RECOVERY POSITION
The debt overhang, property and working capital optimisation

2021 AND THE END OF LIBOR
Transition stories so far and the complexities that remain

SUPPORTING ROLE
Thoughts on how treasurers can integrate technology post-M&A

The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ ISSUE 2 2021

READY TO RECOVER

The shape of the global restart and tasks ahead for treasurers

+ THE BUSINESS OF TREASURY 2021

RESTART AND RECOVERY

As you read this issue of *The Treasurer*, the 18th ACT Annual Conference will be under way. The high-quality array of panellists, technical experts and speakers we've grown accustomed to will be sharing thoughts, knowledge and experience. And – as we've also grown used to over the past year – access to the conference is via an online portal, through which delegates will be able to access content for an additional month.

In this issue you'll find an interview with keynote speaker Andy Ransom, Rentokil Initial's CEO, who talks about the admirable qualities he found within his treasury team and in the wider workforce since the pandemic took hold. (See page 50.)

You will also find this year's Association of Corporate Treasurers' (ACT's) *Business of Treasury* report – reproduced here in full. Don't miss this year's findings on the experience of treasurers and their burgeoning strategic role, beginning on page 13.

Our theme for this issue of *The Treasurer* is restart and recovery. Comparisons between our economic situation today and the experiences of 2008/9 are rife. Initial reactions last year – to shore up liquidity, tap or extend existing facilities and secure new lines of funding, however, quite quickly gave way as governments stepped in to calm markets and support commercial organisations. Find out how treasurers from a range of organisation types characterise today's financing situation, from page 30.

Access to the ACT's 18th Annual Conference is via an online portal

A year down the line and the picture has changed quite considerably, and the challenges are evolving at a fearsome pace. Supply chains still have a precarious position. Ensuring they continue to thrive and service larger businesses means taking a longer view on cash flow. Starving SMEs of cash flow is a short-term plan, as is cost-cutting. We have learned, however, that the cash-flow forecast can be a strategic instrument, as Ben Walters, deputy treasurer at Compass Group, explains on page 38.

As we contemplate the shape of the economic pick-up, the future of office working remains an open question. Providing we can all become confident in mass vaccination, the collaboration and networking opportunities that office environments foster start to become attractive again, as Ian Chisholm, group treasurer at Grosvenor Group, notes on page 40.

As we seek to build back better, there is an environmental consideration to office working as well. Energy-efficient urban centres – even if we occupy them for only part of the week – still surely have a role to play.

I hope you enjoy this issue.

Stay safe.

Liz Loxton

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

THIS ISSUE'S CONTRIBUTORS

PAUL BARAM is a director at Actualize Consulting's UK capital markets office, where he helps clients with derivatives, valuations, solution architecture and business process design. Baram has spent 15 years in consultancy. Find his feature on how treasury can best integrate technology following M&As on page 42

JONAS PERSSON is an active member of the ACT and newly appointed head of sustainability and ESG finance at Lloyds Bank, having previous led the energy and utilities business. He drives the ESG agenda for Lloyds Bank, helping corporates become more sustainable. His article on supply chain sustainability is on page 54

ANDREW WOOD is an experienced and accredited transformational coach, facilitator and organisational development specialist, and a director at leadership consultancy h³. His article on how we can refocus, reinvigorate teams and ensure recovery can be found on page 66

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

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

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

THE TREASURER ©2021
Published on behalf of the ACT by
Think Media Group
20 Mortimer Street, London W1T 3JW
● +44 (0)20 3771 7200
● thinkpublishing.co.uk

Editor Liz Loxton
Managing editor Rica Dearman
Designer Grant Pearce
Cover illustration Grant Pearce
Client engagement director Anna Vassallo
Executive director Jackie Scully

SUBSCRIPTIONS
Europe, incl. UK (per annum)
1 year £285 | 2 years £405 | 3 years £525
Rest of world
1 year £320 | 2 years £495 | 3 years £655
Members, students and IGTA/ EACT members
[Self-certified members of National Treasury Associations, including the AFP in the US]
1 year £142 – UK and Europe (MUKEU)
1 year £185 – rest of world (MRoW)
For information, visit treasurers.org/thetreasurer/subscription

Printed by
The Manson Group
ISSN: 0264-0937

ACT

TREASURY EXCELLENCE AS STANDARD

DEVELOP YOUR TREASURY SKILLS FROM THE COMFORT OF YOUR HOME

Our virtual training courses are back this summer and autumn!

Our online interactive training will give you the opportunity to:

- quickly learn valuable skills that you can instantly use at work
- develop best practice and gain technical knowledge relevant to today's fast-changing financial markets
- access experts' insights and interact in a live virtual classroom
- balance your work commitments on the day with our short manageable sessions.

Perfect if you are looking to:

- upskill in new areas of focus
- bridge skill gaps for you or your team.

"I found the content to be practical and relevant. The online format worked well and there was ample opportunity for interaction with the course facilitator."

Secure your place now for the next interactive sessions:

June-July 2021

- A to Z of Corporate Treasury, 21-25 June - FULLY BOOKED
- Advanced Cash Management , 6-9 July 2021
- Treasury in a Day, 13 July
- The Nuts & Bolts of Cash Management, 15 July

October-November 2021

- Treasury in a Day, 19 October
- The Nuts & Bolts of Cash Management, 21 October
- A to Z of Corporate Treasury, 1-5 November
- Advanced Cash Management, 16-19 November

GROUP DISCOUNT: 25% OFF

If three or more people from the same organisation book onto any ACT training course, they qualify for 25% off the combined course fee*.

*Not compatible with any other discount.

COUNT ME IN

A CPD RICH RESOURCE

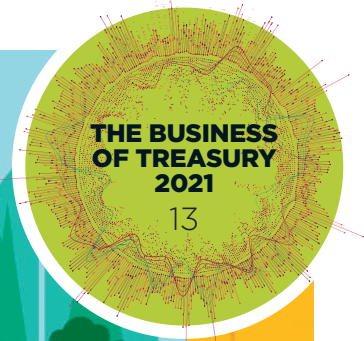
Book your course at: **academy.treasurers.org/training**

GOT QUESTIONS?

GET IN TOUCH WITH OUR TEAM at **academy@treasurers.org**

CONTENTS

What do you think of this issue of *The Treasurer*? Please write to **thetreasurer@thinkpublishing.co.uk** or tweet **@thetreasurermag**



IKON IMAGES, ALAMY

RECOVERY IN THE PANDEMIC WORLD THIS TIME REALLY IS DIFFERENT

WHY WE MAY HAVE LEARNED ENOUGH FROM THE CRISIS OF 2007/8 TO IMPROVE OUR RESPONSE TO THIS ONE

Across the developed world, rising financial markets reflect a growing sense of optimism about economic prospects for the coming years.

With each week that passes, investors place fresh bets on a robust recovery from the massive pandemic shock of 2020. The rebound is well under way in the US and is starting up in the UK, where mass vaccination has taken place throughout the country.

The recovery will soon broaden to continental Europe now that key economies are accelerating their pace of vaccination; a return to something resembling normal could happen by summer.

The current sweet spot of the new global business cycle with rapid growth at still low inflation and record policy support can underpin further gains for risk markets in 2021.

The situation today is a far cry from the attack of economic pessimism that struck the Western world in the wake of the global financial crisis (GFC).

According to the International Monetary Fund's latest forecasts, output in developed economies will fall just 1% short of the pre-pandemic trend by 2024. This compares to a gap of around 10% four years after the GFC.

Three key factors underpin the promising outlook.

First, policymakers are throwing their massive weight behind the near-term recovery, as well as providing support for structural growth via plans for sustained higher spending on productivity-enhancing public investment and infrastructure.

