS during 2022, the ability to use advanced tech to address its challenges and increase the automation, accuracy and efficiency of treasury processes was among the key drivers.

"We selected IT2 to support our exponential growth with advanced reporting and global cash visibility to optimise investment returns and make informed funding decisions with automation of treasury processes," explains John Pramgård, pictured left, treasury manager at Oatly.

Oatly will be using IT2 to manage foreign exchange and interest rate risk, debt and investment, payments, valuations, accounting, plus cash and liquidity. "There will also be a direct connection to our banking partners to streamline bank reconciliation and payment processes, with functionality to facilitate cash pooling," says Pramgård. Easy connectivity between software and services that collect and analyse data necessary for aspects of cash and liquidity management is increasingly available.

iStock / Helen Davies

says Jean-Baptiste Gaudemet, senior vice president of data and analytics with Kyriba. Cash Management AI users can make real-time forecast adjustments and select an optimal confidence level based on the risk profile and policy of their organisation, aligned to its short-term payment, funding and investment decisions.

Philipp Leitner

Joining the dots

The spread of open banking and connectivity provided by application programming interface (API) capabilities can have a positive impact on cash forecasting in various ways. By facilitating real-time payments and status reporting, for example, they can enable organisations to collect faster, reconcile faster and use funds faster, and by enhancing cash positioning such efficiencies can also allow treasurers to better predict cash needs and evaluate liquidity.

How API connectivity delivers benefits that can impact positively on cash forecasting is highlighted by the US-headquartered Hunt Companies, an investor in operating businesses, real estate and infrastructure assets globally. The treasury team at Hunt has co-innovated an API between the Institutional Cash Distributors (ICD) portal that it uses for short-term investments and its TMS, Kyriba, to become an early adopter of real-time payments and to digitise Hunt's investment management process.

Over one three-month period, this enabled Hunt to increase its volume of real-time payments by 375% and also reduce wire transfer costs. It expects further benefit with increased volume and transaction sizes. "I want us to be there when it's widely accepted by more banks," says David Miller, treasurer and senior vice president at Hunt. "With the API between ICD and Kyriba, we now have visibility into liquidity and earn interest on cash that otherwise might sit idle."

Forecasting ecosystems

For all that tech can potentially do to help treasurers improve aspects of cash management and forecasting, it might be a mistake to rely too heavily on it, particularly if the organisation's systems and processes are not ready to make the most of technology advances or upgrades. The quality of a cash forecast is dependent on the quality and reliability of the data that informs this, which isn't always within the treasurer's control.

As with many aspects of treasury, there are benefits to automating what can be automated, particularly when integrating systems and services that rely on shared data. Forecasting, however, can be adversely impacted by inaccuracies in data from business units as well as disconnected feeder systems – whether that is a spreadsheet or a TMS – so clear and effective communication with all parts of the business is vital. Treasurers may need to proactively ensure that all stakeholders appreciate this.

Lesley Meall is a freelance technology writer

"CFOs are demanding greater accuracy and reliability from their cash forecasts"

Shutterstock / Punqu x

NEW TECH KEY TO TRANSFORMING BANKING PROCESSES

Technology adoption tops list of key challenges amid growing recognition of need to improve corporate banking processes

A new report argues that the predominant driver for the digital transformation of finance is the desire for improved efficiency, followed by the need to support business growth and ensure operational resilience and security.

However, the widespread use of payment technology in day-to-day life has not fully translated to the finance and corporate banking function, which by its very nature is much more complex than personal finance.

The report, from AccessPay and Lloyds Bank, said: "Operational efficiencies are welcome at the best of times, but with the costs of business increasing and a tough outlook for business growth, the need to find efficiencies has become critical."

The report is based on the responses to a survey carried out at events held in the last quarter of 2022. Some 88% of respondents said driving efficiency was a key driver for digital transformation. Supporting business growth and operational resilience and security were key drivers for 59% of respondents.

As the report said: "Currently, many companies rely heavily on manual processes to connect their finance and corporate banking operations. Indeed, many Enterprise Resource Planning (ERP) systems do not take the final step of connecting to banking systems, which means that data often has to be manually extracted and reconciled with banking systems."

The report said that for larger enterprises, with multiple back-office systems and multiple banks, this approach is not only inefficient, but is "fraught with issues". First, it can leave companies open to increased risk of errors, such as duplicate payments; it also raises the potential for fraud, as more people have access to corporate banking systems.

Second, there is a heightened people risk. "Manual approaches are not readily scalable and if transaction volumes increase, there are not always the staff to handle these," the report said. The report also considered the impact on staff morale and retention to consider: "Many individuals in the finance space are highly qualified and demotivated by low-level data entry tasks."

Finally, the report argues that there can be poor visibility over the company's current financial position.

International impact

The report noted the impact of doing business, and therefore making payments, across borders, which can mean working with multiple countries, bringing extra complexity to finance processes.

As a result, the top challenge of operating internationally was managing access and control to multiple banking portals. This was followed by the lack of visibility of cash positions, which could hinder the ability to optimise cash holdings in interest-bearing accounts. "The low interest rates since the global financial crisis have meant this has been of little importance over the last 14 years, but with rates now rising once more it will become an increasingly important consideration," the report said.

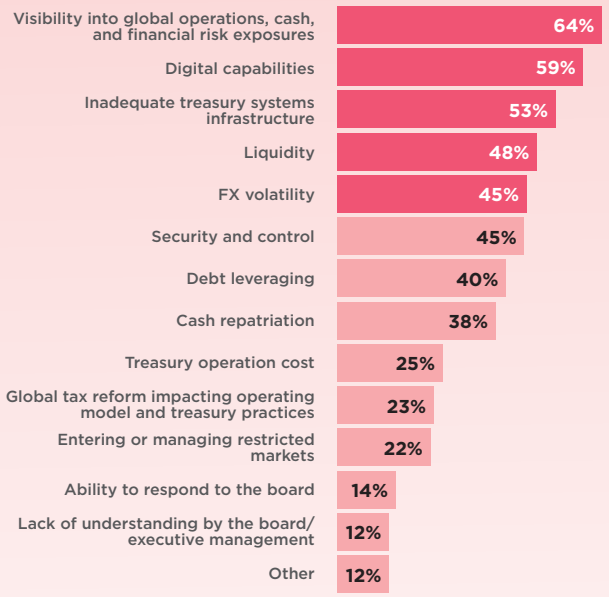
The report, *The Drive to Digital,* can be found at bit.ly/3XdUHNW

IN DETAIL:

ENHANCING LIQUIDITY MANAGEMENT TOPS LIST OF PRIORITIES

Looking ahead over the next 12 months, treasurers say that enhancing liquidity management will be their top priority for 2023, Deloitte survey reveals

KEY CHALLENGES FACED BY ORGANISATIONS (TOP 5 CHALLENGES)



KEY PRIORITIES FOR NEXT 12 MONTHS (TOP PRIORITIES)

Details of the latest Deloitte Biennial Global Corporate Treasury Survey can be found at bit.ly/3XMDqfC

Visibility of global operations, cash and risk exposures continue to be the most challenging and time-consuming areas for treasury executives, followed by digital capabilities, inadequate systems infrastructures, liquidity, and FX volatility.

