The Treasurer
Issue 4 2021
The Magazine of The Association of Corporate Treasurers
treasurers.org/thetreasurer

THE ROLE OF CENTRAL BANKS
Treasurers will need a sixth sense to discern true market signals

THE STRATEGIC TREASURER
Rethinking the role of finance and its contribution to business

SUPPLY CHAIN INTELLIGENCE
Today's disruptions and their implications for working capital

The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ ISSUE 4 2021

ON THE AGENDA FOR 2022

Action points for the strategic treasurer

✚ TREASURY IN THE MIDDLE EAST

ACT TREASURY EXCELLENCE AS STANDARD

THANK YOU

Towards the close of another tumultuous year for treasurers, welcome to the last edition of 2021 – and my final edition as editor of *The Treasurer*. When I joined the magazine back in 2015, my learning curve was a steep one.

I'd venture to say that over the past 18 months lessons about business and the world of work have accelerated for all of us. The COVID-19 pandemic has challenged our thinking. And while our current experience has no exact parallels and the social and emotional impacts have been profound, treasurers remain on the front line, testing ideas and finding solutions.

On page 14, we hear from seasoned treasury professionals about innovations – those that they've seen and those that they hope will become embedded. More and better data-driven treasury technology; optimisation of core competencies; and a willingness to embrace complex environmental, social and governance and stewardship issues – these are among the themes discussed.

Also in this issue, Anthony J Carfang explores the expanded role of central banks since the 2008 financial crisis and argues that corporate treasurers will need to adjust both their analysis of market activity and their approach to core treasury activities. Vastly increased central bank balance sheets distort the market, he suggests, and moreover central banks may resist surrendering newly acquired powers. It will be interesting to see whether governments and regulators intervene to avoid a concentration of market influence. (See page 24.)

Treasurers remain on the front line, testing ideas and looking for answers

It is clear that these issues must be looked at in the round. As the Association of Corporate Treasurers' (ACT's) policy and technical team point out from page 30, there are pressing concerns ahead that are best considered in a joined-up and connected way. The pandemic has served to emphasise the interconnections between people, markets and businesses, and has highlighted the ways that technology can accelerate developments.

In this last editor's letter, I'd like to take the opportunity to thank the treasury professionals who have helped me understand these relationships and shared their stories and insights. To those of you who have generously given your time, provided context and background, heartfelt thanks.

I'd like to thank the technical review board, who have been tireless in their willingness to contribute and evaluate technical treasury content. Sarah Boyce, Naresh Aggarwal and James Winterton of the ACT's policy and technical team also deserve a special mention for their ideas, commentary and profound patience.

It has been a privilege to edit *The Treasurer* for six years. I hope the magazine has proved useful and interesting and that the treasury community stays safe, well and as connected as ever.

Liz Loxton

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THIS ISSUE'S CONTRIBUTORS

MARK ROWLAND is an award-winning business writer and editor specialising in finance, technology, leadership and the environment. He has worked on projects for the Chartered Management Institute and the Association for Project Management, among others. His feature on treasury tech can be found on page 22

JEREMY HAZLEHURST has been a journalist for 20 years, writing about all aspects of finance and business. An interest in family offices led him to edit a magazine about the next generation of family business owners, and write a column about them for the *Financial Times*. His feature on the subject is on page 40

JOY MAITLAND is an executive coach and author. She is MD at Inemmo Leadership Development Solutions and holds several non-executive director positions as well as fellowships. As a coach, she works with executives to leverage their strengths and reach their career goals. Her article on inclusion is on page 50

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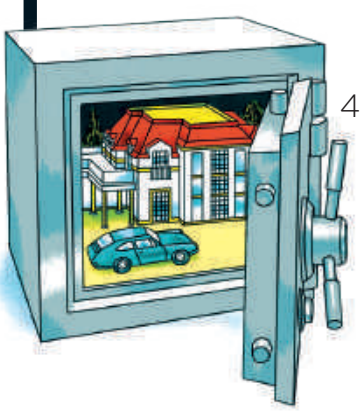

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THE RETURN OF INFLATION AND THE ROLE OF MONETARY POLICY

INFLATION IS BACK – AND EMPHATICALLY SO. BUT WHAT DOES THIS MEAN FOR CENTRAL BANKS AND THE WORLD'S ECONOMIES?

In the decade that followed the great financial crisis (GFC) of 2008/9, major central banks longed for some inflation in order to remain a safe distance from deflation.

When economies are functioning well, rising prices are often a sign that people are spending and confidence is on the up. Modestly rising prices grease the wheels of commerce by providing a signal for businesses to invest in machinery and equipment to raise productive capacities.

Except for a few hopeful but fleeting growth spurts, economic growth across the advanced world languished during the last upswing.

To differing degrees, from 2009 through to 2019, all major Western economies suffered disinflation and chronically sluggish demand growth. But now inflation is back.

After sinking in 2020 during the first waves of the COVID-19 pandemic when widespread lockdowns crippled global demand, inflation in the Western world has risen this year to well above central banks' 2% targets.

The unprecedented fiscal and monetary stimulus by major central banks and governments seems to have jolted the advanced world out of its slumber. Across the board, price signals are flashing again.

In the US, consumer price inflation has surged from 0.3% year-on-year in April 2020 to 5.4% in September. Prices are rising sharply on the other side of the Atlantic, too – albeit a bit less so than in the US.

Eurozone inflation has risen from -0.3% as recently as November 2020 to 3.4% in September 2021. In the UK, inflation has jumped from 0.2% in August 2020 to 3% in September this year.

While part of the strong inflation in 2021 is the base effect of disinflation in 2020, the price level across the advanced world has risen well above its pre-COVID-19 trend.

The inflation surge is driven by a combination of ultra-strong spending and a host of challenges that limit the ability of firms to supply the goods demanded by consumers.

On the demand side, some households are flush with cash thanks to generous income and job support policies. They also benefit from rising wages amid surging labour demand and record real net worth due to the broad-based rise in asset values.

Demand for goods surged during late 2020 and has moderated by much less than expected in 2021, even as the widespread easing of pandemic restrictions enabled higher spending on consumer services.

The supply-side issues are global and complex. They range from low inventories, genuine shortages of key inputs, such as semi-conductors and hydrocarbons, global shipping dislocations and a structural lack of skilled workers in industry and construction.

While skills shortages in haulage and construction preceded the pandemic, the COVID-19 crisis has accelerated the shift towards the digital and green economy. A high degree of mismatch between the skills of unemployed workers and the skills demanded by firms is driving significant wage growth.

Until recently, central banks had maintained that the current inflation spike would fade rapidly once supply challenges ease. But the imbalances look likely to persist for longer than expected – perhaps well into next year and beyond.

Reacting to this outlook, inflation expectations are rising sharply. In the UK and US, financial markets expect prices to rise at rates well above central banks' 2% target over the next five years. To compensate for higher expected prices, workers are trying to bargain their wages higher today.

Central banks fear that a positive feedback loop will develop between wages and prices. If so, an inflation that was initially caused by mostly 'transitory' supply-side factors risks becoming entrenched.

Led by the Bank of England, major central banks are beginning to take steps to normalise their policies – by first slowing and finally stopping their massive asset purchases and later raising interest rates.

That central banks have grown confident enough to at least aim for more normal monetary policies is a positive development.

A broad-based rise in interest rates that reflects a robust business cycle would offer even stronger evidence that the advanced world may have finally escaped from its post-Lehman funk.

Kallum Pickering is senior economist at Berenberg Bank

SEEKING DIRECTION IN THE NEW NORMAL

TREASURERS ARE HEADING BACK TO THE WORKPLACE, HYBRID WORKING IS A REALITY AND COMPLEX ECONOMIC ISSUES PERSIST. ACT CHIEF EXECUTIVE CAROLINE STOCKMANN TALKS TO **LIZ LOXTON** ABOUT LEADERSHIP – AND THE ROLE OF TRUST

Q: The pandemic cut a swathe through normal life – impacting how businesses are organised and operate, as well as how and where treasurers work. What are your thoughts about these features of working life going into 2022? What positives have you seen in how treasurers and businesses have adapted?

A: One of the big things I noted from our *Business of Treasury* research earlier in the year is that, entirely unprompted, treasurers are talking about an increase in trust between themselves and their colleagues, and other relationships. Because the whole idea – outdated to my mind – that you have to see people physically working in order to be sure they are doing their job, has gone out of the window. There is a new sense of empowerment out there, and treasurers are enjoying feeling that they are trusted, as well as acknowledging that they need to trust others, too.

I also think that inclusion is on people's minds as they plan their return to the workplace. At least in part, they are wondering how best to manage inclusion. Not only are they thinking about flexible working and maintaining some of the benefits that people experienced when working from home, they are also thinking about how in a hybrid world you ensure those who are not physically in the room are as full a part of the conversation as before. The whole area has prompted a lot of debate. For instance, people are weighing up whether those in the room are in fact disadvantaged, as they appear smaller on-screen to those working remotely. Many organisations are considering whether to require all staff to use their own device. This makes sense, as there's been lots of research that shows that if you appear larger than others on-screen, you appear more aggressive, and perhaps a shrinking violet if smaller.

Q: Hybrid working has been our reality for some time, with some businesses setting out a programme for steadily increasing employees' days in the office and others saying they will permanently adopt flexible and homeworking. How do you see this aspect of our working lives evolving over the next few years?

A: I think this is really interesting. Currently, most treasurers seem to be planning to be in the office for two to four days a week. As you say, company culture will dictate where the balance lies. But I think there is a risk that companies may start to fall back into old habits among the euphoria of people meeting each other in person again and potentially forget the benefits of remote working.

I also think we have higher expectations of productivity at the moment. Add in a commute and I believe we are already seeing real fatigue setting in. It's there wherever you look – the online fatigue and the return-to-the-office fatigue. I think it will be sensible for all if organisations test a few models before making any rash long-term decisions.

It is quite likely that we are in a period of 'reaction', currently. We want to forget some of the challenges of the past 18 months and we want change. People are changing jobs, moving houses – you name it. They want to feel in control and to experience something new and different. We need to take time out and

ask: what actually is an ideal working environment? And how do we service the needs of all employees – well, at least as far as possible?

Q: Challenges are all around us. Besides grappling with the COVID-19 crisis, we are also seeing an intransigence around environmental, social and governance (ESG) issues and the climate crisis, plus a complicated picture in terms of international supply chains and cooperation generally. What is your sense of how these issues will play out?
A: As you say, Liz, these are very complicated areas. I think COVID-19 actually did bring more awareness to ESG initially, and was therefore a good thing in that regard. Now, the situation we see playing out is a divergence between different organisations. Some have done really well over the past 18 months, and some have really suffered – if they even still exist. And then the supply chain issues – which come from a whole multitude of factors, not just COVID-19 and not just Brexit – are happening everywhere.

So, I do wonder whether we're going to see some of the behaviours we saw initially under the pandemic where people and organisations take a more nationalistic approach, or whether they will leave that to the politicians. I hope that the G and S of ESG will have influence, and that across the international community pressure from stakeholders will ensure that integrity holds its ground, on so many levels.

Q: When it comes to leadership, we've been hearing calls for higher levels of integrity, honesty and empathy for a long time. Now more than ever, there is a need for clarity and direction from leaders. But how easy is that to achieve? What's being weighed up in the minds of leaders as they seek to project clear messages around purpose and strategy?
A: I have read many articles around the empathetic and honest leader, etc, and it's a style I myself advocate as being the ideal. And I do think clarity and direction are not such challenges in themselves if they are built on a foundation of transparency and integrity. And of course you've got to have a bit of decisiveness in there, too!

Let's not forget diversity and inclusion – that's where you're going to get all the great ideas coming in

The key thing I would say is that a leader needs to be authentic, and that is down to them knowing, and living, their core values. We may not like someone with values different from our own, but we respect them, because they are authentic. I heard something the other day, though, that worried me – about a leader of a company in the States where it's all about demanding the highest standards in a very traditional way, I would say, where staff are called at any time of day or day of the week to pick up on a tiny error. For me, that describes a regime of fear rather than leadership. We need to give people some freedom to be their best, and we need to protect some downtime outside working hours. Only then is there a basis on which to give those clear messages around purpose and strategy. Purpose then is easy – it ties in to values. And 'culture eats strategy for breakfast', as they say.

So, today's leader is thinking about whether they have the right team, and hence the right culture, and whether that culture includes a high level of agility – as that's what you're going to need most, I believe. And let's not forget diversity and inclusion – that's where you're going to get all the great ideas coming in.

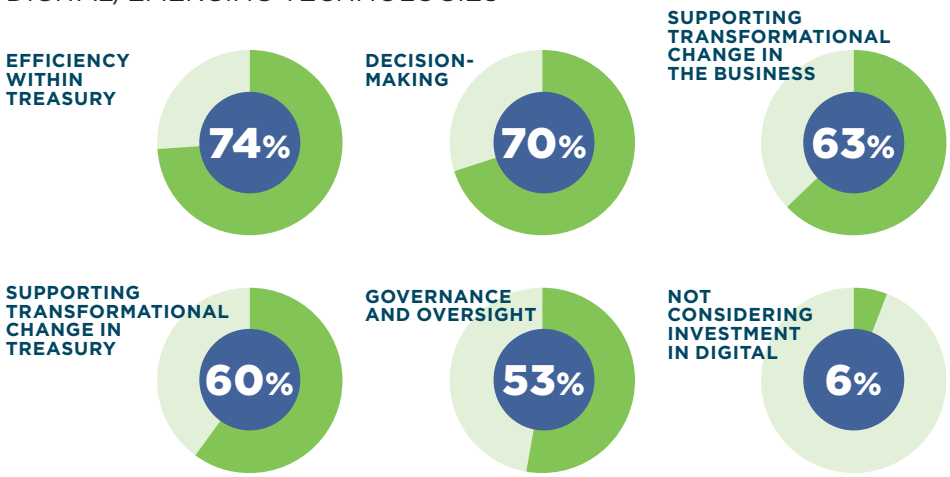
Q: Diversity and inclusion has been a clear focus for you and the Association of Corporate Treasurers. Why is it important to you and to business?
A: Quite simply, you get better ideas and results if you are inclusive and have a diverse team. So, on the one hand, people are happier and therefore more productive if they feel part of something. And on the other, as research shows, leadership teams and boards that are made up of gender and racially diverse individuals are more innovative and deliver significantly better bottom-line results. So, to business it should be a no-brainer. To me? Well, it's part of my core values set.

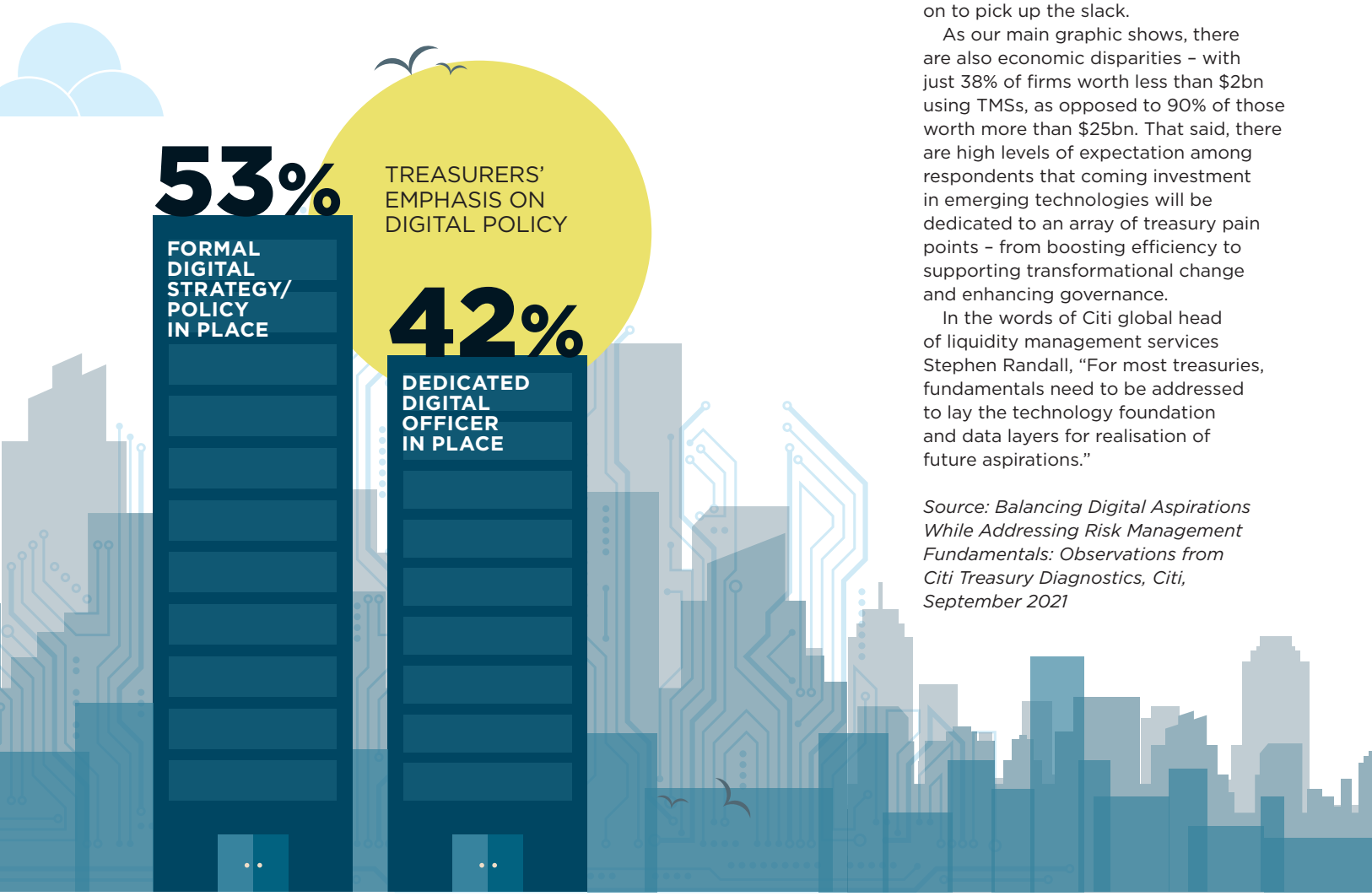
Liz Loxton is editor of *The Treasurer*

IN DETAIL: TECH TRENDS IN TREASURY

TREASURY MANAGEMENT SYSTEM USAGE
BY COMPANY SIZE

EXPECTATION IN INVESTING IN DIGITAL/EMERGING TECHNOLOGIES





TREASURY TECH IS ON THE MARCH – BUT THE PICTURE IS MIXED.

