The Treasurer

ACT TREASURY EXCELLENCE AS STANDARD

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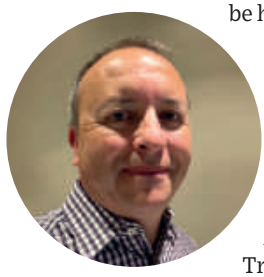
SEEING RED

There won't be many corporate treasurers who will look back on 2022 with any real fondness. There might be those who are relieved they managed to secure their funding requirements early in the year, and there will be others who are just simply relieved that they made it to the end of the year without any major mishap.

But equally, treasurers may be looking towards 2023 with trepidation – a new year, a new set of challenges. But nevertheless, we have asked treasurers what they think 2023 will bring (see page 23). Inevitably, recession is on everyone's minds, the war in Ukraine continues and there are many treasury professionals who are experiencing their first real taste of market volatility – trading screens more often than not have been a sea of red, and the spikes in long-term gilts have been painful.



Red is also the colour of the tape associated with regulation – treasurers need to be aware of what is coming down the line and how they will be affected. So, I thoroughly recommend Gavin Hinks' cover feature unpicking a number of the regulatory initiatives that are on the horizon (see page 7). Untying some of the red knots could also present opportunities as well as challenges.

Talking of opportunities, Liz Loxton's analysis on how treasurers can ensure their work is recognised at the highest levels in their organisations shows there is a real opportunity to do just that: moving away from ad hoc presentations to a more permanent place on the agenda as boards show greater interest in capital and liquidity management, business strategy and risk management (see page 13).

There has been much talk about whether we are currently facing a return to a 1970s-style global economic slowdown – oil price shocks, inflation and global instability certainly feel familiar, but as Berenberg Bank's chief economist, Kallum Pickering, argues, there are more parallels with the 1990s – looking backwards while working out how to go forwards can sometimes be helpful (see page 20).

Finally, it is a period of transition at *The Treasurer*. After more than a decade, Think Media Group is handing over the production reins to Cambridge Publishing Ltd (CPL). On behalf of the Association of Corporate Treasurers, I would like to thank Think for its hard work and service over the past 10 years, and I look forward to working with the new team at CPL.

As always, we would love to hear from you, so please let us know what you think using the email address below.

Whether it is good or bad, 2023 is set to be an interesting year. Good luck!

Philip Smith

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Follow us on Twitter @thetreasurermag

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LONG VIEW

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LONG VIEW

Analysis of long-term trends

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THE TAPE THAT BINDS: NEW REGULATIONS ON THE HORIZON

The coming months will see a host of rules coming at treasurers from many different directions. Gavin Hinks unpicks the threads

List all the regulations that currently exist, are under review or in development that might touch on the work of treasury departments and any self-respecting treasurer would be forgiven for curling up under their desk and refusing to come out.

THIS ISSUE

The array touches on a multitude of treasury themes from deposit taking to payments and asset management to markets.

Current rules already challenge treasurers. Some find the know-your-customer (KYC) rules onerous, especially the way they congeal administration for opening bank accounts, while others feel beset by the ever-changing sanctions connected to the invasion of Ukraine. "It makes it difficult for us to plan what is possible and what isn't," says David Ranson, group treasurer at Pentland Brands, owners of marks such as Berghaus and Kickers.

Elsewhere, the transition from the discredited LIBOR benchmarks to so-called 'risk-free rates' may be nearing completion, but it's continuing to absorb the time of treasurers and advisers alike, especially for companies denominated in US dollars.

Then there is the Financial Services and Markets Bill making its way, at the time of writing, through the UK parliament. This is a major piece of regulatory groundwork, a post-Brexit shifting of responsibility for reviewing and reforming financial regulation from EU bodies to the UK and its key watchdogs – the Bank of England, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

"The government is going to re-lay the regulatory patio in a way that suits the UK," says Kathrine Meloni, a special adviser in finance and banking at law firm Slaughter and May. That presents risks and perhaps a few opportunities; risks in that treasurers must maintain a watch on whether UK regulators take rules in entirely new directions, diverging from the EU framework.

But also: "There's potentially an opportunity in this exercise to address any red tape that treasurers think is holding them back from investing and growing their businesses in the UK," observes James Winterton, associate director, policy and technical at the Association of Corporate Treasurers.

Taken together, these may seem like a significant piece of work. And yet, the horizon is crowded with a host of regulatory developments that may affect treasury work either directly or indirectly. It's worth looking at some of those in more depth.

2025
The year Basel 3.1 is expected to be implemented

$350tn
The value of financial instruments and contracts globally that were underpinned by IBORs (Source: EY)

MARCH 2020
Flashpoint for money market funds caused by COVID-19-inspired 'dash for cash'

Brussels has published some proposals for a Basel 3.1 regulatory guidelines update

Money market funds

Regulators have been concerned about money market funds (MMFs) since the outset of the pandemic in March 2020 when funds saw a rush of redemptions in a 'dash for cash'. This caused watchdogs to reassess the long-held view that MMFs are inherently safe, resulting in a report by the G20's Financial Stability Board. In short, its current worry is whether large and sudden outflows might cause an MMF to be suspended, and whether one suspension might prove contagious. Indeed, the Bank of England says: "If multiple MMFs used by UK investors had suspended in March 2020, there could have been a significant threat to wider UK financial stability."

Many institutional MMFs used by UK investors are hosted in the EU. Both in Brussels and the City (for sterling-denominated funds) consultations have been under way this year to see how regulation might bolster MMF resilience. The FCA has asked for views on a swathe of possible measures up for consideration.

One step is to address the liquidity of the assets held so they can deal with demands for redemption. This could be done in several ways by setting minimum levels for liquid assets or upper limits for less liquid assets.

Watchdogs are also considering ways to deal with 'threshold effects'. It is thought possible that investors monitor the level of liquid assets that are in their funds to see if they approach the minimum threshold. Currently, reaching the threshold could kick in the imposition of 'fees and gates'.

Investors, seeing the threshold within reach, and seeking a 'first-mover' advantage, could choose to redeem before fees are used. That could cause a cascade effect, prompting a rush for redemption. As a result, the FCA is considering proposing an end to the link between specific liquidity levels and the need for fund managers to consider instigating fees or gates. That said, the FCA is also considering a proposal of imposing the 'true' cost of redemption on shareholders as a significant disincentive.

All of these have pros and cons to be worked through. The measure that may worry treasurers, however, is a proposal to remove the 'stable' net asset value (NAV) characteristic of some MMFs, in particular low volatility NAV (LVNAV) funds, those most popular among UK corporates because they are most like cash. They are known as 'stable' because they offer redemption 'at par'. The risk is that works for those at the beginning of a market crisis ('first movers'), but not so much for those left holding their investments after a fund is forced to end 'at par' redemptions because asset values have fallen.

David Green of ArlingClose, a treasury adviser, points out LVNAVs are popular because they offer security, diversification and "comfort from having a portfolio manager".

But there is also anxiety about accessing alternatives should stable LVNAVs go. Only the largest corporates are likely to have the capacity to engage in reverse repo. "The particular concern would be for mid-size companies, or smaller companies, as there isn't really anywhere else to go for them other than bank deposits, where rates have been unattractive," Winterton says.

Basel 3.1

Another issue brewing on the horizon for treasurers is an update to the Basel Framework, the regulatory guidelines written to help keep banks from falling over in a crisis.

Banks are currently grappling with Basel III, a third iteration of the framework, but both the EU and the UK's PRA are working on implementation (and potentially interpretation) of an update: Basel 3.1. Brussels has published some proposals while the PRA is expected to launch a consultation next month.

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> "FOR SOME CREDIT INSTITUTIONS, CAPITAL REQUIREMENTS PLAY A HUGE ROLE WITHIN THE PRICING OF A PARTICULAR OFFERING"
>
> LIAM GIRVAN

While implementation had been expected in January 2022, observers believe markets are unlikely to see finished regulation until 2025. It is anticipated that the PRA will seek to coordinate with the EU.

For treasurers, the interest in Basel 3.1 is indirect: could it push up the cost of finance? Analysts believe we are some way from knowing the answer.

"It's the million-dollar question," says Liam Girvan, an associate director at Deloitte and a former Bank of England policy expert.

At the heart of Basel 3.1 are new rules for calculating the risk-weighted assets that (RWAs) banks hold. Banks are asked to hold a minimum of RWAs as part of the capital adequacy rules, so the new methodology could have a big impact on whether banks need to make adjustments. Finding more capital could push up the price of financing for companies. However, there is uncertainty about the impact of RWA asset calculations.

A Basel Committee project, the 'quantitative impact study', is supposed to offer some indication of how bank assets will be affected. However, at some distance from the actual launch date, the data is not considered entirely reliable. Only when banks are on the threshold of implementation do experts expect the position to firm up.

"To the question of, 'If capital goes up, does that equal implications for the end users, particularly in price?', it's very difficult to tell," says Girvan, "It's very specific to the institution in question. For some credit institutions, capital requirements play a huge role within the pricing of a particular offering. In other institutions, it might not."

Philip Leech, a director in banking regulation and treasury also at Deloitte, says: "From a non-financial institution perspective, treasurers might need to consider there ›

could be longer-term implications on pricing [for the cost of capital].

"But it will take some time for that to be clear. And inevitably, there's a bit of potential for differences in different jurisdictions."

Elsewhere, there is a worry that a Basel revamp will have ripple effects. Henry Balani, global head of industry and regulatory affairs at Encompass, a due diligence software company, says changes forcing banks to hold more capital could make them more "risk-averse" to lending.

"In some ways, ...the regulations themselves are probably going to be a bit of a challenge for economic growth," Balani says.

Payment Services Directive

Vigilant treasurers with online business models may want to follow development of the Payment Services Directive (PSD), currently under review to produce what would be its third iteration, or 'PSD3', as it has been dubbed.

A piece of European regulation, and under review by the European Banking Authority (EBA), PSD currently governs regulated providers offering payment services, banks largely.

The review looks, however, at where there are other companies offering services that should be caught by the rule. In short, regulators are asking whether some organisations, particularly those with online businesses, are genuine sellers or simply processing payments.

Ferdisha Snagg, a PSD expert at law firm Cleary Gottlieb Steen & Hamilton, says: "Where you are in the middle, collecting money in connection with another business, the European regulators are looking more and more like they want to capture that sort of business model."

There will be few worries for most corporate treasurers, as there is protection

MMFS: WHY THE BANK OF ENGLAND IS SO CONCERNED

Money market funds (MMFs) are a type of open-ended investment fund, used in many jurisdictions. In the UK, they are authorised by the Financial Conduct Authority under the UK Money Market Fund Regulation.

MMFs are considered to be a low-risk investment that gives investors credit risk diversification and a place to hold, rather than grow, their assets. In March 2020, financial markets reacted to the COVID-19 pandemic with increased selling pressure, volatility and illiquidity. MMFs came under severe strain across major currencies, including in sterling, as investors quickly sought access to cash.

There is concern among authorities that underlying vulnerabilities within MMFs remain. (See, for example, the Bank of England's *Assessing the resilience of market-based finance* and the Financial Stability Board's *Holistic Review of the March Market Turmoil*.) If multiple MMFs used by UK investors had suspended in March 2020, there could have been a significant threat to wider UK financial stability. Financial Stability Board members, including the UK, agreed to assess and address the vulnerabilities that MMFs pose in their country. (See the Financial Stability Board's final report on *Money market fund resilience*.)

Details of the Bank of England's discussion paper can be found at bankofengland.co.uk

"

IF YOUR BUSINESS IS ONLINE, WHERE YOU'RE COLLECTING MONEY, THERE'S A QUESTION THAT YOU HAVE TO ASK ABOUT WHETHER YOU ARE A PAYMENT SERVICES PROVIDER"

FERDISHA SNAGG

for some activities that look like payments services on the surface. But those offering a platform for other sellers may have a problem.

"The typical corporate treasurer undertaking cash pooling doesn't need a licence for that kind of intragroup business," says Snagg. "There is a specific exemption for that.

"But if your business is online, where you're collecting money, there's a question that you have to ask about whether you are a payment services provider."

Jurisdiction is another issue lurking in the review. Some companies have located their payment services in a jurisdiction presently beyond the reach of the EU. The review will ask whether those entities should be brought into scope.

What the review says about security online is also an issue to watch. The EBA will consider what kind of authentication will be permissible online. Snagg says the review could "stymie" innovation if it plumbs for narrow online authentication rules.

EMIR review

Treasurers frequently use derivatives to hedge risk exposure, whether it be to interest rates, currencies or commodities.

But here, too, there may be change under way that could affect treasurers trading derivatives as the European Securities and Markets Authority (ESMA) undertakes a review.

The European Market Infrastructure Regulation (EMIR), the rules governing derivatives trading, is under review by ESMA.

Ostensibly, the aim is to make the EU a more attractive market for derivatives. And, for the most part, the reforms apply to financial firms and isn't concerned with unlicensed entities. However, there are some measures that treasurers should be watching, in particular what ESMA concludes on the 'thresholds' for moving over-the-counter (OTC) derivatives trading to an exchange for clearing.

According to Leen Broekhuizen, a director at KPMG and an expert in derivatives regulation, a shift in the thresholds could make a difference to the volume of OTC trades needed to be cleared, though it remains unclear where the thresholds will be set given the volatility of commodity prices and interest rates.

> "YOU HAVE TO BE ABLE TO DEMONSTRATE TRADES ARE NOT SPECULATIVE TO EXCLUDE THEM FROM YOUR THRESHOLD EXPOSURE"
>
> LEEN BROEKHUIZEN

"Corporate treasurers should definitely monitor their exposure to those [EMIR] thresholds and consider how they might mitigate their exposure, either by putting the brakes on and undertaking fewer transactions or finding other ways such as by designating them as risk-mitigating hedges," Broekhuizen says.

And there hangs a tale. There is an exemption from clearing for trades defined as run-of-the-mill hedging. Derivatives trades made for 'speculative' purposes above the thresholds are caught by the regulation.

"You should be much more concerned about speculative transactions. You have to be able to demonstrate trades are not speculative to exclude them from your threshold exposure," Broekhuizen says.

It's worth bearing in mind one other factor when considering where EMIR will end up. Post-Brexit, the UK runs its own version of EMIR, the EU another. As time goes on, the UK and EU may diverge further, adding an extra layer of complexity, especially for British companies with operations in Europe.

"Over time, and particularly with the new UK government's announcement about replacing European law, you have to expect that divergence will continue," adds Broekhuizen.