But in the coming year, many organisations are looking to enhance their liquidity management capabilities with a focus on visibility of cash and financial exposures, cash forecasting, working capital, and optimising the overall capital structure. This may take place in the forms of transforming the cash continuum (cash in, manage liquidity, cash out). And Deloitte found that many organisations have put digital transformation and technology higher on the agenda for treasury.

Companies who delayed digital transformation are now accelerating the pace and looking to either address the legacy treasury system architecture or improve automation and access to data. However, 20% of respondents indicated that they are planning to implement new technologies, taking more of a "wait and see" approach until some new technologies reach maturity.

BEST PRACTICE

Expert answers to today's challenges

CLEANING UP ON DIRTY MONEY

With £1m laundered every six minutes in the UK, treasurers can be on the frontline in the battle against this costly problem

REGULATORY & ACCOUNTING

iStock / Mimadeo

37

ANTI -MONEY LAUNDERING

What treasurers need to know to help fight the threat of dirty money and ensure their organisations are compliant with AML rules

40

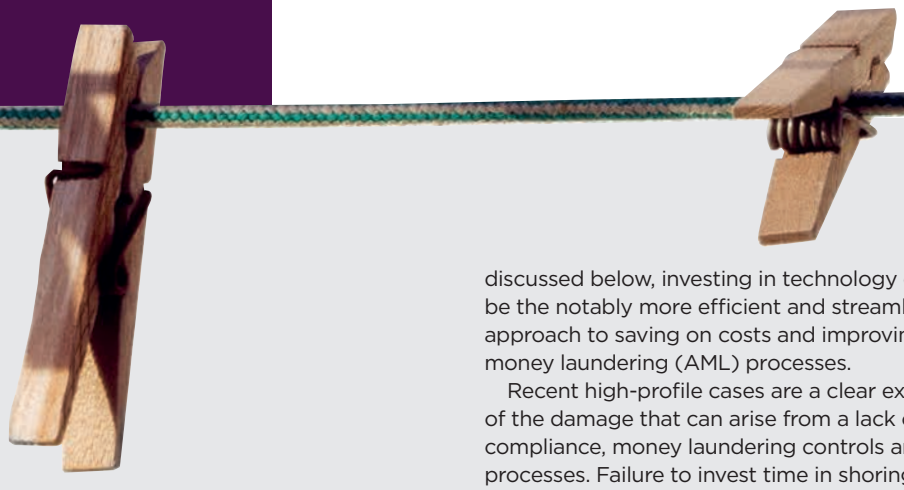
ESG CONFERENCE

Practical tips and case studies for treasurers as they transition to a net-zero environment, amid growing ESG demands

50

END NOTES

ACT chief executive Caroline Stockmann bids farewell to an organisation she has led for six years, through good times and lockdowns



Copious amounts of dirty money pass through the UK – in fact every six minutes, an estimated £1m is laundered through the UK economy. This startling stat has given London the unenviable title of 'money laundering capital of the world'. And with dirty money, comes illicit activity. With so much cash flying around, it can become a towering task for treasurers – the gatekeepers of money – to work out what's clean and what's not.

To highlight the nature of the problem, First AML, an anti-money laundering compliance consultancy, recently filled washing machines with £1m in cash outside the Bank of England: statement made. Money laundering is a real problem, and the UK is at the heart of it, whether it knows it or not. A significant amount of money laundering happens unknowingly, and treasurers need to understand the procedures their company has in place to buffer against unwitting enablers of this crime.

A survey involving more than 200 financial service professionals across the UK revealed that the majority (57%) are only 'somewhat confident' in their anti-money laundering procedures. This was joined by more than half (52%) of respondents identifying an instance of money laundering in the past year, with 23% detecting more than one.

So how can treasurers be on guard against money laundering and avoid reputational and regulatory damage in their organisation?

KEEP COMPLIANT

Compliance is key to safeguarding against money laundering. The recession is putting mounting pressure on businesses to cut budgets, and compliance can often be sacrificed as a result. But this is a grave mistake. Instead, as discussed below, investing in technology can be the notably more efficient and streamlined approach to saving on costs and improving anti-money laundering (AML) processes.

Recent high-profile cases are a clear example of the damage that can arise from a lack of compliance, money laundering controls and AML processes. Failure to invest time in shoring up such measures can expose firms to hefty fines, with supervisory bodies, such as the Financial Conduct Authority (FCA), stepping up their level of supervision. But companies often fall foul of regulations unintentionally, with manual customer due diligence (CDD) processes and a lack of diligence on updating customer files proving to be considerable stumbling blocks.

USE TECHNOLOGY

Even if compliance processes are aligned with AML regulations, it can still be incredibly difficult to adhere to changing rules while managing everything else. Know Your Customer (KYC) documents like passports and 'source of wealth' information can often be stored ad hoc across several locations; for example, they are kept as

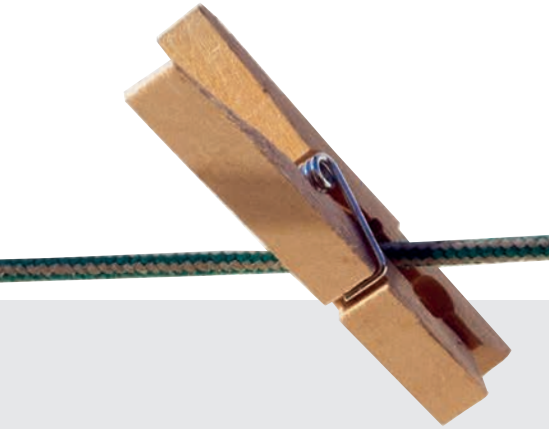
EU HAS CRYPTO MONEY LAUNDERING IN ITS SIGHTS

In December 2022, the EU announced agreement on an anti-money laundering (AML) regulation and a new directive (AMLD6). The new EU anti-money laundering and combating the financing of terrorism (AML/CFT) rules will be extended to the entire crypto sector, obliging all crypto-asset service providers (CASPs) to conduct due diligence on their customers.

The European Council called for customer due diligence measures when carrying out transactions amounting to €1,000 or more and added measures to mitigate risks in relation to transactions with self-hosted wallets.

Third-party financing intermediaries, persons trading in precious metals, precious stones and cultural goods, will also be subject to the obligations of the regulation, as will jewellers, horologists and goldsmiths.

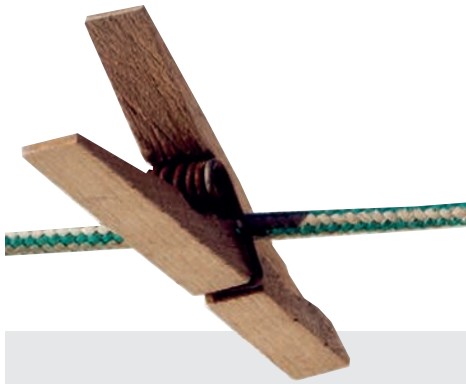
By limiting large cash payments, the EU will make it harder for criminals to launder dirty money. An EU-wide maximum limit of €10,000 is set for cash payments though member states will have the flexibility to impose a lower maximum limit if they wish.