That's the message from a recent Citi report compiled from a survey of decision-makers in 475 large firms working across a range of sectors and geographies.

One critical point the report flags for treasurers' attention is a shortfall of joined-up processes. Some 64% of respondents reported that their treasury management systems (TMSs) are either not, or only partially, integrated with their enterprise resource planning (ERP) software. Meanwhile, 79% said that their treasury departments do not currently have full TMS/ERP integration with their banks. In each area, outdated manual processes have had to linger on to pick up the slack.

As our main graphic shows, there are also economic disparities – with just 38% of firms worth less than $2bn using TMSs, as opposed to 90% of those worth more than $25bn. That said, there are high levels of expectation among respondents that coming investment in emerging technologies will be dedicated to an array of treasury pain points – from boosting efficiency to supporting transformational change and enhancing governance.

In the words of Citi global head of liquidity management services Stephen Randall, "For most treasuries, fundamentals need to be addressed to lay the technology foundation and data layers for realisation of future aspirations."

Source: Balancing Digital Aspirations While Addressing Risk Management Fundamentals: Observations from Citi Treasury Diagnostics, Citi, September 2021

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FEATURED IN THIS ISSUE...

SUCCESS FOR FRONERI

The ice cream manufacturer's small treasury team flourished during the tough times brought about by the COVID-19 pandemic

THE VIEW AHEAD

The pandemic challenged our working methods, business relationships and the stability of our processes. A post-pandemic world beckons and offers opportunity for change. Here, seven treasury professionals suggest an evolutionary path in core treasury areas

Last year brought a level of challenge few of us had encountered before – and this year has been scarcely less taxing. Hybrid working has become commonplace, but practical difficulties remain. Providers and commentators alike are clamouring for more and faster technology adoption, with huge untapped potential still to be realised. Take-up, however, remains uneven. Moreover, the messages around the climate emergency are becoming ever more strident.

Treasurers must and can find a way through these challenges using their creative and strategic insights to the benefit of their organisations – and the wider world. And since we can't collectively remain on a war footing forever, a post-COVID-19 way of operating across all these subjects and more must emerge.

IAN CHISHOLM
Group treasurer at Grosvenor

We are not out of the pandemic yet – that much is clear. But in countries where vaccinations have been rolled out, we are perhaps moving on to the next phase. Reflecting on the past 18 months, here are my top three takeaways from this period.

Firstly, the way we work has fundamentally changed. Enabled by better technology, we have demonstrated that we can work remotely, but we need to understand what we have missed out on by not being together – our 'social capital' or 'culture' – and how we best recreate that while retaining the benefits of flexibility. Our company's purpose has not changed – but the way we deliver it has, and our team management needs to reflect that. In Grosvenor treasury, that means two days in the office together as a team and then flexibly working for the rest of the week – and this will evolve over time.

The second takeaway is a reinforcement of the treasurer's general approach – we need to plan for the bad times as well as the good. This means more and better stress testing, more scenario planning, understanding the points of weakness in our supply chains and developing better risk mitigants. Certainly, construction costs have increased in recent months – the debate now is how much is transitory and how much is permanent. What is the trade-off of embedding more redundancy in our processes? We need to get better at quantifying this.

Finally, green and sustainable finance has become mainstream. Perhaps the pandemic has made everyone think about preparing for these kinds of risks. With any new product or process, there is a learning curve for the corporate and the providers; we are all finding out the costs and benefits, and early adopters may find themselves overtaken by events. But this doesn't mean we should stop – we need to learn and adapt and strive for best practice, and that's what we will be striving for as Grosvenor executes its first green and sustainable loans over the next year.

> "We need to plan for the bad times as well as the good. This means more and better stress testing, and more scenario planning"

KEMI BOLARIN
Head of treasury Europe at GXO Logistics

As treasurers climb down from the watchtowers overlooking pandemic-induced cash and liquidity storms, our focus becomes building on the lessons learned and harnessing technology. The treasury digitisation strategies we develop must take us towards greater resilience in the face of future uncertainty.

It's a brave new world and the possibilities of technology are endless. Treasurers now sit at the heart of a digital ecosystem, so need to be tech-savvy. The modern treasurer's skill set is anchored in data science and predictive analytics, generating a dashboard of actionable insights from real-time data, which means that we need to understand good-quality data-employment technology.

Next-generation treasury will work in real time, deploy a fully integrated, web-based and application programming interface-driven (API) treasury management system (TMS) equipped with data analytics and powerful tools for operational efficiency and control.

Treasurers can't be shy of technology and need to have a finger on the pulse of emerging solutions if we are to take the treasury function beyond an operational centre of excellence to a strategic business partner.

Real-time treasury technology will comprise robotic process ▸

automation, machine learning, artificial intelligence (AI), cloud computing, overlay technology, interoperability, open banking and APIs, co-creation and behavioural biometrics. These are critical tools that will ultimately increase efficiency and create more time for strategic thinking.

Some of these technologies are further along the track than others. In my former role at Travelport, we used smart bots for payments and APIs for real-time visibility over cash balances in global subsidiaries. Currently, at GXO, I am researching AI and machine learning to improve the accuracy of cash-flow forecasting and looking to banks and fintech partners to help me work towards a solution that navigates the cash data lake and improves forecasts.

Treasuries aspiring to full digitisation may need to upskill either through training or by hiring new talent, but this is probably the most fun time to work in treasury if you are tech-savvy.

LISA DUKES
Director of corporate finance and derivatives at Drax Group

If companies weren't already aware of the value of having progressive treasurers within their ranks, the COVID-19 crisis must surely have brought that message home.

We've seen a great many pressures on business operations over the past two years – and treasurers must continue to adapt to an uncertain environment. One key aspect of the treasurer's role is scanning for future market scenarios, considering broader risks and then mapping those to the underlying business both today and for its future outlook – to make the strategic

> "Treasuries aspiring to full digitisation may need to upskill either through training or by hiring new talent"

execution easier or even to enable it.

This can be boiled down into three activities, which are intrinsically linked:

- Accessing global capital markets to diversify funding and achieve the most cost-efficient structures;
- Unlocking value in the organisation's working capital to support existing activity or support growth; and
- Considering derivatives as a tool to proactively structure for future scenarios that the organisation could move to and the risks it could face and seek to mitigate.

The use of derivatives is all too often an underrated tool in risk management and future planning. More treasury functions could potentially make use of their potential. Few things in life are binary and even one-time transactional items such as M&A have a lead time and balance of probability through to completion that could be partly managed by derivatives hedging.

At Drax, we've worked proactively to integrate derivatives into our risk management, working extensively with our banks on products that cater for our particular profile, capturing value and hedging the risk on a large and long-dated FX portfolio.

Adding value to the organisation requires solid risk management foundations, so treasurers should allocate time to those strategic value-adding areas.

The key question and challenge should be: "Have I changed any of the processes from a year ago and are we still optimising?" I hope I can continue to answer: "Yes, even more so" in a year's time!

KATHERINE HORRELL
Group treasurer at the Automobile Association

I believe 2022 is going to be a really interesting year for bank relationships. In the midst of a crisis, one of the key concerns is usually keeping your bankers onside. Most of us will have had some fairly deep conversations with our key banking contacts over the past 18 to 24 months, and our CFOs will have done the same. But it can actually be the period following that is more challenging.

Once the worst of a crisis is past (and I really hope that it is!), that's the time when banks often re-evaluate their strategy and which industries, sectors and clients they really want to partner with. Our direct relationship contacts can start feeling pressure internally within the bank to achieve returns and manage down their risk exposures. At the same time, our CFOs and senior management may want to 'move on' from having to have tough conversations with the banks.

As treasurers, we can provide real value by being on top of these issues, and we can do that by understanding what's happening behind the scenes with our banks. Relationship bankers and product specialists can be reluctant to show what's really going on in their credit and risk committees, but it's worth asking the questions about the banks' strategy, and risk appetite and measurement. This information can be used to shape and structure our refinancing plans and bank management approach. If it's done well, it can go unseen, but as treasurers, quietly averting disaster is what we do!

DAVID GREGG
Head of corporate finance at Yorkshire Water

We have seen the sustainability agenda continue to develop in 2021 with evolving regulation giving clearer definition; all of this ahead of COP26 and understanding what is truly meant by building back better after COVID-19. It is a serious time commitment just to keep up with published views and consultations!

It is clear there will be a fuller assessment of environmental, social and governance (ESG) factors; not fixated on one aspect, whether governance or environmental for climate change challenges. This fits very closely with Yorkshire Water's social purpose and role as an essential service provider.

For financing, the trend continues to a future where a company risk profile will count for more than labelling or pricing a specific debt instrument or loan facility. We see this coming with more disclosure, requirements for investors including pension trustees, and ESG ratings. There is still more to do, but there can only be greater clarity for investors to assess the ESG impact on risk and return.

At Yorkshire Water, 2021 saw us continuing to work towards operational net zero carbon in 2030, to support customers as the economic impact of the pandemic becomes clearer and to protect colleagues. This underpins our approach on ESG debt finance, where we expect to hit £2bn total in the next few years.

A big step forward this year was publishing our inaugural impact report, with a second report published more recently. Importantly, this shows investors how Yorkshire Water's ESG agenda and financing strategy are closely linked. This will only continue to improve in 2022 and beyond.

> "There can only be greater clarity for investors to assess the ESG impact on risk and return"

KUNLE ALADEWOLU
Treasury lead at Paystack

Centralised or decentralised treasury – why choose? In 2018, I led a project to implement a multilateral netting system for a client in 70+ countries. I was impressed by how teams from across the globe came together to successfully deliver on the project. One big takeaway was that it is possible to work effectively as a global team. In the subsequent year, I decided to work from home more. I have two young kids and most of my meetings were virtual anyway. Little did I know that I was preparing for what was to come.

Last year, virtually all teams had to become fully virtual. One interesting outcome I noticed was that people engaged more with their colleagues in other regions as physical distance became less relevant. Many more projects included global team members – if everyone is virtual, more projects can get staffed across regions. This brought about great results as the structure and oversight of central treasury combined with the expertise of local finance teams. I believe this can be taken a step further by proactively building a global virtual treasury team, not just for one-time projects.

One of the core decisions a treasury function has traditionally had to make is whether to be centralised or decentralised in its structure and operations. A decentralised approach allows you to move quickly in each market with tailored expertise to meet your needs. A centralised approach maintains more governance and control. The past 18 months have challenged my thinking on this, and I now wonder if treasurers must choose. Building a global virtual team can unlock the best of both worlds.

I now lead a treasury team on a different continent and have experienced first-hand how such a team can thrive virtually. As we come to what is hopefully the end of the pandemic, I encourage you to reflect on what worked well for your team – and perhaps rethink your approach.

FRANÇOIS MASQUELIER
CEO at Simply Treasury

The year 2021 underlined the importance of the trend towards standardisation and automation – still the best recipe for surviving stressed periods. There are aspects of the pandemic we wouldn't want to revisit. However, there is also no doubt that it has provided the impetus some organisations needed to revisit day-to-day processes and move towards a digital treasury.

Revamping and automating manual and partially manual processes is still very much the order of business – for recovery and also for growth.

The Association of Corporate Treasurers' *Business of Treasury** survey for 2021 found 67% of respondents investing a great deal in automation, with 41% investing in TMSs and around a quarter investing in AI and machine learning.

The benefits are well understood: risk mitigation, increased efficiency, cost reduction and enhanced internal controls – all persuasive arguments for the C-suite. *And* at a time when recovery and growth are front of mind for everyone.

If treasurers are to retain guardianship of liquidity, shield their organisations' financing and fund their futures, they need to be better equipped and automated. That's true for all organisational types.

However, in a post-COVID-19 world, we too often see treasury departments that are less automated than they claim to be. Many treasuries are still wedded to spreadsheets, in spite of their downsides.

I see too few treasurers taking stock of their organisation, an essential preliminary to any change and digital transformation. A preliminary inventory followed by a benchmarking exercise to situate oneself in relation to one's peers is a sound first step towards digital transformation.

Wherever you are on your digital treasury journey, the hurdles may be significant, but the destination is undeniably worthwhile.

*treasurers.org/hub/research/business-of-treasury

With thanks to all our contributors

“IT DOESN’T FEEL LIKE THERE’S ANYTHING IN TREASURY WE COULDN’T DO”

Left to right: Danny Meikle, Benjamin Bennett and John Meehan

FRONERI

Froneri's lean treasury team of three has achieved a lot during a short, but eventful, period, as Sally Percy reports

PHOTOGRAPHY: ROB WHITROW

Most treasurers would probably agree that the outbreak of COVID-19 made 2020 a testing year, for both businesses and individuals. Yet, despite the difficulties they faced, many treasuries flourished during this time. A great example is the treasury team of global ice cream manufacturer Froneri.

Despite being a very small team, Froneri's treasury successfully navigated a number of significant challenges on top of all the other pressures associated with the pandemic. In fact, its considerable achievements over the 12-month period led to it winning the small team category at the Association of Corporate Treasurers' (ACT's) Deals of the Year Awards 2020, sponsored by Lloyds Bank.

Back in January 2020, Froneri's then treasury team of two – head of treasury John Meehan and treasury analyst Benjamin Bennett – was deeply embroiled in the financing of a major acquisition. Yorkshire-based Froneri, a joint venture between French private equity firm PAI Partners and Swiss food and beverage giant Nestlé, was spending $4bn on buying Nestlé's US ice cream business, including the iconic brand Häagen-Dazs.

The opportunity arose from Nestlé's strategy of transforming its portfolio and came hot on the heels of Froneri's acquisition of two other ice cream businesses in 2019 – one in New Zealand and the other in Israel. By having businesses in both the northern and the southern hemispheres, Froneri is able to smooth the seasonality of ice cream in its profit and loss.

CRAZY SIX WEEKS

Financing for the US acquisition kicked off in December 2019 and marked the start of what Meehan describes as "a crazy six weeks" in the run-up to the 31 January deadline. Meehan embarked on a whirlwind series of meetings with rating agencies, as well as presentations to lenders in New York and London.

"I knew this was my chance to really make my mark at Froneri," he recalls. "Everyone in the business saw the financing and webinars about it, whereas a lot of the other things you do happen in the background. But I've never worked as hard in my life as I did during those several weeks in January 2020."

The transformational nature of the acquisition meant Froneri needed a completely new financing structure. It wanted to raise €5.8bn, with the aim of covering the cost of the purchase, as well as refinancing €1.8bn of existing debt. Initially, the plan was to issue term loans in euros, sterling and US dollars. But the US dollar debt raise went so well that Froneri was able to benefit from lower interest rates – resulting in a rapid change of plan.

> Froneri's treasury team was deeply embroiled in the financing of a major acquisition

"We realised that if we issued more US dollar debt, and swapped it to GBP, we would save around 1%," says Meehan. "Cross-currency interest rate swaps also gave us the ability to issue Aussie dollar quasi-debt." Thanks to the new strategy, Froneri would end up with a net investment hedge for its businesses in the UK and Australia, and it could borrow at lower rates than if it had

Treasury assistant Danny Meikle

issued term loans in GBP and AUD. As a result, it would save a hefty €8m per annum in interest costs.

DASH FOR CASH

With the huge US deal completed, life should have got a little quieter for Froneri's treasury team. But then, in March 2020, the COVID-19 pandemic struck and the team quickly switched to homeworking, using Microsoft Teams to communicate. With an economic crisis unfolding alongside the health crisis, they also realised the urgent need to focus on liquidity.