This is just a handful of the regulatory issues out there, though arguably they are some of the most high profile. While some will directly impact the work of treasurers, many will have indirect effects. But that doesn't mean they will be unimportant. There are many strands at play, touching all aspects of treasury, and some of them will be significant. A well-informed treasurer will be more likely to cope when the time comes.

Visit treasurers.org to keep abreast of the latest technical updates, blogs from the policy and technical team, and webinars and conferences.

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Gavin Hinks is a freelance business journalist

STOP HIDING IN PLAIN SIGHT

Now more than ever, treasurers' close relationships across the business and with external contacts will stand them in good stead. Liz Loxton reports

In a challenging business climate, treasury skills and expertise are in demand.

Once-in-a-lifetime events keep on coming, geopolitical tensions show no signs of abating and financial volatility is a confirmed feature of the landscape. Treasurers are well-placed and well-used to managing risk, but nevertheless face a full agenda when it comes to providing intelligence, responding to business needs and maintaining their organisation's cash and liquidity position.

According to this year's *Business of Treasury* report from the Association of Corporate Treasurers (ACT), treasury professionals are providing more and more input on strategy rather than simply responding to events. To do that effectively, they need traction with their banks and other external stakeholders such as credit rating agencies, as well as within their own organisations.

Boards are showing greater interest in capital and liquidity management, business strategy and risk management compared to last year's *Business of Treasury* report. Good enough reason to be prepared and ready to reinforce treasury's expertise and perspective in boardroom discussions.

It is potentially an area of opportunity, too. Moving treasury from ad-hoc presenter at board meetings to regular participant greatly enhances treasury visibility and enables treasury to provide more proactive support on critical areas such as payments and cash flow, says Sarah Boyce, associate director, policy and technical, at the ACT. "It means they can develop meaningful relationships instead of merely providing ad-hoc information, which, in turn, puts the treasurer in a stronger position if the business environment gets tougher," she explains.

Alexandra Lewis

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Internal networking

Treasury visibility elsewhere around the business also counts. Alexandra Lewis, group treasurer at National Grid, argues that the inflow of data and information into treasury is crucial for fund raising, for example. It takes a treasury team with strong internal connections to ensure that input takes place.

"At the end of the day, we are raising finance for National Grid and we are therefore a drawer of information from the business, so that we can explain to our potential investors and current investors what we are doing. We therefore need to ask lots of questions of the business," she says.

That's best achieved by treasury professionals who are embedded in their organisations and making the most of their internal networks.

"A good example of this from the last few years is green financing, where you are talking to your investors in some detail about what projects their cash will be invested in. You actually need to get not just the finance teams, but the engineers and sustainability professionals in the business to come together to say, 'Well, this project does x and the impact it has is y'."

The validity of the fund-raising team is enhanced by these wider connections. "We always do better when we don't work in silos. We always do better if we reach out and get other inputs. All of this just adds to the richness of our collective expertise and insight," she continues.

93%

When asked whether the treasury function is seen as a strategic business partner, the answer is conclusive, with 93% agreeing (source: *The Business of Treasury 2022*)

"

IF WE ARE CLOSE TO OUR BUSINESS, UNDERSTAND WHAT IT'S DOING AND WHAT OUR CUSTOMERS WANT, WE CAN DRIVE CONVERSATIONS WITH OUR FINANCIAL PROVIDERS TO MEET THOSE NEEDS"

RICHARD GARRY

Effective links

Richard Garry, group treasurer at exhibition and business information giant Informa, says the profile of his treasury team internally is strong and those links mean the team can be effective. "It goes from top to bottom. I report into the CFO; we get board-level visibility via the CFO – and straightaway, just by virtue of that interaction, we get the attention of other executives. That can be very helpful in terms of knowing what's going on across the business," he says.

He makes a similar point to Lewis about being visible and connected internally at other levels throughout the organisation.

"We try to be commercially useful," he says. An example of that is staying aware of what's going on in customer relationships. As Informa's face-to-face trade shows have resumed, so have the commercial meetings between the business and its clients. While treasury doesn't have to be alongside for day-to-day operational activity, it can support by keeping commercial heads up to date on payment and collections, for example. "If we are close to our business, understand what it's doing and what our customers want, we can drive conversations with our financial providers to meet those needs. And we do that by interacting with the business, with the operations people in a particular location and not just by me interacting with divisional heads."

Treasury and banking technology can enhance transparency around payments further.

"We don't let exhibitors into our exhibitor halls until they have paid, for instance. And as you get closer to an event, more and more customers will be trying to pay you." Making it easy for customers to pay and ensuring that information flows through to key people in the business enhances the customer relationship and customer journey. Application programming interfaces, providing real-time updates on cash inflows and bank balances, can facilitate that information exchange. "I don't need to know minute-to-minute what our balances are doing. But actually, that's a good example of when the business would like to know in real time."

Business partners

Essentially, treasurers need to be business partners. Business partnering, says Boyce, is all about understanding the business and applying that knowledge in helpful and useful ways.

Close relationships with customer-facing parts of the business are especially helpful

Richard Garry

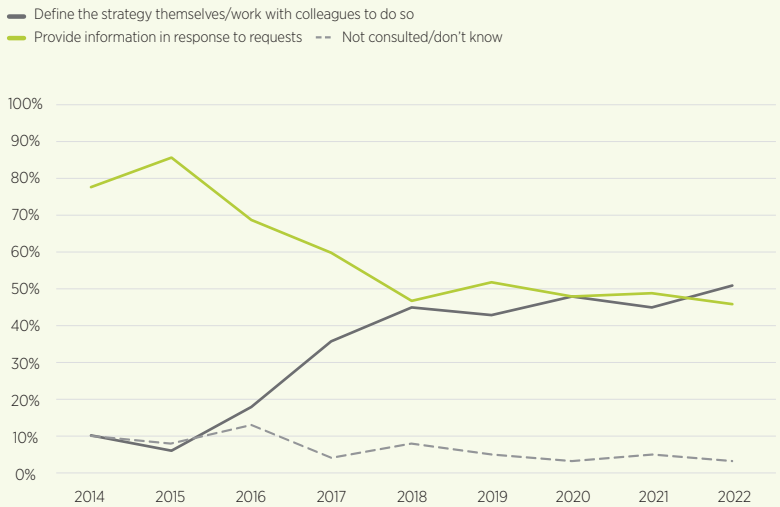
GROWING INFLUENCE

This year's *Business of Treasury* survey revealed that treasurers have become more influential as a result of the pandemic. For the first time in nine years, treasurers are weighing in more on defining strategy rather than just providing information to contribute to it. That said, it is treasurers with greater longevity in a role who are most likely to be involved in defining strategy (66%).

But will this strategy-setting prominence continue? For some treasurers, the increased interaction with the board was temporary – on a 'needs-must' basis. But significantly more of those who had increased interaction have kept it going than those for whom it fell away.

SOURCE: *THE BUSINESS OF TREASURY 2022*

DEFINING THE STRATEGY: WHEN ASKED ABOUT THE TREASURY TEAM'S INVOLVEMENT IN DEFINING BUSINESS STRATEGY, FOR THE FIRST TIME MORE TREASURERS ARE DEFINING THE STRATEGY RATHER THAN RESPONDING TO REQUESTS; THOSE WHO ARE NOT CONSULTED IS AT AN ALL-TIME LOW.



in fast-moving business environments. If a treasurer knows that a new customer intends to pay on the 10th of each month, they can avoid borrowing on the 9th for longer than necessary – useful intel in a higher interest rate environment, suggests Boyce.

That mindset is an important one for treasury leaders to cultivate and foster, Lewis argues. While liaising with credit rating agencies and maintaining strong relationships with banks is a core part of the treasury job description, internal networking and understanding the business can be a part of the job that needs encouragement.

Treasury teams are often quite naturally external facing, but internal relationship building often requires little more than a willingness to be curious about other areas of the business and to conduct open conversations. "People think they need an agenda. And that can sometimes get in the way."

A helpful approach may be to simply set up meetings with the sole purpose of understanding each other's roles better. "If you just go in with: 'it would be helpful if you understood what I did and vice versa', and literally let that be the basis of the conversation, that can actually uncover helpful insights," Lewis says. "Just being clear that actually you've no agenda other than: 'maybe we could see whether we could uncover any areas where we think we should work a bit more closely', can be super helpful."

There are, of course, no guarantees that times won't get even tougher. And in times of crisis, a strongly internally connected and outwardly visible treasury team is essential.

"When things are just handle-turning and business as usual, it's much less of an issue. But when there is some turmoil in the financial markets and there's lots of change happening, which could impact you in ways you don't realise, treasury has to be one of the people at the table," says Lewis.

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

The Business of Treasury 2022

See the Association of Corporate Treasurers' research at treasurers.org/hub/research/business-of-treasury-2022

TWO-WAY STREET

Mentoring has been used to great effect in treasury. But, asks Lawrie Holmes, could reverse mentoring take off in a function needing to develop new skill sets to meet growing demands?

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Companies and other organisations have long understood the value of mentoring, and treasury functions have been no exception when it comes to senior staff guiding more junior team members.

But over time, the concept of reverse mentoring has been increasingly talked about – the idea of more junior staff transferring valuable information upwards.

In fact, the concept is nothing new. Jack Welch, former CEO of US conglomerate General Electric (GE), has been credited with popularising the method in the 1990s, when he recognised that GE management needed to learn more about the internet from junior staff.

Ian Browne, a careers coach who has held senior roles across Lloyds Banking Group, says reverse mentoring provides older leaders with an opportunity to re-engage with a love of learning, and is a source of mental stimulation and intrinsic motivation. "It feeds the instinct to help a younger generation and pay back favours lent to them in their early careers, but without the obligations that traditional mentoring has in terms of offering advice, sponsorship and opening doors for the younger person," he says.

For younger mentors, Browne says it brings the opportunity to "temporarily step up a few layers in the hierarchy, to 'look at the world above the cloud', see the organisation as a whole instead of the silo they are in, and appreciate the connected complex moving parts".

"It feeds the instinct for impact; typically, younger mentors want to make a difference but hierarchically, they are not in a position to make change happen or lack skills to navigate the complexity of the organisation, so reverse mentoring allows them to surface an idea which may be taken forward through the older mentee," he says.

> "TYPICALLY, YOUNGER MENTORS WANT TO MAKE A DIFFERENCE BUT HIERARCHICALLY, THEY ARE NOT IN A POSITION TO MAKE CHANGE HAPPEN OR LACK SKILLS TO NAVIGATE THE COMPLEXITY OF THE ORGANISATION"
>
> IAN BROWNE

> "WITH REVERSE MENTORING YOU COULD HAVE YOUNGER PEOPLE WHO MAY NOT HAVE SO MUCH EXPERIENCE, BUT MAY HAVE THE GUTS TO EXPLORE WHAT BLOCKCHAIN, MACHINE LEARNING AND ARTIFICIAL INTELLIGENCE CAN OFFER"

ALEXANDER ILKUN

Matter of time

What of treasury specialists? Alexander Ilkun, a consultant in treasury technology and risk management who worked in treasury roles at GE and Moody's Corporation, is a convert. That's despite the fact he hasn't seen it employed in a treasury function.

He believes that it is only a matter of time before more treasury functions embrace the approach, as they are having to move much faster with better technology that more junior staff might have a handle on.

"Treasury is changing rapidly because the world around us is changing a lot. The pandemic, the geopolitical situation, the climate situation mean the pace of treasury has become much faster. It's important for us to be connected to near-real-time data to make quick decisions and automate decision-making so that you can be in that flow," says Ilkun.

"With reverse mentoring you could have younger people who may not have so much experience, but may have the guts to explore what blockchain, machine learning and artificial intelligence can offer. On the other hand, you may have someone higher up who has the experience behind them but who is reluctant to do something because it's a new thing to them.

"They don't want to invest their own time in it as the learning curve is quite steep. That's where they could engage with someone younger who has the willingness and the desire to learn, as they're eager to add to their skill set," he says.

Up for debate

There are those who question the terminology of reverse mentoring, including Ilkun, who says it is a "fancy term" to describe the two-way street that can occur in any good manager-employee relationship.

"I have direct reports who are younger than me or about the same age and I have a direct report who is much older who I learned a great deal of technical perspective from. It's a relationship that we've built, whether we call it mentoring or reverse mentoring," he says.

Tim de Knegt, treasurer and manager strategic finance at Port of Rotterdam, is of the same opinion. He says: "There is no such thing as reverse mentoring; mentoring can be done to 'subordinates', but also to managers and executives.

"I am a big fan of this and always encourage my team to provide as much feedback as they want to share," says de Knegt. "In my view, mentoring is an important element in any function. Only part of an individual's success can be attributed to knowledge and talent – other elements are mentality and competencies.

"The mentor should support mentees balancing the different elements and also the interaction with personal life and non-work-related elements. Mentors can also provide feedback on how mentees are perceived. For instance, giving feedback to executives is very effective for that reason," he adds.

Nikolaj Enevoldsen, who has held senior treasurer roles at brewer Carlsberg and coatings

CO-LEARNING PARTNERSHIP

Professor David Clutterbuck, practice lead at consultancy Clutterbuck Coaching & Mentoring International, goes as far as to question reverse mentoring, describing it as an "old-fashioned idea deeply rooted in American business with little application now".

Prof Clutterbuck also advocates moving towards reciprocal mentoring, which he describes as a "co-learning partnership that seeks to bring about both individual and organisational awareness and change".

"When reciprocal mentoring becomes the norm in employer organisations, change in society generally is an inevitable outcome. For that to happen, both those in the executive suites and those on the ground floor must reach out to each other, offering and requesting to partner," he adds.

giant Hempel, says he is open to the notion of reverse mentoring in the function. "I like the idea of listening more to the younger generation, about what is changing in culture and technology."

But he questions how the process is likely to be kicked off. "Some youngsters would ask whether they could have a mentor, but who would be the one asking for reverse mentoring?" he asks.

Power imbalances

If anything, reverse mentoring has gained a more powerful impetus in organisations keen to correct power imbalances identified in light of the Black Lives Matter and MeToo movements, as well as address LBGT+ principles.

In this respect, leadership coach Cheryl Thompson says reverse mentoring can "create a safe space for those with less work-related experience to be able to share upwards; it shows them that they matter, that the person they are mentoring can benefit from them regardless of either party's title and professional experience".

"It shows that they can and should share what they know to be true irrespective of hierarchy. It builds self-worth, confidence, recognisable value beyond 'time-clocked', self-confidence and transparency. It makes hierarchies collapse and contract, and brings people closer together," says Thompson, who was head of culture and people at think tank Rethinking Capital.