KNOW YOUR RESPONSIBILITIES

In the UK, your organisation must meet certain day-to-day responsibilities if it is covered by the government's Money Laundering Regulations (bit.ly/2QhzVzl). These include carrying out 'customer due diligence' measures to check that the organisation's customers are who they say they are, and risk assessment (bit.ly/3XeQJol).

In addition, HM Treasury's Office of Financial Sanctions Implementation regularly updates its list of all asset freeze targets (bit.ly/3YydvJz). Many financial and enterprise management software suppliers now include AML modules that can help your organisation avoid falling foul of its AML responsibilities.



iStock / Mimadeo

email attachments or left sitting in download folders. This is highly sensitive information that requires a protected, centralised location for both ease-of-access and audit reasons.

How can emerging technology help? Modern AML technology platforms and onboarding systems are able to digitise compliance, enabling companies to have customer records, details and transaction data stored in one easy-to-access and centralised location – a secure nucleus of KYC data.

One of the key benefits of AML technology is that compliance professionals can visualise entity structures and identify ultimate beneficial owners – this is regardless of how complex or deep the entity may be. All of the relevant information is cross-checked with AML regulations before being passed back for internal review. Customer identification and risk assessments can subsequently be carried out easily, alerts for suspicious activity can be set and information shared with auditors.

EDUCATE OTHERS AND CULTIVATE A CULTURE OF COMPLIANCE

None of this works without having the training, education and culture to go with it – a culture of compliance is necessary to ensure that you don't introduce tools that no-one will use.

Either treasurers or compliance experts need to be on hand to offer training to other team members and colleagues in the business. External consultants and specialist outsourcers can also be used, especially if treasurers need this training themselves. They can then be equipped to deal with money laundering instances and educate others.

A vital component of training and creating a culture of compliance is describing different types of red-flag activity and behaviour. It's hard to spot if you don't know what you're looking for. But with this training, treasurers can solicit the assistance of others to help forward on and mark out suspicious cases of incoming payments.

Red flags can include third-party involvement, layering complex financial transactions to muddy the line back to the original source and a resistance to providing beneficial ownership information. Spotting this behaviour doesn't necessarily mean it's an instance of money laundering, but it should be a reflex by employees to flag such issues so they can be interrogated further.

It's then essential that red flags are acted on. There's no point in having a process to highlight red-flag behaviour if this is simply going to be lost or delayed because of a lack of a structured system. This is where culture, technology and people need to be aligned. Such entities that warrant further action must be forwarded on to the relevant financial supervisory body or auditor. With the right systems and understanding, this can become a simple process of identifying, flagging and sharing.

ONBOARD ETHICALLY AND COMBAT THE RECESSION

All money laundering is linked to wider illegal and harmful activity. It can be tricky to spot every instance or know every aspect of money laundering behaviour, but looking the other way or burying your head in the sand can expose you to risk and potentially damage the reputation of the organisation.

£1m every six minutes. That statistic should be a wake-up call for financial service professionals and treasurers to understand their AML processes so that they can avoid unknowingly facilitating such activity. The technology, external support and training is there to create a secure, robust barrier against money laundering. Equipped with the right tools, 2023 could be the year London and the UK starts to shrug off its unenviable title.

Bion Behdin is chief revenue officer and co-founder of First AML

UNDERSTANDING THE ESG OPPORTUNITY

Practical tips and case studies were the order of the day at the ACT's first standalone ESG conference

ESG

Held in December 2022, the heavily oversubscribed event demonstrated the growing importance of environmental, social and governance (ESG) issues for today's treasury teams. A diverse agenda ranged from sustainability reporting standards and green bonds to relationship banks' approach to ESG and how real-world events can impact the transition to net zero.

Peppered with numerous case studies and first-hand experiences, the conference aimed to give delegates a clear insight into how ESG will continue to impact treasury as many more organisations are required to demonstrate their commitment to creating a more 'just society'. Treasurers from businesses such as Anglo American, Burberry, Chemring, Southern Housing, PageGroup, and Wates Group shared their own stories of success and challenges.

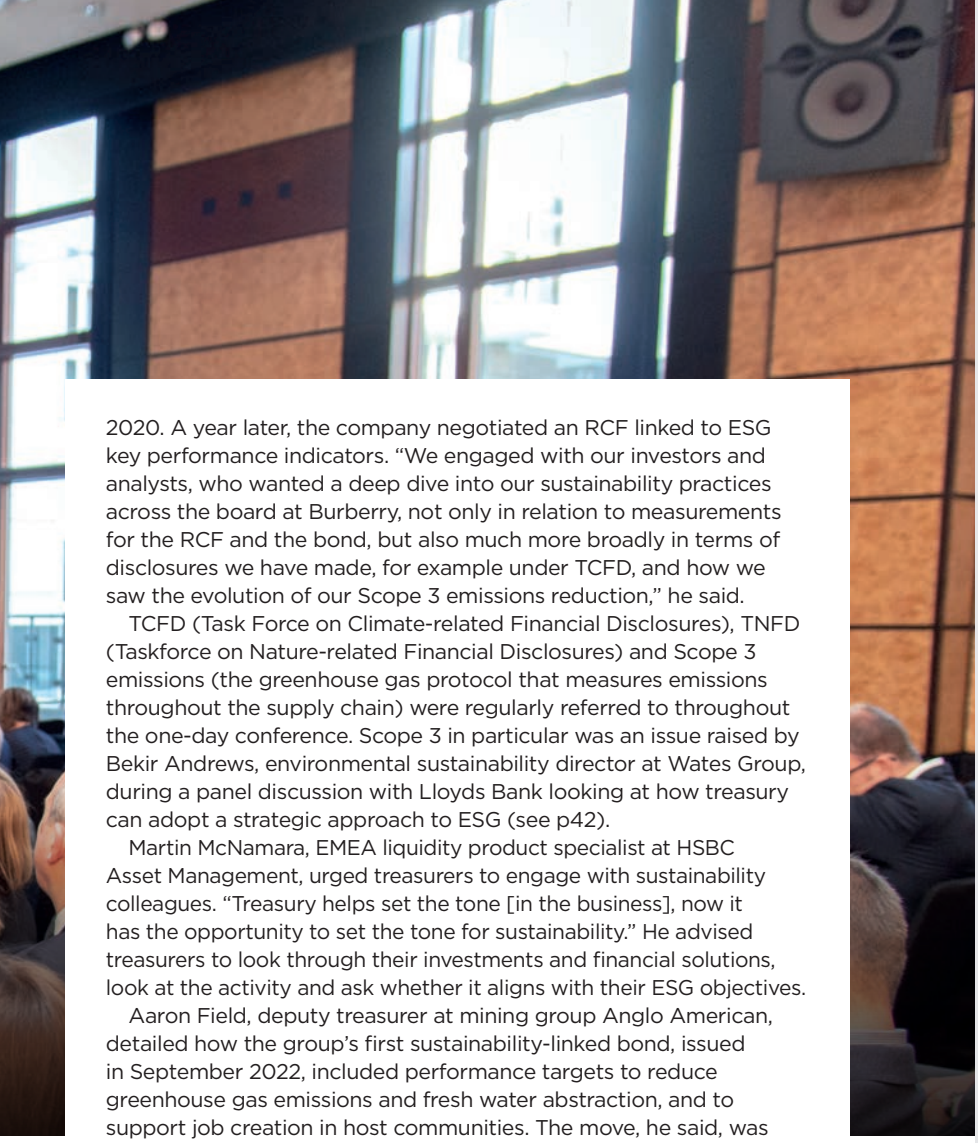
Introducing the event, co-chair Naresh Aggarwal, ACT associate director, policy and technical, said: "ESG is a complex challenge, something that not many of us will have experienced before. It is something that transforms and affects so much of what we do."