The US Treasury and Federal Reserve are determined to test the limits of US growth potential.

Over time, excess demand in the US relative to domestic

productive capacity will lead to higher imports. Europe and other export-oriented regions of the global economy look set to benefit from strong US demand.

While European governments and central banks are taking a less aggressive approach in pursuit of faster economic growth, their policies nonetheless remain highly accommodative.

Instead of simply transferring money to households as the US has done, European policymakers are supporting jobs instead. By and large, this policy is working well.

Major European economies have not suffered a serious wave of job losses.

The European Central Bank and Bank of England continue to supply ample liquidity to the European financial system, and governments are committed to supporting long-run growth with ambitious investment pipelines.

The EU's recovery fund commits €750bn of shared spending to support the cyclical rebound from the pandemic as well as long-term growth. Structural underperformers and growth laggards, such as Italy, will benefit from an outsized share of the spending.

Second, after disappointing during the past 20 years, productivity growth is likely to recover in the decade to come.

Pandemic-related restrictions on normal economic activity challenge many engrained habits and old ways of working. Many companies are reacting to these challenges by modernising and finding new ways to do business.

Key innovations such as remote-working technologies, big-data analysis, three-dimensional printing and advanced robotics are starting to spread through economies more rapidly than before.

This diffusion of modern technologies can spur on faster gains in worker output per hour. Over time, this will lift profits, real wages and real interest rates.

Third, by and large, household balance sheets on both sides of the Atlantic are in better shape now than before the pandemic struck.

The unusual combination of strong incomes (thanks to generous fiscal support) but weak spending (due to lockdowns) has had a dramatic positive effect on saving.

In the UK, for instance, households accumulated around £190bn in excess savings from Q1 2020 through to Q1 2021 worth 14% of 2019 private spending.

Thanks to their strong balance sheets bolstered by an unexpected surge in saving, Western consumers can sustain higher spending growth well into the future.

Once output returns to pre-COVID-19 levels in all major parts of the world, economic fundamentals point to global growth at a rate modestly above the post-Lehman trend, driven by better performance in developed economies.

With luck, the US and major parts of Europe can return to something resembling the 'old normal' before the financial crisis: faster growth, more inflation and stronger confidence.

COUNTER CURRENTS

Of course, no economic outlook is without risks. Three developments could turn this positive story into a negative one.

1 A premature removal of stimulus – as happened after the GFC. Fortunately, this remains highly unlikely. Central banks and governments show no signs that they are about to back away from their 'whatever it takes' attitude to support sustained stronger growth. Indeed, quite the opposite – which gives rise to the second risk.

IKON IMAGES; ALAMY

The rebound is well under way in the US and is starting up in the UK

2 A sudden surprise surge in inflation may force policymakers to step on the brakes hard. A robust recovery spurred on by aggressive policy support could turn the current climate of confidence into one of excessive exuberance. If inflation suddenly surged across major parts of the world, central banks may be forced into an early U-turn. A sudden increase in financing costs could jar the global recovery and cause serious waves in markets.

3 A new and more dangerous SARS-CoV 2 mutation could render the current generation of vaccines ineffective. Confidence is fragile and animal spirits can turn from bullish to bearish quickly. If countries that are currently well on their way to vaccinating a majority of their citizens are forced to start from square one with a return to lockdowns to curb the spread of the virus, a big confidence shock may take a long time to recovery. This could depress the pace of the eventual recovery.

The good news is, however, that economies seem to be adjusting better to virus restrictions over time. European economic performance and confidence during the winter wave of the pandemic have been far stronger than during the initial wave in spring 2020.

Further negative developments on the pandemic front may thus not spoil the positive outlook much. Life is always full of risks. This is normal.

Judging by recent developments and the balance of fundamentals driving the recovery, the stage really does look set for the developed world to leave behind the so-called 'new normal' of slow growth and pessimism that defined the post-Lehman era.

Kallum Pickering is senior economist at Berenberg Bank

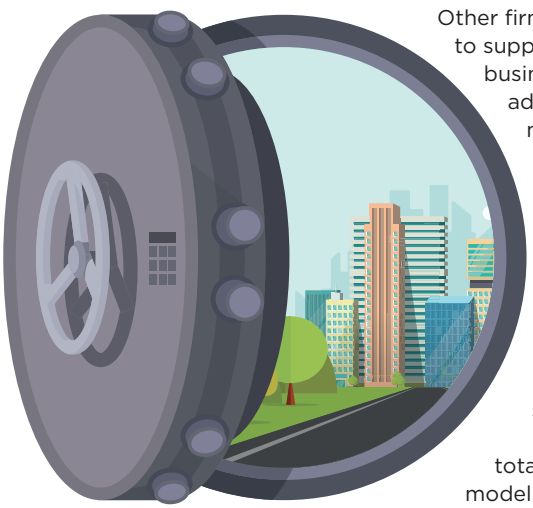
THE GREAT BANKING ADAPTATION

BUSINESSES NEED ONGOING SUPPORT TO SURVIVE IN A GREENER, MORE DIGITAL FUTURE. CAN THE BANKS MATCH THEM IN INNOVATION AND DIGITISATION?

Banks have played a key role in supporting businesses and individuals throughout the pandemic – facilitating government support initiatives and through direct support to their customers.

Government-supported schemes have attracted a great deal of attention, but banks have continued to lend commercially to businesses, too. Total gross lending to non-financial businesses in the UK, for instance, was up 23% in 2020, reaching £320bn. Banks have also offered payment holidays on existing loans and have facilitated access to capital markets, with record issuance volumes during 2020.

As a result, insolvencies have been significantly lower than pre-pandemic levels, let alone previous crises – keeping alive companies that would have otherwise failed.



With companies having to rebuild and deal with additional debt burdens, the outlook will remain challenging. Our analysis has shown that nearly a quarter of UK companies needed additional finance to get through the past 15 months and, of these, about half are likely to struggle to service and repay the additional debt (excluding companies that were already loss-making before the pandemic).

BUILDING BACK BETTER

Many companies, particularly in the most impacted sectors, will require further financing to rebuild inventory and working capital positions, as well as make investments that have been delayed due to the pandemic. A range of financing propositions will be needed, with funding that grows with the business, such as invoice financing.

Other firms will need finance to support changes to business models to adapt to the new normal – particularly the increase in e-commerce, which is growing 3.5 times faster than physical commerce and is forecast to represent 20% of total retail sales by 2024.

This requires a totally different banking model. Banks need to provide financing support to help their customers build new digital business models. They need to provide integrated merchant and payments solutions to power e-commerce solutions. And they need to facilitate access to venture capital and early-stage venture financing to support the fast-growth technology sector given the higher risks and lack of physical collateral.

Spurred on by competition from fintechs, some banks are working on structurally improving digital lending capabilities and propositions to improve speed of decision and access to cash as well as customer experience.

A broader digitisation of bank services has also been triggered by the onset of remote working, with the realisation that both digital propositions and client servicing can be carried out remotely – often with improved service quality. Virtual meetings between bank relationship managers and customers, as well as greater digital connectivity between banks and clients, have been a feature of the past year. Citi reports an increase of 60% in application programming interface (API) traffic in 2020, reaching 1 billion API calls from corporate clients.

These are not the only drivers. Climate transition will be a major driver of change in the coming years and will influence bank allocation of funding during recovery. It is estimated that more than $5 trillion of investment per year will be needed globally to meet the needs of climate change and energy transition. This will support development of new green technology, as well as enabling companies to change the way they operate to reduce carbon emissions.

Several banks have announced ambitious targets to reduce the amount of financed carbon emissions, requiring new propositions to support their clients' transition, as well as a more selective focus on clients that have credible climate-transition plans.