She adds that reverse mentoring creates strong bonds with people with diverse perspectives from varying backgrounds. "It creates connectivity beyond standard 'grades' or groups. It brings truth to the table that might not have been possible without this reversal of the typical power dynamic.

"It builds trust. With this new-found and created safety, the leaders can have true empathy and heart-led connection with those people they would never have known before," she adds.

Andy Mullaney, a career development coach who spent most of his career at Lloyds Banking Group, says that reverse mentoring can work well provided it is introduced by those at the top and passed down to the bottom. He says: "It's an act of trust, but the result is that it will make a difference, as it makes people empowered and can make a whole organisation change its behaviour."

> "IT'S AN ACT OF TRUST, BUT THE RESULT IS THAT IT WILL MAKE A DIFFERENCE, AS IT MAKES PEOPLE EMPOWERED AND CAN MAKE A WHOLE ORGANISATION CHANGE ITS BEHAVIOUR"
>
> ANDY MULLANEY

But there are question marks over this approach. Browne says the value of reverse mentoring can be limited if not conducted effectively. Referring to his own research, he says: "When older mentees were forced by their organisations to do reverse mentoring, their lack of emotional investment in the relationship led to poor outcomes.

"Unlike traditional mentoring, the older senior leader despite being theoretically mentee, holds the majority of the power and influence in the relationship," he says. "Instead viewed more through a reciprocal mentoring lens, both parties have needs and potential gains through the relationship," Browne concludes.

Mentor Me service for ACT members and students

treasurers.org/membership/mentoring

Lawrie Holmes is a freelance business writer

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BACK TO THE FUTURE

There has been plenty of talk about the UK facing a 1970s-style recession, but the future could look more like the 1990s, argues Kallum Pickering

The UK once again finds itself in choppy economic waters. A major global energy supply shock, surging inflation and rising interest rates have tipped the economy into a recession that will deepen over winter. It will be the second downturn in two years following the mega-recession during the COVID-19 pandemic in 2020. The new decade has not started well.

If any of the problems underlying the current turmoil sound familiar, they should. While the details differ, the UK suffered from a similar combination of challenges in the early 1990s. They produced a recession then, too. From Q2 1990 through to Q3 1991, the economy shrank by 2.1%.

Relative to previous recessions in the 1970s and 1980s, when GDP declined by 5% or more, the 1990s drop in output was modest. It was also much less severe than the approximate 6% plunge during the 2008 global financial crisis (GFC).

But was the 90s shock really less bad? That depends on how you measure it. If you focus just on output losses, which is standard for economists, then you might say yes. But when you ask people about the early 90s downturn, they recall bad memories that are in many cases worse than for the GFC.

15%
The interest rate set by the Bank of England to fight inflation and prop up sterling in 1990

8.4%
The rate of inflation in June 1991 in the wake of rising oil prices due to the first Gulf War

2.1%
The amount the UK economy shrank between Q2 1990 and Q3 1991

Even though the overall drop in GDP was small, the economic troubles that came with the early 90s shock affected almost everyone in one way or another. Inflation surged from 5.7% in January 1990 to 8.4% in June 1991 as oil prices doubled in the wake of the first Gulf War. Inflation had already been building before the war on the back of excessive fiscal stimulus in the late 1980s.

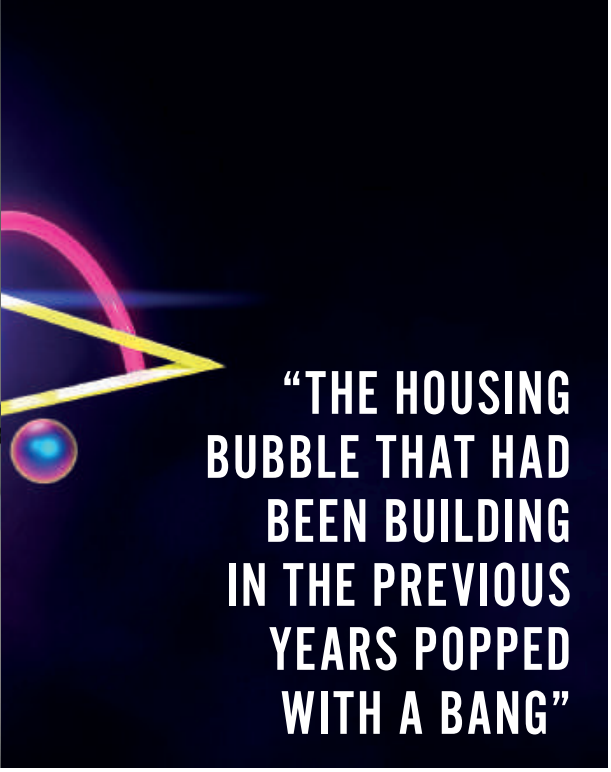
Then, the Bank of England (BoE) lifted rates to 15% in 1990 from 7.5% in the late 80s to stem the inflationary tide and to prop up sterling as part of the exchange rate mechanism. Surging mortgage rates and already high inflation hit household budgets. The housing bubble that had been building in the previous years popped with a bang.

Less bad

Whereas the 2008 shock was terrible for people who were made unemployed, especially as many struggled to find new work for years afterwards, the personal circumstances of most people were less badly affected during the downturn than in the early 1990s. House prices fell by less. Inflation was much lower. Interest rates even declined sharply as central banks aggressively eased as soon as the troubles started.

In many respects today is comparable to the 1990s. Although the hit to GDP looks likely to be modest – probably around 2.0–2.5%, almost everyone will experience some kind of hardship.

The cost-of-living crisis, which is almost entirely due to Russia's invasion of Ukraine, has pushed up global energy prices. The rise of inflation to 10% in the UK will cut real incomes by at least 5% this year for most households.



"THE HOUSING BUBBLE THAT HAD BEEN BUILDING IN THE PREVIOUS YEARS POPPED WITH A BANG"

WARNING FLAGS

There were 86 profit warnings issued by UK-listed companies in the third quarter of 2022, according to Big Four consultancy EY-Parthenon. This is the highest third quarter total since 2008, 34% higher than Q2 2022 and 69% higher than the same quarter in 2021. The consultancy revealed that 57% of warnings during Q3 2022 cited rising costs.

But more intriguingly, the report added that 28 listed companies have now issued their third consecutive profit warning in the past year, compared with 18 at the end of Q2. On average, one-in-five companies delist within a year of their third warning, most due to insolvency.

On top of this, around half of households with a mortgage are at risk of seeing their interest costs triple.

Even though unemployment probably will not rise much – the 1990s recession and the GFC each put around one million people out of work – life has become harder for many millions.

Although the situation is bad now and may get worse, there is some room for hope. In one very important respect, it is good news that the setup is similar to 1990 and not 2008.

The GFC was borne out of years of worsening financial system fragility that became all too apparent when house prices started to correct in the UK and elsewhere from 2006 onwards. The housing market had been built on sand during the 2000s boom. Too little capital in the banking sector. Too many risky loans. It was an accident waiting to happen.

Recovery painfully slow

The economic recovery that followed the GFC was painfully slow. Instead of lending and spending, banks were forced to build up capital and households had to pay down debt. This stripped growth momentum and resulted in a huge permanent loss of output from which the economy never fully recovered.

In the 1990s, however, the shock did not entail anything like the same degree of financial system turmoil or lasting economic damage. Largely because of a better fundamental starting position, the economy sprang back to life as soon as inflation and interest rates came down. Once the headwinds faded, the recession gave way to a long period of strong growth and rising prosperity.

The situation today is similar. UK banks have three and a half times more capital today than in 2007. Consumer credit as a percentage of incomes is near a 20-year low while households have excess savings worth some 8% of GDP sitting on their balance sheets. And 86% of all mortgage debt sits with the top 50% of households, who are at low risk from default as interest burdens rise. The UK faces a recession but not a financial crisis.

Once inflation starts to fall fast from early next year onwards, the BoE should be able to take its foot off the brake and lower interest rates somewhat during the second half of the year. As a best guess, the BoE bank rate will settle at around 3% once the current bout of high inflation passes. That would be no major obstacle to an economic expansion.

No question, the UK faces a serious economic situation. Beyond the ongoing fallout from Brexit, the outlook is clouded by the internal crisis within the government and policy risks that come with it. The uncertain outlook for the war in Ukraine adds an unpredictable international dimension to the course of the recession.

If the lights go out due to genuine energy shortages across Europe during winter, then comparisons to the 1970s may become appropriate. But, for now, that seems unlikely.

At any rate, things will be clearer by early next year. By then, with luck, we should be anticipating better times from spring onwards.

Kallum Pickering is senior economist at Berenberg Bank

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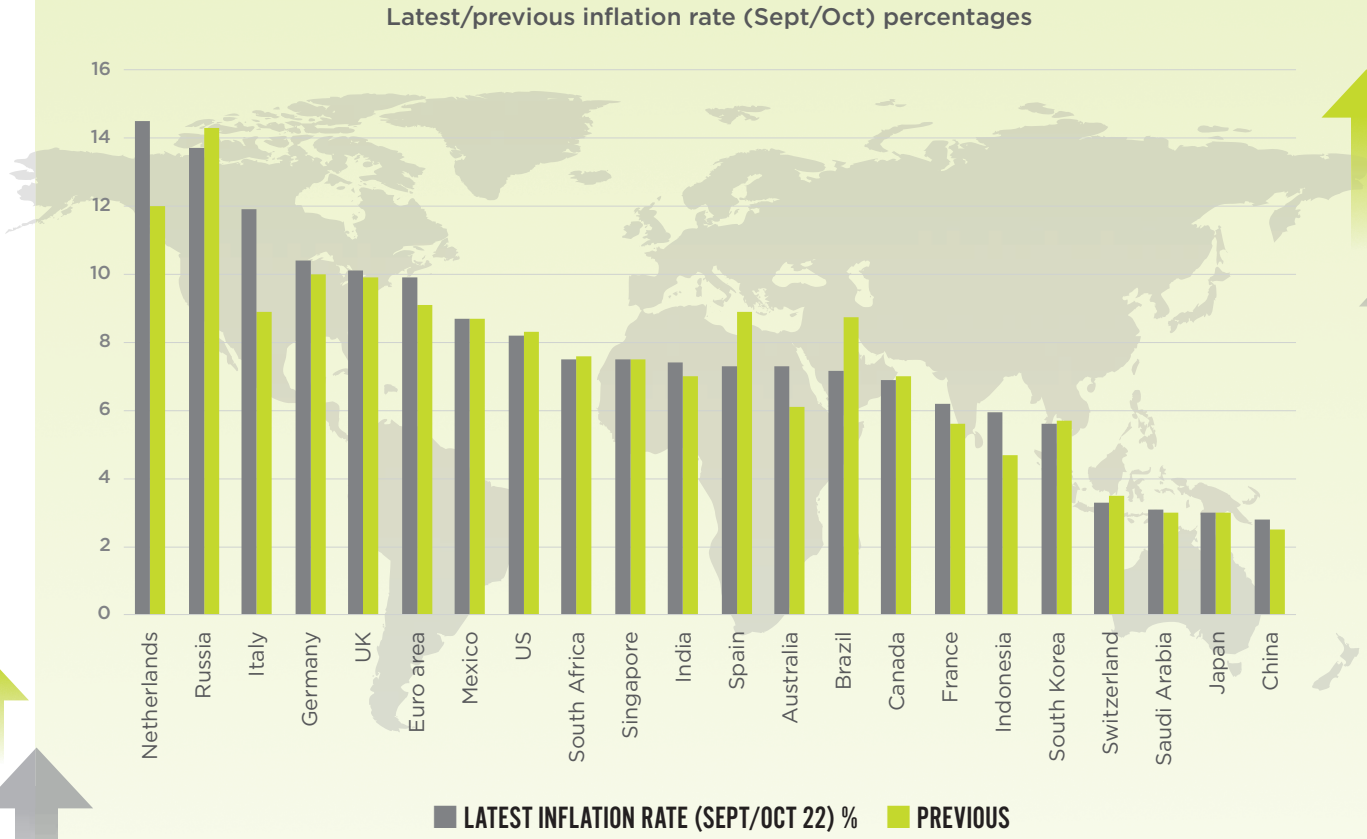
IN DETAIL:

INFLATION BLOWS UP AROUND THE WORLD

The impact of rising prices, fuelled by food and energy crises, has been uneven, data reveals



Source: Trading Economics

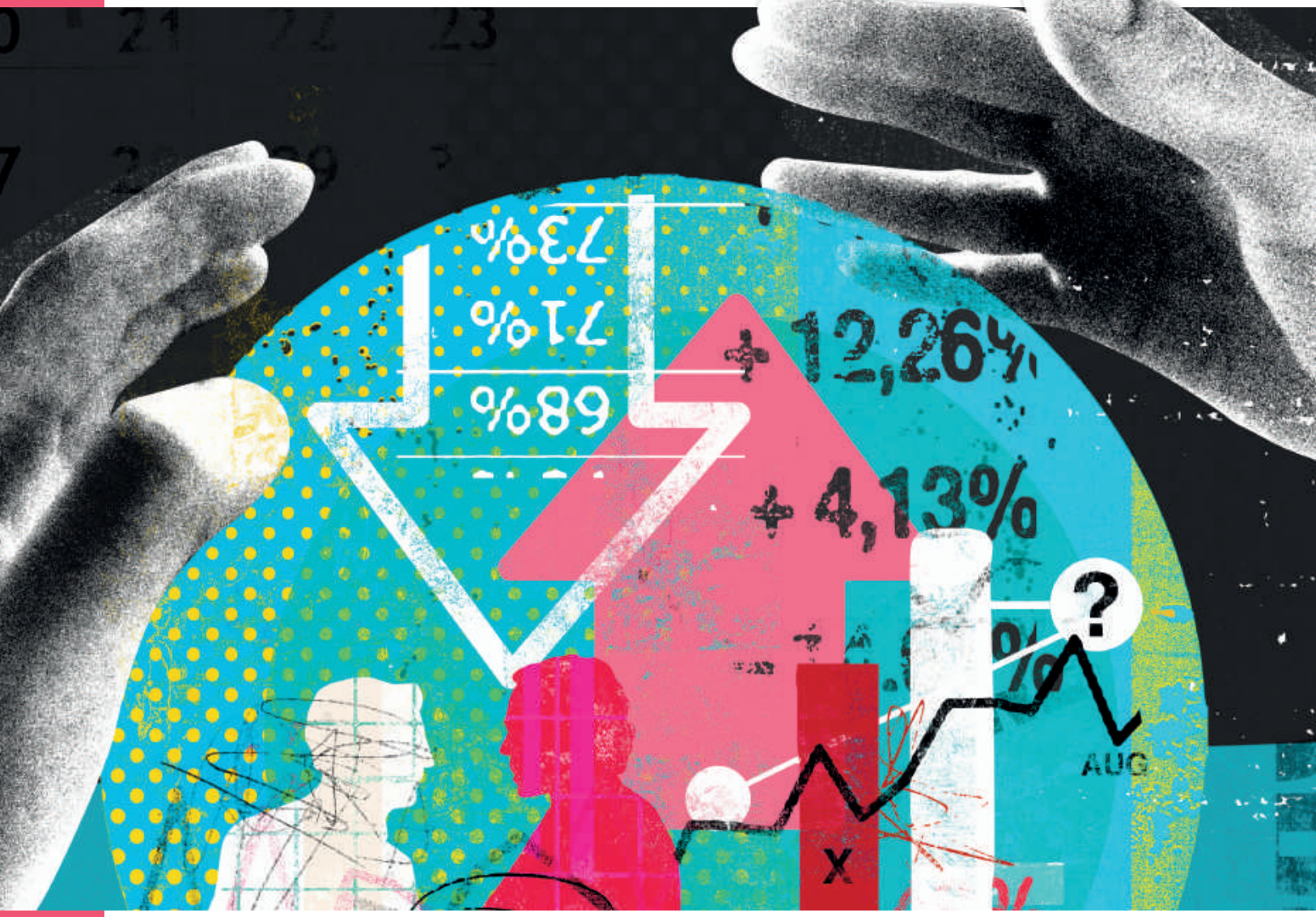
At the beginning of the year, *The Treasurer*'s cover feature focused on the impact of inflation, reporting that the spectre of rising prices was back from the dead, and was unlikely to be buried again for some time.