The key question, however, for many treasurers will be where they start and what they prioritise. Co-chair of the conference Joanna Bonnett, head of sustainability and group treasury at recruitment group PageGroup, gave an example of what her organisation had done. She said the group had put its debt into sustainability-linked finance through its revolving credit facility (RCF), and as a net cash organisation it had challenged its banks, as well as itself, to only invest in sustainable investment products. "It is a constant challenge on how we can continue to be better," she said.

Jonathan Labrey, chief connectivity and integrated reporting officer from the newly formed International Sustainability Standards Board (ISSB), told the audience how his organisation was taking a collaborative approach to establishing sustainability reporting standards, working with regulators, businesses and investors to establish one comprehensive system. "We want to change behaviour, incentives and how capital is allocated," he said.

POSITIVE CIRCLE

In a session on sustainable finance products and practicalities, Agnes Gourc, head of sustainable capital markets at BNP Paribas, described how her organisation wanted to see corporate funding as part of a sustainability strategy, believing it created a "positive circle". In the same session – led by Matthew Tobin of Slaughter and May – Ian Brimicombe, senior vice president of specialist finance at Burberry, the fashion company, set out the "intense exercise" of achieving an ESG rating in order to issue a sustainability labelled bond in



2020. A year later, the company negotiated an RCF linked to ESG key performance indicators. "We engaged with our investors and analysts, who wanted a deep dive into our sustainability practices across the board at Burberry, not only in relation to measurements for the RCF and the bond, but also much more broadly in terms of disclosures we have made, for example under TCFD, and how we saw the evolution of our Scope 3 emissions reduction," he said.

TCFD (Task Force on Climate-related Financial Disclosures), TNFD (Taskforce on Nature-related Financial Disclosures) and Scope 3 emissions (the greenhouse gas protocol that measures emissions throughout the supply chain) were regularly referred to throughout the one-day conference. Scope 3 in particular was an issue raised by Bekir Andrews, environmental sustainability director at Wates Group, during a panel discussion with Lloyds Bank looking at how treasury can adopt a strategic approach to ESG (see p42).

Martin McNamara, EMEA liquidity product specialist at HSBC Asset Management, urged treasurers to engage with sustainability colleagues. "Treasury helps set the tone [in the business], now it has the opportunity to set the tone for sustainability." He advised treasurers to look through their investments and financial solutions, look at the activity and ask whether it aligns with their ESG objectives.

Aaron Field, deputy treasurer at mining group Anglo American, detailed how the group's first sustainability-linked bond, issued in September 2022, included performance targets to reduce greenhouse gas emissions and fresh water abstraction, and to support job creation in host communities. The move, he said, was guided by the need to ensure Anglo American remains "investible" (see p26).

REGULATORS AND RATINGS

The day also included presentations from Chris Faint, head of climate at the Bank of England, on how climate risks can affect treasury (see panel, Climate remit at Bank of England), while representatives of the London Stock Exchange Group explained the role stock exchanges can play in support of corporates on their decarbonisation journey.

Craig Gosnell, senior director of ESG and sustainability at Fitch Ratings, spoke about how ESG ratings are measured (see www.treasurers.org/esg-ratings-clarity). Gustavo Brianza, managing director of debt and ESG advisory at NatWest, detailed how banks are approaching ESG in their risk assessments, which included the three steps of mapping and scrutiny, transition, and action.

Wrapping up the day, Bonnett stressed the need for treasurers to integrate the ESG or sustainability strategy that has already been set elsewhere within the organisation into a framework or a financial strategy. "How do you make that relevant for treasury?" she asked.

Aggarwal said that he wanted to see more people wearing the two hats of treasury and sustainability. "This is such a great opportunity for treasurers to get involved and really deliver something important across the organisation," he said.

The ACT ESG Conference was supported by BNP Paribas, Fitch Ratings, HSBC, Lloyds Bank, NatWest, London Stock Exchange Group, and Slaughter and May. You can access their resources and more at www.treasurers.org/esg-conference-22-takeaways

CLIMATE REMIT AT BANK OF ENGLAND

Chris Faint, head of climate at the Bank of England, set out how the Bank's work on climate fits in with the overall ESG agenda – what the risks are, whether those risks are being priced into the financial industry that the Bank regulates and the broader financial system, and then how those risks translate into the wider economy.

"There is a huge amount of change involved in the transition to net zero by 2050, and this can lead to risk," he told the ACT ESG conference. "The majority of our work on ESG is on climate, though we do look at other areas such as governance frameworks, gender-neutral boards, and emerging areas such as nature."

He added that the Bank's work was complementary to that of the Financial Conduct Authority (FCA). "Government and regulators all have a role to play in greening the financial system and making sure that is done in a way that manages growth, creates a green environment, but also creates an environment where risks are managed," he said.

He told the audience of corporate treasurers that the Bank was carrying out a series of exercises against three scenarios – a smooth transition over 30 years to net zero, a disorderly transition over a shorter period, and one where there was no transition. "Under all scenarios, there will be costs," he said, "but we want to understand how [financial institutions] will interact with their counterparties, as some may not know what the risks are." He added that it was not clear yet whether all institutions were on the smooth trajectory.

For corporate treasurers, Faint said that the costs of transition could be passed on to bank clients, but one of the key findings from the scenario exercises was that banks should support the transition of currently polluting sectors. "We need to continue to fund [the transition of] these activities to make sure they become greener over time, and we need to ensure that all important parts of the economy are able to maintain funding during this process." He added that many financial institutions will want to know what their counterparties' plans are and to what extent they will be affected by government transition plans over the next five to 10 years. This, he said, could impact access to funding and the cost of that funding.

Go to www.treasurers.org/esg-conference-22-blog for further insights on the conference from Naresh Aggarwal, ACT associate director, policy and technical

SUSTAINABLE TREASURY: A STRATEGIC APPROACH

Historically, sustainability and finance have been siloed within many companies, but that division is fast disappearing, according to Emily Martin and Kingstun Nelson from Lloyds Bank

ESG

Given double-digit inflation, rising interest rates, volatile FX markets, and an uncertain economic outlook, corporate treasurers have their hands full. Despite this, sustainability is certain to assume greater importance in 2023, as companies increasingly incorporate environmental, social and governance (ESG) objectives into their business strategy and treasury practices. To do so, sustainability and finance functions are collaborating as never before to take advantage of newly emerging financing opportunities.