CONSTRUCTIVE RESTRUCTURING

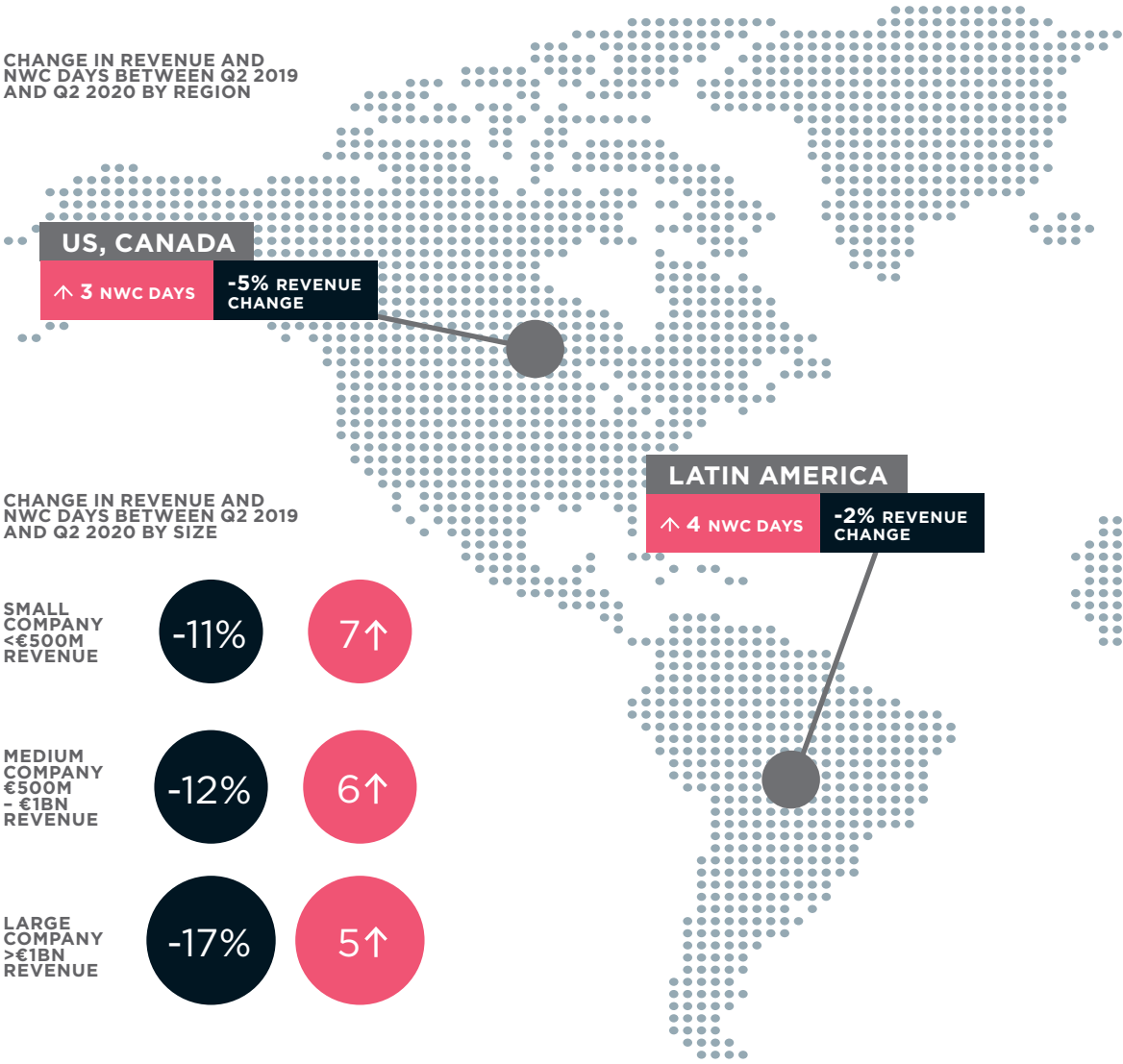
While many companies view the recovery as a springboard for growth, sadly, not all companies will survive. Some were struggling before the crisis, others have seen business models impacted by changing customer behaviour and others have had to take on too much debt. An increase in insolvencies is inevitable, not least because of the lower-than-normal rates over the past year, but there remains significant uncertainty around the size and timing of the wave.

Banks have been preparing for this wave, scaling up their restructuring and workout teams, and adapting their operating model to cope with a higher volume of customers in financial difficulty. It is critical that any restructuring activity is done fairly, consistently and quickly so that capital is redirected to help viable businesses grow in the post-pandemic era.