However, during 2022, we have seen that while inflation rates have been rising across many parts of the world, it has not been an equal experience. Clearly, the unforeseen war in Ukraine, with subsequent impacts on energy and food prices, have added considerable upwards pressure on the consumer price indices.

Other aspects, such as shifting demand for raw materials and products, together with supply chain bottlenecks, have continued to have an impact.

Latest figures show that China is currently experiencing an inflation rate of 2.8% (September 2022), while the Netherlands has seen its inflation rate hit 14.5%. There are, of course, other countries whose inflation rates are off the scale – Turkey and Argentina are currently experiencing 83%, while Zimbabwe is suffering a rate of 269% (October 2022), albeit down from the previous month's 280% figure.

The UK's rate (10.1%) is marginally above the eurozone's (9.9%), but is lower than Germany and Italy. The US economy is currently experiencing 8.2%, down marginally on its previous monthly rate of 8.3%. A strong US dollar is helping to keep its import costs down, but conversely, making its exports look more expensive. Whether this continues into 2023 remains to be seen.



Stuart Kinlough/Ikon Images

LOOKING AHEAD:

what's in store for treasurers in Asia and the US?

With new working patterns, climate change, LIBOR replacement, diversity, equity and inclusion issues and supply chain risks, treasurers face a turbulent new year

›

ASIA

VERONIQUE LAFON-VINAIS, EXECUTIVE DIRECTOR, CAREERS DEVELOPMENT AND CORPORATE OUTREACH, THE HONG KONG UNIVERSITY OF SCIENCE AND TECHNOLOGY

As Hong Kong finally opens its doors after three years of tight quarantine and pandemic-related measures, one can ask what awaits regional corporate treasurers as the pandemic slowly recedes. While the shift from the '3+4' to '0+3' quarantine rules has been greeted with very audible sighs of relief by the Hong Kong business community and population alike, and as planes take off once again from our beleaguered airport, we cannot ignore the enormous challenges that await.

A perfect storm of accelerated climate change, inflation and conflicts has increased risks to a level unseen for decades in a world increasingly polarised by geopolitical tensions.

From a financial markets perspective, the dominant role of the US dollar coupled with the relentless rise in interest rates in the US has considerably increased debt management challenges for other countries and creates headaches for treasuries in FX management and hedging.

In a bifurcated world where Western central banks are entering a vortex of interest rate increases while in China the government and central bank are contending with the twin consequences of a property crisis and a technology winter, and the central bank of Japan is the last major central bank to maintain a negative interest rate policy, international corporate treasuries are exposed to significant volatility in terms of interest rate management. Commodity prices volatility has been amplified both by various conflicts, notably the war in Ukraine, but also the impact of accelerated climate change.

We are also witnessing a significant increase in labour and population unrest, with strikes and unionisation multiplying in Western countries, while human rights abuses are met with resistance in the Middle East and elsewhere. Less dramatically perhaps, younger generations are questioning the old model of work both physically and in intensity, with the phenomena of 'quiet quitting' (or is it just simply doing one's job?) raising issues of human capital management.

Geopolitical risk

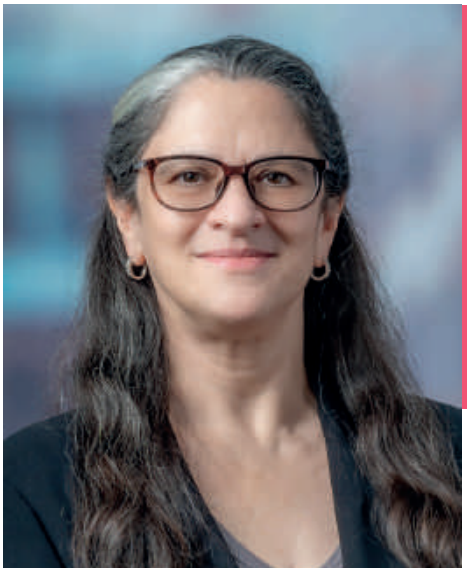
Extreme weather events threaten business interruption and impact supply chains that have already been significantly impacted by the pandemic. Even more worrying, material risks arising out of water availability and management are now surfacing, which also raise significant geopolitical issues.

Little help can be expected from governments that appear ill-equipped to deal with challenges on all fronts, and as fiscal interventions expand budget deficits.

Nevertheless, in risks lie opportunities. For example, while climate change creates enormous material risks, it also offers the opportunity to rethink and rebase business models to properly account for externalities and adopt more science-based metrics relevant to the firm's own business.

Taking the opportunity to accurately map supply chains will help identify opportunities to improve resiliency. Re-examining risk management policies to account for second- or third-order impacts of changes in climate will also open the door to a better materiality assessment as more regulators increase materiality-based reporting requirements.

Corporate treasurers are ideally placed to guide the analysis and play a critical role in building resiliency for their companies.



"Extreme weather events threaten business interruption and impact supply chains"

VERONIQUE LAFON-VINAIS

Stuart Kinlough/Ikon Images

"Treasurers are the corporate officers positioned to be aware of the debt markets' requirements for DEI and assuring their companies meet those criteria"

THOMAS DEAS

THE US

THOMAS DEAS, CHAIR OF THE NATIONAL ASSOCIATION OF CORPORATE TREASURERS

As US treasurers look back at 2022 and the year ahead, they recognise with some satisfaction the many challenges they and their departments have successfully overcome. The worldwide challenges of COVID-19 certainly represented the biggest obstacle for their companies as well as their departments, and although to a diminishing extent, continues to the present.

For treasurers, in particular, assuming responsibility for receiving, disbursing and safeguarding the cash flows of their companies with everyone from team members to bankers working from home has transitioned in many cases to a hybrid working environment in which some disruptions persist.

Face-to-face meetings with key bankers who commit the necessary funding for their companies obviously stopped during the pandemic. However, most treasurers have resisted restoring these visits fully. Especially for lower-tier syndicate members, treasurers and bankers accept the obvious efficiency of virtual meetings.

Bankers needing to update their understanding of companies' upcoming funding and transaction requirements can get everything they need through virtual contact. For managing their departments, treasurers have learned to spend one-on-one time with each team member to keep up with their personal situations and to keep them connected to other members of the treasury team.

A significant looming challenge most treasurers have overcome is the replacement of LIBOR with new interest rate indexes. In the US, the focus is on the government-endorsed secured overnight funding rate. The National Association of Corporate Treasurers has been the voice of the borrowers' community as a full voting member of the Alternative Reference Rates Committee, the group sponsored by the Federal Reserve to manage this transition in the US.

The transition has required agreeing with bankers on the substitute pricing for all outstanding and new loans against a deadline of 30 June 2023, when LIBOR will cease to be quoted as a representative interest rate. As these conversions have proceeded, the market has settled on the necessary pricing adjustments.

More difficulties have arisen from amending bond indentures and other documents for publicly traded instruments, which typically did not have any amendment mechanism incorporated in their original documentation. An advantage of the US bond market of having longer maturities, often out to 30 years, is that certainly no one thought at the time of issuance of replacing an interest rate index in such broad use as LIBOR. However, bond trustees and other market participants along with the long-term investors have worked with treasurers to overcome this potentially significant problem.

Diversity, equity, inclusion

Another issue both in the debt markets and from companies' customers and managements has been the desire to promote the principles of diversity, equity and inclusion (DEI) in workforces and operations. The debt markets have initiated indexes keyed to include bonds whose issuers have instituted DEI practices, and many corporate treasurers and their boards have met the criteria required to be included in these DEI indexes.

Treasurers are the corporate officers positioned to be aware of the debt markets' requirements for DEI and assuring their companies meet those criteria and sustain the practices required to remain qualified.

Corporate treasurers in the US have had a challenging time managing these important tasks and acting as their companies' link between the financial markets and good practices, with well-qualified and motivated staff to sustain their access to those key sources funding their operations, but they have met those challenges.

Avoiding the next storm

What can treasurers learn after central bank intervention in the financial markets calmed the liability-driven investment turmoil?

A little-known financial instrument was suddenly thrust into the spotlight in the immediate aftermath of the UK government's 'mini-Budget' at the end of September. The financial market reaction to the Budget statement was so rapid and so destabilising that the Bank of England (BoE) was forced to announce it would intervene in the markets, mainly to avoid a meltdown in the pensions sector.

The financial instrument, liability-driven investments (LDIs), was at the heart of the crisis – many defined benefit (DB) pension schemes have been using LDIs to shield themselves against adverse moves in inflation and interest rates, and help match their assets with their liabilities. In normal circumstances, LDIs were seen as a worthwhile option, and indeed regulators had been encouraging the use of LDIs.

However, pension fund managers were caught out by the speed at which gilt prices fell and yields rose, following the mini-Budget. The turmoil led to a rise in LDI-inspired margin calls.

In order to meet these margin calls, pension fund managers were forced to sell the most liquid assets they held – typically gilts. This had the effect of driving prices down even further, creating more margin calls. There could have been a death spiral had the BoE not intervened by buying gilts and effectively stabilising the market.

Skills demand

But what are LDIs, and why is it important for treasurers to understand the impact of recent events? Certainly, the skills that treasurers can offer are likely to be in demand as a result of this recent episode. As Steve Blackmore, a pensions director at PwC, says: "Many treasurers are asked to be trustees of pension schemes because of the depth of their financial knowledge. Or, in this situation, when you are dealing with complicated derivatives, treasurers will often be approached by their financial directors for their views on the situation."

LDIs are commonly used in DB pension plans or other fixed-income plans to cover current and future liabilities through asset acquisitions. The liabilities in such schemes accrue as the direct result of the guaranteed pensions they are designed to provide. With many schemes now closed to new members, LDIs are used to help replace the funds that new members would have brought into the schemes.

"Gilts have been a fundamental part of how liabilities are measured," notes Blackmore. "Over the past two decades, gilt yields have been falling, so pension schemes have looked at financial tools such as LDIs as a way of hedging out the interest rate risk – as interest rates fall, liabilities are discounted at a lower value and therefore you are placing a higher value on the pension promises made. If you can hedge away that risk, then you do not need to put so much cash into the scheme."

But because there are risks other than interest rates and inflation, such as how long people live and when they choose to retire, schemes need to find extra returns to match those risks.

LDIs allow schemes to use some of their assets to hedge more of their risk and use the remaining assets to find additional returns to deliver against these harder-to-measure risks.

"When you are dealing with complicated derivatives, treasurers will often be approached by their financial directors for their views on the situation" STEVE BLACKMORE

Insufficient collateral

According to Blackmore, over the past 20 years, DB schemes would have been better off holding LDIs than

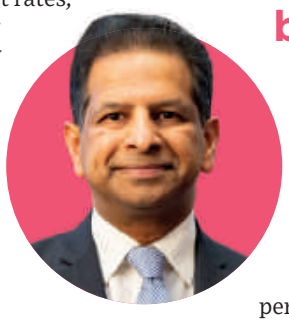
not, until this year. "Schemes have to hold collateral, which is measured on a day-to-day basis for most of the funds," Blackmore says. "In normal circumstances, when rates might only move 10 to 15 basis points in a day, the schemes are fine, they have the liquidity. But the mini-Budget created tremendous nervousness across financial markets, which led to a spike in interest rates, which was far quicker and far spikier than the vast majority of schemes assumed would ever happen. So, the collateral wasn't sufficient."

Speaking at a recent Association of Corporate Treasurers (ACT) update webinar, ACT policy and technical associate director Naresh Aggarwal said: "This is mainly affecting DB schemes, which are sponsored by businesses that have been around for a while. Speaking with market advisers, we think the Bank of England intervention should be enough to bring some degree of stability to the market."

But he added that he had heard some schemes had asked their sponsoring companies for short-term loans, which is where treasurers could be directly involved. "You need to check the rules of the scheme, and whether they allow you as a company or as a scheme to do it," Aggarwal warned. "And then there is the question of whether, if you put in the money, you can legally get the money out again. So, it is worth learning from the crisis and working out whether you have the right governance framework and whether there is a limit to how much you should put into the pension fund, if this were to happen again."

Aggarwal also noted that some banks are reluctant to lend money to companies if they are going to put the money into a pension fund – most DB funds have restrictions on being able to borrow money. "But pension funds know that sponsoring companies are an easy place to tap if you need short-term liquidity," he said.

"Speaking with market advisers, we think the Bank of England intervention should be enough to bring some degree of stability to the market"



NARESH AGGARWAL

There is also an accounting issue to be considered. As James Winterton, ACT policy and technical associate director, adds: "We are in this strange position where there is a short-term liquidity problem, but higher discount rates will probably mean schemes, in accounting terms, are actually better funded with smaller deficits or, in some cases, a funding surplus. There is this irony that companies need to put money in short term and might not be able to get it back out, but the scheme looks better funded.