ADDING VALUE FOR THE NEXT GENERATION

When it comes to sustainability, the construction sector faces challenges, concedes Bekir Andrews, environmental sustainability director at Wates Group. "The sector produces about 25% of the UK's carbon emissions, or 40% when transport-related emissions are included," he says. "Construction is also one of the largest consumers of raw materials and produces about 30% of the UK's waste. Inevitably, we also encroach on nature. However, construction is a huge employer, builds assets that people need, such as housing, hospitals and schools, and has an important role to play in improving sustainability."

Wates Group, which employs around 3,800 people, was established in 1897 and remains family owned. As a privately held company, Wates is not subject to the same ESG reporting requirements as listed companies. "But the family's goal has always been to pass on a better business to the next generation, and we believe that ESG is key to that. Moreover, by being at the forefront of ESG, we are able to attract and retain talent – and win more contracts," says Andrews.

In 2020, Wates announced its 2025 sustainability targets for waste, carbon and the natural environment. And in 2021, its annual report identified the risks and opportunities presented by climate change under the Taskforce on Climate-related Financial Disclosures (TCFD) framework – ahead of any legal requirement to do so. But as the environmental agenda has accelerated, Wates decided to more fully integrate its sustainability and financing strategy. "It became clear that a sustainability-linked loan (SLL), with margin discounts linked to ESG key performance indicators (KPIs), was the next step," says Andrews.

Putting together an SLL was a steep learning curve, notes Arijana Vanstone, corporate finance and reorganisation lead at Wates. "Obviously, we're familiar with the revolving credit facility (RCF) process but the SLL component, including the legal documentation, was unexplored territory," she notes. "To compound the challenge, we were working to a very tight deadline given that we had an impending statutory audit. Choosing a bank with SLL experience – Lloyds Bank acted as the sole ESG coordinator – was critical to understanding the process and working at pace."

CHOOSING THE RIGHT KPIs

Wates realised early on that it needed to set KPIs for its SLL that, while aligning with its existing strategy, stretched the business. "They had to be beyond business-as-usual," says Andrews. Vanstone notes that the decision on which KPIs to choose was also partly motivated by practical implications: "If the KPIs weren't ambitious enough, there was a risk that the lenders could turn down the proposal and we would have to find another KPI. At the same time, the KPIs also needed to be achievable. It required a lot of homework."

In selecting its KPIs, Wates' sustainability and finance functions worked closely together, engaging stakeholders across the organisation and drawing on Lloyds Bank's experience. "Ultimately, we

made choices that are material to the future of the business," explains Andrews.

Wates' first KPI seeks to reduce supply chain carbon emissions – which are part of Scope 3 emissions – by requiring 35% of its top 200 suppliers to introduce Science Based Targets initiative (SBTi) approved targets by December 2024. "While in some other sectors much of the focus is on Scope 1 and 2 emissions, Scope 3 is critical in construction: they represent 98% of our total emissions," says Andrews. "But while suppliers' emissions are key, many don't account for carbon or haven't set targets. Influencing the supply chain was therefore a priority," adds Andrews.

Wates is working with the Supply Chain Sustainability School (jointly funded by various partners across a variety of market groups including tier one construction contractors) to provide suppliers with a variety of free tools and webinars to improve awareness. "These tools are especially important for SMEs. They don't have the reporting requirements of PLCs and find it harder to navigate ESG issues," says Andrews.

Most large organisations initially use an environmental economic input output model – an approved methodology under the GHG protocol – to calculate their Scope 3 supply chain data. Under the SBTi, companies have five years to switch to using actual carbon data for their carbon reduction targets rather than data derived from spend information. It is therefore essential that organisations have a strategy in place for capturing their Scope 3 data. "The KPI in our SLL is effectively an intermediate step to ensure our suppliers are ready to track their emissions by that time," says Andrews.

Wates' second KPI aims to create nearly £370m of social value over the next three years in the communities where it operates via apprenticeship schemes, volunteering work and other metrics that are part of the Themes, Outcomes and Measures (TOMs) framework for measuring and reporting social value, which attributes a cash value to each metric. "The social value target we chose was considerably higher than we would have otherwise generated," says Andrews. "That's the point." Wates' third KPI – to improve the number of women in senior leadership positions – was also about stretching the company to go beyond existing diversity targets.

THINKING BEYOND THE SLL

Having chosen the KPIs for its £90m three-year SLL and developed its proposal, Wates then presented to the three-bank syndicate, led by Lloyds Bank. "The Q&A was arguably the trickiest part of the process," says Vanstone. "Preparing for it takes time, energy and effort, which is why KPI selection must be the outcome of a process of genuine engagement across the company."

Vanstone says that deciding to pursue an SLL must be part of a broader commitment to sustainability. "Sustainability has to be part of everything you do if it is going to make a difference," she says. "At Wates, our strategic growth is targeted towards segments that align with our agenda, and sustainability informs how we structure our balance sheet, approach M&A activity or allocate funds within treasury. There are challenges to prioritising sustainability, not least because of diverse regulatory standards around the world. And compliance can be onerous, especially for small teams. But the rewards are considerable, for the company, its suppliers, society and the planet."

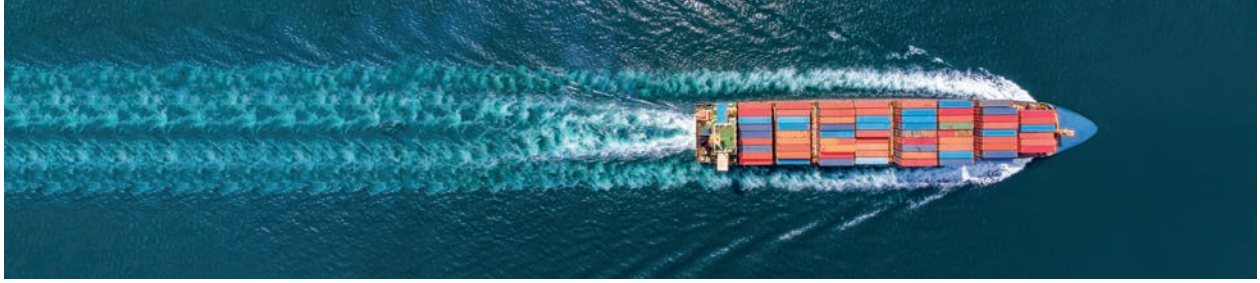
If you would like to learn more, please visit: lloydsbank.com/business

This article is based on a panel discussion at the ACT ESG conference on 7 December 2022. All lending is subject to status.

WATES' TOP SLL TIPS:

1) Consider your business and corporate finance priorities, so that ESG KPIs align with the company's broader strategic direction.
2) Consult widely with internal stakeholders, including top management and the board, to identify simple and relevant KPIs, and ensure the entire organisation is engaged.
3) Appoint assurance providers early, so that both the costs and data requirements for KPIs are clear.
4) Implement appropriate systems to capture data that is reliable and transparent, and straightforward to collate and audit.
5) Develop strong partnerships with SLL syndicate banks to ensure that KPIs match the expectations of banks providing the facility.