Serge Gwynne is a partner at Oliver Wyman

IN DETAIL: WORKING CAPITAL AND PANDEMIC IMPACTS

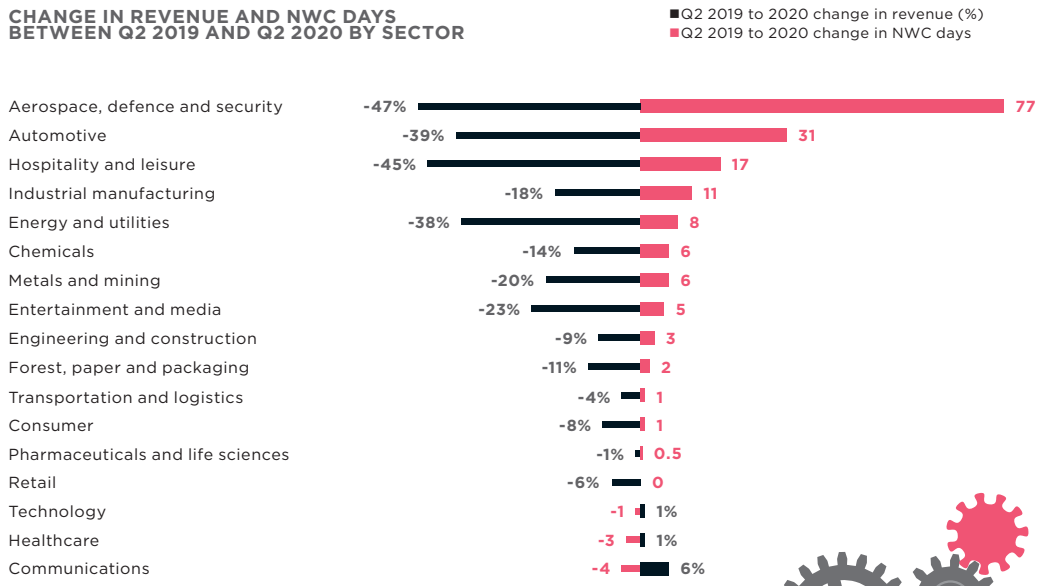
CHANGE IN REVENUE AND NWC DAYS BETWEEN Q2 2019 AND Q2 2020 BY REGION

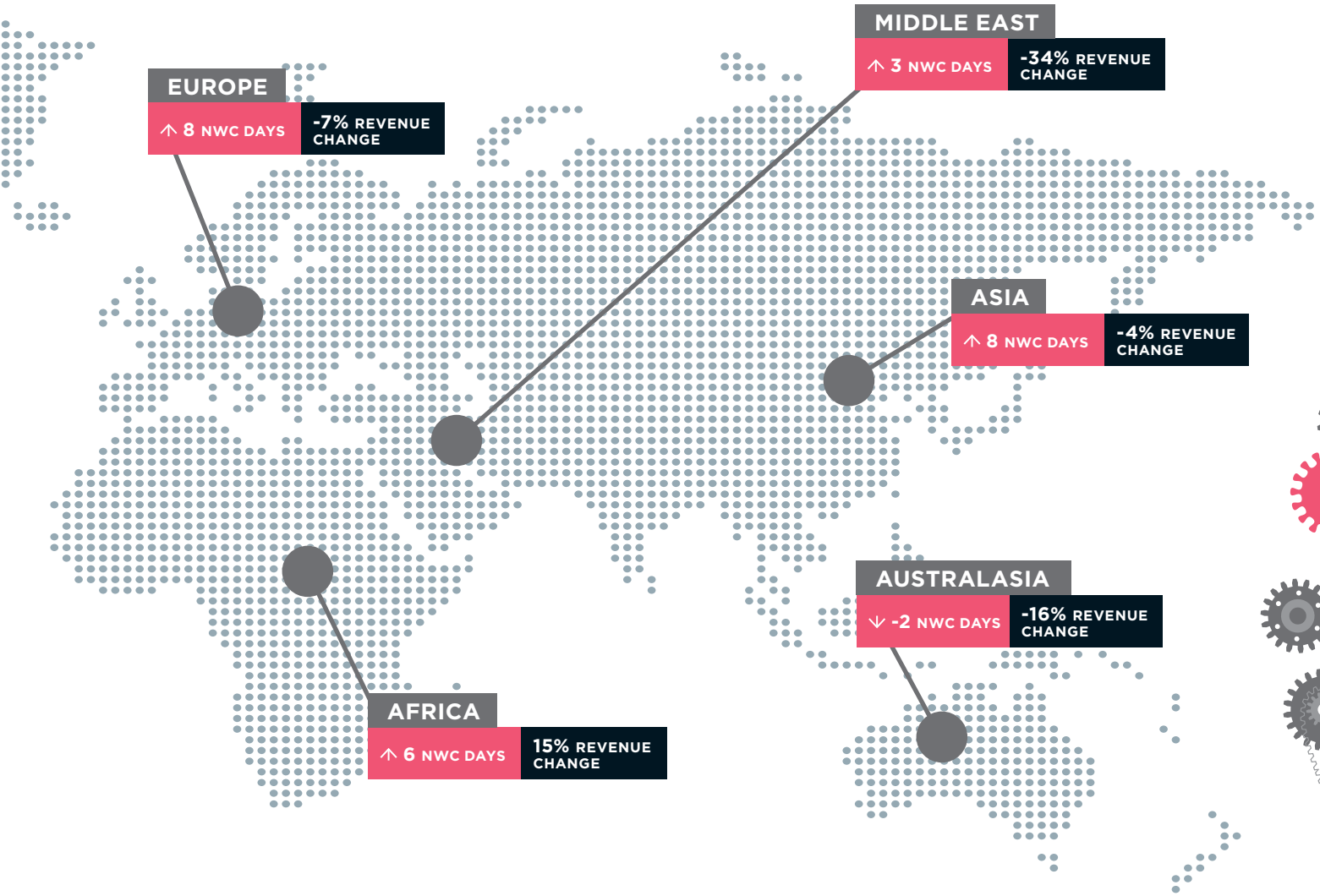


CHANGE IN REVENUE AND NWC DAYS BETWEEN Q2 2019 AND Q2 2020 BY SIZE

SMALL COMPANY <€500M REVENUE	-11%	7↑
MEDIUM COMPANY €500M – €1BN REVENUE	-12%	6↑
LARGE COMPANY >€1BN REVENUE	-17%	5↑

CHANGE IN REVENUE AND NWC DAYS BETWEEN Q2 2019 AND Q2 2020 BY SECTOR





THE LIQUIDITY CHALLENGES AND SUPPLY CHAIN DISRUPTIONS OF THE PAST 18 MONTHS HAVE BEEN WELL-DOCUMENTED. An upturn beckons, with a likely non-inconsequential level of pent-up demand as its hallmark.

According to PWC's report *Working Capital Study 20/21: Act Now to Recover*, industry sectors across the board were hit by decreases in revenue matched by falls in the ability to decrease working capital, leading to an increase in net working capital (NWC).

A quarterly comparison between Q2 2020 and Q2 2019 shows revenue falling by 16%, while cash tied up in the working capital cycle reduced only 6% over the same period, translating into a five-day increase in NWC days. Inventory holding days increased by eight days – a year-on-year increase of 15%.

Aerospace, automotive, industrial manufacturing and hospitality and leisure were hit by double-digit growth in NWC days between Q2 2019 and Q2 2020.

Regionally, the report found that Europe and Asia saw the biggest upswing in NWC days to eight, compared to an increase of three days in the US and Canada and three days in the Middle East.

For the recovery, managing NWC days will be a long-term prerogative.

Source: PWC

5 days
increase in NWC days from Q2 2019 to Q2 2020

+15%
increase in inventory days to Q2 2020

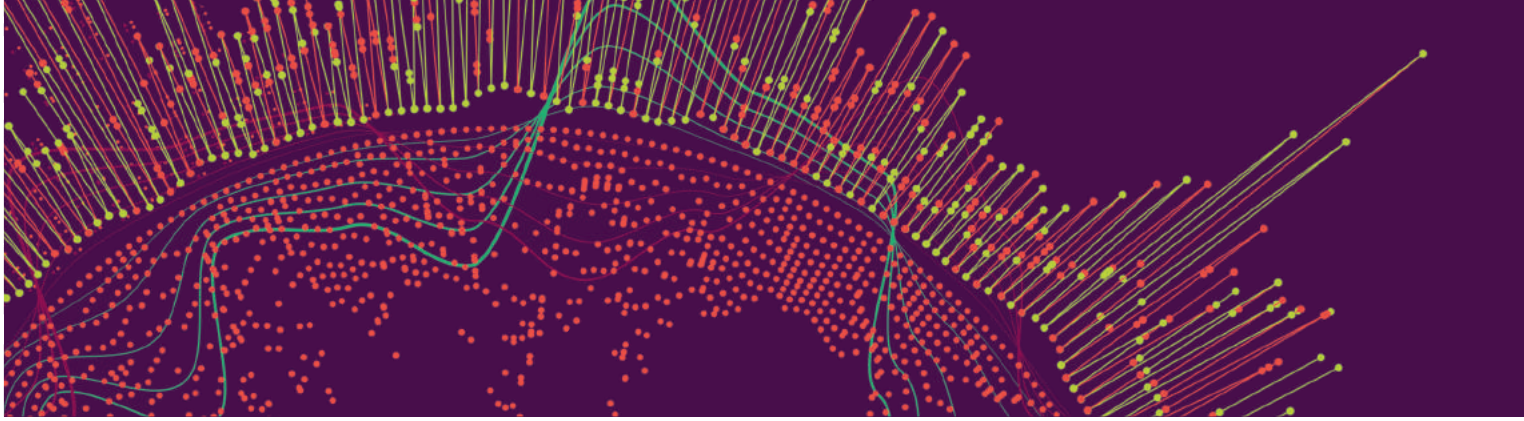
14/17 sectors
with deteriorating performance in NWC days to Q2 2020

ACT

TREASURY
EXCELLENCE
AS STANDARD

THE BUSINESS OF TREASURY 2021

A YEAR OF DISCOVERIES, A FUTURE OF POSSIBILITIES



KEY INSIGHTS

- In terms of treasurer priorities, capital and liquidity management reign again. Whether COVID alone is responsible for this we cannot be sure; last year treasurers thought it would dip down the list, but was that ever going to be the case?
- Working patterns have changed, and there is a strong indication that treasury teams will work from home on a regular basis in the future, although not all the time.
- The focus on strategy among treasurers has dropped, and there is perhaps a 'mismatch' with the prioritisation of the board – inevitable if treasurers have to get their heads down and deal with the immediate crisis and its implications. The question is: will this block them further in their career ambitions or, now that they're firmly positioned at the heart of the business, will this hold them in good stead post-crisis?
- The percentage of treasurers who believe that treasury is seen as a strategic business partner to their organisation is at an all-time high of 92%.
- Trust has been gained in and between teams. Treasurers would like to see this – along with independence – live on after the pandemic is over.
- Working in treasury has always been demanding; this past year has intensified the pressure. Treasurers have needed to develop even more personal resilience and, it seems, have found this through social and team interactions, as well as through their families.
- Adoption of technology accelerated to facilitate homeworking and cybercrime protection. But other developments, such as treasury management system (TMS) implementation projects, have often been put on hold.