"So, if you are approaching your year end, it is not too soon to start thinking about the conversations you need to have with your auditors, because there is going to be much more challenge around the accounting assumptions this time."

Philip Smith is editor of *The Treasurer*

A POSSIBLE SOLUTION TO DB PENSION COMMITMENTS

The UK's 5,000-plus corporate defined benefit (DB) pension schemes are now estimated to have sufficient assets to 'buy out' their pension promises with insurance companies, according to a new analysis from PwC

The analysis shows that these schemes collectively have a healthy surplus of £295bn on a measure that assumes they stay attached to the corporate sponsor and invest in low-risk income-generating assets like bonds, which will generate cash flows to meet their benefit payments as they fall due over time. This so-called 'low reliance' situation should mean the pension scheme would be unlikely to call on the sponsor for further funding.

John Dunn, head of pensions funding and transformation at PwC, says: "The current funding position for UK DB pension schemes highlights that, despite unprecedented economic and market volatility, schemes are actually in good health overall."

However, he warns that there could be a buyout rush. "Now the question is whether there's enough insurance gold to go around or, just like the real thing, is it a scarce resource?" he says.

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ACT Middle East Treasury Summit

In September, Dubai played host to treasurers from around the region, coming together to discuss key issues including leadership, technology, diversity and sustainability

Rula Al Qadia, MD and head of group funding at First Abu Dhabi Bank

Held in person for the first time since 2019, the ACT Middle East Treasury Summit brought together its largest ever audience, as 640 members of the treasury community came together for two days to share and celebrate best practices, showcase the latest technology and prepare for future developments.

The region is going through a period of significant change as it continues its structural reforms and transitions away from oil-based economies towards a more sustainable future. Against this backdrop, attendees at the summit, organised by the Association of Corporate Treasurers (ACT), heard how they can operate in this changing environment.

"The summit is an excellent opportunity not only to get updates on many treasury topics, but also to meet face to face, renew existing relationships and build new ones," said James Adams, chair of the ACT's Middle East advisory panel. "Treasurers will have taken away a clear understanding of how they can help their businesses, such as the implications of corporate taxes, new technology systems or wider banking relationships."

Adams noted that attendees had travelled to Dubai from all around the region, reflecting the strong international draw of the summit. Attendees also had the opportunity to network with sponsors and exhibitors, including many banks, international accountancy firms and technology providers.

The agenda covered a wide range of subjects, including working capital and supply chain best practice, corporate taxation, bank lending, liquidity risks, trade finance, managing the balance sheet, the transition from LIBOR, environmental, social and governance, and alternative sources of finance. Talent and technology also formed a key part of the conversation.

ACT chief executive Caroline Stockmann introduced the keynote speaker Rula Al Qadia, MD and head of group funding at First Abu Dhabi Bank, who spoke about recent developments in the region and the importance of women in leadership.

This was followed by a discussion on developments in the Gulf Cooperation Council (GCC) region, moderated by Kay French, adviser to the chairman of ADX. Entitled 'A New Beginning', it covered the 'exemplary' handling of the COVID-19 pandemic, the strength of the region's economy and ambition to be at the forefront of change, embracing technology and sustainability. This attitude is being validated by significant investment, including foreign direct investment, and strengthening of the human capital base, the summit heard.

A session on real-time payments asked whether such payments were a necessity or a luxury. The discussion, facilitated by Rahul Daswani, Microsoft's group manager for strategy and programs, global treasury and financial services, provided attendees with an update on the landscape for real-time payments for the Middle East region. The panel recognised the growing need for real-time payments for corporates as they managed various payment channels amid growing expectations for instant payments. For SMEs, the value of real-time payments would be realised in working capital benefits. However, compliance questions remained for cross-border payments.

The summit concluded with a discussion about the future, facilitated by Stockmann. With so much change happening across the Middle East, ambition is high from government, business and people; and much of this is happening in the financial environment and due to technological innovation.

As Adams said: "We don't have a crystal ball, but we know that there is a sense of optimism in the region, which is benefitting from a fiscal windfall that will allow it to make more reforms. The summit emphasised the important role treasurers will play in this transformation."

Delegates at the ACT Middle East Treasury Summit

بنك أبوظبي التجاري
ADCB

MIDDLE EAST AWARD WINNERS

During the ACT Middle East Treasury Summit 2022, the ACT, in association with Abu Dhabi Commercial Bank, presented the prestigious ACT Middle East Treasury Awards. The awards celebrate the achievements of companies and individuals that have shown innovation and excellence in corporate treasury.

The winners were:

Treasury Management Award
WINNER: Abu Dhabi National Oil Company (ADNOC)
The award was given for ADNOC's exceptional work in consolidating its banking operations and implementing an in-house banking structure in the Abu Dhabi Global Market freezone.
Highly commended: STC Kuwait for its treasury transformation, moving from disparate systems and processes to a streamlined operation with a new treasury system implementation.

Corporate Funding Award
WINNER: Advanced Inhalation Rituals
Awarded for a transaction that involved a share buyback, loan refinancing and new revolving credit facility limit.

Sustainability Award
WINNERS: Etihad and Majid Al Futtaim
Both winners are superb case studies on how treasury can support the drive towards sustainability in their businesses, by working across different stakeholders to align targets and link to funding metrics.

Corporate Team of the Year – Small/Medium
WINNER: Kent Treasury
After a significant acquisition in 2021 that saw the company grow to five times the size, this treasury team has successfully piloted its business through significant change and played a vital role in the success of the acquisition.

Corporate Team of the Year – Large
WINNER: The BRF Global Middle East treasury team
This team demonstrated innovation and collaboration to support its organisation's strategic direction.
Highly commended: Asyad Group treasury team, which has made a significant contribution to treasury best practice in Oman.

Treasury Professional of the Year – Corporate
WINNER: Vineet Gupta, treasury manager, Al Dahra Holding Company
In the past year, Gupta has added considerable value by leading significant projects in his organisation across treasury in the space of digitisation, funding, cash optimisation and sustainability initiatives.

Treasury Professional of the Year – Service Provider
WINNER: Angad Chaturvedi, senior associate, Clifford Chance
The judges said that Chaturvedi is someone who is willing to work tirelessly and go the extra mile, often working late nights and earning the respect of colleagues and clients alike.

Navigating risks in a 'higher for longer' world

The financial market risk landscape has undergone a paradigm shift over the past year

Soaring energy prices driven by geopolitical risks, multi-decade highs in inflation leading to rapidly rising interest rates, the return of exchange rate volatility and the looming threat of recession are all part of this shift.

In particular, the seismic shift in the interest rate and credit markets and withdrawal of the unprecedented liquidity support that has characterised much of the past decade have caused borrowing costs to rise rapidly across the globe.

For companies with significant debt-financing needs or with operations or assets that are vulnerable to changing rates, these movements represent a profound shift. Treasurers and finance teams may need to reassess borrowing and liquidity requirements and reconsider hurdle rates for new business as they compete for capital. They should also consider how both could inform the composition of their debt portfolios.

Refreshing risk management 'muscle memory'

The speed with which interest rate curves have steepened has surprised many in the market. For many people working in treasury this could be their first experience of a higher, more volatile interest rate environment, and in particular, steep curves at the front end. Even for longer-serving treasury professionals, the absence of a need to take a strategic – rather than tactical – approach to interest rate risk management may have weakened their 'muscle memory' when it comes to dealing with higher rates and the current level of uncertainty.

The benign interest rate environment over the past decade or more has meant that interest rate risk management was both relatively straightforward and a low-stakes decision. Many companies simply maximised the proportion of fixed-rate debt in their capital structure, as there was little perceived benefit in borrowing on a floating basis relative to the additional risk. For many companies, the decision was simply whether to opt for long or short maturities depending on their needs.

Now, volatile markets and the level of uncertainty over the path of central bank rate hikes make the decision between fixed and floating rates much more challenging as there are risks either way.

Rebalancing tactical and strategic approaches

Two of the immediate concerns in a rising rates environment are the ability to raise debt financing when needed and the return that investors or lenders may require. In such an environment, preparation is critical. It is important that companies understand their liquidity and financing needs (and financing cost expectations), and are positioned to take advantage of opportunities as they emerge.

Companies are now moving away from the more tactical approach of recent years and are starting to rebalance their debt portfolios more strategically. For example, we have recently seen companies adding floating-rate debt to their portfolios as they raise new financing in order to balance their risk position more evenly and to align their interest rate mix to strategic factors such as earnings cyclicality.

Similarly, with the historic movements in exchange rates and the difference between the projected path of interest rates in major currencies, many companies have considered whether to rebalance their debt currency mix more strategically, for example, to lock in the strong dollar for their US operations.

FIVE WAYS TO RESPOND TO MARKET VOLATILITY

1 Get back to basics
Treasury teams faced with a more challenging interest rate and borrowing environment need to get back to basics. Dust off the debt management road maps and reassess the organisation's earnings profile, risk framework, existing debt composition and future borrowing needs.

2 Monitor the market environment
Understand the current market dynamics and risks. Consider the development of the rates cycle and the possibility that central banks could be forced to cut rates rather than raise them if inflation falls more quickly than anticipated. In the same vein, understand how central bank policies and other factors are likely to drive exchange rate movements. Also consider the scenario where inflation is more persistent.

3 Revisit the company's risk tolerance
It is imperative that companies understand the impact of the repricing of market risks on their business and are able to communicate this with stakeholders. While each risk class can be analysed separately, it is important that companies are able to form a holistic view of the overall impact of market risks on their business – for example, on operating margins, KPIs and credit metrics.

4 Review the interest rate and currency mix of debt
Companies should review the strategic factors that typically drive the fixed/floating and currency mix of debt, including the earnings profile, degree of leverage, cyclicality, cash balance and forecasting certainty. The strategic risk management approach should be refreshed and balanced with tactical factors to allow the company to react to market developments.

5 Consider pre-funding and pre-hedging
Some borrowers may be willing to pay a premium in order to achieve certainty of financing and de-risk near-term debt maturities. While pre-funding has clear benefits, carrying more cash could act as a drag on performance given higher credit spreads. Pre-hedging should also be on the radar for those seeking to reduce interest rate risk. Companies can layer into hedges over a period of time in order to spread their execution risk.

Taking a holistic view of market risks

Now, more than ever, it is important to understand that risks do not exist in isolation. With increasingly volatile markets and higher input costs for many companies happening as their customers face a cost-of-living crisis, the overall impact on the results and risk profile of the business need to be assessed.

For some companies, margins, cash flows and credit metrics may come under pressure with the result that their risk tolerance and ability to absorb higher interest costs may decrease. For others on the 'right side' of recent exchange rate and commodity price movements, operating results and credit metrics may prove to be robust so that their ability to absorb interest rate increases is higher.

Take advantage of available support

As the world moves into a new era, many will undoubtedly face challenges in assessing their interest rate risk and managing both existing and forthcoming borrowing.

Fortunately, companies don't have to go it alone. They should work with their banks and make use of analytic tools to gain insights into their risk/reward trade-off that can inform their borrowing strategy.

Niall Coakley is co-head, corporate financing and risk management, at Lloyds Bank; and **Colin McKee** is head of financial risk advisory at Lloyds Bank

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View from... consultancy

Two consultants explain how they work best with corporate treasury professionals

KARLIEN PORRÉ leads Deloitte's UK Treasury Advisory Services practice and is co-lead of the firm's European Treasury Advisory group. Prior to Deloitte, she worked in BT plc's central group treasury team.

KP: Our most successful projects are when there is a high sense of collaboration and full transparency. We need to fully understand our clients' ambition or challenges – this means spending sufficient time at the start of any project to be briefed, to understand what matters to the treasurer, what language to use, the broader strategic or cultural elements of the organisation and being clearly aligned on the scope of activities.

We are often called upon in high-pressure environments, and it is essential for consultants to be empathetic to the needs and pressures facing each treasurer. We are absolutely expected to bring best practice to our clients in an innovative way, but we must do so in a manner that is pragmatic and empathetic to the company's specific circumstances.

In turn, we deliver most successfully in a collaborative way when we have strong sponsorship by the treasurer – to support internal coordination, liaison and decision-making. This includes providing regular feedback – in both ways – on what is working well and where some adjustments are required.

Overall, consultants and corporate treasurers work best together by aligning clearly on objectives, remaining flexible to changing environments and maintaining transparency throughout the relationship.

Karlien Porré

KEY ISSUES

To a certain extent, many of the topics we advise clients on will usually revolve around the areas in which treasurers deliver value to their organisation, i.e. debt, cash, liquidity and financial risk – and the infrastructure needed to deliver these value-added services.

But of course, certain topics will be more 'in demand' at certain times of the economic cycle, or in response to changes in areas of regulation or technology.

Unsurprisingly, much of our existing work focuses on optimising financial risk management strategies with the backdrop of rising interest rates and increasing FX volatility. Specifically, companies are assessing whether their hedging strategies remain fit for purpose.

Additionally, we have much demand around technology and banking-led operational improvements. Clients are keen to understand if and how they can implement the latest treasury technology trends and disruptors (for example, blockchain, artificial intelligence, application programming interface, etc) to benefit their business.

There is also a continued demand for operational treasury transformation projects, which are typically driven by M&A, carve outs, initial public offering readiness or broader finance transformation. Whether it's transaction triggered or with internal change in, say, senior management, we help companies define their most optimal treasury operating model and increase the maturity of the treasury function, such as moving to a full solution In House Bank covering netting and centralised payments.

FUTURE CHALLENGES

My team forms part of Deloitte's performance improvement team, which helps organisations

take control of and unlock their financial and operational potential and build resilience. As you can imagine in the current economic environment, all topics around cash generation, liquidity management and working capital optimisation are in high demand and we are heavily investing in this space. This is in addition to our growing debt-advisory capabilities to help companies find access to finance across the full capital spectrum.

Within the core treasury space, we expect to continue being very busy on FX and interest rate risk management strategies as companies come to terms with the new reality; on the continued technology-led transformations, be they large-scale enterprise resource planning-based or focused around treasury management system solutions; and on improving cash visibility and pooling, and the reliability of cash-flow forecasting.

JON BRAMWELL joined Grant Thornton's UK Debt Advisory team as a director in 2021, having previously been managing director leading HSBC's Large Corporates unit throughout the Midlands and east of England.