Prior to COVID-19, Meehan had already implemented an inhouse bank across the 24 countries in which Froneri operates, with the aim of enabling the group's local businesses to be funded cost-efficiently from the centre. A euro cash pool had been established in 2019, and Froneri's businesses in France, Germany, Italy and Spain joined the pool during 2020, bringing in €100m of additional liquidity. Treasury also swiftly implemented a multicurrency cash pool, freeing up another €120m of liquidity, including cash that had previously been trapped.

Alongside the cash pooling, Froneri's treasury undertook an ambitious bank account rationalisation project. More than 20% of the company's bank accounts were closed, which had the effect of boosting liquidity, reducing risk and saving money on fees. The project remains ongoing and Meehan has plans to further reduce the number of bank accounts held by the company. "We might even start looking at virtual accounts next year," he says. "I'm hoping that now some of the other organisations with big treasury teams have done it, we can learn from what they've done."

Froneri's business held up well during the pandemic

As it turned out, Froneri's business held up well during the pandemic – boosted by strong ice cream sales in US supermarkets. "We knew what a seasonal business ice cream could be, but we were pleasantly surprised by the impact of the US," Meehan explains. "We ended up having plenty of cash and a really big, undrawn revolving credit facility. We were in a fortunate position where we weren't having to forecast every week."

ENTER THE TMS

In 2020, Froneri's treasury team underwent a benchmarking exercise with KPMG. The consultancy compared the team to treasuries from other organisations of the same size, reaching the conclusion that the Froneri team was achieving an incredible amount with just two people. KPMG therefore advised Froneri to invest in an extra staff member, as well as a treasury management system (TMS).

Following a request-for-proposal process involving three TMS providers, implementation

JOHN MEEHAN HEAD OF TREASURY

THE WORK CHALLENGE I WOULD MOST LIKE TO FIX IS...

...This would have been a very easy question to answer 12 months ago, when we were in desperate need of a TMS and I had a list of challenges as long as my arm. Coming out the other end, we have solved so many big issues, from full cash visibility to being able to execute all our payments from one place. Having gone through the implementation, the most painful work stream was payments. Payment types and the amount of variation from country to country means that it took longer to connect one or two complex countries than it did for all our entities in the single euro payments area zone. I'm definitely an advocate for further standardisation, especially as we have more countries to tackle next year.

WHAT I VALUE MOST ABOUT THE ACT IS...

...The education, tools and networking opportunities on offer. Completing my AMCT has really benefitted me and the companies I have worked for because it has always helped me to add value. I always encourage my staff to study with the ACT so that they can benefit in the same way.

WHAT I LIKE BEST ABOUT TREASURY IS...

...Being in a position to help shape the future of an organisation's financial strategy. My career in treasury has given me the opportunity to work in Berlin for four years with Deutsche Bahn and three years in London with Nomad Foods. I'm now going back to my northern roots with Froneri. I have always found treasury varied, exciting and rewarding.

of a new Kyriba TMS began in December 2020. This was the start of a challenging process that Meehan's colleague, Bennett, describes as adapting to a "whole new way of working". Treasury assistant Danny Meikle was duly hired to oversee Froneri's daily cash management process using the TMS, including keeping track of balances and ensuring settlements are processed correctly and on time.

While implementation of the TMS is ongoing – as part of a €1m, five-year investment plan for Froneri's treasury – the system has already made a huge difference to how the team operates.

"When I first started, we were still doing everything on Excel," says Meikle. "Over the past year, however, we have transitioned to the newly implemented TMS. I have learned how the system can be used to improve the efficiency and productivity of the treasury team, allowing us to add more value."

"I have an email that comes in every day, which shows me all the cash in all the different currencies and the total in euros," explains Meehan. "I can see, compared with yesterday, have we had an influx of cash in a certain currency and therefore do we need to do something about it? The automation has also meant that we're now able to do more hedging on behalf of the different countries."

WHAT'S NEXT?

Going forward, the team will be continuing with the TMS implementation. "It's not finished yet," notes Meehan. "We're still setting up payments for some countries. Then we'll be thinking about what we do next with the system. What reports we can get out to people to make their lives easier. And we'll be automating as much as possible."

Bennett's main responsibilities include overseeing Froneri's day-to-day cash and liquidity requirements, and executing the group's FX hedging in line with policy. In addition to these tasks, his professional focus in the months ahead will be to "continue to remove manual processes that we identify using the power of the TMS".

Meikle has his own personal goals, which include continuing to study with the ACT. "I am currently studying the Certificate in Treasury Fundamentals and hope to pass the exam and move on to the Certificate in Treasury," he says. Bennett, meanwhile, also wants to keep learning and developing through the ACT.

In future, the team will remain largely home-based, although Meehan will be going into the office one day a week to catch up with other heads of departments and Bennett is also going in for a day on a weekly basis. Meehan says that he's managing the experience of homeworking better this year than he did in 2020.

"From a mental health point of view, you learn a lot about yourself," he says of his experiences over the past 20 months. "You don't realise how important it is to spend some time outside every day. I think I was working probably too late into the night at times. You can think, if I get that bit done now, it'll make tomorrow easier. But it rarely works out that way."

He's also found that remote working facilitates effective collaboration, provided tools like Microsoft Teams are in place. "For doing project work it's been great because everyone's been readily available for calls," he says. "You don't have to see if you can get a meeting room. You can just quickly message, 'Are you free now?' That really helped to move our projects along quickly."

Treasury analyst Benjamin Bennett

Head of treasury John Meehan

Triumph in the small team category of the ACT's Deals of the Year 2020 Awards has been a big boost

Meehan says his management style has also subtly evolved as a result of the pandemic. "Maybe I'm a bit more able to delegate, without trying to interfere too much," he says. "But I've been really open and honest with my team the whole way through. When you do that, I think you get honesty back in return."

AWARDS SUCCESS

Triumph in the small team category of the ACT's Deals of the Year 2020 Awards has been a big boost to the team's confidence. "Winning the award means a lot to us, not only because we have a lovely plaque, but because we are a very small team that has achieved so much in a short space of time while working remotely," says Bennett. "To be recognised for the hard work really makes it all worthwhile."

Meehan attributes his career success to date to his own commitment to forward planning, as well as the experience he's picked up over the years of working for Froneri, in addition to other leading employers including German transport and logistics giant Deutsche Bahn and Nomad Foods. "For me, it's being able to manage change, and accept things are always evolving, and learning from people where you can."

Naturally, he's delighted to see how thrilled his team is by the award win. "They seem really happy and excited about what we do next," he says. "It doesn't feel like there's anything in treasury we couldn't do."

You can see all the winners of the ACT Deals of the Year Awards at treasurers.org/events/awards/doty-20/winners

Nominations are now open for the 2021 Awards at treasurers.org/events/awards/doty-21

Sally Percy is a freelance writer and editor and a former editor of *The Treasurer*

TECH INTERRUPTED

There are many practical issues to TMS implementation – and some under-explored alternatives. Mark Rowland looks at the options

It had been more than a decade since National Grid's treasury function had fully upgraded its treasury management system (TMS). Quite a lot had happened in that time: in 2017 the company did a treasury reorganisation, creating a better-defined split between those individuals responsible for executing debt and derivative transactions, and those responsible for cash operations, systems and governance. At the same time, a small team was established specifically responsible for the monitoring of treasury risk.

"We created a relatively small risk team that looked at how we were managing risk against policy," says group treasurer Alexandra Lewis. "We also realised at that time that we had been underinvesting in treasury systems, and decided that we wanted to look at what was out there from a TMS perspective. And we evaluated the options in four different buckets: transaction execution, risk management, cash operations and governance, and treasury accounting."

This process began pre-COVID-19, but everything was brought into question once the pandemic really started to impact businesses. "There was about a two- or three-month hiatus where we were getting to grips with COVID-19. It wasn't top of the agenda as you can imagine, because we didn't know what was happening in the markets."

COVID-19 has been a big challenge for the project, says Lewis, particularly creating the space for the business to focus on it. The benefits of implementing a TMS won't be realised immediately; it's more about the long-term advantages. However, the team has remained positive about the possibilities of the new system, built around the FIS Quantum platform.

"We are keen to make sure we don't bespoke the system, so that we can easily adopt new system capabilities as they become available and ensure the system is future-proofed in that sense. We want the system to enable us to spend our time using our skills at work and delivering value, or alternatively freeing up time to create a better work-life balance for our people."

That's been the central message that's kept driving the project forward. By automating certain processes, it removes the need for treasury staff to fill in manual spreadsheets or operate manual controls; the same work can be completed with the click of a button.

"We're quite careful about the risk appetite we have and what risks we want to take," says Lewis. "We're not open to operating errors within treasury. So, taking out the risk of manual errors is a real tick in the box.

"Where we'd rather think about taking risk is understanding different debt instruments that we can use, which may be exploiting arbitrage in the market. That's just an example, but I'd rather have my team thinking about that than thinking about spreadsheets."

Where the pandemic has been helpful is opening up opportunity for change. Every organisation has had to adapt quickly to the realities of COVID-19 in some way or another. "We're all a bit more open to change right now, because of what's happened these past 18 months – and that's very useful when you're implementing a relatively big change programme," says Lewis.

IKON IMAGES

WORKING FLEXIBLY

Actualize Consulting implements TMS solutions for many of its clients, assessing each individual treasury function's needs and tailoring solutions to fit them as closely as possible. The COVID-19 pandemic has encouraged treasurers to think about software as a solution (SaaS) systems, which allow them to operate in a more flexible way.

"Treasurers can work at home and have the same or better controls, performance and security around treasury operations," says Chris Schutte, consultant at Actualize. "But adopting this technology also gives them an opportunity to use the additional benefits that the TMS actually provides."

That includes business intelligence functions that provide treasurers with richer information. "Instead of looking at a spreadsheet full of numbers and manually manipulating everything in order to give an executive report, for example, you can generate reports at the push of a button, or deliver data on a real-time basis out of the system," says Schutte.

There's a greater push for treasury functions to standardise processes; treasurers are more open to following standard designs in terms of best

practice from a TMS perspective, rather than trying to make the solution fit existing processes, he says.

Actualize also works on implementations in the US, where teams are usually more keen to jump onto new technology and try something new, says John Kruger, consultant at Actualize Consulting. "The teams I've seen in the UK tend to be more traditional in their approach, whereas in the US teams tend to look for the latest and greatest functionality, which may not always be available."

Treasurers are more aware that technology is changing and can do more for them, but they also tend to need some education on what that might mean for them day to day, Kruger explains. There's usually some hesitation around taking on something new because it can feel risky.

"Some of our savvier clients get the concept of crawling before walking," he says. "It's better to start with a region, implement that first, then carry on with another. It puts less of a dependency on us to have to be involved in that second or third evolution, because we've already trained the first team."

It's good for treasury teams to build up expertise, creating technology champions who are knowledgeable about the system and any implementation projects attached to it. They can drive those projects with assistance from consultants or providers where necessary, says Kruger.

"We then become more of an adviser than the actual designer at that point. They can take some of what they've learned – that 'train the trainer' approach is how we like to go."

SOLUTIONS CLOSE AT HAND

This approach can also help to reduce the cost of a TMS implementation, but for smaller treasury teams, that can still be fairly prohibitive. However, Anu Mensah, head of treasury at housing association L&Q, believes that some treasury teams may not need a TMS at all; they just need to dig deeper into the features of MS Office.

"People get so focused on the idea that, as you're working in treasury, you must have a treasury management system that does everything for you. But you really don't. There are so many quick things you can set up so the Office Suite can complete tasks for you, if people just thought about it more, or they had the skills or the knowledge."

> There's usually some hesitation around taking on something new because it can feel risky

Generally, this only requires simple IT skills, not anything particularly technical, but people often get into habits and never explore if there's a better way of doing certain tasks, says Mensah. "I'm always thinking: is there a better way? Could this be automated? There are new products and features coming through on a regular basis – even from Microsoft."

Mensah cites Outlook and Excel as examples of some of the best features for treasurers. Outlook allows users to create rules, to extract relevant data. "It can put it in a spreadsheet or even automatically upload it to your TMS system. With emailed bank statements, they can automatically upload to your TMS."

Excel takes a little more technical knowledge; you really need to have some Visual Basic for Applications (VBA) coding skills in order to make the most of it. "With covenants, for example, you could create a template that not only calculates the covenants for each of your loans, but has the specific format required in each loan agreement, does a mail merge and emails them out to the relevant lenders. All of that can happen automatically without anyone ever seeing it."

However, VBA is easy to use, and easy to learn. Mensah largely taught herself through online tutorial videos and articles. "It's just a matter of having a go and Googling when you get stuck. Sometimes you can find the exact code you need, and it's just a matter of copying and pasting."

Whether you dig into Office features or invest in an artificial intelligence-enabled TMS, however, the objectives are the same. "We don't want to put inefficient processes into a system," says Lewis. "We want to make it as efficient as we can and utilise the automation so we can do the most valuable work. It's been a great mantra that we've had on this project."

Mark Rowland is a freelance writer and editor

NEW GLOBAL ORDER

After a decade of quantitative easing and mission creep, central banks are now formidable forces. Treasurers will need to develop a sixth sense to discern true market signals amid the central bank noise. Anthony J Carfang explores the implications

As a corporate treasurer, you source and manage your company's liquidity. That runs the gamut from short-term cash management to long-term capital structure as well as payments. To do that successfully, you rely on market signals regarding rates, risk premia, inflation, FX and more. Getting these signals wrong for your company could be costly, if not catastrophic.

Last year, I wrote of central banks: "During the crisis, they morphed from being a market facilitator to a market participant, a profound change. Most central banks had barely begun unwinding from the 2008 crisis. Now they've ballooned again and will be reluctant to give up their expanded roles." (*The Treasurer*, December 2020/January 2021, page 18).

That was quite an understatement. Central banks now dominate the financial markets and dwarf all other participants. This obscures the vital market signals you urgently need to ensure your company's financial vitality. Your job is now to dig deep and find the true market signals.

CENTRAL BANKS ARE NOW THE MARKET

Historically speaking, the role of central banks had been to provide a stable currency, encourage high-employment economic activity, oversee a level economic playing field and facilitate secure payment flows. They set the economic guardrails.

Since the global financial crisis of 2008, central banks have captured authority far exceeding their original scope and mandate. Rather than facilitate markets, they now dominate them. Consider:

- Since 2008, many developed country central banks have expanded their balance sheets exponentially. Central bank assets are now an unfathomable eight to 10 times their 2008 levels. Many central banks have grown assets from 5% of GDP to over 35% of GDP, crowding out other market participants.
- They have become the largest buyers of government debt. In many countries, they now buy, on net, more than half of all newly issued government debt, essentially becoming 'the market', and artificially reducing rates and muting market signals.
- They have also become the largest buyers of government agency debt, directing capital into favoured sectors, further creating/shifting risk and muting market signals.
- They have crossed what had historically been a bright line. They are now directly buying corporate debt. If your company's debt is on the approved list, congratulations – you will enjoy a low, but distorted, cost of capital. Further, the risk premia on your debt will be compressed. Good for you, bad for your

competitors and distorted market signals for everyone.

• Central banks band together in global superstructure organisations such as the Basel Commission on Banking Supervision (BCBS) and the Financial Stability Board (FSB). In the name of global stability and harmonisation, they directly control how banks allocate capital. Through constructs such as leverage caps, liquidity ratios, funding requirements, 'risk-based' capital regulations and interest on reserves, they dramatically limit the flexibility of banks. These feed the demand for certain market instruments while dampening the demand for others, thus distorting market signals and shifting, but not eliminating, risk.

• The US is a case in point. Since the 2008 financial crisis, bank domestic deposits have grown by nearly $10 trillion.

> Historically speaking, the role of central banks had been to provide a stable currency

Yet their holdings of government securities and government-backed federal reserves have increased by $6.5 trillion. More succinctly, two-thirds of all new bank deposits since 2008 have gone into government-backed instruments. It's not much of a stretch to suggest that central banks have turned large commercial banks into quasi-government bond funds.

• Not to be overlooked, via their cross-border market operations and swap lines, central banks now play an outsized role in FX markets.

DEVELOPING A SIXTH SENSE

Economic theory tells us that the short-term rate on government securities is the risk-free rate for that market. All other rates scale up from that point based on duration and risk premia. However, in a central bank-dominant market, it's likely that quantitative easing (QE), central bank market operations and central bank-inspired regulation have depressed nominal rate on government securities to a level that is lower than the true risk-free rate. With the fundamental building block, the risk-free cost of capital, being artificially driven, the mispricing cascades dangerously across the entire market. Capital is mispriced, risk is mispriced and duration is mispriced.

Market signals are muted and distorted. How can a corporate treasurer in 2022 and beyond optimally source and manage a company's liquidity and payments? We believe that it will require a keen set of modelling and analytics, as well as closely monitoring the central bank policy shifts in each jurisdiction. It will be important to deconstruct each treasury activity and develop a framework for understanding how the muted market signals impact it. Here is an outline:

• **Short-term investing** – Today's artificially low rates leave almost no favourable opportunity to deploy excess cash. It becomes very important to evaluate risk/return trade-offs, especially since rates are depressed and risks are hidden. Monitor closely to capitalise on changes in rates, risk premia and yield curve slope.

• **Short-term borrowing** – Conversely, depressed rates may be an opportunity to secure additional short-term debt or to negotiate more favourable payment terms.