INTRODUCTION

Treasurers always play an invaluable role in maintaining the financial health and stability of their organisations and the wider economy. At the close of a year when they've been exposed to more uncertainty and pressure than at any other time, the 2021 *Business of Treasury* report provides a fascinating insight into treasurers' minds and views.

The global pandemic has put treasurers in the spotlight, given the importance of liquidity and cash management. On top of that, they've had huge changes in ways of working imposed on them. This has led to some interesting – sometimes polarised – views about the future. There are always two sides to a coin.

Treasurers have been able to carry out their roles well in 2020/21, though the circumstances have meant they've had to adopt a more operational approach. We see little change in treasurers' base priorities, but there is a real shift in ways of working and in certain 'behavioural' areas: without prompting, many treasurers point to an increase in trust between themselves and colleagues. On a more logistical level, people are printing papers less, and many are enjoying the lack of a commute.

We see a year-on-year increase in the proportion of women interviewed as part of the research. This would suggest that the gender balance in treasury is improving. It's somewhat better in the rest of the world versus the UK*, we note.

Meeting cultures and traditions are changing, and the virtual world encourages people to be on time and to the point, so there are efficiencies, but also it promotes a more democratic approach (a level playing field) as well as getting to know people on a personal level, and has the benefit of added flexibility. In the UK, people are looking towards more flexible working, while the rest of the world is leaning towards more technology and automation.

Treasurers are thinking about personal development to enable them to become even more well-rounded, in particular by developing their leadership and strategic influencing skills.

CONTENTS

But they're also spending less time on strategising – an apparent tension that we'll dig into later on.

We dedicated a number of questions to the impact of technology on the treasurer's role this year – a line we started in 2020. In 2021, treasurers' focus was inevitably on work-from-home systems and protecting against increased cybercrime risk. As a result, we saw a stalling of TMS implementation projects and other technology developments.

Environmental, social and governance (ESG) is a prominent concern for treasurers, as it should be. Activity in this area is still low, however. More needs to be done here.

Treasurers are giving much more focus to operations and controls in 2021. This isn't surprising given the circumstances, and perhaps explains why the focus on other areas outside the fundamentals has not been as high as we might have anticipated.

On the whole, the results point to a profession that has knuckled down without complaint, despite the unprecedented personal as well as work challenges faced, and has found that its professional training has held it in good stead. Even before the pandemic we saw a trend towards people, particularly those entering the job market, focusing on lifestyle rather than profession when making career choices; this trend is now accelerating and enhanced as people find greater flexibility is available to them.

There has also been time for self-reflection. We are more aware of mental health issues and how these can affect us all, and we see even more clearly the importance of relationships and building mutual trust.

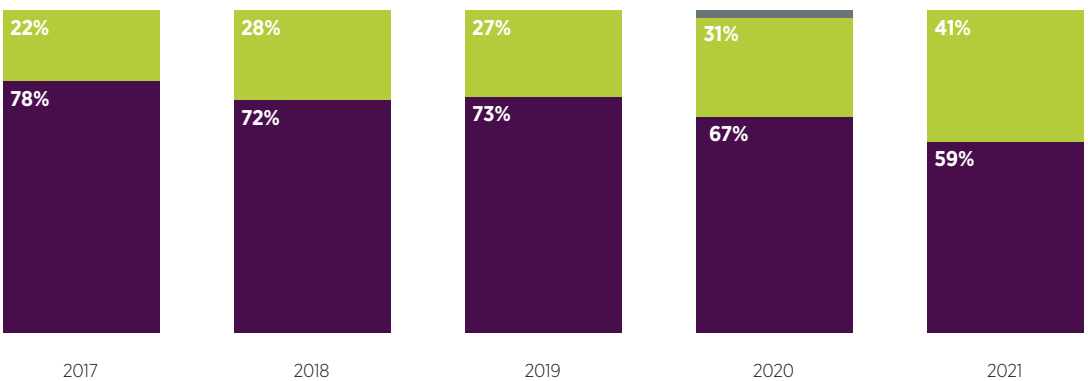
I'd like to thank all those involved in this year's report: the 180 treasurers around the world who answered our questions; the team at The Association of Corporate Treasurers (the ACT) who've put so much into it; the research team at Critical; and Think, who helped us produce the report itself.

Caroline

Caroline Stockmann

Chief Executive, The Association of Corporate Treasurers

Global male/female split of *Business of Treasury* respondents over time



● Male ● Female ● Other/declined to say *The male/female gender split in rest of the world respondents is 55%/45%

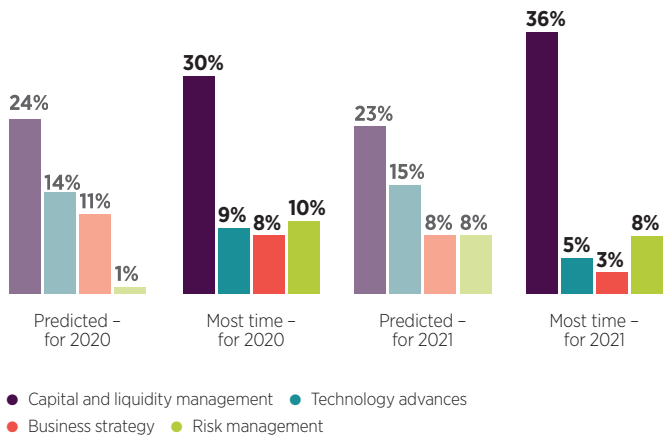
SECTION 1

CHANGING FUNDAMENTALS?

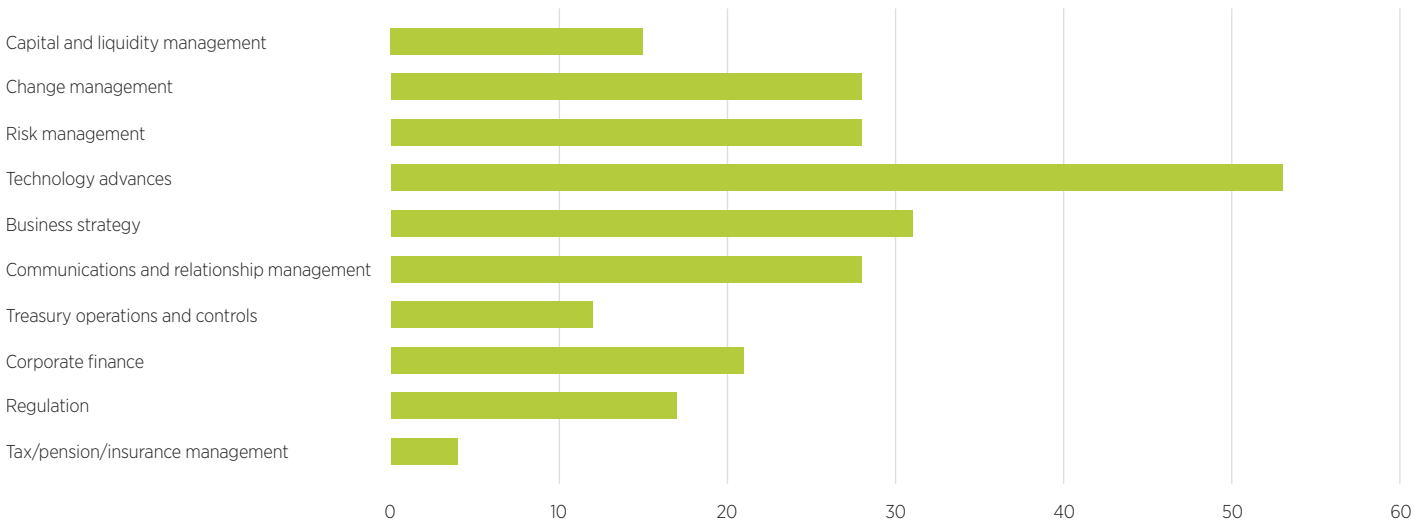
The fundamentals of treasury are not changing significantly in 2021. Indeed, the focus on capital and liquidity management is increasing; last year this was expected to decline. The reasons for this are clear of course. Interestingly, treasurers again anticipate spending less time on capital and liquidity management in the next year – in fact, only 10% of treasurers expect an increased focus on liquidity, and this suggests that the majority of treasurers again feel their current attention level is sufficient/should be reducing. It's the same with business strategy.