JB: Before the pandemic, the greatest uncertainty for British business leaders was the fallout from Brexit. But, since the first national lockdown, rapid, unpredictable change has become a constant. Market volatility and the pace of change is, for the moment at least, so rapid that there's no reliable way of predicting what will happen in the next hour, never mind the next month or year.

This economic turmoil, along with increased, and rising, input costs across the board, from energy supply to raw materials to people, has created challenging operating conditions for business. These same headwinds are also affecting lenders' appetite for risk, causing them to be more selective and cautious in terms of how much they'll lend, and who they'll lend to – even long-standing customers.

"Consultants and corporate treasurers work best together by aligning clearly on objectives, remaining flexible to changing environments and maintaining transparency throughout the relationship" KARLIEN PORRÉ

EXPLORE THE MARKET

A key role that specialist advisers play is helping treasurers explore the market beyond their existing bank lenders creating much-needed optionality in these volatile times.

Our team has working relationships with more than 200 lenders across the UK and Europe. Many of these are non-bank and alternative lenders who tend to have a higher risk appetite than the clearing banks and can offer innovative solutions linked to a business's assets or cash flows – or both. This can provide much-needed flexibility when economic headwinds cause borrower covenants with their existing lender(s) to come under pressure or potentially where there is a lack of appetite to provide additional support.

Debt advisers work closely with their clients to undertake extensive market testing and sector comparisons and with recent lending experience, understanding lenders' credit decision-making processes and therefore presenting the business in the best possible light. From a corporate governance perspective, this approach ensures access to a broader range of funding options, and ultimately gives leadership the confidence that they have obtained the best deal the market has to offer.

Specialist debt advisers can also offer support in making sure that the business's assumptions are carefully reviewed to ensure that any debt facility is sized appropriately and the terms – including financial covenants – are viable. Besides playing the role of a critical friend, this process also offers comfort to lenders, including rigorous stress testing of downside scenarios.

Jon Bramwell

UNCERTAINTY IS THE NORM

As recent events have demonstrated, in the coming months treasurers can expect market-driven uncertainty to be the norm. Against a backdrop of pressured household incomes (nine in 10 UK consumers will be forced to cut spending, according to Grant Thornton's *Cut Back Economy* report), unprecedented fiscal policy, rising inflation and geopolitical tensions, it is increasingly likely that the ongoing fallout could tip the UK into recession.

For treasurers, this means it will become harder to access credit, whether that is continuing to access existing facilities or arranging new ones. We're already seeing lenders declining new opportunities that don't quite fit their lending criteria, and also refusing refinancing requests for existing customers – where previously they might have adjusted their pricing or risk terms.

Exploring a much wider range of lenders can be a time-consuming process, but a good debt adviser will do the heavy lifting, putting management in the driving seat to make the ultimate decision on which of a wide range of market-tested options created suits their business best.

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Future frontiers

Emerging technologies are going to radically reshape treasury operations, but how much is hype and how much is happening? Lesley Meall investigates

Treasurers know that the future will not be like the past and appreciate the difficulty of cutting through the hype to determine which technologies will eventually have most impact. But an occasional wander along the leading and bleeding edges of technology remains worthwhile: it can open our eyes to the shifting boundaries of what's possible and technologies that could help to transform not just corporate treasury, but entire industries.

"A core part of our business revolves around payments and we spend a lot of time thinking about how they will evolve in the future," says Rob Matles, managing director and head of innovations programmes at JPMorgan Chase & Co. When the bank wanted to test some of its Onyx blockchain payment innovations, it looked to what may be one of the few remaining frontiers for finance: space.

In 2021 its Onyx business unit made a tokenised value transfer in space, executed via smart contracts on a blockchain network established between two satellites in a low Earth orbit. "Space exploration is becoming increasingly well-funded and presents an exciting opportunity to deploy financial technology to create a brand-new payments infrastructure leveraging blockchain," says Matles.

The success of this test transaction and its decentralised approach hints at the potential of combining blockchain

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"A core part of our business revolves around payments and we spend a lot of time thinking about how they will evolve in the future"

ROB MATLES

PRIORITIES AND PREFERENCES

"With any new technology, I think about whether it's what we need and whether it can benefit not just treasury, but the whole company," says Royston Da Costa, assistant group treasurer at Ferguson plc, a North American plumbing and heating products distributor. "Treasury has an important role to play, influencing technology decisions not just in treasury and finance, but other parts of the company, too."

This perspective is echoed by Britta Döttger, group treasurer at Swiss multinational healthcare company F Hoffmann-La Roche: "We don't have a separate treasury innovation strategy. The business use case comes first, then we look at technologies and how we can use them." The priority is to support and adapt to the company's business needs and its digital innovation strategy; as a payment portal project to enable digital business models highlights.

Some emerging technologies can still seem more appealing than others. "I find quantum computing the most exciting technology," says Da Costa, who is also looking forward to meetings in the metaverse. "Avatars, holographs and augmented reality will make it feel as if people are in the room together," says the treasurer, who would prefer this to virtual meetings of disembodied heads. As with all tech, whether the reality lives up to the hype remains to be seen.

and the Internet of Things, in space and on Earth. It takes us closer to a 'machine-to-machine' economy, where an autonomous machine could, for example, lease itself out, hire service and repair engineers, and pay for this using its own bank accounts – even if this is not yet a commercial reality.

Quantum leap

Quantum computing is also some years away from commercial viability, but (like space exploration) investment in quantum computers (QCs) and their power are both increasing rapidly. "If current trends persist, quantum computing is likely to cause disruption sooner than many people think," says Harvey Lewis, partner, Client Technology & Innovation, at EY, who suggests businesses start planning for this new era.

QC isn't just significantly faster than traditional computing, it's fundamentally different. The *EY Quantum Readiness Survey 2022* offers a primer on the tech, its challenges, progress, ways to plan for it and potential use cases that may interest treasurers: risk analysis and risk management, cryptography for near instantaneous payments and other digital messaging, transaction settlements and credit scoring, for example.

One barrier to commercial QC is the need for temperatures around -273.15°C (-459.67°F). But in 2021 Quantum Brilliance unveiled the first 'room-temperature' machine. Although its five-qubit capacity is dwarfed by the QCs of Google (72 qubits) and IBM (65 qubits), they don't operate at room temperature; being able to do so will make QCs cheaper to miniaturise, build and run – getting them onto treasurers' desks and into normal data centres.

Sustainability

What's normal in data centres is evolving. There are environmental concerns and some cooling systems struggle to operate during heatwaves. Microsoft's Project Natick has been exploring ways to more efficiently and sustainably power and cool data centres, by locating them underwater and using offshore renewable power. Beijing Highlander is now building a ›

"The point of digital twins is to put your data to work to better support the business" ALFONSO VELOSA

commercial underwater data centre near Hainan Free Trade Port in China.

Data centres in space are also on the horizon. NTT and SKY Perfect JSAT recently formed the Space Compass Corporation (SCC). This joint venture aims to establish the world's first integrated space computing network. The availability of ultra-high-speed real-time data-relay services is expected in Japan by 2025, with a global rollout and further space data centre expansion to follow.

'Contributing to a sustainable society' is one of SCC's stated aims. That word 'sustainable' often does a lot of heavy lifting. In this context, it translates into: "...creating ICT infrastructures that support a number of fields, including energy, environment and climate change, disaster prevention...". The impact of space technology on sustainability remains to be seen; although modelling this (and other) possible futures is getting easier.

Twin peaks

The use and potential of digital twins is growing. Their virtual representations of devices, organisations, processes and systems that digitally model real-world properties, conditions, attributes and relationships have been used for decades in engineering and manufacturing, to run complex simulations and improve decision-making. Recent tech developments are making them more accessible and supercharging their potential.

Being able to dynamically capture and process large amounts of data from multiple sources and using artificial intelligence techniques such as machine learning to exploit it, is taking digital twins into sectors such as financial services. Digital twins can, for example, help treasurers to improve cash and liquidity forecasting or reach business sustainability goals – and they will be building blocks in the metaverse.

"The point of digital twins is to put your data to work to better support the business," says Alfonso Velosa, VP analyst at Gartner. Innovations that make it easier to access, process, share and store vast amounts of data underpin all the emerging technologies above and many others that can or could be a boon to treasurers, who understandably view them with caution.

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WHAT IS A DIGITAL TWIN?

A digital twin is a virtual representation that serves as the real-time digital counterpart of a physical object or process. Though the concept originated earlier (attributed to Michael Grieves, then of the University of Michigan, in 2002), the first practical definition of digital twin originated from NASA in an attempt to improve physical model simulation of spacecraft in 2010.

Digital twins can, for example, help treasurers to improve cash and liquidity forecasting or reach business sustainability goals – and they will be building blocks in the metaverse

Lesley Meall is a freelance technology journalist

BEST PRACTICE

Expert answers to today's challenges

NAVIGATING FX RISK MANAGEMENT

Volatility in the FX markets is forcing organisations to review existing policies. **Lisa Dukes** and **Chris King** set out the risks and opportunities

RISK MANAGEMENT & STRATEGY

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Over the past few months, global financial markets have barely paused, and the FX market is no exception – initial USD strength coupled with a short sharp dose of GBP weakness has seen sterling move to record low levels and be more volatile than Bitcoin… well, almost!

With such extreme moves, companies with currency exposure, regardless of whether sterling weakness is structurally favourable or not, will have been considering how to manage the risks and opportunities arising from these exposures.

The current market dynamics have provided the impetus for many organisations to review existing treasury policies, and ensure they are fit for purpose – not just for the current environment, but also looking forwards.

POLICY DESIGN

A policy must be appropriate for the organisation and reflect:

- The risk appetite of the business;
- The degree of complexity (for example, proportion of cross-border business);
- The level of sophistication (for example, willingness to use structured products);
- That trading derivatives may not be the only answer; it can be coupled with intragroup netting and raising local debt to deliver the desired result for the organisation; and
- Planning for the future, supporting and enabling strategy or for contingent outcomes.

Any policy, particularly where managing risk, should be underpinned by a robust governance framework supported by qualified individuals. This will, of course, depend on the size and complexity of the business.

The FX Global Code of Conduct is an invaluable tool, which should act as a control framework to support the policy. It promotes best practice for all FX market participants in a way that is tailored and proportionate to the nature of their engagement and the size and complexity of their activities.

It's a great cross-reference check to ensure that the policy encompasses all key aspects and demonstrates commitment to the highest level of governance in all areas of environmental, social and governance across the treasury remit.

Reporting should seek to include all identified exposures, regardless of whether they are actively hedged or not, to ensure comprehensive risk management oversight.

A flexible policy is key to enable a rapid response in the event of significant market moves. For example, the ability to increase hedging (such as where super-profits would be protected) or change the approach (for example, to prevent locking in loss) without delay may be desirable. Having a broad range of products available enables the flexibility that may be needed at short notice during market turbulence.

Ensuring the necessary and appropriate delegated powers and permissions have been approved in advance is always worth the effort to have a complete toolkit when it matters.

COMPLEX CONSIDERATIONS

Protecting against increased costs or reduced revenues are usually the focus of a policy, but there are other considerations:

- Inherent within any currency hedging programme is exposure to spot and forward

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WHAT RISKS ARE YOU MANAGING, AND WHAT RISKS SHOULD YOU BE MANAGING?

The primary rule of risk management is to identify all (yes, all) exposures and understand whether they are unacceptable or acceptable risks (i.e. whether the risk appetite of the organisation requires that an exposure is hedged in some way). Remember that 'a hedge' does not have to just lock in via a forward, as there are many situations (i.e. locking at market extremes) where this creates much greater risks.

This requires the treasury team to work closely with the business to help them understand where exposures might arise, and the importance of sharing such information with treasury.

Exposures can be categorised as follows:

Transactional: FX exposure on non-domestic transactions between being contracted and paid.

Pre-transactional: FX exposure between committing to a price on non-domestic transactions and being contracted.

Translation: FX impact on financial statements from the re-translation of non-domestic assets and liabilities or foreign subsidiaries accounts.

Contingent: FX exposure highly probable to occur on non-domestic transactions.

Economic: FX impact of longer-run strategic or competitive exposures or 'indirect', such as those buried within supplier contracts.

curves – even short-dated forward curves have seen significant volatility, with the extreme long-dated curve seeing longer-dated differentials swing more than 60 cents on GBP/USD (in addition to the c.25 cents move on spot) in less than five months. You can separately lock in the spot and forward components, providing additional flexibility to optimally manage the risk.

- Favourable moves, while structurally good, potentially generate issues around credit lines as the mark-to-market (MtM) moves against the business. Having a policy that proactively considers how to approach, secure and manage credit before it is an issue is good practice.
- Some products, including FX options, may seem complex or unwieldy, however, many already embed optionality without necessarily looking at the components within the structure, or the future sensitivities.
- Running relevant and up-to-date sensitivities should provide information to manage the exposures and portfolio dynamically – for example, whether the minimum hedge level is still sensible, given changes in supply costs or demand outlooks or impact on credit lines during market stress. While the costs of hedging of most G10 currencies don't usually move significantly, for other currencies or in volatile or sanctioned markets this may not be the case. Be proactive and have processes in place to benchmark these costs and a plan in place to activate if they become punitive.
- This could include managing MtM exposures, assessing opportunities to increase hedging levels (tenor or ratios) or mitigating the imminent hedging requirements at unfavourable levels through product choice or policy reconsideration. The choice of product will be critical in managing the credit implications for each route.

PROACTIVE RISK PLANNING

Having a balanced overall position demonstrates to stakeholders thoughtfulness, strategic scanning and an ability to decisively act. This could include being prepared and insuring against potential moves, perhaps buying cheap protection for the future, as well as flexing the norm when the market is not accommodating.

For example, businesses that suffer in the event of sterling weakness and that are fearful of a further sell-off could consider structures that reward for that sterling weakness while providing some certainty. While no structure will ever be a silver bullet, tailored risk management can help de-risk situations to give a position of strength in the event of adverse moves in currency.

Additionally, in periods of sterling weakness, there may be an opportunity to export your business given the GBP comparative advantage, and actually represents a good time for overseas acquisition, assuming it is funded with predominantly overseas debt.

MODERN-DAY MARKET DYNAMICS

There is a far higher level of hedge fund, or speculative participation in derivatives markets than historically. While this can provide additional liquidity, it typically exacerbates movements. Spikes could be wider than typically envisaged, even in major currency pairs.

Scenario planning is proven to be a key differentiator in a business's ability to manage through stressed markets, particularly as boards and external stakeholders can get somewhat animated, creating additional pressure and scrutiny often at the least convenient times. Ensure you have the structure, processes and mental resilience to stick to your plans.