From left: **Emily Martin** is director of sustainability and ESG finance at Lloyds Bank; **Kingstun Nelson** is associate director of sustainability and ESG finance at Lloyds Bank; **Arijana Vanstone** and **Bekir Andrews** are members of the Wates Group leadership team



TRADE FINANCE PAIN REVEALED

Report shows a market ripe for disruption amid growing complexity and demand for greater digitisation

TREASURY OPERATIONS

A report from global consultancy firm Accenture shines a light on a possible gap emerging between what corporates are looking for from their trade finance partners, and what these partners currently offer.

The firm surveyed 675 trade finance executives – including importers, exporters, distributors, wholesalers and manufacturers in 15 countries – to understand which trade finance partners they are working with, the finance challenges they are facing, their experiences with their trade finance partners, and what they are looking for in a partner.

According to the report, the trade finance market is ripe with opportunity for banks and fintechs alike. However, with the needs of commercial clients growing in complexity, competition heating up, and clients ready to explore new partners and products, the report says finance providers will need to up their digital game to remain relevant and expand market share.

The findings include:

- 62% of trade borrowers are being hit significantly by rising interest rates
- 67% are planning to change their roster of partners in the next 12 months
- 76% said they will change the number of partners with which they will work
- 90% of businesses are willing to receive new trade finance products and services

In addition, trade finance executives say there is an underserved and growing need for products such as higher pre-shipment finance and purchase order financing, particularly among small and medium companies.

The report adds that companies are singling out the complexity of trade finance and the resulting manual work as their greatest pain point. At the same time, they are investing in emerging technologies such as application programming interfaces (APIs) and artificial intelligence.

According to the report: "Companies are also looking to fintechs to help them reduce their credit risk, forecast cashflow, allocate working capital, and explore a broader customer and supply base." Nearly two-thirds (63%) worldwide are considering whether to shift their supply chain closer to their home market.

The report also reveals that 79% of borrowers have environmental policies in place that apply across their supply chain and 68% believe that sustainable financing is very important to their business. Yet they report that a lack of experience in measuring sustainability is a barrier to incorporating sustainability across their supply chains. "New data insights from digitisation will enable banks to work with clients to address this challenge," the report says.

CUSTOMER SATISIFACTION

The good news for banks is that the report shows that trade finance clients have relatively high levels of satisfaction with their finance partners. Only 18% of companies are dissatisfied with their overall dealings with their banks, while 54% say their expectations are being met and 28% say their expectations are being exceeded.

"Demand for trade finance is booming and rising interest rates are fuelling profitability," the report says. "Yet this environment also creates opportunities for disruption, with many corporate clients seeking cheaper, more flexible access to trade finance."

TOP ISSUES

Borrowers worldwide are concurrently managing a number of pain points, led by the complexity of trade finance transactions. In order, they are:

1. Complexity of trade finance transactions that cause significant manual work
2. Difficulty in finding new clients and revenue sources
3. Regulations that differ across jurisdictions
4. Lack of access to overseas markets
5. Access to liquidity given the lack of necessary collateral
6. Inability to meet the risk-assessment criteria for leveraging trade finance services
7. Lack of appropriate fraud-related solutions and processes
8. Lack of standardised APIs employed for trade finance
9. Inability to provide banks with the appropriate enterprise-related historical data to receive credit.

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DIARY DATES

The ACT's calendar of events continues to grow

ACT EVENTS

16-17 MAY | WALES, UK

ACT ANNUAL CONFERENCE 2023

We will be celebrating the 20th anniversary of the Annual Conference with a packed agenda and a host of networking opportunities. The theme of this year's conference is Managing risk in times of crisis.

treasurers.org/actac23

24-25 OCTOBER | DUBAI, UAE

ACT MIDDLE EAST TREASURY SUMMIT

Join hundreds of treasury and finance professionals at the region's flagship event in Dubai.

treasurers.org/mets23

ACT WEBINARS

Sign up for a free place at one or more of the webinars coming up over the next few months. Visit treasurers.org/events/webinars

ACT online training courses

ACT TRAINING COURSES

Join one of our virtual training courses and expand your treasury knowledge in a week or less.

13-17 MARCH AND 19-23 JUNE

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.

learning.treasurers.org/training/corporate-treasury

28 MARCH AND 11 JULY

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.

learning.treasurers.org/training/treasury-in-a-day

30 MARCH AND 13 JULY

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. This course will give you an overview of the role of a treasurer within the context of business.

learning.treasurers.org/training/cash-management

4-7 JULY

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.

learning.treasurers.org/training/advanced-cash-management

Preferential rates for ACT members and group discounts available.
For more information, visit learning.treasurers.org/training or email learning@treasurers.org

WELCOME TO THE WIKI WORLD

The Treasurer's Wiki aims to share knowledge and experience across the treasury community

LEADERSHIP & CAREER

The Treasurer's Wiki (wiki.treasurers.org) provides useful information on treasury and resources for those new to treasury as well as for experienced practitioners. Information for those new to treasury includes an overview of what treasury is and video content on the role of a treasurer, while for more experienced finance professionals there is detailed information on treasury competencies broken down into technical, business and behavioural skills.

The Wiki is also home to *The Treasurer's Handbook*, which offers quick and accessible reference material to support treasurers and the wider finance community in their responses to unpredictable change. The handbook includes five key sections covering cash management, risk management, corporate finance and the latest developments for treasury professionals, plus country guides with information on national banking, regulatory and financial systems.

We asked one of the editors of the Wiki, Doug Williamson ACG FCA FCT, to tell us a bit more about this resource.

Please tell us about your career to date and how you became involved with the Wiki

I am a corporate treasurer, tutor and executive coach based at the University of Cambridge. I have been the contributing editor for The Treasurer's Wiki since its launch in 2013, having previously edited the ACT's student online Glossary of Terms. I have also served the ACT as a chief examiner, Advanced Diploma dissertation supervisor and author of Learning Academy technical resources. My aim is to distil complex topics into easy-to-understand summaries, without over-simplifying the underlying concept.

Doug Williamson

Can you provide an overview of the Wiki?

The Treasurer's Wiki is a public resource that aims to share valuable knowledge and practical treasury experience across our community. It is designed to provide useful tools both for treasurers and the wider financial community globally.

It was launched in June 2013, incorporating the former online glossary of treasury terms for ACT students. It currently has just under 10,000 pages of content, ranging from concise definitions to fuller articles about selected issues of particular relevance for practising treasurers.

The most pleasing feedback I ever heard from a member was when one told me: "I was having an argument with my colleague. So, we looked it up in The Treasurer's Wiki, and it sorted out the argument."

And explain more about *The Treasurer's Handbook*?

The site incorporates the Wiki edition of *The Treasurer's Handbook*. It offers quick and accessible reference material with a particular focus on cash management, risk management and corporate finance (including articles on markets and funding).

The handbook also includes more than 30 country guides that provide information on areas including the financial regulatory framework, tax framework,

To access the Treasurer's Wiki go to wiki.treasurers.org This is just one of the resources available to members. Visit treasurers.org/my-membership/resources for a list of all the resources available.

banking service provision, and clearing and payment systems within these countries.