Time spent on technology was the other way around: less time was spent here than anticipated and, where time *was* spent, the focus was on working-from-home capability versus large transformational projects.

The areas on which treasurers currently spend – and expect to spend – the most time



Where treasurers expect to spend the most time (net change* from today)



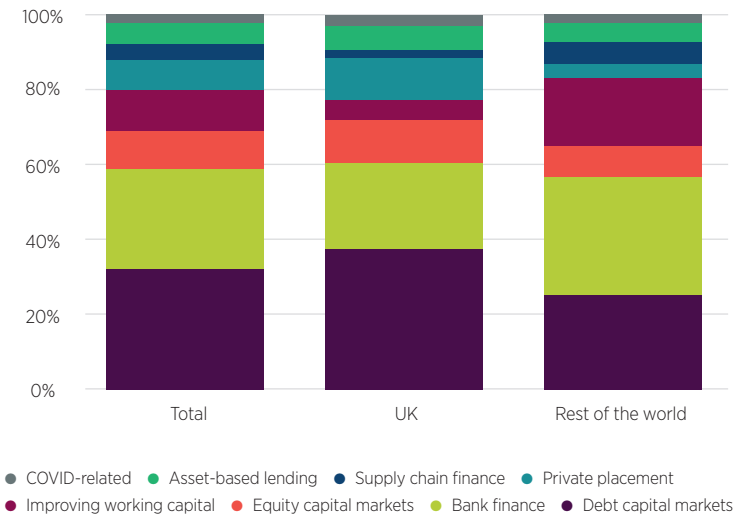
**Net change = net more time – net less time (expected for 12 months' time)*

Operations and controls have been a focus of the past year, but again we see treasurers anticipating that this will change. In future, they'll be more focused on technology advances.

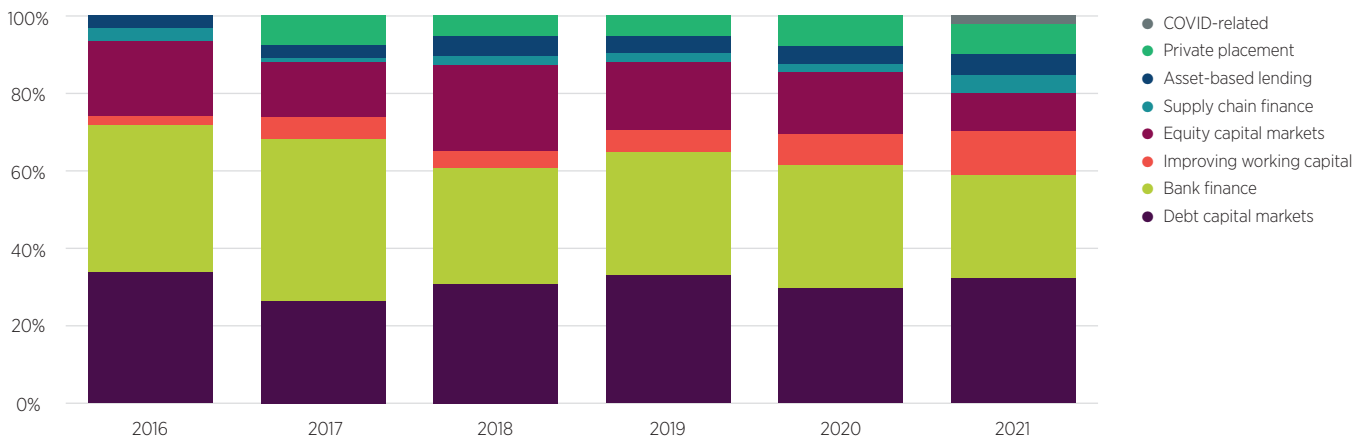
In terms of funding, bank finance is on the decline, while working capital improvements are increasing. We notice some differences regionally with UK treasurers looking more commonly to debt capital markets, and working capital being a greater focus for the rest of the world. For 31% of respondents, supply chain finance has become more prominent during COVID-19.

"There's hugely more focus on cash and liquidity. The pandemic has given us the opportunity to raise our profile and be seen as a safe pair of hands"
TREASURER, UK FTSE

Sources of funding: global breakdown in 2020/21



Sources of funding: global breakdown over time



COMING OUT OF COVID...

"We are stretched too thinly. More resource is required or wellbeing will suffer"
TREASURER, UK NON-FTSE

"We have got more transactions going on. We are waiting for recovery from COVID to increase the size of the team"
TREASURER, APAC

"Business performance has been impacted due to COVID-19; there's company-wide staff reduction"
TREASURER, APAC

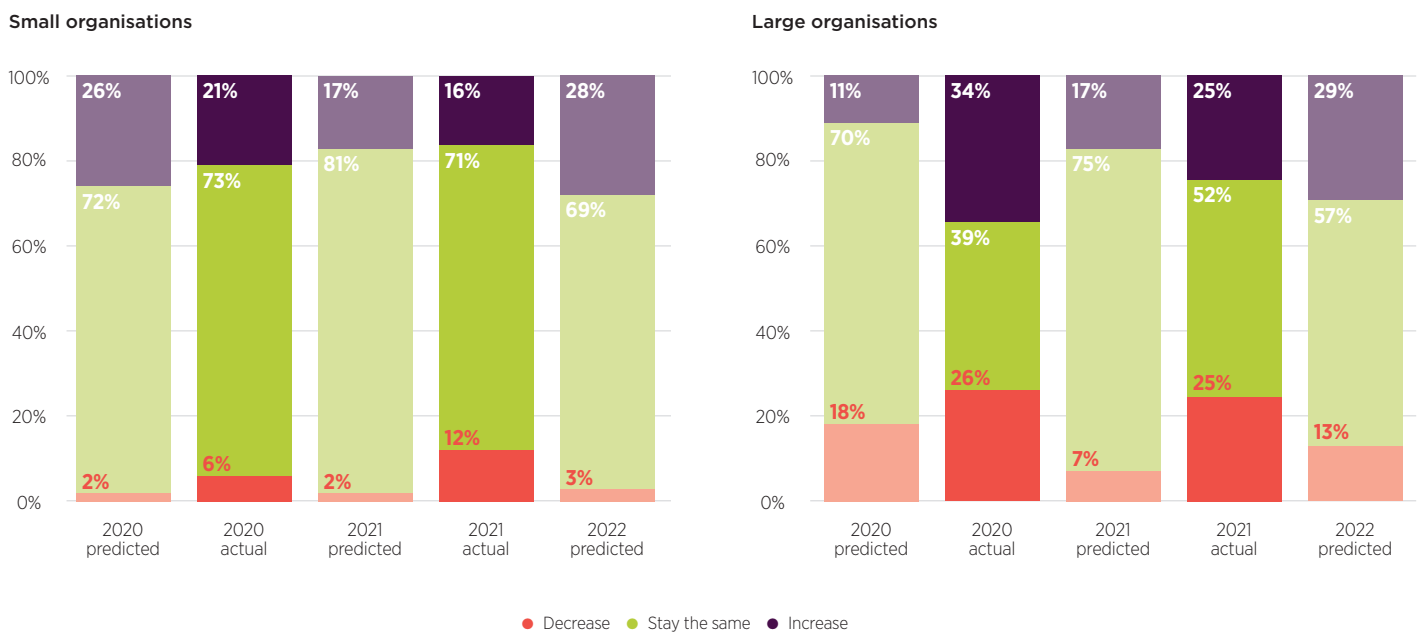
"We're seeing restructuring and people leaving the organisation who are not going to be replaced"
TREASURER, EUROPE