PROACTIVITY CAN BE CONDENSED INTO A FEW KEY AREAS:

- Strategic scanning of markets, mapping back to your own profit and loss;
- Considering sensitivities in the context of current 'broken markets', which likely means stressing more than previously thought;
- Innovation – try to think of risks in a holistic sense, rather than focusing on one aspect in isolation. Use advisers/banks to help consider optimal approaches;
- Communicate with stakeholders and outline planning for sensitivities. This usually means having a rolling strategy for the next quarter (or further out), which should give comfort internally;
- Prepare for strength – be proactive, and always seek to have an acceptable minimum level of hedging to cover the stress events; and
- Continuous loop – this is a daily grind, so enjoy it!


Lisa Dukes and **Chris King** are co-founders of Dukes & King

GLOBAL MINIMUM TAX: WHAT IT MEANS FOR TREASURERS

The new Pillar 2 corporate tax rates will have considerable impact when they come into force in the UK at the start of 2024

REGULATORY & ACCOUNTING

In December 2021 the 137 members of the Organisation for Economic Co-operation and Development's 'inclusive framework' agreed a new global minimum tax rate of 15%. The rules, known as Pillar 2, will apply from 1 January 2024 in the UK, and will impact the tax profile of all multinational groups with global turnover above €750m.

The new regime will have significant impacts on treasurers through increased tax liabilities, common treasury transactions having unexpected tax effects, and impacts on cash requirements, hedging and risk management, financial reporting complexity and additional tax-compliance requirements.

Pillar 2 was introduced alongside proposals for additional rules, known as Pillar 1 – a new nexus rule, which reallocates a business's residual profits to the jurisdictions that generate value without necessarily having a physical presence. If Pillar 1is introduced, treasurers may need to assist in compliance, setting up bank accounts and arranging funds transfers in order to meet these liabilities.

Pillar 2 will require calculation of specific effective tax rates by territory: where this is below 15%, a top-up tax will arise. Where a territory does not collect this tax (for example, if it does not implement the rules), it is collected by other territories in which the group operates. Therefore, most territories are expected to implement Pillar 2, because the alternative is to give away tax revenues to others.

One significant uncertainty is around how the rules will interact with the US tax system, which already taxes non-US profits earned by entities controlled by US corporations. There were proposals to align these rules with Pillar 2, but these fell away. Instead, recent US changes introduce a Domestic Minimum Tax, which has some similarities to Pillar 2. The result is significant complexity, costs, and potential for double taxation for both US-headed groups with overseas operations and for non-US-headed groups operating in the US.

PILLAR 2: AN OVERVIEW

The provisions are made up of the following two interlocking rules:

- Income Inclusion Rule (IIR): this is the primary calculation mechanism. The ultimate parent territory collects the top-up tax associated with foreign subsidiaries with an effective tax rate (ETR) below 15%.
- Undertaxed Payments Rule (UTPR): subsidiary territories collect the top-up tax in respect of a low-taxed overseas sister or parent company, where it is not captured by a parent territory IIR.

Territories can also implement their own Domestic Minimum Tax rules. Some, including the UK, have stated that they are likely to implement such rules, and most territories, including EU states, are expected to follow suit.

Finally, additional proposals for a Subject To Tax Rule (STTR) are planned, and permit territories to withhold tax on payments to related parties when the income is not subject to a minimum rate of tax.

The tax base under the rules in each territory is calculated based on the consolidating parent's GAAP. This will require a series of complex

adjustments to be made and means a completely new set of calculations and associated information requirements. Tax functions will therefore need significant support from accounting and treasury functions to be able to respond to these requirements.

There are no exemptions for companies located in territories with higher tax rates (companies could have an ETR below 15% in apparently high-tax territories like the UK), or companies with a good business purpose behind their operations (although the rules include a substance-based carve out based on payroll costs and the value of tangible fixed assets).

WHAT DOES THIS MEAN FOR TREASURERS?

The rules are likely to have a significant impact, and it will be important that treasurers understand the potential consequences, and engage with their tax colleagues to respond appropriately.

The most obvious implication is the potential for new tax charges arising. Increased ETRs will impact on financial planning and potentially affect investment decisions (for example, through altering the cost of capital and post-tax cash flows). There may also be an impact on budgeting and cash-flow requirements, and treasurers will need to work closely with their tax teams to determine the key adjustments that are required.

There may also be a significant impact on existing financing and hedging structures. The completely new regime may mean that existing structures are no longer effective. Where financial instruments are reflected in the income statement, but excluded from local tax, this will distort ETR, potentially leading to top-up taxes. The use of hedge accounting may help mitigate this concern. Differences in local tax laws and the application of Pillar 2 between territories may mean that hedging strategies become more complex.

Inevitably, the rules introduce an increased compliance burden, with new reporting obligations. The need to collect significant amounts of data, at least some of which has not previously been collected, means that it may be necessary to assess current enterprise resource planning system capabilities and identify data which would be difficult to obtain. This exercise needs to be undertaken well in advance of the rules coming into effect, as it may be complex and time-consuming.

Any groups that take advantage of innovation reliefs may need to carefully assess the impact of Pillar 2 and whether any mitigating actions can be taken, as there are no exclusions for these – such regimes are likely to depress ETR, leading to top-up taxes.

There are no exclusions for some common corporate transactions – for example, intragroup reorganisations, business integrations or debt-for-equity swaps, where accounting profits may arise but are not included in the local tax base. There are also transitional provisions, which could apply to transactions undertaken now in anticipation of the rules being introduced.

WHAT SHOULD TREASURERS DO NOW?

The rules are complex and early engagement is critical. Treasurers will play a significant role in identifying the potential impact and collecting the necessary information.

The first step should be to establish which territories are at risk of incurring top-up taxes. In some cases, the conclusion may be obvious, but in most cases some degree of modelling will be required – top-up taxes can arise even in territories with high headline tax rates.

It will be important to determine any other consequences, for example:

- Any impact on hedging structures and what actions can be taken to ensure that they remain effective;
- The effect of differences between the accounting and tax treatment of transactions; and
- Whether financial statement disclosures will be needed and, if so, the nature of those disclosures.

Many tax departments are already compiling the information needed or determining how this is going to be gathered and processed. Again, treasury systems and data are a significant part of this exercise.


Graham Robinson (left) is international tax and treasury partner at PwC; and **Iain McDonald** (right) is international tax and treasury director at PwC

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WHAT MAKES A WINNING TREASURY TEAM?

There's no silver bullet to building a great team, but as in sport, recognition, understanding and good communication are just some of the ingredients for a winning formula, according to AstraZeneca's **Jono Slade** and his treasury team

LEADERSHIP & CAREER

Formula 1 driver Max Verstappen and his Red Bull Racing Team at Yas Marina Circuit in Abu Dhabi

Whether you are Usain Bolt, the Lionesses or Max Verstappen and the Red Bull Racing Team, it takes time to train, develop and perfect before you are really good at something. Good enough to be recognised as the best and be a winner in your own field. There is no overnight success, there are no shortcuts and it's something that only comes through focused dedicated effort by all the individuals involved.

Successful treasury teams are no different in our view and you can see analogies between the factors that drive them and those in sports. Teams are complex living bodies that evolve and adapt to the situations they find themselves in. How you and your team deal with and leverage successes is equally as important as learning quickly and bouncing back from any mistakes you make.

RECOGNITION

The AstraZeneca treasury team has a set of clear goals for any particular year that support delivery of our business strategy, and these are cascaded through the team, so everybody knows what they need to deliver for all to succeed. We celebrate these successes as they come along to keep people motivated and appreciated.

This can be through a simple in-the-moment "thanks", in monthly team meetings, through our internal reward recognition programme or by having a team drink down the pub (alternative venues and activities are available!). While treasury is a serious business, it shouldn't get in the way of having some fun along the way.

SELF AND TEAM UNDERSTANDING

AstraZeneca believes building an inclusive culture helps everyone deliver their best.

Cristiano Barni/Shutterstock

During 2022 we have therefore been undertaking exercises to better understand our own and colleagues' individual personality traits. Actively recognising we all have different drivers, approaches and styles helps us leverage the team's diversity, but also identify and be alert to situations where tensions could arise.

Linking it back to sport, the mindset of a goalkeeper in football is likely to be quite different to that of a striker, even though both play the same game. These exercises, and putting them into practice, take trust, respect and for people to be open-minded and to be flexible in their style. It's not easy; we are still on this journey and so will keep working on it in the months and years ahead.

GETTING IT RIGHT

We are all hugely proud to be part of the Association of Corporate Treasurers' Large Treasury Team of the Year 2021. We also recognise there is no magic recipe or silver bullet we can give you about how we make it work. You need to deliver on the day-to-day operational aspects, you need to deliver on the bigger projects, you need to plan for the future, and you need to respect and be respected by those around you. But, most importantly, you can only do this with the right people, with the right mindset and the right leadership, dedicating and focusing their efforts on the right things.

-

The deadline for entries will have passed, but all the previous winners can be seen at treasurers.org/events/awards/doty-22

POSITIVITY

When you come to work, we believe you ultimately choose what mood you will be in. Will I show up as being positive, with a smile and be collaborative, even if some of my personal circumstances are making this hard? Seeing the world through a 'positive intent' lens really makes a difference and it pays dividends, fostering a better working environment for all.

But we don't think this means you need to agree with everything said. Our experience is that having healthy constructive challenge and debate can often result in better outcomes for treasury and the group as a whole.

COMMUNICATION

Excellent communication within the team is also an important factor. At the start of lockdown we established (and still continue) a call at 10.30am each working day with all the UK team, to supplement the various other calls people would be having in smaller groups. It enables us to share information, discuss the issues of the day impacting the whole team, as well as those coming down the track.

We ensure everyone has their say and is heard. Looking back now, these calls also provided a forum during lockdown where you could also feel part of a community, an extended family one might say, at a time when isolation was a reality for many.

INNER ENERGY

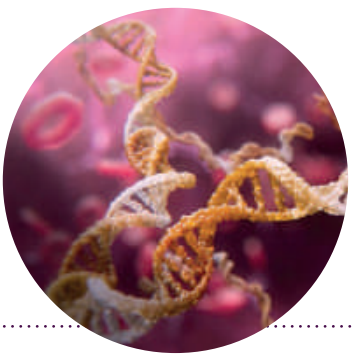
AstraZeneca's purpose is to push the boundaries of science to deliver life-changing medicines. This ethos extends to the way we work in treasury. We strive for continuous improvement, automation and innovation with the aim of reducing recurring and inefficient tasks as much as possible and to give people the space and support to deliver their ideas. We aim to be commercial, either in what we do directly or in partnering with the business to support their needs.

The pharma sector is dynamic and not only does this keep us all on our toes, it also provides a variety of opportunities for us to grow and develop. Many of us have a genuine admiration and real sense of pride for how AstraZeneca impacts patient lives, and that provides an inner energy for us to go that extra mile in delivering our treasury work. After all, without all the things our treasury team does, AstraZeneca would not be able to help patients lead better, healthier lives.

PERSONAL INTERACTION

Having spent much of 2020 and 2021 in our home offices, the team is feeling the benefits of being back in the office at least three days a week. For example, those chats with colleagues about what they did last weekend or around current news topics somehow seem more personable, and work matters can get discussed and resolved in real time, just by turning around and speaking to someone for a couple of minutes. In addition, you can pick up much more on the non-verbal communication than you can on a video call. The personal side of relationships is being restored and this can be really energising.

Jono Slade is group treasurer at AstraZeneca



"While treasury is a serious business, it shouldn't get in the way of having some fun along the way"

GROWTH COMPANIES CALL FOR IMPROVED FUNDS ACCESS

The small and mid-cap listed sector is not served by the public markets, report claims

REGULATORY & ACCOUNTING

Small and mid-cap publicly listed companies matter to the wider economy, but their fund-raising needs are not being met by the government and regulators – despite efforts such as last year's listing review by Lord Hill to address shortcomings in the listed markets.

At least this is the conclusion of a City pressure group's report published in October, which is calling on the UK government "to repair the damage inflicted on equity markets", which disproportionately impacts the small and mid-cap sector.

In its report, *State of the Small and Mid-cap Sector*, the Quoted Companies Alliance (QCA) argues that more must be done for these companies, which make up the vast majority of listed companies and are an important engine for growth in the economy.

Research conducted earlier in the year by the QCA estimated that small and mid-caps accounted for 91% of all quoted companies, with a combined market capitalisation of £376bn, and employ more than 2.1 million people, contributing at least £25.1bn in tax revenue (2021/22). But this research also revealed that the number of such companies listed on the UK's markets has fallen dramatically in the past three years with "damaging" consequences: more than 400 companies (12.5%) have left the UK markets, taking with them 800,000 employees who no longer benefit from working for a public company.

> "Public markets allow investors to participate in the success of a company as it raises funds and elevates its profile to scale up and grow"

SOCIAL BENEFITS

The QCA's report comes in response to the first *State of the Sector* report, which was released by HM Treasury and the City of London Corporation published in July 2022. The QCA highlights the social benefits of public markets, sets an agenda for regulatory reform, and calls for a change in attitude and perception by the government, regulators and market operators.

As Tim Ward, the QCA's chief executive, says: "In its simplest form, the purpose of a public market is to provide a venue for companies and investors to come together in order to create wealth and opportunity. Public markets allow investors to participate in the success of a company as it raises funds and elevates its profile to scale up and grow.

"However, public equity markets are so much more than this; they are a social good. They foster entrepreneurialism, create intellectual property, encourage product disruption and innovation, generate jobs, distribute wealth across society and, ultimately, produce economic growth."

Ward is concerned that if small and mid-cap companies are treated as "an afterthought, incidental to the louder voice and needs of the large players, we will not see real change in our markets".

QUICK AND CHEAP

The QCA report follows a recent recommendation in the *UK Secondary Capital Raising Review*, chaired by Freshfields Bruckhaus Deringer partner Mark Austin, which called for changes to increase the ability of companies to raise smaller amounts of funds quickly and cheaply, and ensuring retail investors are involved in all capital raisings, while maintaining and enhancing the UK's existing pre-emption regime.

Austin said: "By removing regulatory barriers and adopting new technologies, companies will be able to carry out quicker and cheaper capital raisings while still protecting the rights of existing shareholders.

"Our conversations with a wide range of stakeholders also highlighted the potential significant benefits to UK capital markets if both institutional and retail investors hold their shares in fully digitised form. Such a step would enhance the ability of individual shareholders to constructively engage with companies on governance and ESG issues, contributing to better stewardship outcomes and strengthening engagement between issuers and their investors."