How does the treasury competency area work?

The site integrates with and supports the ACT's Competency Framework and related technical, business and behavioural skills. In addition to providing explanations on all of the areas within the framework, it also links back to other ACT online resources, including ACT Learning and ethics pages. It is fully cross referenced and linked to enable treasurers to identify and address their professional development and learning needs.

What areas do you most frequently visit and update?

The treasury landscape is never static, with key areas such as ESG, crypto, regulation, law, tax and financial reporting standards continuing to evolve rapidly. These pages are updated frequently, however other more static areas may be older, so check the date at the top of the item.

Any other tips?

Do make use of the site's powerful search function. This will bring up all the matches in the Wiki content throughout the site, as well as page titles.

Louise Tatham is head of professional development at the ACT

Some examples of the technical terms you can find on the Wiki:

Green halo

In treasury and finance, a green halo is an example of a halo effect. Halo effects are when an impression formed in one part of our organisation's activities carries over indirectly into other areas. This creates a favourable impression, when we are seen to do something positive and verifiable.

Green halo effects can arise from a substantive activity – or a significant signal – relating to our environmental credentials. The Federal Reserve has suggested green halo benefits might be one reason – among other good reasons – for organisations to consider issuing a green bond. "If information [about environmental credentials] is not or cannot be communicated effectively to investors with a preference for sustainability, firms may suffer from suboptimal costs of capital. Issuing a green bond may serve as a (potentially costly) solution to address the signaling problem and achieve a more optimal capital cost."

Vishing

Cyberattacks increasingly comprise – or include – social engineering techniques, where criminals trick or manipulate employees or other key individuals into transferring funds or disclosing information. Vishing is a popular social engineering technique that uses human callers or automated voice messages to deceive its victims. Related techniques include phishing, using email, and smishing, using SMS messages. Important defences against vishing and other social engineering attacks include training, awareness and appropriate professional scepticism. Be especially suspicious of anyone pressing for rapid transfer of funds or disclosure of information, whoever they claim to be.

Climate transition risk

Transition means change. Change creates risk for markets and organisations. Climate transition is the process of changing to a lower-carbon economy, and net zero emissions. Climate transition risks are the financial risks arising from climate change adaptation and mitigation, additional to the direct physical risks of climate change. Climate transition risk is an ever present – and growing – challenge for treasurers.

An increasing number of organisations have already published transition plans detailing the steps they're taking to decarbonise their operations and achieve net-zero emissions. Publication of plans will be mandatory for larger UK organisations from 2023. Transition plans must be fully robust and credible, to protect our organisations from any appearance of climate-washing.

A DAY IN THE LIFE: SOUTHERN HOUSING

Tariq Kazi, Southern Housing's director of treasury, talks about life in the social housing sector, the reasons behind a recent merger, and why he's happy to play a role on the ACT Council

LEADERSHIP & CAREER

"We don't exist to deliver conventional financial dividends"

It isn't every day that you get to complete a merger, one that had a direct impact on 77,000 households, but that day happened for Tariq Kazi last December. Up until the end of 2022, ACT Council member Kazi was director of corporate finance for Optivo, a not-for-profit housing association. But 16 December 2022 became a day to remember as it saw the completion of a merger between Optivo and Southern Housing Group to become Southern Housing – an association with more than 77,000 homes, serving 167,000 UK residents across London, the South East, the Midlands and the Isle of Wight.

Now, Kazi is director of treasury for the enlarged group and, as he says, "the hard work starts" in terms of making the operations work together. "The treasury side is quite complex. As a combined organisation, we have a £4bn-plus funding portfolio, with around £3bn of drawn debt, of which about half is in the form of publicly listed bonds and half is a mix of privately negotiated bank facilities and other long-term debt."

Kazi explains that the funding trajectory of the social housing sector, which has around £90bn debt on its balance sheet and £30bn undrawn committed headroom, is increasingly towards the long-term bond markets. "The reason for this," he says, "is that 15 years ago it was easy to get long-dated, low-priced flexible banking facilities, but the credit crunch put an end to that. Since then, relationship banks have been steering us towards the long-term bond markets. Where banks do offer long-dated lending, they are quite demanding in terms of the financial covenants, restrictions and reporting requirements."

He also observes that the social housing sector's 2.8m homes support debt funding that is still secured on an individual asset-by-asset charge basis, rather like individual mortgages, which is in effect using a retail security method for a wholesale financing product. "This is beginning to feel a bit long in the tooth," he says. "The public bond market, which we are moving towards, also requires security and typically it doesn't have financial covenants, but it does require a credit rating."

Going into the merger, Kazi and his opposite number at Southern Housing Group were tasked with seeking consent from all the bank lenders for the merger to take place. There were lenders that were common to both organisations and only a few that were with only one of the organisations, and they needed to give consent for the £1.5bn that wasn't in publicly listed bonds. "The banks needed a full credit narrative and relationship rationale in order to carry on supporting us," he says. It made the period between March 2022, when the deal was announced, and December when it was completed "quite busy".

CENTRAL GOVERNMENT MOVE

Kazi hasn't always been in the social housing sector – he trained as an accountant at KPMG, moved to HSBC for a year and then joined BNP Paribas. After seven years, he moved to Lloyds Bank, where he ultimately held the role of head of pricing for wholesale loans. He then moved into central government to become head of credit and housing debt guarantee schemes at the Department for Levelling Up, Housing and Communities.

"I learnt so much from civil service colleagues about what is strategically important to help deliver government policy. And in a lightbulb moment, I realised that this is more interesting than going back to doing more banking deals."

Since joining Optivo four years ago, Kazi has been hoping that others, too, will have this lightbulb moment as he is seeking to encourage more bankers, accountants and treasurers to bring their professionalism and experience to the social housing sector. He says that the rewards go beyond what is in the monthly pay packet, with job satisfaction and sense of

Southern Housing properties in East Sussex

social purpose being real attractions.

"We've no shareholders in the traditional sense, so we don't exist to deliver conventional financial dividends," he says. "Instead, we aim to deliver outputs and outcomes in other ways." He categorises these as social, environmental and growth dividends. The social dividend comes from housing people, improving their life chances, fostering financial inclusion. The growth dividend comes from increasing the country's housing stock and boosting capacity, which requires finding new ways of raising equity so that there isn't a reliance on debt. The environmental dividend comes in the form of the drive towards net zero by 2050 – carbon output is very significant in the housing sector. "Social housing can be more mission-focused than shareholder-led organisations and so can take action to achieve these ambitious goals," he says.

And this is what, in part, has been the driving force behind the merger. Social housing is not immune to the effects of inflation and has seen operating costs ratchet up. By coming together, the combined group would have more 'mass', and would be able to work more effectively with public and private sector partners from a stronger position. "This makes us more robust, resilient and better able to deal with the next several decades of challenges," he says.

The operational challenges have been growing, with housing associations under pressure to deliver better and safer homes, while at the same time supporting residents during a cost-of-living crisis. "We felt that the best way would be to have more mass and to 'densify' our footprint," he says. Hence the merger.