• **Long-term borrowing** – In most jurisdictions, central banks have been buying securities well out along the yield curve, depressing longer-term rates. As a result, you may find borrowing opportunities at terms much lower than your 'true' cost of capital. Model these opportunities, especially in the context of how they will perform should rates, slope and risk premia revert to historical ranges.

• **Capital structure** – This is highly challenging. While capital structure planning involves many variables, two important components are the absolute level of rates and the slope of the yield curve. Again, careful scenario-based modelling is required. For example, an artificially flattened yield curve may suggest taking on longer-term debt. Low rates overall may suggest preemptive borrowing, holding more cash than normal.

• **FX, hedging and cash repatriation** – Managing corporate finance across multiple jurisdictions becomes exponentially more complex. Treasurers must not only be watchful of central bank actions in their domicile, but in every country in which they have revenue, expense, assets or liabilities. Modelling the cross-correlations and stress testing a range of scenarios prior to engaging in a transaction is imperative. Expect non-intuitive solutions.

• **Payments** – Central banks are playing a determinative role in the evolution of next-generation payments. Given their huge balance sheets and their regulatory superstructures, they have the capacity to pick the digital winners and losers, and will certainly do so. Central bank digital currencies would easily come to dominate the crypto world. For example, proposed Basel risk-based capital recommendations for banks on the most popular digital assets will either render the currently popular cryptocurrencies useless in the long term or force them into the shadow markets, neither outcome of which is sustainable.

• **Price levels** – QE-induced inflation is a real threat to both income statements and balance sheets. Different jurisdictions will experience these risks differently, requiring significant attention and diligence. Analytics, as well as forecasting, are required to assess how and whether to hedge these risks.

CONCLUSION

We've heard that QE might end, tapering might begin, normalcy might return. History has shown, however, that central banks are reluctant to return newly accumulated powers. Global central banking clubs such as the FSB and BCBS, are – in my view – likely to continue adding complexity in the name of harmonisation. Highly regulated financial institutions are unlikely to fight the dominance of central banks.

For corporate treasury, that means that the stakes are higher than ever. To an important extent, treasurers are flying blind. The 'market' is no longer a true market, and its signals are unreliable. There is no escaping the need to develop a sixth sense. That combines keen observation of central banks, deep understanding of one's income statement and balance sheet dynamics, and robust analytics and modelling.

Anthony J Carfang is MD of The Carfang Group

RETHINKING THE STRATEGIC ROLE OF FINANCE

Is now the right time to reappraise what the finance function can contribute to the wider business? As we emerge from the pandemic, Ben Walters shares some thoughts on the strategic role that finance plays within the business and how this could develop

The onslaught of COVID-19 last year was like a wildfire inducing the destruction and then reinvention of many processes, business models and strategies. Greater demands were placed on finance teams in the form of scenario modelling, forecasting, working capital management and raising capital. Those of you working in businesses hit hard by the pandemic have probably never worked harder in your lives. But for many people, these were intense, yet short-lived extra demands. Has anything fundamentally changed?

THE TRADITIONAL ROLE OF FINANCE

Some of the traditional roles of finance include:

- Timely, accurate management information;
- Compliance and external reporting;
- Budgets, plans and forecasts;
- Treasury;
- Tax;
- Internal audit;
- Investment appraisal; and
- Working capital.

These are undeniably critical contributions to the smooth running of an organisation and doing them badly can certainly cause extensive damage to the business. Doing them well, though, is rarely a source of competitive advantage. Finance is the scorekeeper, the compliance and control function, and the provider of cash to fund the strategy. Vital, of course, but are we missing a trick here? I want to take this opportunity to talk about expanding on the traditional scope of finance and explain why.

A STRATEGIC AGENDA FOR FINANCE

In financial terms, a successful business can be defined as one that:

1. Gets strategy more or less right;
2. Executes the strategy efficiently; or
3. Manages risks effectively.

It seems an obvious point to make, but the finance function must see its purpose as contributing towards success in *all* of these three key areas. If it can fulfil this role, then it can contribute as a source of competitive advantage and become a true strategic partner for the firm (see Figure 1).

While strategy might sometimes be considered an elite process undertaken only by those at the top of the organisation, its success on the ground equates to value creation. And value creation is a function of capital outlay, cash generation and the measurement of risk. Measuring these elements is the future of the finance profession, but it requires a broader perspective and flexibility of mindset to see the bigger picture and pull away from the draw of the safe, traditional role of measuring profits.

Measuring pockets of value creation and destruction requires the finance function to evolve past a profit-and-loss-centric view of performance. The finance function of the future needs to guide and measure strategic success and feed this back in a cycle of improvement.

So, what are some of the ways in which strategy can be measured more effectively?

VALUE AND CAPITAL

We already have the tools to measure value creation of the business, but finance needs to drop its focus on profitability and instead focus on capital consumed, or budgeted for, and the cash returns these investments create. We all accept this logic for individual investment decisions, and it is

FIGURE 1: Some areas where finance can contribute at a strategic level to the firm's success

MWACC

1 Modified Weighted Average Cost of Capital is the true hurdle rate for corporate investment.

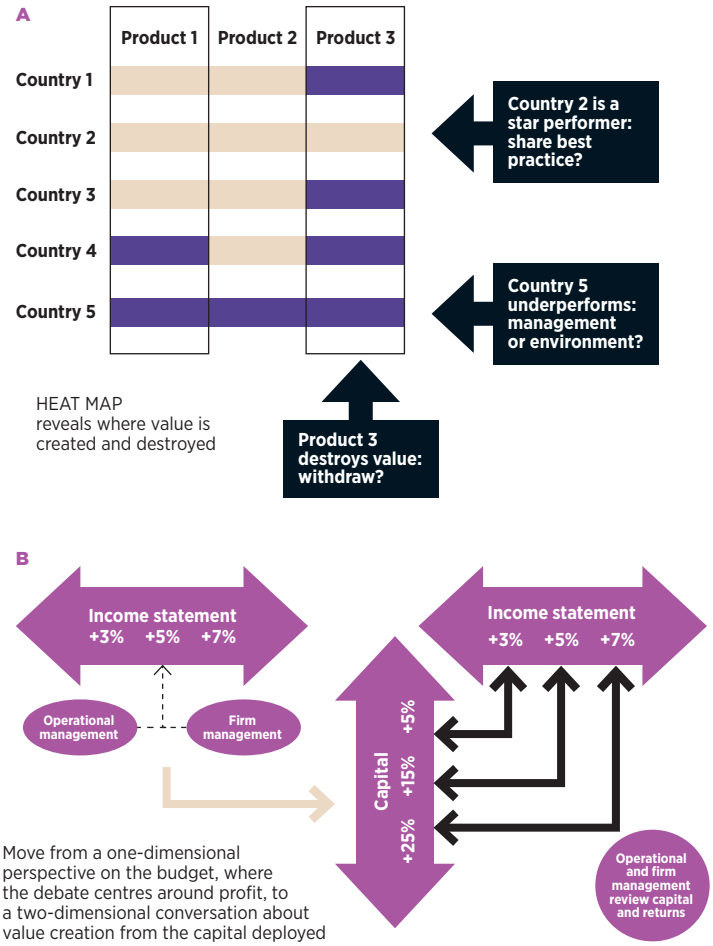
2 It matches external growth expectations to the returns from capital investment that are required to meet those expectations.

3 It is always higher than WACC where the market places a positive value on the firm's strategic position.

a simple process to expand the application of this to individual business units and gaining feedback on the strategy being executed on the ground. Building a portfolio view within the firm of where value is created or destroyed leads to many benefits:
1. Capital allocation towards value creators and away from value destroyers; and
2. Performance measurement and rewards for management based on a disciplined framework of capital, risk and return.

Figure 2 illustrates how these benefits flow from a value-based analysis of business performance. This analysis can apply both retrospectively to actual and historic results, and prospectively to budgets and business plans.

FIGURE 2: Analysis of performance by value allows capital to be allocated on a portfolio basis within the firm to improve overall performance and value creation (see A). Budgeting and performance targets can move from a one-dimensional 'horse trade' over next year's profit to a two-dimensional conversation about the correct level of capital to invest and returns to target to create value. Traditional profit and loss metrics can flow from this and still be used as the budgetary targets (see B).



RISK

A proper assessment of risk within the firm results in the correct internal hurdle rates being set for capital investment and analysis of business unit performance. My concept of Modified Weighted Average Cost of Capital (MWACC™) – which I have written about previously – is a method of determining more accurately the internal rates of return a firm should be demanding from the capital it allocates to its business units. MWACC should be used instead of WACC as the basis for internal return targets.

FORECASTING AND CASH

Promoting forecasting so that it becomes a strategic tool allows this underrated process to become the early-warning system of the business, identifying the efficiency with which a strategy is executed. We don't fully appreciate that an analysis on how forecasts evolve over time and against actual results helps to determine where execution success and risk interplay with the expected performance. The forecasting process should be a true bottom-up exercise from the engine room of the business: sales, procurement and working capital teams. It should not be a desktop exercise from the finance team. Understanding the variances that arise from forecasted performance to actual outturn provides powerful feedback on the effectiveness and execution of the strategy being pursued.

ESG

Over the next few years the measurement and reporting of environmental, social and governance (ESG) metrics should become the overarching priority of every firm. If the market doesn't drive us there, the regulators and standard setters will. Challenging though many of these reporting demands are, we will have to find ways of addressing them.

The evidence is now clearly established that leaders in the ESG field are also more profitable and highly rated by the markets. Whether those firms that have already taken the lead in this field have reaped rewards because of this – or because they are ahead of the competition in many other respects as well – is a moot point. The point is that ESG is set to become the biggest game in town in the next few years. The first real economic inroads from ESG into the corporate world have come through the debt markets. The lessons from these opening salvos are clear: measure, report and then improve – a cycle that the finance function knows very well.

These have been some of the key themes I believe the finance profession should address as we move forwards in order to become a true strategic partner for the firm. Treasurers, as always, are well set to lead the field in innovative thinking and analysis.

Ben Walters is deputy treasurer at Compass Group. Contact him at enquiries@mwacc.co.uk

The destructive Hurricane Sandy hit New York towards the end of 2012

HOW TODAY'S SUPPLY CHAIN CHALLENGES WILL CHANGE THE FUTURE OF WORKING CAPITAL

Plentiful goods, low-cost labour, solid supply. The status quo has been well and truly disrupted with implications for working capital. Brian Shanahan explores the issues

David Ricardo published the law of comparative advantage in 1817, stating that it was more advantageous for one country or territory to produce certain goods versus another. It was obvious that we should have trade in goods and services around the world today. The entity providing the goods or services logically should be located in one location that could best take advantage of its own circumstances to produce those goods and services at the lowest economic opportunity cost.

Well, that's the theory. But it hasn't worked out that way. In Ricardo's day, we had the Empire trading systems, so it was easier and cheaper to import fabric from India into England rather than source the same product from France or Germany. These systems stayed in place until 1945, when the General Agreement on Trade and Tariffs encouraged the nations of the world to trade fairly with each other. This did help to start customs unions in numerous parts of the world, but it wasn't until the fall of the Soviet Union and the opening of China that we saw world trade open up at a dizzying speed.

Now Ricardo's law really got traction. We are now at the point where most of the televisions in the world are made in a handful of places and a whole host of manufacturing activities have migrated to low-cost countries across the planet. China and India have huge advantages by having massive and low-cost labour pools, and that situation has allowed people in the rich countries of the West to enjoy

ALAMY

In many parts of the world, our populations are on the verge of panic

all the latest consumer goods at a cost that is in real terms lower than 30 years ago.

DISRUPTION

Logically, this integrated global supply chain should continue to grow, but in the past five years we have seen that this very complex global supply network was far more fragile than we thought. There were early hints of the risks involved when disasters like the 2011 Fukushima Daiichi nuclear disaster caused a temporary world shortage of motor parts in the US, or when Hurricane Sandy disrupted international shipping for weeks after the storm had passed in 2012.

Very little action was taken by governments or corporations to mitigate any potential future risks of these kinds of disruptions. We carried on regardless to the point where many companies had lost visibility of their total supply chain. British prime minister Harold Macmillan was once asked what the most troubling problem of his premiership was and he replied: "Events, my dear boy, events."

Since 2016, we have had plenty of those. The great wave of globalisation seems to have been halted in its tracks by several events in different parts of the world that have resulted in an increasingly protectionist stance by many countries.

In Europe, the big issue was Brexit, which is still the largest peacetime change in trade rules that has increased trade barriers for centuries. Many European companies have had to change supply chains, on both sides of the channel, to cope with the new rules. Then we have the trade war between the US and China that started with President Trump but has not abated under President Biden. This has changed significant trade flows, particularly for agricultural produce across the world.

There have been additional pressures, including product boycotts in China of goods from certain nations due to perceived diplomatic slights. The Koreans and the Japanese fell out for a while due to some contentious statements from politicians. In the Persian Gulf, there has been a big drive for 'localisation' to ensure that each of the smaller Gulf states is more self-reliant. All these changes have resulted in various forms of supply disruption that have a material impact on how companies operate.

GEOPOLITICS

We spend 30 years building just-in-time supply chains that now don't work as well because of the various political tensions between the different trading states across the world. But worse was to come. In early 2020, we started hearing about a new virus that seemed to be running rampant in one province of China. Most expected that the worst that would happen would be that China would be out of action for few weeks and then things would return to normal. We had no idea that our entire world was about to turn upside down.

While the pandemic has taken a terrible toll on the world's population and is far from finished – depending on the exact part of planet Earth in which you reside – the supply chain effects have been monumental. Initially, it was that container shipping rates went through the roof as we found that many of the world's containers seemed to be in the wrong place. Since then, we have either experienced shortages or are expecting shortages in all sorts of goods ranging from liquid petroleum gas, semiconductors, toys, timber, cement and carbon dioxide.

In many parts of the world, our populations are on the verge of panic. This was seen in the form of bulk buying of toilet paper at the start of the pandemic, and more recently British motorists panic buying fuel. In both cases, there was no shortage of product, but consumers over-reacted when they felt the threat of a shortage.

And after all the trials and tribulations, what have we learned about our global supply chain? We learned what PPE was and the fact that almost everything was made in China.

We also learned that we had almost no contingency plan for when things went wrong.

We still have serious imbalances in the global supply chain that will probably take many more months to sort out. But are we ready for when some sort of supply chain shock will happen again? The early indications are that we will all be relieved when things return to some sort of normality and swiftly forget everything that has happened. The financial impact will be more imbalances in the supply chain, additional funding requirements for working capital and an increased capacity for companies to react fast to catastrophic events. When will all this happen? We don't know, but we know it will happen at some point.

The level of supply chain risk is not going away. If anything, it is increasing. This will likely mean that working capital will increase for many companies as the level of inventories increases to deal with supply chain gaps. For treasurers, this means more funding will be required and additional pressure on banking facilities.

The ACT Working Capital Conference will be held in London on 8 December, co-chaired by Brian Shanahan. See treasurers.org/events/conferences/wcc-london21

WORLD EVENTS AND SUPPLY CHAIN SHOCKS

2011
The Fukushima Daiichi nuclear disaster, caused by the Great East Japan earthquake and tsunami

2012
Hurricane Sandy, the deadliest of the 2012 Atlantic hurricane season

2018
The imposition of tariffs on Chinese goods by the US

2019
The ongoing trade dispute between Japan and Korea

2020
The UK leaves the EU at the end of January 2020

2020
The onset of the COVID-19 global pandemic

Brian Shanahan is founder and CEO of Informita, a consultancy focusing on working capital and procurement

ON THE RADAR FOR 2022

FROM PAYMENTS TO INFLATIONARY PRESSURES TO ESG-REFERENCED FINANCE TO BENCHMARK REFORM, TREASURERS ARE FACING A BUSY 12 MONTHS. THE ACT'S POLICY AND TECHNICAL TEAM EXPLAINS WHY

As we near the end of 2021, what are the words that will be on treasurers' lips in 2022? The Global Financial Crisis (2008/9) and the COVID-19 pandemic (2020/21) have broadened the strategic role of corporate treasurers as specialists in managing the financial risks relating to their businesses. At a technical level, we will consider developments in **Payments** and the end game for **LIBOR** transition. At a policy level, however, it may be helpful to consider treasury activities as part of a wider ecosystem – so our word of the moment is '**interconnected**'.

The pandemic has highlighted the complex interdependencies between people, markets and businesses, aided by the internet and other technological advances but affected by **evolving risks**, including geopolitical, economic, regulatory and environmental, social and governance (ESG) risks. The paradox is that, in an increasingly interconnected world, where some consider the pandemic to have compressed a decade of digital advancement into a year, another word we are hearing is **deglobalisation**. The reconciliation of this paradox may be found in a third word: **resilience** – sought at national, organisational and personal levels.

The combination of the pandemic, geopolitical factors such as **Brexit**, and even a ship stuck in the Suez Canal in March 2021 have caused long-established supply chains to be reconfigured. A global shortage of computer chips and a European energy squeeze have added to the disruption. Treasurers will be considering whether they need to reconfigure the financing and hedging arrangements associated with their underlying commercial activities; perhaps funding new local subsidiaries, using new currencies or establishing new mechanisms for the payment of import duties where applicable (notably in the case of EU/UK trade).