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The QCA's report, *State of the Small and Mid-cap Sector*, can be found at bit.ly/3FvCfeM

The Austin *UK Secondary Capital Raising Review* can be found at bit.ly/3gVlyz5

Philip Smith is editor of *The Treasurer*

DIARY DATES

The ACT's calendar of events for 2023 continues to grow

ACT EVENTS

23 FEBRUARY 2023 | DUBAI, UAE
THE ACT MIDDLE EAST TECHNOLOGY & INNOVATION FORUM
Join the region's corporate treasury and finance professionals in an interactive conference focusing on the latest in treasury technology.
treasurers.org/metif23

MARCH 2023 | LONDON, UK
ACT CASH MANAGEMENT CONFERENCE
Date to be announced for this established event focused on payments and cash management.

16–17 MAY 2023 | 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.
treasurers.org/actac23

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 TRAINING COURSES

Our four sought-after training courses listed below will run again in 2023. Keep an eye on **learning.treasurers.org/training** for the next dates.

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

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


ACT online training courses continue into 2023

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

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

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

careers.treasurers.org

ACT CAREER HUB

Use the online career management tools to develop your business and behavioural skills

LEADERSHIP & CAREER

The latest *Business of Treasury* research (see: bit.ly/3sq61cU) highlighted that more experienced treasurers identify lack of leadership and strategic influencing skills as barriers to career progression, while for newer entrants skills around efficient working practices are the greatest concern.

You can develop these business skills and take charge of your career development through the online career management tools available via the Career Hub (careers.treasurers.org). This member-only resource provides career-based learning to develop your skills through eLearning courses, articles, videos and assessments.

The Career Hub can help you identify and improve your key development areas and support you in your career journey – whether you are new to treasury or a seasoned practitioner.

We asked one of our members to talk about his experience of using the Career Hub: John Tumwine, head of treasury and capital management at Stanbic Bank (pictured above).

Tell us about your career to date.

My career has evolved over the years, mostly in the financial services sector, as I have performed different roles. In commercial banks I have had roles as a trainee dealer, treasury dealer, liquidity manager and finally as treasurer. In a pension fund, I have worked as a fixed-income portfolio manager and finally as head of investments. Each role has provided me with different opportunities to learn and develop, and different challenges.

What areas of the Career Hub have you used?

I have visited the career assessment section, which enabled me to reflect on my motivations, preferences and values. I think the assessments are a great resource to 'check in' and be self-aware.

I have also accessed some of the eLearning tools via the Task Manager tool, which I found useful as it mapped the resources to the ACT Competency Framework. This enabled me to access the areas most relevant to me.

What have you found most useful about the Career Hub?

When looking at my professional development, I wanted to ensure that I included business and behavioural objectives within my CPD log. I have used the Career Hub to support this development and I have found the career personality tests most useful. They have helped me identify how best to engage with colleagues to ensure the best outcome on projects. They have also helped me to interact with, and influence, stakeholders at all levels.

How did you find out about the Career Hub?

Most recently, information about the Career Hub was brought to the fore in the emails sent during Professional Development Month. The membership newsletter also includes a section from the Career Hub and I will click through if the topic is relevant to me.

Final thoughts?

I think of the Career Hub as a career resource hub because it is loaded with resources helpful at any stage in one's career, whether you are a trainee or very senior.

Louise Tatham is head of professional development at the ACT

Find out more about the ACT Qualifications at learning.treasurers.org/qualifications

The Career Hub helps to build key employability skills through:

- **Career eLearning courses, which provide articles, top tips and videos on key behavioural topics, including communication, emotional intelligence and negotiation;**
- **Career assessment tests show you your areas of strength and development and include tests on learning styles, assertiveness and resilience;**
- **The Task Manager tool enables you to work through areas using the ACT Competency Framework and achieve a CPD Certificate when they complete a programme; and**
- **Job-hunting tools such as a CV builder tool and interview simulator provide useful resources when job hunting.**

-

Visit: careers.treasurers.org

TIME TO CELEBRATE: ACT PRIZE WINNERS 2022

The results are in, and the Association of Corporate Treasurers has announced its prize winners for 2022

LEADERSHIP & CAREER

The Association of Corporate Treasurers (ACT) awards prizes for the students who achieved the highest marks out of all students who undertook the following qualifications this year:

- Advanced Diploma in Treasury Management;
- Diploma in Treasury Management;
- Certificate in Treasury; and
- Certificate in International Cash Management.

And the winners are...

Advanced Diploma in Treasury Management and Student of the Year: Alina Chernyshova, head of treasury business partnering at Reckitt Benckiser

"Supported by my manager, colleagues and the cohort, I found the ACT experience exceptionally practical and rewarding. It provided an efficient way to get up to speed with the best practices and latest developments across a wide range of treasury topics. I continue to apply acquired knowledge including my dissertation research in my daily work. Most importantly, the ACT provided me with the tools and frameworks that help navigate strategic treasury matters, particularly during the times of uncertainty and market instability."

Diploma in Treasury Management: Sleiman El Homsi, finance function manager at PwC

"Discipline and determination are key to passing any self-study programme. Being passionate about the subject matter and convinced on the return on investment also helps. The workforce landscape is becoming increasingly fierce due to globalisation and the rising popularity of remote-working models. Qualifications like the AMCT are the sort of differentiators that can tip the scale in one's favour. This is on top of sharpening a treasury candidate or practitioner's competencies and broadening their horizons. More than just a check-in-the-box exercise, the diploma genuinely provides practical, deep insights as well as a holistic coverage of treasury, which sits at the core of enterprise financial sustainability."

Certificate in Treasury: Chris Hallett, treasury officer at National Grid Electricity Distribution

"The Certificate in Treasury is a challenging course, covering a diverse range of subjects. Some of the areas covered were completely fresh to me, as they weren't topics I'd previously encountered in my career. Other aspects were more closely related to my day-to-day activities, providing a broader context to operational treasury responsibilities, allowing me to further contribute to my team.

"Completing the Certificate in Treasury has greatly increased my overall knowledge of the treasury function, and provided me with a solid platform that, going forwards, gives me real confidence in taking the next step in my career."

Certificate in International Cash Management: Aaron Carver, senior analyst at Goldman Sachs

"Despite covering a wide range of topics ranging from cutting-edge innovations to legacy cash management architecture, the various learning resources of the CertICM syllabus provided a great framework for learning by augmenting complex theoretical concepts with practical examples from the industry. The qualification helped me to better understand the skills, tools and techniques that enable corporations to better evaluate their liquidity and working capital, manage risk, and consider the impact of accounting and tax regulations. All in all, I certainly feel more equipped to deliver and advise on best practice in domestic and international cash management."

The ACT also recognises its bursary students and awards them the **Gay Pierpoint Bursary Award**, which is in honour of former ACT Education Secretary and ACT advocate Gay Pierpoint. This year, the award of Bursary Student of the Year went to Opeyemi Olusoga, treasury manager at Aquila Leasing (Certificate in Treasury Fundamentals).

A DAY IN THE LIFE: CRODA

Emma Gosling, Croda International's group treasurer, talks about life at the FTSE 100 Consumer Care and Life Sciences company, the wins during COVID-19 and what's in store for the treasury team

LEADERSHIP & CAREER

Based at its global headquarters, Emma Gosling and her two colleagues form a centralised treasury team that oversees the FTSE 100 company's global operations in 39 countries. Like many people, Emma's day usually kicks off at 9am with a team call – a half-hour catch-up so that everyone knows what each other is working on.

The 'office' is in fact a stately home, Cowick Hall near Snaith in East Yorkshire, which has served as Croda's global headquarters since 1955. It's a big campus site with labs, an on-site restaurant, the old dower house, stable blocks and walled gardens that combine the old and the new. With this in mind, you can see why it hasn't been too difficult to encourage people back into the office.

The company, which was founded in 1925, has always been focused on the health and wellbeing of its people. "It's quite a family culture that we work in," Gosling says. "Work-life balance is important, so if we see people working in the office late into the evening, we know something isn't right.

"We are purely front office – our back office and middle office accounts reporting teams are based within our finance shared service centre near Hull. They do all our payments on our behalf, they monitor cash as it comes in and the accounting for our transactions."

Croda's treasury world is split in two, with one colleague covering the Far East, Middle East and Africa, and the other covering Europe and the Americas.

Gosling says: "My team used to be just myself and one other person, Yvonne Battersby. However, shortly after we were announced as co-winners of Small Treasury Team of the Year in the ACT's Deals of the Year Awards 2021, the team became even smaller when Yvonne left us.

"But since then, I have recruited two new members: Jenny Berriman, who was working internally in our finance team, and Zoe Parker, who joined us in August from a PLC."

Croda's treasury function was centralised about three years ago – it had previously been a very decentralised model. The company had grown significantly, particularly over the past 10 years, and now supplies thousands of products – many of which are bespoke – to its customers.

"Over the past two years, cash management has been our main target, but to get there we needed to go through a few stages, including the implementation of a treasury management system (TMS) and intercompany netting. Of course, this was taking place against the background of the COVID-19 pandemic, so we were having to pick the appropriate TMS while we were working from home.

"At the time, there was just myself and one other treasury colleague, so we both had to be very hands-on with the project, but it was a big win for us when we were able to implement the system in March 2021."

ACQUISITIONS AND DISPOSALS

At the same time, the company completed two acquisitions, one in the summer of 2020, and one in the November of the same year.

CRODA IN NUMBERS

Sales:
£1,889.6m

Operations:
105 locations in 39 countries

Employees:
6,100+

People protected through use of Croda's sun-protection ingredients:
55 million

Cowick Hall – the location of Croda International's offices

The former acquisition needed funding, and the one in November combined raising equity with debt utilisation.

Once the TMS and netting systems were up and running, the team needed to ensure those that were going to use the system were trained appropriately. Following a 'test month', they were able to ensure that just one interface with their SAP system, rather than multiple interfaces, was achieved. The team worked closely with the inhouse SAP team to achieve this.

In line with its focus on Consumer Care and Life Sciences, Croda also decided to divest the majority of its industrial business in 2021 as well – the sales agreement was in place just before Christmas. This coincided with the demise of LIBOR, so Christmas was a busy time, and this pace has certainly continued into 2022.

"So, it was a busy 2020 and 2021, and 2022 has been just as busy," Gosling says.

"At the start of this year, we started to put more processes into the TMS, including site-funding requests and an interface with our foreign exchange dealing platform. We also ran cash management workshops, set out best practices and implemented a new treasury policy framework this summer."

Gosling continues: "We are now making sure that all our business units are clear on what their responsibilities are, and what the reporting requirements are under this new policy. By the end of the year, we will be able to draw a line under the first phase of the TMS project."

BEST TECH SOLUTIONS

Looking ahead to 2023, the team is looking to future-proof themselves by working out what technology they can harness so that they get the best tech solutions for their people.

"We continue to standardise processes so that no matter which country we are based in, we report in the same way and treat items in the same way where we can," Gosling notes. "And the data that we gather needs to be real time, so that is there on a dashboard, providing good data analysis."

It's safe to say that there hasn't been a quiet day, let alone a quiet week or month since Gosling has been working in treasury at Croda, and that is probably true throughout the organisation.

As she says: "It has been a busy time for disposals and acquisitions, but we never lose sight of our purpose – 'smart science to improve lives™'. This is at the heart of Croda and was highlighted in particular during the pandemic when our speciality ingredients helped to support the development of the life-saving Pfizer vaccine."

> "We never lose sight of our purpose – 'smart science to improve lives™'"

Details of the ACT Deals of the Year Awards can be found at treasurers.org/doty22

Philip Smith is editor of *The Treasurer*

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NEW YEAR REVOLUTION

LEADERSHIP & CAREER

As one year closes and another one begins, I think that whether treasurers will look back on 2022 fondly depends on how 2023 shapes up.

The COVID-19-related paralysis impacted the whole world and corporate treasury was no exception. The beginning of 2022 looked rather optimistic with business life returning to some form of normality. But then we were hit by high inflation and interest rates, with knock-on effects on FX rates, an energy crisis and war in Ukraine.

And unfortunately, it looks like uncertainty and volatility may be with us for some time.

During these challenging times, I would strongly recommend that treasurers continue to think commercially, outside the box, and provide their organisations with the relevant thought leadership and support in achieving their organisations' strategic objectives. That is, in my view, the way to make a real difference.

I always believe that challenges provide opportunities. For example, the focus on cost reduction may encourage corporates to invest further in technology and automation, such as implementing or upgrading their treasury management systems (TMSs) or improving the accuracy of cash-flow forecasts using artificial intelligence and machine learning technology.

So, will you make this part of your New Year's resolutions? Will you finally get round to updating your TMS, explore further the possibilities offered by technology and data analytics, and revisit personal skill sets to ensure your treasury team is collectively well equipped to deal with whatever 2023 throws at you?

In my view, technology, data analytics and automation are the way forward, not just in terms of improving the efficiency of treasury processes and accuracy of management information and reporting, but also in providing a secure platform for growth. Furthermore, in the past few years we have seen significant innovation in the payment space with new means of payments that can alleviate operational pain points and can significantly reduce the cost and risk of fraud in both outgoing and incoming payments.

I must also add that in order for treasury teams to remain at the top of their game, it is important to consistently invest in upgrading skills. The Association of Corporate Treasurers (ACT) can provide excellent support in this respect through:

- Its relevant and flexible qualifications and training in continuously raising technical and ethical standards;
- Its webinars and conferences; and
- Other technical – as well as mentoring and career development – support.

I would strongly encourage all treasurers to keep close to the ACT as it remains the leading advocate of our profession, so that its members can feel an integral part of an outstanding, diverse but supportive treasury and finance community.

I hope that we continue to go back to some form of normality post-COVID-19 so that the ACT can continue to fully support the profession and its members with no further disruptions. It was fantastic to have everyone together again at this year's ACT Annual Conference, and I am looking forward to welcoming members to Newport, Wales, in May 2023 for next year's conference.

> "For treasury teams to remain at the top of their game, it is important to consistently invest in upgrading skills"

Dino Nicolaides is president of the ACT

AS THE ACT PRESIDENT, MY KEY PRIORITIES FOR 2023 ARE TO ENSURE THE ACT:

1. Remains relevant to its members and their changing needs.
2. Continues to be an agile and diverse organisation that can flex to the changing environment.
3. Delivers its vision to embed the highest standards of professionalism and integrity.
4. Has the treasurer at its heart while being itself the heart of the treasury world.