JOINED-UP STRATEGY

The day job includes managing a new team of 14 professionals in the treasury department, which consists of two teams – pure treasury and long-term financial planning. Treasury manages the funding. Financial planning provides assurance on long-term financial viability. Both work closely with the new investments department now led by Kazi's colleague Steve Sharples, who previously headed Southern Housing Group's treasury team.

Kazi and Sharples both report to the group's executive director for Strategy & Change, joining up financial strategy with corporate strategy. Together, they seek new funding tools and pathways for supporting growth plans, to continue building new homes and help solve the acute national housing shortage and affordability crisis. Alongside this, they also help fund housing stock decarbonisation and report to investors on the organisation's sustainability journey using a range of non-financial performance indicators.

The team is adapting to hybrid working, with a mix of office and remote working. "We are learning what hybrid looks like," he says, recognising the need for flexibility "so that we don't lose good people". Currently, as the merger beds down, he spends three or four days in the office, which is in Farringdon, London.

Outside the day job, Kazi is a member of the ACT Council. He joined the association's policy and technical advisory panel in 2020 before being elected on to the Council in May 2022. "It was slightly daunting and slightly challenging," he says. "If you are going to be a Council member, you do need to offer more of your time." Kazi is also a trustee of New Economics Foundation and an independent member of the finance panel at social housing provider Stonewater.

Born in Abu Dhabi, Kazi has been living in London for more than 30 years. He is the son of two doctors, but rather than following in their footsteps, he opted to become an accountant instead. "Accountancy was great," he says, "but treasury is better."

SOUTHERN HOUSING IN NUMBERS

Homes:
77,000

Residents:
167,000

Treasury team:
14

Combined funding portfolio
£4bn-plus

Philip Smith is editor of *The Treasurer*

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MOVING ON

LEADERSHIP & CAREER

As you know, I will be moving on from the ACT in the next month or two, entering a new and exciting phase in my life. However, the parting will be bittersweet, as I have had such an amazing time as chief executive of this wonderful organisation, despite the many challenges we have faced. In December 2022, I wrote a blog reflecting on all the wonderful experiences and achievements I have made jointly with the team and members over the past six years, which you can find on treasurers.org (treasurers.org/cstockmann2023).

So here I'd like to reflect on my learnings from more than 2,000 days, 50,000 hours, four continents and 20 countries (quadruple that at least in virtual terms), and countless new friends and relationships.

LEADERSHIP

Leadership is not about being aggressive, challenging, knowing better than others, keeping cards close to the chest, being defensive, or any of those somewhat outdated ideas that still raise their ugly heads in business. It's about having empathy, but not being afraid of explaining your decision-making process; about giving people as much certainty as you can in times of crisis; about caring for and respecting the individual while putting your all into the success of the overall organisation; and it's about acknowledging your mistakes and failings. It's about showing vulnerability as well as strength, taking responsibility for team members' mistakes. And it's about exercising integrity and rigour in all you do.

> "Leadership is not about being aggressive... It's about having empathy..."

BEING STRATEGIC

Being strategic is about looking forwards into the future, and considering what you want to achieve, and then working back to today. We overestimate what we can achieve in a day, but underestimate what we can achieve in a year. Google the video 'golf balls in a jar'. Sort the priorities out first, and all the small stuff *will* follow.

ONE-TO-ONE COMMUNICATION

Communicating one-to-one with team members and bosses is important and needs a regular rhythm. If there are disruptions and gaps, then small wedges of distrust creep in, and over time they can cause problems. In general, we trust someone we see regularly, where the relationship is being maintained and grown.

WIDER COMMUNICATION

For two years, because of COVID-19, the whole ACT team met virtually twice a week for 15 to 30 minutes. Sessions varied from organisational information sharing to sharing of personal anecdotes, and everything in between. For an organisation of our size, this worked very well, allowing us to retain our unique culture.

Updates on our finances were shared, as were any difficult decisions we were having to make, and I was open about my thought processes – so everyone knew they were not being kept in the dark but were included and allowed to follow any decision-making.

This really reduces stress in the individual, even if they don't like the final outcomes. We also talked a lot about other ideas to help our personal wellbeing, and some of us trained as mental health first aiders.

AND FINALLY...

As our *Business of Treasury* research has shown – and as I believe wholeheartedly from my own experience as a senior finance professional for many years – getting the basics right (in my case technical competence in finance) has to be a given. I would not have progressed through my career so quickly without it. But it's the other stuff that makes the real difference.

I would like to thank everyone at the ACT, our amazing members and the wider treasury community for your support during my time as chief executive. I couldn't have done it without you!

Caroline Stockmann is chief executive of the ACT

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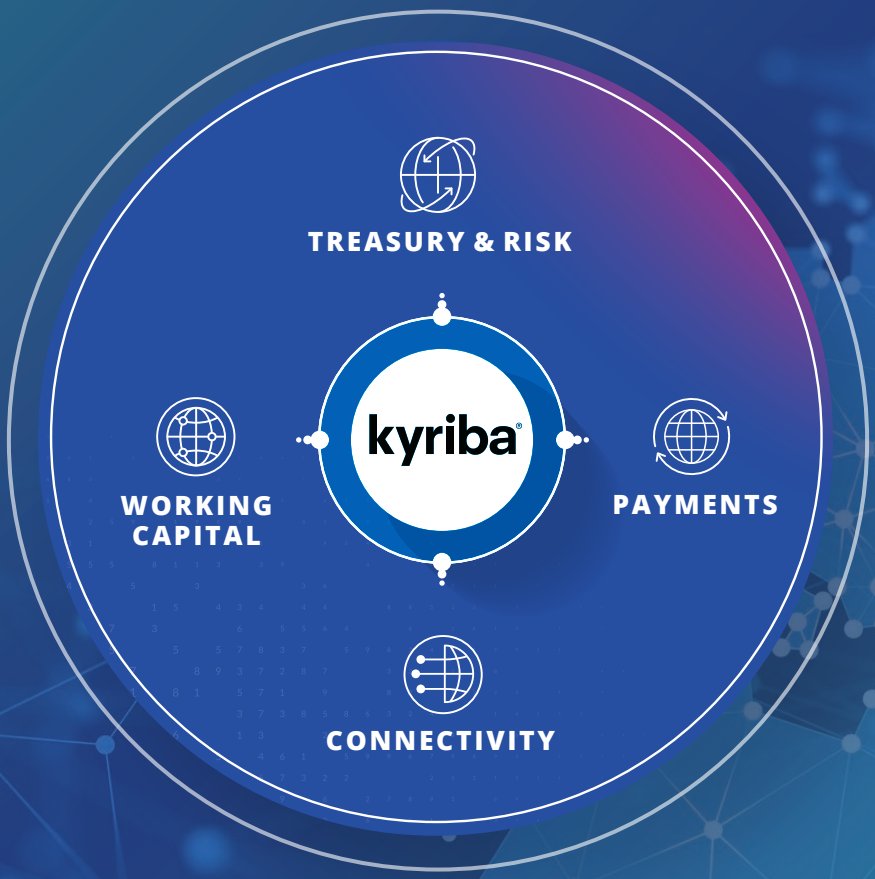

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