In due course, there may be new taxes to declare and pay in the 136 countries covered by the Organisation for Economic Co-operation and Development **tax reform** deal announced in October 2021, which (pending treaty ratification) includes a 15% minimum effective corporate tax rate plus new rules to force the world's multinationals to declare profits and pay more

in countries where they do business, even if they do not have a physical presence. **Anti-money laundering** (AML) measures are becoming increasingly transnational, too, with the EU announcing an AML Agency.

In addition to disrupting supply chains, Brexit has caused some fragmentation of banking activity for corporates. It seems increasingly unlikely that we shall see 'equivalence' recognition for UK/EU financial services that were not covered by the Trade & Cooperation Agreement. Treasurers will want to monitor the expiry dates (some in 2022) of various temporary permissions that came into effect post-Brexit, and to ask their banks whether there may be any implications for corporate clients.

On **ESG**, we should expect the COP26 conference to accelerate the climate change transition, affecting whole economies and upending established business models. Here, treasurers are concerned firstly to understand the multiplicity of new reporting frameworks and requirements, and secondly, to ensure that taxonomies and bank stress tests should help finance their company's transition to a net zero world, avoiding binary outcomes of green/brown for whole sectors.

Treasurers will need to be able to articulate their business ESG strategies and sustainability targets in a consistent manner when talking to rating agencies and other investors. Increasingly, they will face questions not only about the impact of their business on climate change, but also about the impact of climate change on their business. We anticipate that biodiversity and social considerations will become more prominent in 2022.

Industry **codes of conduct**, such as the FX Global Code, are becoming more entrenched. In 2021, the updated UK Money Markets Code has given more prominence to **diversity and inclusion** in financial services. Treasury staff tended to work very effectively from home during the pandemic, but treasurers will be considering how the adoption of **hybrid working** patterns (part office, part homeworking) shall impact controls, culture and competency development. In turn, these factors will drive motivation and retention. The marketplace for **talent** has shifted; you may need to think of your employees like customers and put thoughtful attention into retaining them.

Interconnected with the squeeze on supply chains and staffing is another word that reappears from the past like a drunken uncle whom you last saw at a family wedding in the 1990s: **inflation**; flirting with his austere girlfriend **higher interest rates**. Together, they now threaten to spoil the party. He promises it's only a transitory visit but, once admitted, he has a habit of outstaying his welcome. You recognise him from when you were younger but you can't remember how your elder relatives handled him last time round – perhaps you should find out before it's too late?

Much will depend here on the meaning of **transitory**, particularly the implications for rolling forward your hedging arrangements and how working capital may become stretched. Dynamic credit assessment of **counterparties** will remain important – not only of trade debtors, but for exposure to ESG risks including climate change (for example, long-term ability of partners to fund joint ventures). Changes in inflation and interest rates (used as a basis for discount rates) may have unexpected impacts on the funded status of defined benefit **pension plans** sponsored by your company.

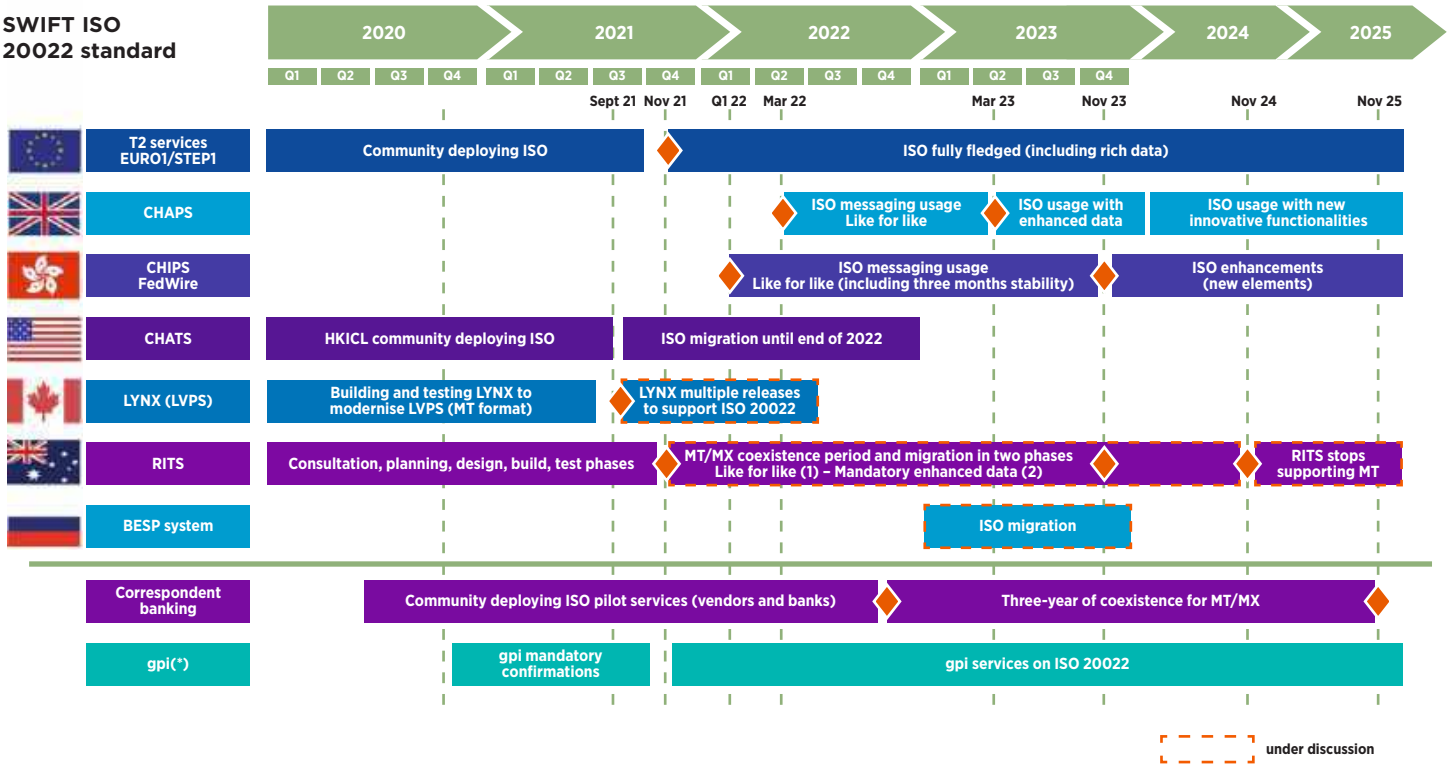
Corporates looking to rebuild their resilience to future shocks/crises will want to revisit their **revolving credit facilities** and to consider the timing of payback of any **COVID-19-related loans**, or whether existing **covenants** may become affected during their recovery phase. The publication of the Financial Stability Board/International Organization of Securities Commissions review (pending at the time of writing this article) of how **money market funds** performed during the onset of the COVID-19 crisis is likely to have implications for how corporate treasurers deposit surplus cash: they may have to consider whether they prioritise same-day liquidity or constant values, watching out for potential issues for cash-equivalent accounting.

Brexit has caused some fragmentation of banking activity

PAYMENTS

You're probably tired of hearing that payments are changing and new payment types will appear. Column inches covering central bank digital currencies may only add to the sense that there's a lot going on and paralysis over where to start.

While it is undoubtedly true that there is a lot going on in the payments world, treasurers can take comfort that many of these changes are still years away. The replacement of



the UK's CHAPS system is scheduled to be completed by 2025, and the new payment architecture being built by pay.uk will only come online in the latter part of this decade.

So, should treasurers sit back and wait?

The key challenge for most treasurers and their organisations is understanding what impact the changes in payments will have on their interactions with customers and suppliers. For those businesses operating predominantly in the B2B space, the most immediate change will be the introduction of ISO 20022. After more than 30 years of the familiar MT format (including MT940 balance reporting), this new international messaging standard offers a better defined, richer and more functional payment instruction. It will improve the quality and consistency of data and enables major improvements in the automation of financial processes and transaction processing. Banks and settlement systems are already in the process of switching over to this new standard as the picture above from SWIFT shows.

A crucial point is that banks will be moving at different speeds and treasurers should understand from their core relationship banks what their migration plans are and bear in mind the need to track three key areas of development.

SWIFT

Cross-border payments are a source of cost, uncertainty and delay for many treasurers. SWIFT launched its gpi services in 2017 and according to recent statistics, on average, 42% of SWIFT gpi payments are credited within five minutes, more than 56% within 30 minutes, 78% of payments credited within six hours and almost 100% within 24 hours. Although they may not be the cheapest method of cross-border payments, the tracking and visibility of the payment may be worth the cost and effort involved.

EUROPE

For many years, the EU has been keen to see a pan-European acceptance network that can compete with Visa and Mastercard. In 2022, it is anticipated that the European Payments Initiative (backed by 16 European banks) will become operational. While it is hoped that the new network will sit alongside the existing organisations, businesses will need to make sure they have taken steps to accommodate this new entrant.

CBDCS

For all of the talk of central bank digital currencies, there remain a number of technical, privacy and interoperability challenges that need to be resolved. Until there is greater convergence over the standards and more debate and consultation by policymakers, this is one area that treasurers may be able to maintain a watching brief (unless they plan to visit the Winter Olympics in China in 2022, where a digital yuan is expected to be used across the Olympic Village).

BENCHMARK REFORM

No article in *The Treasurer* looking into 2022 would be complete if we didn't mention benchmark reform (more

Cross-border payments are a source of cost, uncertainty and delay for many

specifically, the transition away from LIBOR) – after all, it is arguably the biggest change to hit the financial markets this century...

By now, it should be clear that, irrespective of currency, no new transactions will be referencing LIBOR after the end of 2021.

There are a few exceptions to this, but for the overwhelming majority of the market, and for corporates in particular, this holds true.

The challenge facing organisations in 2022 will be what to do about legacy transactions (ie those that currently reference LIBOR and have not yet transitioned to an alternate reference rate).

In the UK, the official sector (led by the Financial Conduct Authority – FCA) urged that transition of legacy transactions be completed by the end of Q3 2021 – three months ahead of the 'end' of LIBOR. In practice, many organisations will have hit this deadline (or will have completed transition by the end of 2021). For many, this has been achieved by either an immediate or deferred switch to SONIA; others have transitioned to a forward-looking rate such as bank base or even a fixed rate (a decision that might look particularly attractive in hindsight given current inflationary pressures and the start of interest rates ticking upward).

Active transition in the USD market has barely started. With announcements coming late summer that there would be a Term SOFR available, the USD market started to arrange new transactions referencing the risk-free rate, but in the knowledge that USD LIBOR rates would continue to be produced until June 2023.

The FCA has requested that IBA, the benchmark administrator, produce a synthetic LIBOR for 2022 for GBP and JPY, but this date will not be extended for JPY and may not be extended beyond 2022 for GBP. This means that any transactions that fall back to a synthetic LIBOR still need to be transitioned by the end of 2022 – factor in that the markets referencing synthetic LIBOR will get less and less liquid, and the pricing less robust (read – reliable), and it's clear that the sooner any reference to LIBOR in contracts is eliminated, the better.

The bond market continues to be the most challenging to transition due to the nature of the market (long dated, complicated consent requirements), and many bonds will fall back to fixed rate if LIBOR ceases to be representative. The International Capital Market Association continues to provide guidance for this asset class, but it's definitely one area where legal advice is likely to be required.

To address these challenges facing the market, colloquially referred to as 'tough legacy', HM Treasury has presented legislation to the UK Parliament to ensure continuity of these contracts. They will, at least in the short term, switch to synthetic LIBOR rather than permanently fall back to a rate that was anticipated when the contract was put in place, to be in response to a temporary unavailability of LIBOR.

The UK legislation not only ensures contract continuity for financial markets contracts, but also, as we understand, for commercial contracts where, for example, a late payment clause references LIBOR. This would provide additional time to resolve these contracts, but a decision will still need to be made on how to handle these longer term; for some, it may be deemed more appropriate to leave them unamended and address the issue if the relevant clauses get triggered. Others may choose to be more proactive.

As you can see, benchmark reform is far from complete. The legislation working its way through the UK system in late 2021 (and also in progress in a number of other jurisdictions) may address the specific question of tough legacy contracts, but it must be remembered, it is only a temporary solution. We'd recommend transitioning away from LIBOR as quickly as feasible.

You will find information on all these issues – and many more – at treasurers.org/knowledge-hub. You can also contact the team via technical@treasurers.org

Naresh Aggarwal, Sarah Boyce and James Winterton are associate directors, policy and technical, at the ACT

ON THE TREASURER'S AGENDA FOR 2022

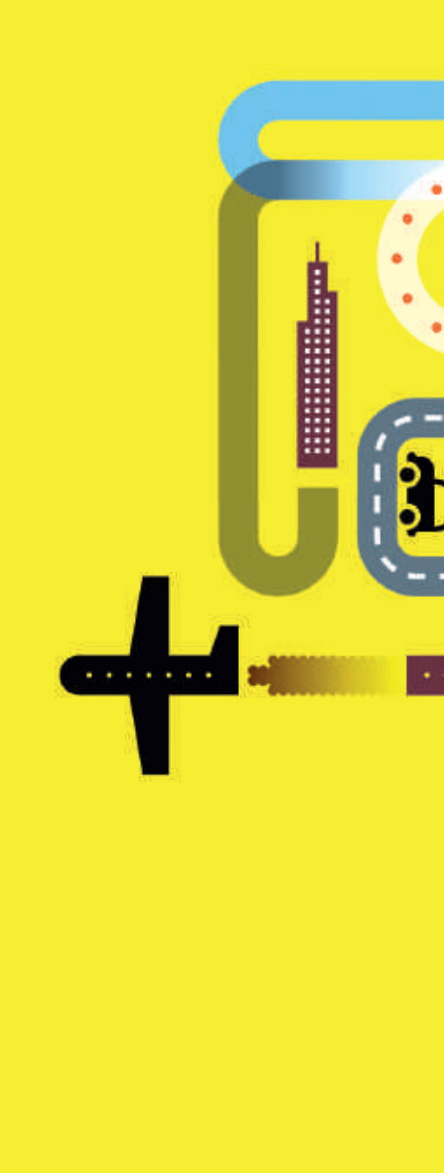
The year 2022 may be when many are planning to take the opportunity to reassess and reset as the world starts to normalise.

The ACT regularly surveys its members on technical matters – most recently enquiring about their key agenda issues for 2022. Here are some of the top responses:

- M&A activity – particularly integrating newly acquired businesses;
- ESG-referenced financing;
- Treasury systems – back on a lot of respondents' agendas, perhaps after a hiatus over 2020–21;
- Policy reviews – likewise, many of those surveyed seeing 2022 as an opportunity to reset policies and procedures that may have got a little out of date;
- Cash management and payments appeared on many lists, suggesting a continuing desire to improving forecast accuracy and streamline physical flows – and these same issues meant that shared service centres appeared back on the agenda; and
- People – both succession planning within the team and education of the business in financial risk management.

SEEKING THE NEW NORMAL

THE PANDEMIC BROUGHT IMMEDIATE SOCIOECONOMIC CHANGES TO THE MIDDLE EAST AND AFRICA, AND ITS IMPACTS WILL CONTINUE TO BE FELT IN THE FUTURE – NOT LEAST IN CORPORATE TREASURY. **SEMIH OZKAN** EXPLORES THE EXPANDING ROLE OF THE TREASURER IN THE REGION AS IT MOVES TOWARDS RECOVERY



World trade as well as that of the Middle East and Africa has begun its journey towards recovery – a recovery that varies from one region to another, but a recovery nonetheless, and one that appears more positive than initially anticipated at the onset of the pandemic.

According to the World Trade Organization's (WTO) latest annual trade forecast, worldwide merchandise trade volume is expected to have grown by 8% by March 2021, after having fallen by 5.3% in the year to March 2020.

The forecast for the Middle East and Africa is similarly strong, 12.4% for March 2021, compared to a 8.1% drop in the year to March 2020, highlighting the regions' strong correlation with global value chains.

Fiscal and monetary support, resilience and access to finance have helped mitigate some of the negative socioeconomic effects of the pandemic. Corporate treasurers have been in the eye of the storm, dealing with many issues including, but not limited, to liquidity, funding, counterparty risk management, currency exposures, systems, processes and controls, and staffing – all of which have presented meaningful lessons and opportunities along the way, particularly around supply chains, digital transformation and sustainability.

SUPPLY CHAINS MATTER

The pandemic and related disruptions impacted every business in the Middle East and Africa, regardless of size and sector, and highlighted the vital role supply chains play for these trade-dependent regions. Initially, supply shocks due to disruptions in supply lines challenged supply chains and demonstrated how interdependent and complex they are globally.

Later on, demand shocks driven by a sense of scarcity – the perception that we would run out of goods and supplies – and by the new prevalence of 'one-click buying' squeezed supply chains further. The supply and demand issue facing us today looks more like an aftershock of excessive demand along the supply chains. According to DP World's Trade in Transition Regional Report: Middle East & Africa, the Middle East has mainly dealt with 'demand shocks', while Africa has encountered more in the way of 'logistic shocks' in the wake of the pandemic.