Treasurers expect their team size to increase, which bucks the trend of the past few years. A higher proportion of large organisations, which will naturally be more significantly impacted by technology efficiencies, expect to decrease their team size; 97% of small companies predict the same or an increased team size. As you'll see from the quotes on the left, our community works in a rich diversity of organisations.

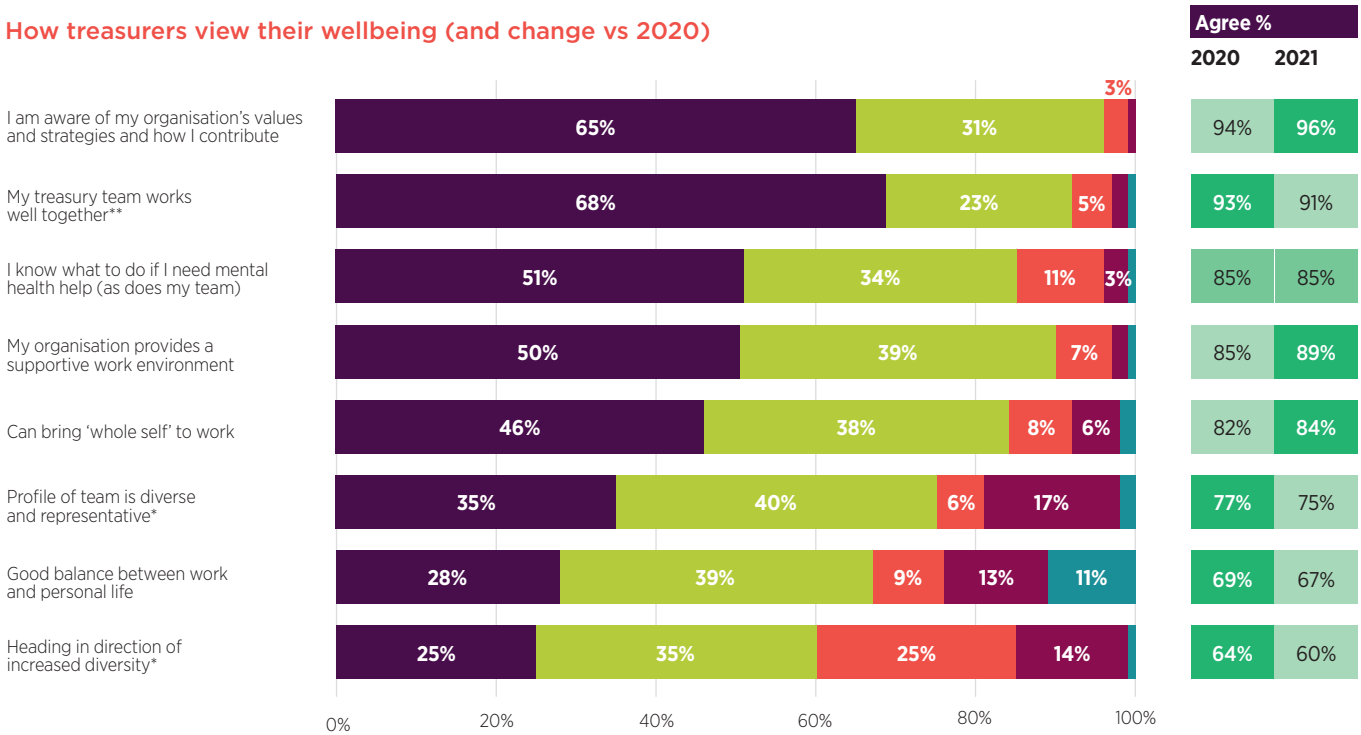
Treasurers seem to enjoy working in diverse teams, and have appreciated the support from their employer over the past year. Treasurers do feel they can bring their whole self to work, but there is a statistically non-significant decline in how well they feel their team works together.

ESG as a funding source has dipped since the prior year, but the level of concern and interest has actually increased.

Team size: what treasurers said would happen vs what did happen



How treasurers view their wellbeing (and change vs 2020)

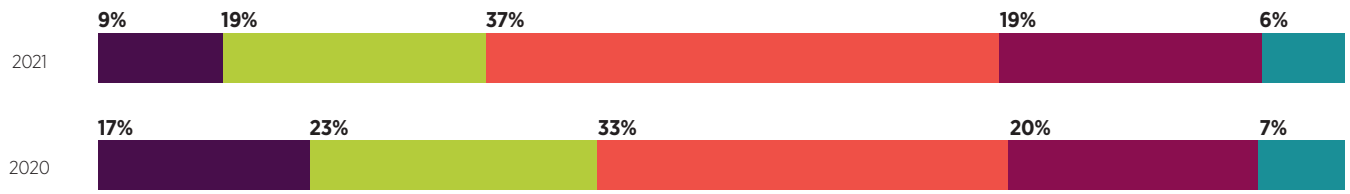


● Agree strongly ● Agree to some extent ● Neither ● Disagree to some extent ● Disagree strongly *Only asked of teams of 4+ **Only asked of teams of 2+

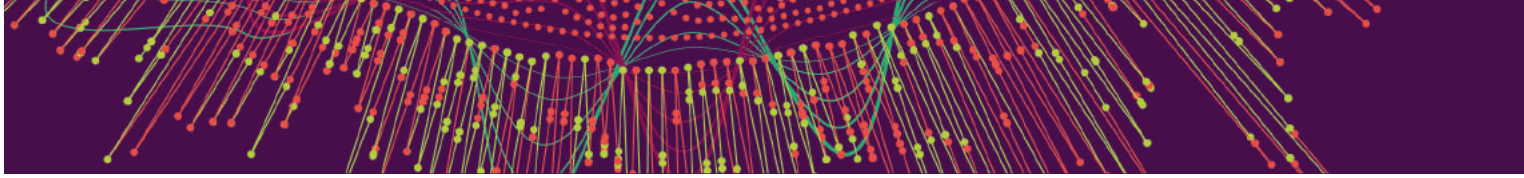
Proportion of funding put forward to the board that is ESG or sustainable

● All ● 75-99% ● 51-75% ● 26-50% ● 1-25% ● None ● Don't know

Level of concern about ESG and sustainability generally



● Not at all concerned ● Slightly concerned ● Moderately concerned ● Very concerned ● Extremely concerned