Regardless, businesses in both regions have responded well to the supply chains challenges – including the physical blocking of the Suez Canal– and have been prompted to reshape supply chains for the future. For example, DP World, a global trade enabler through worldwide ports, terminals and associated services business, has launched smart trade solutions to facilitate trade flows. It also recently acquired Cargoes Finance, which provides financing for receivables and payables along with an enterprise tracking tool for intermodal shipments.

In Africa, Export Trading Group, a diversified agricultural business, responded to supply shocks by having its own vessels deliver products from farm to gate, providing its business with end-to-end control. The pandemic has also encouraged the commencement of the African Continental Free Trade Area in January 2021, which will help increase intra-African trade and integrate Africa further into global supply chains, with the countries involved working to attain parliamentary approval for membership.

With an evolving supply chain picture, emerging trade corridor opportunities along with changing dynamics and new risks, corporate treasurers will be in the frame when it comes to supporting their businesses. We have seen increased use of supply chain finance solutions, especially among large businesses. As noted in a Wall Street Journal article, Saudi Aramco is exploring a supply chain finance initiative to improve suppliers' experience and along the way, their access to finance.

EVERYTHING DIGITAL

From the corporate treasury perspective, digital transformation has evolved rapidly from narrative to

ACT Middle East Conference
Treasury. Technology. Together. 16 February 2022, Dubai, UAE. See treasurers.org/events/conferences/middle-east-TBC

action in the wake of the pandemic, with businesses becoming increasingly more engaged and challenging banks and fintechs to provide more digital, connected and intuitive solutions. Transparency and improved efficiency across operations, including across supply chains, are important goals.

There are many early-stage (proof of concept) products focused around digital trade finance, and some will emerge as viable solutions for businesses. That said, corporate treasurers have been looking to deploy digital solutions capable of making an immediate impact on their businesses, and more importantly capable of being digitally enabled through their processes and supply chains. As well as the Saudi Aramco supply chain finance initiative and DP World's digital trade finance platform, Abu Dhabi National Oil Company is investigating digitisation to improve its trade ecosystem by introducing electronic bill of lading instead of old-fashioned paper. Furthermore, Komgo, a commodity finance platform, is taking one customer at a time to become digital agent for commodity trading companies in the regions to digitise workflows and transactions.

SUSTAINABILITY IS THE NEW NORMAL

The pandemic has provided businesses with an outright incentive to focus on stakeholder value (instead of shareholder value), where they can balance sustainability and profits. As businesses have been increasingly focusing on environment, social and governance (ESG) positive activities when making decisions, treasurers have been steering their organisations towards sustainable finance only to discover 'the future of financing is rainbow', as noted by Standard Chartered Bank's recent article*. Governments, businesses and financial institutions have been coming together with purpose to drive ESG financing and to begin to do that at scale.

During the pandemic, the Eastern and Southern African Trade and Development Bank secured €334m in MIGA-backed financing (Multilateral Investment Guarantee Agency) to support its trade finance business, including imports that relate to social development initiatives. Similarly, African Export-Import Bank (Afreximbank) has closed $520m under NEXI's support (the Italian bank known for its payments systems) to use the proceeds towards its Pandemic Trade Impact Mitigation Facility to help African sovereigns, businesses and financial institutions to reduce the impact of the pandemic.

In the Middle East, Masdar, the leading developer and operator of renewable energy projects in the region, and Amplus Solar, a part of Petronas Group, have signed up the first green trade finance lines of credit to help energy transition in the region. Saudi Electricity Company meantime closed up to $500m facility under JBIC GREEN to finance the construction of new substations and transmission lines to integrate renewable energy to the grid networks and to introduce smart meters in Saudi Arabia.

Increasingly, capital will move to regions and initiatives where it can have the most positive impact in ESG terms. Businesses and financial institutions have incorporated more and more ESG factors into their investment decisions, with corporate treasurers taking a leading role towards this more sustainable situation. To reinforce that direction, regulators, development finance institutions and industry associations have been working to define a more sustainable future – with the EU taxonomy and the International Chamber of Commerce's recent white paper in sustainability in export finance as leading examples.

The pandemic and related disruptions have not only challenged corporate treasurers in the region, but have also charged them with taking a leading role to help channel capital along with policies, procedures and processes to support business and supply chain resilience, digital transformation and ESG impact.

*sc.com/en/feature/future-financing-rainbow

> The pandemic has provided businesses with an incentive to focus on stakeholder value

Semih Ozkan is a trade finance director in an international bank. He is also regional head of the International Trade & Forfaiting Association

SUMMIT TALKS

THE ACT'S MIDDLE EAST TREASURY SUMMIT IN OCTOBER PROVIDED IMPORTANT SPACE FOR DEBATE ON KEY ECONOMIC, SOCIAL AND ENVIRONMENTAL ISSUES IN THE REGION. **LIZ LOXTON** REPORTS

The Association of Corporate Treasurers' (ACT's) 11th Middle East Treasury Summit opened with discussion on the global economic landscape and forces at play in the region – and particularly the future role of oil.

ECONOMIC OUTLOOK

Monica Malik, chief economist at Abu Dhabi Commercial Bank, noted that while global economic growth for 2021 was unlikely to be as robust as the 6% forecasted by the International Monetary Fund midway through this year, signs of recovery were nevertheless evident.

Economic performance was likely to be uneven geographically and highly dependent on access to vaccination programmes, she noted. We have also seen great variation in fiscal support measures from one economic region to another, she pointed out.

Scott Livermore, chief economist at Oxford Economics Middle East, agreed that there were grounds for cautious optimism in the Middle East in particular, with the public sector expected to be supportive of growth. Globally, he noted some decreases in economic indicators around manufacturing activity.

When it came to the role of oil in the region's economies, Livermore predicted increasing prices in the near term. However, some tighter easing of production controls by OPEC+ along with increased production elsewhere in the world is likely coming into effect in the next 12 to 18 months, leading prices to fall back again next year.

The transition away from fossil fuels and the potential future obsolescence of oil combustion technologies begged some interesting questions, Malik pointed out. Renewable energy sources have so far been complementary within the energy market. However, there is considerable focus within Gulf Cooperation Council countries on renewables including solar energy. Abu Dhabi has taken a proactive stance both on renewables and on gas, with exploration into blue and green hydrogen.

DEMOGRAPHICS

Another panel discussion considered the question of how to embrace a mix of generations within organisations and manage talent effectively with diverse perspectives with panellists including Muhsin Al Rustom, CFO at ASYAD; Narayanan Seshan, senior adviser, treasury, Omantel; and Bruno Massera, CFO for the Middle East at BRF.

North Africa and the Middle East populations are diverse in ethnicity and religion. Many of the region's nations have young populations. According to the think tank Youth Policy Labs, more than 28% of the Middle East is aged between 15 and 29 years old.

As the panellists noted, members of Generation Z have a greater facility with new technology and also have a strong focus on purpose and values, tending to gravitate towards employers that demonstrate a culture and value set they can relate to.

There are many upsides here. Having younger team members within a treasury function is a great enabler in terms of enlisting champions for treasury technology projects and adopting new technology in general. Additionally, their value and culture orientation makes them strong advocates for environmental and socially inclusive initiatives, and for flexible approaches to work culture.

BANK RELATIONSHIPS

The pandemic has brought banks and businesses into closer partnership and focused minds on resolving some of the treasury profession's thorniest issues.

That was the finding of a discussion between Anshuman Shankar, Commercial Bank of Dubai, and Steven Buonvino at Citi, as they discussed the changes they had seen in the past 18 months in terms of relationships between banks and their corporate clients, and in attitudes to technology within the business world.

Both banks and corporates had seen, Shankar said, a degree of recalibration in those relationships, and profound change is ongoing, he asserted, as corporates and banks continue to pursue digitisation with benefits for the whole business ecosystem.

Both parties have become closer as a result of the pandemic, he said, and were working hard to move forwards towards a bigger and brighter future.

Buonvino agreed that the pandemic served as an enabler to drive digital adoption and, for some companies, considerable growth. The role of the banks in that context was helping clients connect and collect as B2C activity grew. There are now signs among businesses that had been able to conserve cash of still more investment in technology.

Banks have likewise invested in the technology that would facilitate growth and reduce friction points with clients. Digital onboarding, improvements in opening accounts, driving Instant Payments combined with developments in application programming interfaces are all now confirmed aspects of the landscape, he said.

Catch up on sessions from this year's summit at treasurers.org/events/conferences/middle-east-summit-21

EMPOWERING WOMEN

Speaking on the subject of gender equality, Rola Abu Manneh, CEO of Standard Chartered Bank in the UAE, reflected on her own career path and on the improving conditions around career parity for women in the country.

The first Emirati woman in the UAE to lead a bank, Abu Manneh pointed out that the country has advanced 23 places in its ranking against UN Development Programme goal 5: gender equality – and has passed landmark legislation around equal pay.

Speaking about her influences and the support she received from mentors, Abu Manneh said she had been lucky to be surrounded by experienced and inspirational leaders who set her on the right path.

"If I look back, the advice, I would say, is threefold: stay hungry, stay motivated and compassionate. That guidance helped me achieve my career aspirations and it's the same advice I would give the younger generation."

These qualities make for well-rounded employees as well as leaders, she pointed out.

Additionally, given all we've seen in the pandemic, she encouraged people to be forward-looking. "It's very important to be future-ready," she said.

ESG

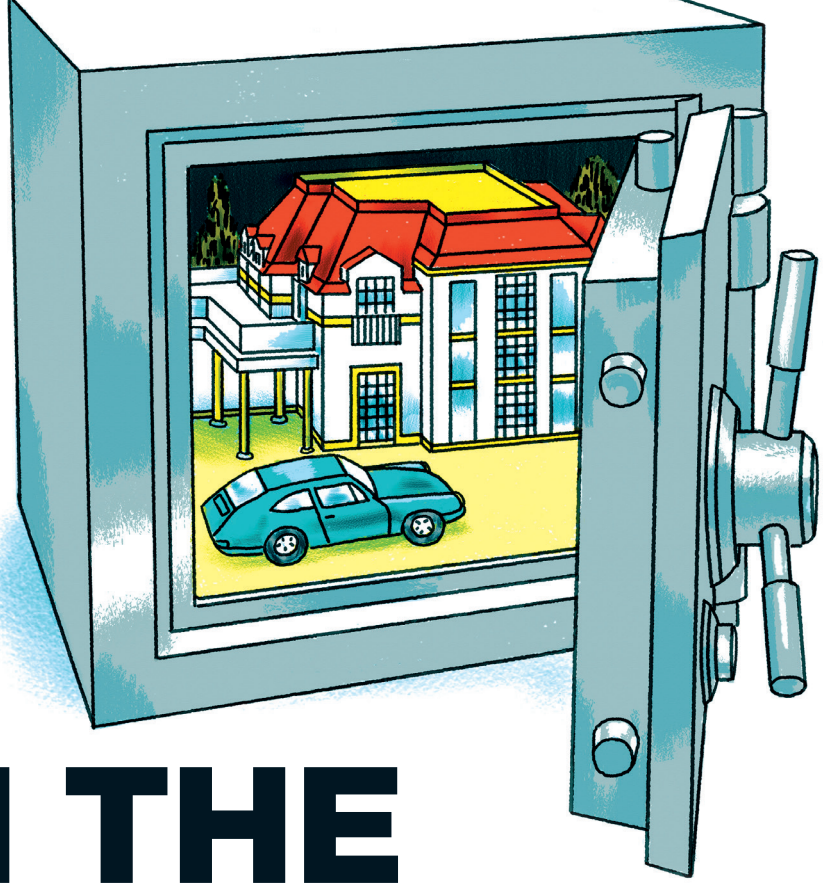
A panel discussion on environmental, social and governance (ESG) confirmed that the market for ESG offerings – including in the Middle East – is maturing to the point where strong ESG messages and ratings confer a price benefit on issuers.

Trying to quantify the benefit remains difficult, however, the panellists – John Arentz, head of treasury, Majid Al Futtaim, Daniel Tromans, group treasurer, Etihad Airways, and Syed Khurrum Zaeem, MD, head of trade & transaction banking, Africa and Middle East at Standard Chartered Bank – agreed. Being able to provide investors with credible signals on ESG would enable corporates to build a bigger book and therefore drive price, whereas neglecting to address ESG issues would result in issuers excluding themselves from a sector of the market.

Treasurers from non-green industries – aviation, energy and engineering – are exploring the concept of transition finance and engaging with the investor community on their energy efficiency, decarbonisation and carbon-offsetting initiatives, delegates heard.

And a consensus is building that responding to climate change messages is no longer a choice, with consumers looking for more sustainable options, capital flows coming into the green and sustainable finance space, and increased regulator and stakeholder scrutiny.

Liz Loxton is editor of *The Treasurer*



TIME WITH THE FAMILY

FAMILY OFFICES VARY GREATLY IN SIZE AND PURPOSE. WHILE THEIR OPERATIONS COULD BENEFIT FROM A TREASURY SKILL SET, FEW RUN TO ONE IN PRACTICE. **JEREMY HAZLEHURST** FINDS OUT WHY

If you read the financial press, you probably have an image of family offices as mysterious, glamorous, slick affairs. The reality can be somewhat different. A few years ago, a story circulated that one large European family office's systems were hacked and bank details – kept in a spreadsheet – were stolen. Over months, the hackers withdrew hundreds of thousands of euros, but nobody noticed. When they finally did, rather than reveal their laxness to the authorities (and the world), the family office's employees simply wrote the incident off to experience and changed the passwords. Maybe, you might think, they could do with some professionalisation. A treasurer, perhaps.

Family offices can be surprisingly Heath Robinson. The old joke says that if you've seen one family office – you've seen one family office. They vary in size, scope and purpose as much as the families they serve. They often take on the family's qualities. Some are dysfunctional. Some cut corners and do things on the cheap. For all their mystique, the purpose of a family office is simply to organise the financial affairs of a wealthy family. And because all families are different, the catch-all term of 'family office' covers many different models.

A global, multigenerational family with dozens of shareholders in several businesses that is looking for private equity-style deals, for example, has particular needs. A newly minted tech entrepreneur, a European banking dynasty and an Asian manufacturing magnate might all have family offices, but they are all going to look very different. Some hugely wealthy families don't bother with one at all. If their wealth is tied up in an operating business and real estate, their affairs are not complex enough to justify the expense.

This variation means that, in practice, nobody can really decide what a family office is. Archegos Capital, which collapsed earlier this year with estimated losses of $20bn, was described by some as a hedge fund, and by others as a family office of entrepreneur Bill Hwang. In recent years, some hedge funds converted to family offices to escape regulatory oversight. It is generally said that it is only worth setting one up if a family's wealth exceeds $100m, and that when the wealth exceeds £500m there will almost certainly be one. Below £100m, families tend to use private banks, or so-called 'multi-family offices', firms,

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which manage money for several families. Estimates about how many family offices exist vary, depending on how you define them. There are probably around 5,000 worldwide.

"Setting up a family office is the professionalisation of a family's personal affairs," says Catherine Grum, head of family office services at accounting and advisory firm BDO. "They've reached a level of wealth or complexity that requires the family to actually think about things in a more structured way, or they are looking to diversify. They bring somebody in to help them because they've got too many plates spinning… and they need somebody who actually gets what they're trying to do," she says.

Sometimes a family office is one or two advisers and a bookkeeper. Even ones managing vast amounts of money often consist of no more than four or five people. Some are in London or Geneva, but often they are located where the family lives, or its business is based. Increasingly, they can be virtual.

So, what of the treasury function? "Relatively few family offices have the capacity for a full-time treasury function," says Grum. "Though it might be useful in some areas, most wouldn't be able to keep a treasurer fully occupied. But they might benefit from that skill set on an outsourced basis. I suspect some don't know what a treasurer is or the value of one. When someone builds a family office, they've usually not done it before, so without being patronising, educating them as to the role of treasurer might be beneficial."

CULTURAL DIFFERENCES

François Masquelier, vice chairman of the European Association of Corporate Treasurers and founder of consultancy Simply Treasury, strongly agrees. "The approach to treasury in the corporate world and in family offices is completely different, but the issues are the same: the connection to banks; the creation of bank statements; payments; multibank, cross-border activities; know your customer; credit facilities; FX," he says.

> For all their mystique, the purpose of a family office is to organise the financial affairs of a wealthy family

"The objective is to preserve the principal and to maximise the return, to make the best use of the funds, to have a full picture of your cash and your positions, to have a good relationship with your banker to secure your future businesses. At the end of the day, you have to create a report for compliance reasons, for management and stakeholders. But the degree of maturity is completely different."

Why have family offices not embraced treasurers? One reason, says Masquelier, is that "IT tools are designed for corporates". Family offices – and also real estate funds and other smaller entities – do not need the functionality that treasury software provides. A family office using these tools would be akin to someone using a Formula 1™ car as a runabout, he thinks.

Secondly, though, there is a cultural issue. "By using a treasury function, family offices could be more efficient, save money, reinforce control and mitigate risk. But family offices consider themselves a specific kind of animal."

Another problem could be an unwillingness to spend money. "You have the problem that family offices are often based in countries where staffing is expensive. Another way would be to outsource the function, but few do," says Masquelier. However, he thinks that times could be changing. Banks are demanding that clients automate, and remote working necessitates better security. Family offices might find themselves forced to adopt a treasury function.

LIFE ON THE GROUND

So, what is it like to work in a family office as a treasurer? One of the few people who really knows is Martyn Smith, whose treasury background took him to the Dyson engineering business before he helped set up the Dyson family office. Smith has since worked as a consultant at several family offices. He says that no matter where you work, "A foreign exchange deal is a foreign exchange deal, an investment is an investment, a loan is a loan and a deposit is a deposit. So the building blocks are painted different colours and they are arranged differently, but they are the same building blocks."

That said, there are differences. "I'd say, on average, the family office job is likely to be more varied and less structured. Being responsible to one person, or a small number of people who own it rather than a body of public shareholders, is different."

With that comes complexity. "A large public company is run as a single business," says Smith. "Often, families might have a range of businesses that might be owned or run by the principal, or owned by their children in different combinations. The family office sometimes needs to be very hands-on." He remembers a farm business being run by the family office before it became big enough to become a business in its own right. Although legally and for tax purposes the line between family investments and family-owned businesses will be clear, philosophically they can be blurred.

"Any family office at any one time is usually on some kind of journey, and is evolving," adds Smith. "The family might be selling a stake in the operating business, the founder might have died." Changes in the family – births, marriages, divorces – also trigger changes in the family office. "Roles can become fuzzy, especially if family members work in the business. If you can't live with a degree of fuzziness and uncertainty, then I'd venture to suggest that working in a family office is probably not for you." He says that when he worked for the Dyson family, people from a nearby US-owned technology business would sometimes apply for jobs. "If people were happy with that siloed, corporate environment, then we knew they would not enjoy working with us," he says.

As family offices tighten up their operations, they might well find themselves searching for treasurers. If you are flexible and open-minded, it could be the perfect job for you. The only problem? They haven't realised it just yet.

Jeremy Hazlehurst is a freelance writer and editor

TMS EVOLUTION

A STRONG TREASURY MANAGEMENT SYSTEM CAN OPTIMISE CASH AND LIQUIDITY MANAGEMENT NOW AND IN THE FUTURE. **LESLEY MEALL** REPORTS

There has been massive innovation in treasury and payments technologies in recent years and this has, like many tech trends, been accelerated by the pandemic. We have become significantly more interconnected and so have many of the tech tools we rely on, including the treasury management system (TMS).

"You should think of your TMS as the centre of the universe," says Tom Leitch, director of sales and business development for treasury at Bottomline TreasuryXpress. With a strong design, a TMS can offer flexible, secure payment functionality and insights that deliver value across the whole business and not simply the treasury function or even the finance department.

FRESH PERSPECTIVES

The key to achieving this – with an existing or prospective TMS – is connectivity. "A multibank TMS has the ability to capture data, on a single platform, from various sources and complex processes," continues Leitch.

To maximise its potential, the reach of that TMS needs to extend not just to banking partners and payment service providers, but internally across the business – quickly, easily and automatically exchanging data with other internal systems with data feeds from enterprise resource planning (ERP) systems, trading platforms, expense management systems, invoice management and so on.

Benefits accrue when your TMS can automatically bring in, for example, future book transactions from your ERPs, forwards from your trading system, and data on interest and principal payments from your debt portfolio. "Once you've got all of this interconnected, it's going to optimise your cash and liquidity management," says Leitch.

> "You should think of your TMS as the centre of the universe"

There is real value in combining the enterprise data and the bank data, and getting that single overview and summary of all this in a visual dashboard, showing business key performance indicators. "Without a TMS that makes it easy to integrate the data streams from multiple systems, software, physical locations, divisions and so on, this is almost impossible."

REMOVE CONSTRAINTS

In achieving and sustaining this, the importance of extensive, flexible and automated connectivity cannot be overemphasised. It's not enough for your TMS to connect to two of your main banks and not the other six, just one of many ERPs, or the relevant enterprise systems at head office without your 15 subsidiaries.

While a company with a multibank TMS has the potential to capture data from various sources and complex processes on a single platform, not all TMSs provide for that functionality readily – and for a variety of reasons. Some of these relate to constraints upon a company's legacy non-TMS tech infrastructure; some are TMS-specific.

A large organisation with myriad complex systems and processes can find integration challenging, despite increasing availability of application processing interfaces (APIs) and other software connectors. Even

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an established ERP system with different version numbers can create integration barriers.

Additionally, some software providers are more prescriptive than others, meaning that integration across systems could be more challenging. When evaluating TMSs, find out what can be connected and how easily. Maybe you should also be asking your current TMS provider: How easy is it to connect everything?

To future-proof your TMS, it is helpful if treasurers can be involved in procurement, implementation and systems development. Without that involvement it might prove costly and complex – if not impossible – to achieve 100% connectivity between the TMS and the systems with which you want to exchange data.

The better connected your TMS is, the better you will be able to respond to the changing demands of treasury. During the pandemic, many treasurers have been asked to report on cash positions daily and intraday, with questions on different iterations and forecasts coming thick and fast throughout the day.

LOOKING AHEAD

As the world of business and payments becomes more complex and more automated, so will providing accurate responses to questions such as: What is our position now? and: What has changed between this morning and this afternoon? Answering such questions will require more and better data, and a TMS that can access, unify and share it quickly and easily, without presenting reformatting issues.

Being able to access more data can allow treasurers to make more intelligent working capital decisions and provide better-informed insights to colleagues. But the flexibility that underpins interactivity between systems and the data it can liberate will also be necessary if treasurers (and their TMS) are to embrace and exploit future tech-enabled developments and possibilities.

> "You need a TMS that will provide and retain the maximum flexibility"

Smarter systems that rely on quantities of quality data are evolving within the treasury ecosystem. "Data-analytics techniques like machine learning and predictive analytics are coming to the forefront and enabling treasurers to make short-term and long-term decisions that have a vast amount of power behind them," says Leitch.

Business and payments are in very different places from where they were a year ago and where they will be tomorrow. The arrival of regulation in Europe around Open Banking and the associated APIs have, for example, already reshaped possibilities regionally, and their use is spreading both globally and evolving.

"There are now lots of different payment options," says Leitch, who anticipates a hybrid future with APIs, API bureaux, SWIFT service bureaux, secure file transfer protocol and other options. "The ideal solution is to create a payment factory, where you can choose the least expensive or the quickest approach and have that logic already built into your TMS."

Changing bank requirements, regulations, tech and so on can create lots of moving parts. Ideally, your TMS can and will be updated to reflect such things, before you become aware of them. "You need a TMS that will provide and retain the maximum flexibility," says Leitch, "because you don't know what is going to happen or what will work best for you in the future."

KEY ACTIONS

What treasurers can do:

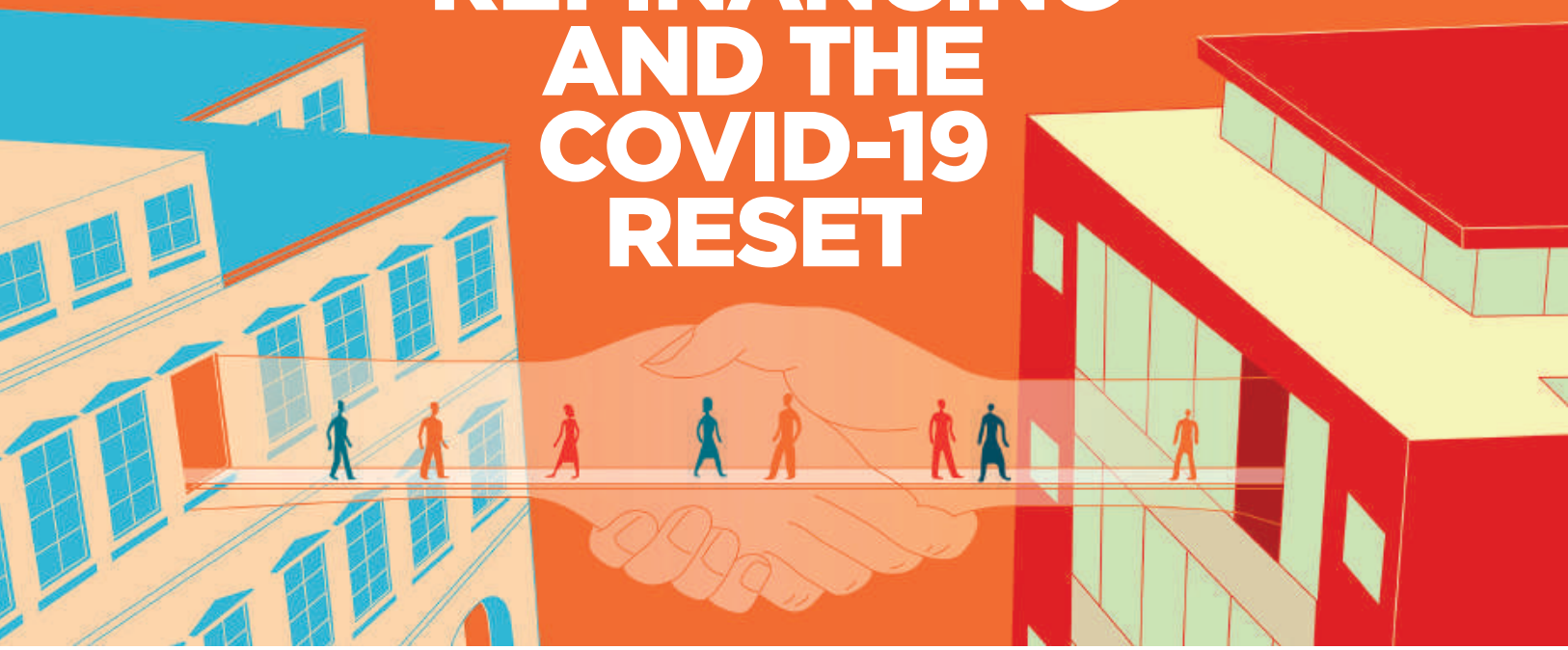
- Decrease time spent on manual tasks;
- Streamline processes;
- Automate as much as possible;
- Feed your TMS the data it needs;
- Connect it to all relevant internal and external systems;
- Involve treasurers in procurement, implementation and development of internal systems that might exchange data with a TMS;
- Unify your data from enterprise and bank systems;
- Partner with providers that do not limit your connectivity and payment options; and
- Use your TMS as a payment hub.

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

BARCLAYS

Lesley Meall is a freelance finance and technology journalist

BETTER TOGETHER: RELATIONSHIPS, REFINANCING AND THE COVID-19 RESET



THE PANDEMIC UNDERLINED THE IMPORTANCE OF STRONG RELATIONSHIPS BETWEEN CORPORATE TREASURERS AND THEIR BANKING PARTNERS. **NEIL WISHART** ADDRESSES THREE KEY THEMES: REFINANCING, INFLATIONARY PRESSURES AND ESG

We currently find ourselves in an environment that is both benign, with robust liquidity and improving corporate confidence, and uncertain.

In the years prior to the pandemic, we saw a relatively supportive credit environment with domestic and international banks keen to support corporate borrowers. Yet when the pandemic struck, treasurers' focus quickly shifted to raising incremental liquidity and securing covenant flexibility to help navigate the uncertainty.

This meant working more closely with banks, at a time when they faced unprecedented demands on their balance sheets and when all parties were adjusting to the new remote-working environment.

There's no doubt this has elevated the importance of strong and enduring relationships between corporates and banks.

REINFORCING RELATIONSHIPS

For banks to be there for their clients, knowing them well became much more important.

And businesses realised that the banks that were most supportive were by their nature the ones that understood them the best, with real sector insight, geographical strength and local knowledge, so they could anticipate their likely trajectory through the stresses they faced.

Indeed, at a time when sector divergence is more marked than ever, the need for a banking partner to have an in-depth understanding of a corporate's industry has never been greater.

Better relationships mean improved outcomes, because the more lenders understand a business, and the earlier they are alerted to any issues, the more comprehensive the support and tailored the solutions that they can bring.

UNCERTAINTY AND OPPORTUNITY

As the recovery phase continues, borrowers and lenders are working hard to understand what the future looks like.

More so than ever, we are working closely with our clients and leveraging our scale to better grasp how sectors, sub-sectors and individual businesses will evolve over the coming months and years.

It is notable how many corporates have emerged even stronger from the pandemic, with redesigned operating models and rebased costs.

At the same time, deep pockets of liquidity are driving plentiful opportunities, with record levels of M&As and a step up in refinancing activity across the board.

Global monetary policy is the loosest on record, with rates at an unprecedented low, but caution is encroaching, including concerns about China, inflation, the Delta variant of COVID-19 and the strength of the recovery.

But while the big bounceback from lockdown has now

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happened and we are pivoting away from emergency support to recovery and growth, we are not out of the woods yet.

Looking at the Lloyds Bank Recovery Tracker, which provides key insights into the shape and pace of the UK's economic recovery, we've seen a decline in the UK Composite Output Index, suggesting that the speed of the recovery is weakening.

September's Lloyds Bank Business Barometer, which gives early signals of economic trends, did find overall business confidence increasing, hitting its highest level since April 2017 on the back of greater optimism about the wider economy and stronger trading prospects.

However, that general positivity was tempered by firms flagging that supply chain disruption (46%), shortages of raw materials or goods (39%) and staffing issues (28%) as barriers to meeting customer demand. It is also worth stating these findings were recorded before the more recent concerns over fuel supply to petrol stations, which will have exacerbated the supply chain issue further.

Against that backdrop, let's look at three key issues leading the agenda for treasury teams.

REFINANCING

Looking at market conditions, we are now in a phase where, notwithstanding potential headwinds, the economic environment remains benign and low interest rates by historic standards are supportive of refinancing.

However, markets have already started to think about the potential for higher rates in the future, and so conditions could become less favourable if this goes much further. Nevertheless, for now, borrowers still feel as though they are on firmer ground, and we are seeing a lot of clients looking to address maturities.

We are also seeing clients build flexibility into their financing. While they might not have a firm investment plan in place, supportive market conditions mean we are seeing borrowers increasing their firepower and flexibility in the face of M&A opportunities and competition from private equity.

Corporates in a position to take advantage of this while the mood remains positive now face a window of opportunity.

INFLATION AND SUPPLY CHAIN

General price rises have been much sharper than anticipated since the global economy began to reopen, predominantly driven by goods prices.

While the prevailing view is that this should ultimately prove transitory, the risk of a sustained period of elevated inflation has increased.

At the time of writing, disruption in supply chains – particularly fuel – is making all the headlines, generating a significant short- and medium-term impact on costs and damaging firms' ability to meet demand.

In response, firms should be asking themselves how long these disruptions might last, and how they can mitigate any margin and cash-flow pressures by cutting costs or passing them on to customers.

If margins and volumes risk moving adversely, then businesses may need to take action to manage the increased risk from exposure to fluctuating FX, rates and commodity prices, and ensure sufficient liquidity and flexibility in their capital structures.

That could include pricing changes, moving to shore up weaker cash flow, a change to capital structure, refinancing near-term maturities and hedging. Careful planning should help optimise preparedness.

Importantly, stakeholders will be focused on understanding whether business planning and budgeting have fully considered the risks and impacts on key customers and suppliers as well. Proactivity and transparency will prove key to addressing their concerns.

> Markets have already started to think about the potential for higher rates in the future

ESG

As we speak, the eyes of the world are focused on Glasgow and the Conference of the Parties 26 (COP26), where world leaders are coming together with the aim of agreeing new global financial and environmental targets to tackle climate change.

While corporates increasingly have environmental, social and governance (ESG) strategies in place, the depth and breadth of those strategies varies enormously depending on the sector and the company.

There remains much more work to do to ensure these strategies not only cover the materiality of impacts that a company has, but also that the commitments made are sufficiently ambitious, science-based and aligned to the Paris Agreement.

ESG financing should be part of their thinking, too. At Lloyds Bank, we have experienced an eightfold increase in demand for sustainability-linked loans from our clients in the past year.

We anticipate this will only continue to increase alongside the growing volume of ESG-linked Debt Capital Market (DCM) issuance.

In the future, without a properly articulated ESG strategy, some borrowers will likely find it harder to raise debt capital or find it more expensive.

To that end, in addition to our green and sustainability-linked loan and DCM activities, Lloyds Banking Group, which we are part of, has ring-fenced £5bn of discounted funding to support our clients' transition strategies during 2021 as part of our Clean Growth Finance Initiative.

We recognise that it can be difficult for treasury teams to navigate what is a complex array of reporting requirements, certification regimes and commitments.

That is why we have created a specialist team within our corporate banking business made up of climate strategists, ESG consultants and financiers to support clients as they transition to more sustainable business models, and structure green, sustainability-linked financing solutions.

This all goes to show why a collaborative approach is needed to tackle the business, financing and societal challenges and opportunities we currently face.

When we look back on the fallout from the pandemic, it is my sincere hope that one of the enduring outcomes will be the strengthening of the relationship between corporates and their banking partners.

Neil Wishart is managing director, head of corporate & institutional debt, commercial banking, at Lloyds Bank

LLOYDS BANK

APPLAUSE, PLEASE

JANET LEGGE CELEBRATES THIS YEAR'S PRIZEWINNERS FROM THE CLASS OF 2021

Clockwise from top left: Alex Rutherford, Katie Mellor, Jeff Snyder and Charlotte Thorogood

"The best way to predict your future is to create it," said Abraham Lincoln – and five incredibly determined and committed Association of Corporate Treasurers (ACT) students have certainly lived up to that this year. Achieving the highest marks of all students in 2021 for each of our qualifications, they are setting themselves up for success.

Celebrating our students' success is one of my favourite perks of the job and I have great pleasure in announcing the 2021 prize-winners and sharing their stories with you.

We award prizes for the students who achieved the highest marks out of all students who undertook the following qualifications this year: Certificate in International Cash Management, Certificate in Treasury, Diploma in Treasury Management and the illustrious ACT Student of the Year – for the Advanced Diploma in Treasury Management. We also recognise our bursary students and award them the Gay Pierpoint Bursary Award, which is in honour of former ACT Education Secretary and ACT advocate Gay Pierpoint.

Our 2021 winners are:

- Jeff Snyder – ACT Student of the Year;
- Alex Rutherford, assistant treasurer, SGN – Diploma in Treasury Management award;
- Katie Mellor, associate, traditional trade, corporate and institutional coverage, Lloyds Bank – Certificate in Treasury award;
- Charlotte Thorogood, treasury sales associate, Bank of America – Certificate in International Cash Management award; and
- Arunachalleswaran Baskar – Gay Pierpoint Bursary Award.

Congratulations to them all! Let's take a look at what they have to say about their studies, the ACT qualifications and their own personal challenges over the past 12 months...

JEFF SNYDER

It was a busy year: new kid, new house, refinancing the business. There was also the whole pandemic and lockdown. So, the Advanced Diploma in Treasury Management studies was an oasis compared to the surrounding disorder. It had been years since my last finance course and it was incredible to dive into recent innovations in the market such as blockchain, green financing and private credit. It's a reminder that the finance world never stands still.

At the outset, I was nervous about the dissertation, but once under way, I found the act of researching, analysing and assessing a subject of my choosing – and speaking to leading practitioners in the field – very rewarding. I'd encourage students to really embrace that part of the curriculum.

Speaking of students, our cohort was incredible. We had folks spanning the world from Texas to New Zealand. Meeting, networking and learning from them was another highlight and really goes to show the global reach of the ACT.

ALEX RUTHERFORD

The Diploma in Treasury Management is a very well-rounded qualification, and I would highly recommend it for both treasury professionals and bankers or advisers looking to further their careers. The course encourages you to apply essential technical knowledge and management theory to real-world strategic problems, and it has certainly helped me with some of the challenges the business and treasury team have faced over the past 18 months. Working from home during COVID-19 presented its own unique challenges, and with a newborn joining the family partway through my studies, I found it essential to maintain a sense of routine and allocate time to look after my physical and mental health.

KATIE MELLOR

My experience with the Certificate in Treasury was extremely positive. I work in the trade finance team at Lloyds Bank, providing solutions to large corporates within the infrastructure, energy and industrials sectors. I chose to study this qualification because it has a comprehensive syllabus, providing an in-depth view of the considerations and workings of a treasury function, and allowing me to understand my customers and their priorities

> I found it essential to maintain a sense of routine and... look after my physical and mental health

better. I made use of the extra free time I had during the first COVID-19 lockdown to complete two of the five modules simultaneously.

CHARLOTTE THOROGOOD
The Certificate in International Cash Management was a challenging yet rewarding course. I would highly recommend it to others interested in enhancing their ability to deliver best practice international cash management solutions. The area of the course I found most interesting was the material covering the future of treasury, exploring how emerging technological trends such as blockchain and cryptocurrencies are disrupting the world of cash management. Digitisation and transformation has become a key topic of relevance in treasury, particularly since COVID-19, making the material all the more interesting and beneficial to my career.

All four stories demonstrate the personal commitment, dedication and resourcefulness these students brought to bear, enabling them to succeed with their studies. We know that learning helps build resilience. Clearly, studying was not an easy task while keeping all the plates spinning. However, the addition of it brought success and positivity to each student's life. It is also excellent to hear how relevant, up to date and on-topic our qualifications remain.

Congratulations again to our winners and I look forward to celebrating the next group at the same time next year – 2022, here we come!

Find out more about the ACT's qualifications in Treasury and Cash Management academy. treasurers.org/qualifications

Janet Legge is director of awarding body at the ACT

ACT DIARY DATES

ACT EVENTS

■ **23-25 November | A virtual event**
ACT FESTIVAL OF TREASURY TRANSFORMATION
Magnus Falk, CIO adviser from Zoom Video Communications, will be joining us for a keynote address. Book your place and access content up to 14 days post-event.
treasurers.org/festivaloftreasurytransformation21

■ **8 December | London**
ACT WORKING CAPITAL CONFERENCE
The ACT Working Capital Conference returns as a live event. It will be a key meeting point for attendees to gather and discuss topical working capital issues that directly affect corporates and their supply chains. Corporates, members and students attend for free.
treasurers.org/events/conferences/wcc-london21

■ **24 February 2022 | London**
ACT CASH MANAGEMENT CONFERENCE
The ACT Cash Management Conference returns as a live event next year. Visit the website to see our COVID-19 safety measures and to book your place.
treasurers.org/events/conferences/cash-management-conference-21

■ **31 March 2022 | London**
ACT DEALS OF THE YEAR AWARD
Nominations for this year's Deals of the Year Awards entries will close on 29 November; the treasury community will celebrate the winners on 31 March.
treasurers.org/events/awards/doty-21

■ **10-11 May 2022 | Liverpool**
ACT ANNUAL CONFERENCE 2022
The ACT Annual Conference returns as a live event next year. Visit the website to book your place.
treasurers.org/annual-conference-22

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

ACT TRAINING COURSES

Our four sought-after training courses listed below will run again in 2022. Please keep an eye on our page at academy.treasurers.org/training for confirmation of 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.
academy.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.
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"WE WANT TO MAKE SURE WE ARE AHEAD OF DEVELOPMENTS"

KERI GILBERT ON M&A WORK AND STRATEGIC PROJECTS IN HER ROLE AS ASSISTANT GROUP TREASURER AT EXHIBITION GROUP INFORMA

At Informa I head up our infrastructure team: a team of three people including myself.

I have worked in the finance function at Informa since 2015, first in an accounting role where I was responsible for group consolidation and cash flow, and moving into treasury in 2017. Last June I was promoted to the role of assistant group treasurer.

My responsibilities include management of transactional banking, including management of the 600-plus bank accounts that we have globally, ensuring that we have efficient and flexible banking structures in place. I also manage merchant-acquiring services and bank guarantees.

As well, I have responsibility for the management and operations of treasury systems used for banking and reporting, for example, our treasury management system. This includes development of the systems, maintaining relationships with the system providers and being the key treasury contact for other teams who are using these systems and platforms.

Besides that, I am the single point of contact for all M&A activity, as it impacts the treasury function, which includes due diligence perspective and integration work. If the company is busy on the M&A front, then a lot of my time will be focused on that, making sure I am up to date on the transactions themselves, for instance.

A typical day/week for me may involve a number of things, including:

- Working on due diligence and/or integration activities in relation to M&A activity;
- Having calls with our various relationship banks or system providers to catch up on ongoing tasks and projects, or exploring opportunities that may be available to us;
- Investigating options for how we enhance our systems or cash management strategy;
- Having calls with other teams within Informa, working with them to resolve queries in relation to projects I am leading or involved in; and
- Carrying out more day-to-day operational tasks, such as approving payments.

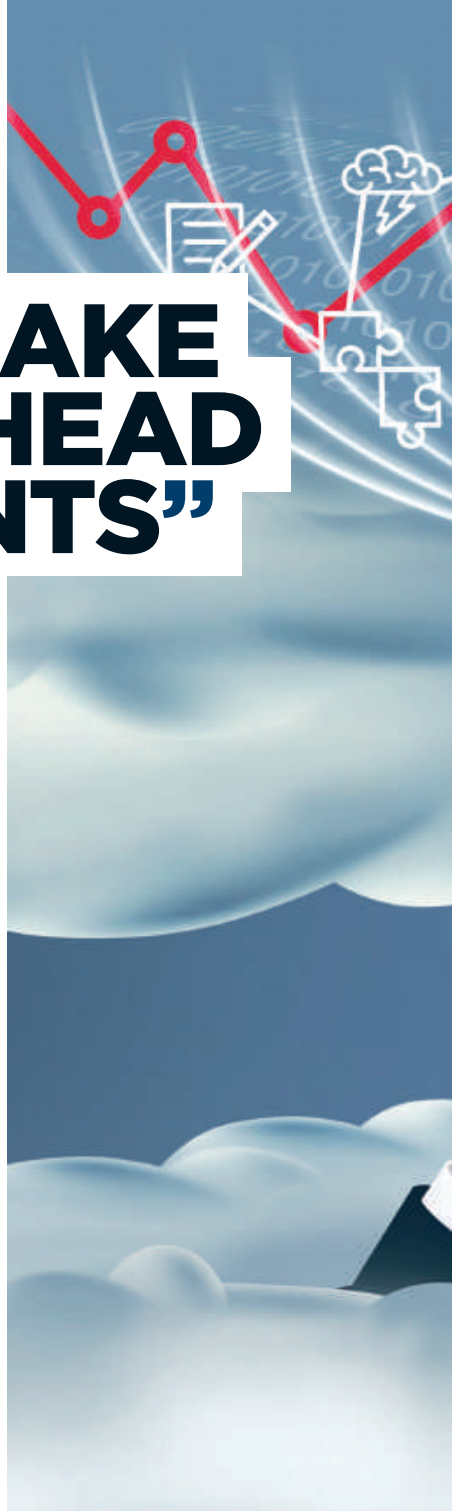
> "The overall aim is to reduce our bank charges… it is a huge and complex task"

PROJECT WORK

Project work in treasury currently is quite wide-ranging in scope. For instance, I am currently the treasury lead on a global review of bank charges, working closely with our procurement team and key banking partners. The overall aim is to reduce our bank charges, and although that sounds quite straightforward, it is in fact a huge and complex task. Apart from contacting individual banks, there is the question of comparing charging structures and looking at how and where the charges go through our accounting systems internally in an effort to root out inefficiencies.

The initiative was an important one during the crisis and it highlighted to us that we could do with dedicating more time each year to reviewing how we could reduce charges.

We have also been reviewing our customer payment landscape and infrastructure, looking at how we accept payments from customers and process those through our systems and platforms. We are understanding where we can simplify that structure and also developing processes where they currently do not exist to make things easier for our businesses.



IKON IMAGES

Again, the payments project was partially driven by COVID-19. We wanted to make things as easy as possible for our customers when it comes to payments and so we've been looking at how we reflect local methods of payments while making sure the controls we have in place are robust and appropriate; different payment methods, e-wallets and so forth come

> "We wanted to make things as easy as possible for our customers when it comes to payments"

up all the time. We want to ensure we're ahead of those developments so that we're not delaying our responses to requests and delaying revenue. So that's quite an active area at the moment.

I am leading a project to create a road map looking at how we see our treasury processes and operations developing over the next two to five years with systems and technology at the centre. This is a wider and more strategic exercise. We hear all the time about application programming interfaces and various developments in the digital world, but what do these mean to a corporate treasury team? It's helpful to look closely at our system development plans to understand what's on the landscape, what might be a benefit to use and consider questions around, for instance, whether we should be moving towards a cash management structure that uses our wider finance systems more optimally.

COLLABORATION

My job is hugely collaborative. There is very little that I do that doesn't involve working with other teams. That may be my colleagues within group treasury and other group teams such as finance, tax and legal, but also various teams in the finance shared services centres around the world, those working in the businesses and also our enterprise architecture teams both on a group and divisional level.

Sometimes the collaboration is a number of teams sharing ideas and problem-solving, for which I am bringing my treasury expertise to the discussion. Other times the collaboration is me asking for assistance from other teams and working together with all of them to meet set deadlines.

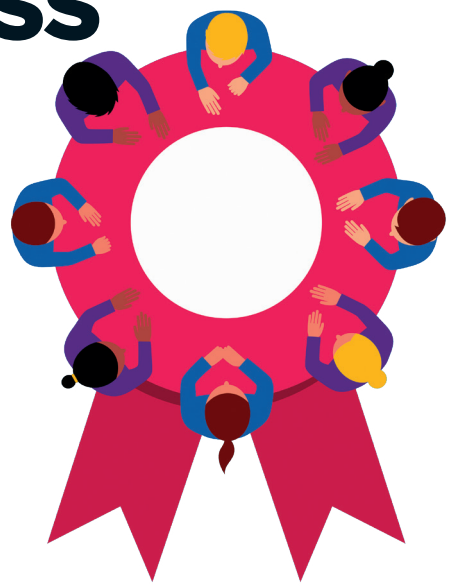
SECRET OF SUCCESS

A successful day to me is a productive one. If I have helped resolve a query from someone in a local team or completed tasks from my 'to-do' list, for example, then that is a successful day. Some days are filled with calls and meetings, leaving little time for focused working, which can make me feel less productive. However, if I have learnt new things on those calls then I still consider that a successful day.

An unusual day would most likely be a quiet one where I work entirely on my own. While sometimes needed, these days are also the ones I find less interesting.

JOY MAITLAND EXPLORES

WHY A SENSE OF BELONGING IS CRITICAL TO SUCCESS IN THE WORKPLACE



Numerous commentators have discussed what new generations will bring to the corporate world, acting as though it were a unilateral relationship. What institutions often fail to recognise is that employees are becoming much more discerning. They know the value they offer, so they expect a fair deal in return. In line with this, one of the factors they expect is the sense of belonging within the workplace, along with the ability to 'level up', regardless of colour, creed, race or gender.

SENSE OF BELONGING

A sense of belonging may be a difficult variable to quantify, but as the *Harvard Business Review*[1] noted, citing research by BetterUp[2], it is a close cousin of mattering, identification and social connection. Ultimately, it is the "sense of being accepted and included by those around you". As social creatures, this becomes a crucial factor in the workplace, as it affects both employee and employer.

Employees who feel they belong think of their job as more than a position; it's a contribution towards the vision and mission of the company. They feel that they are part of a substantial change that goes beyond numbers, making work more satisfying. Meanwhile, employers benefit from this, too. When a company has a cohesive unit of a collective, rather than a set of individuals, there is a significant increase in job performance. Furthermore, turnover risk decreases, as well as sick days.

THE REPERCUSSIONS OF ISOLATION

It is also fitting to observe the repercussions of failing to foster belongingness. For instance, many women in business report hitting a glass ceiling when they attempt to climb the corporate ladder. The realisation that, despite many years of hard work and dedication, they do not yet belong hits hard. There is no seat at the table for them. Their skills become discounted because of their gender. Often, they are forced to turn to other companies to further their career ambitions.

Parallel situations are reported by individuals of certain ethnic minorities. A 2021 report by Green Park[3], a UK consultancy, showed that not a single company in the FTSE 100 had any Black chairs, CEOs or CFOs. Having minority leaders in high-powered, visible leadership positions in a corporation is another way of fostering social belonging[4].

As an executive coach who has helped many a leader navigate their way from one company to another in their quest for career fulfilment, none of these data surprise me. A survey by Ernst & Young Global sampled individuals from US businesses and, despite the huge investments in inclusion and diversity training, more than 40% of participants felt physically and emotionally isolated in their workplaces[5]. Despite the millions spent by companies, it is plain to see that solving the 'inclusion' piece still eludes many organisations. Businesses have much to gain from fostering belonging than ignoring the subject altogether, since the organisation itself stands to lose key talent who would have otherwise furthered the company's mission.

1 hbr.org/2019/12/the-value-of-belonging-at-work
2 betterup.com/blog/belonging
3 green-park.co.uk/insights/green-park-business-leaders-index-2020-britain-s-top-firms-failing-black-leaders/s228945/
4 fisher.osu.edu/blogs/leadreadtoday/blog/the-importance-of-minority-leader-representation
5 hbr.org/2019/02/the-surprising-power-of-simply-asking-coworkers-how-theyre-doing

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Joy Maitland is an award-winning executive coach and author, and managing director at Inemmo Leadership Development Solutions

FIVE KEY TAKEAWAYS

1 EMPATHY Lessen the likelihood of someone feeling like an outsider by showing support, empathy and trust to everybody.

2 LEADERSHIP Representation for minorities in leadership positions shows understanding and support.

3 REPERCUSSIONS Failing to foster belongingness leads to isolation and diminishing self-efficacy, thus loss of key talent.

4 INCLUSION Inclusivity of people from all backgrounds ensures that all employees feel a sense of belonging at work.

5 SATISFACTION Employees and employers both benefit, as the former feel more satisfied, which leads to better job performance.

WANT TO REACH HIGHER GOALS?

INVEST IN YOUR FUTURE

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