SECTION 2

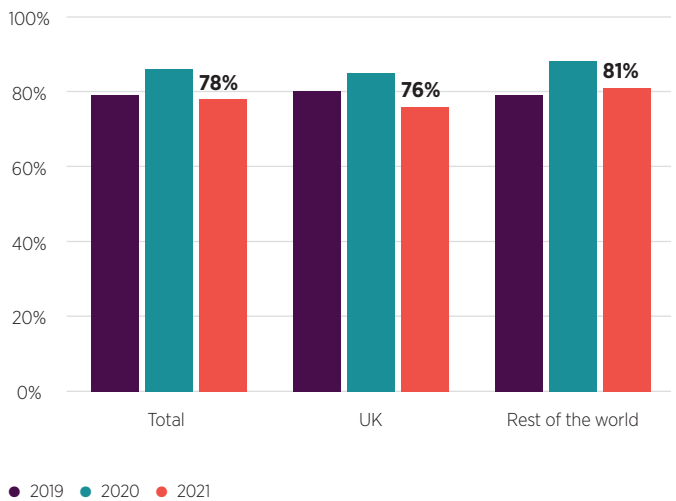
WORK AND LIFE PATTERNS

Treasurers say that technology and automation remain important concerns for their organisation, but that seems to have dipped a little after a small spike in level of concern in 2020. It is noticeable that younger treasurers and those from ethnic minorities are more focused on technology than others. Some 95% of those who have worked in treasury for less than five years, 94% of those under 35 and 91% of treasurers from minority ethnic groups were particularly concerned about automation.

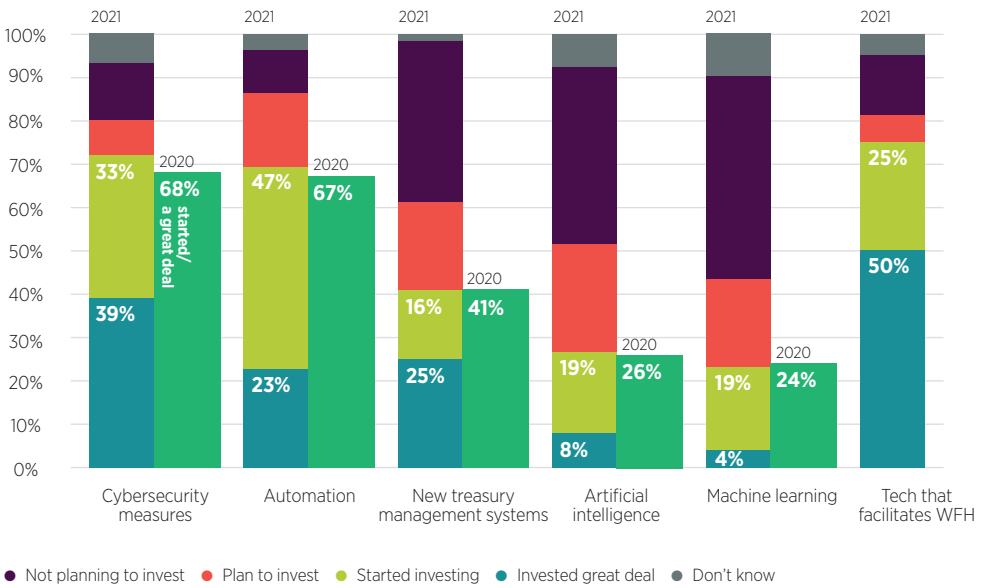
There is actual acceleration in technology investment due to the pandemic, a large part of it being around the transition to working from home.

On the whole, treasurers could carry out their role from home during the pandemic, but 59% of them reported that they found it harder to do so. Often this was about personal and family challenges, particularly among those who have children who needed home-schooling, as opposed to technical and operational matters.

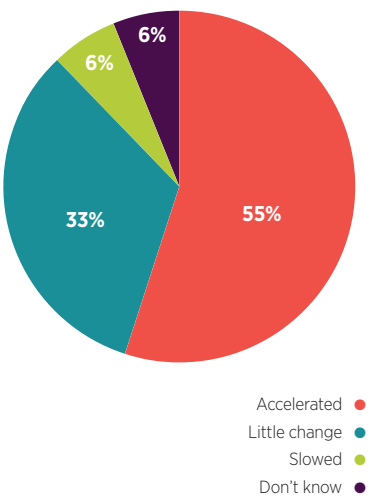
How concerned organisations are about technology, AI and automation (% net)



Where businesses are investing in technology



How the pandemic has affected the rate of technology adoption



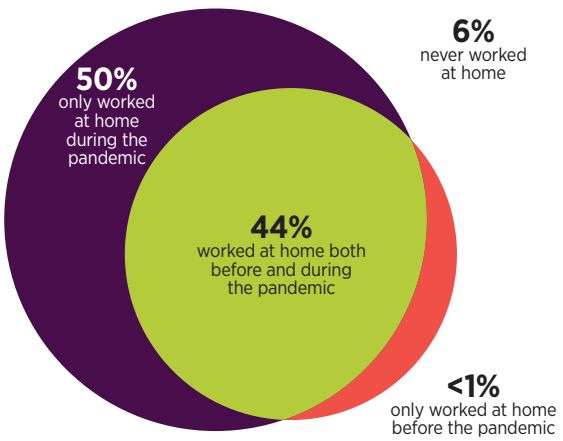
"We have all got connected as a team. Decision-making has definitely become faster and interdepartmental communication has improved"

TREASURER, MIDDLE EAST

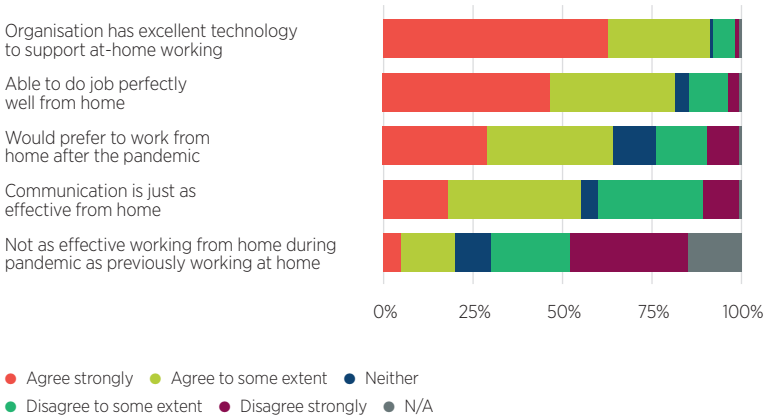
"Being more available can be a bad thing as people don't always respect time zones and working hours. The number of meetings has vastly increased"

TREASURER, UK FTSE

Treasurers working from home



How treasurers found working from home



We see a number of paradoxes and polarised views coming through over the past year:

- treasurers miss physical interactions, yet the more formalised virtual meetings do keep to time and allow personal flexibility
- commuting time can be used for something else/better, yet the line between work and home is blurred
- some people think that we will be going back to the way things were before (24% in the rest of the world, 19% in the UK), whereas others are facing a 'brave new world'.

When we look at moving to working from home/greater flexibility, the polarity of views becomes even more stark: while only 37% of treasurers from the rest of the world expect this to happen, 58% of UK treasurers expect it to. Many treasurers say they are effective working from home. From the treasurers' comments, the consensus seems to be that working in the physical office is likely to range from 1-3 days a week in the future.

One of the main challenges throughout the crisis period has been getting the banks up to speed, and the requirement (in places) for wet signatures has been frustrating to say the least. Again, views were polarised – this time between treasurers and their service providers: whereas treasurers are embracing a paperless world, banks sometimes struggle to accept the art of the possible.

What will change post-pandemic

48%
expect to work from home more or have greater flexibility

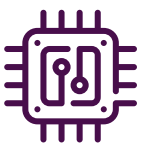
58%
UK

37%
Rest of the world

20%
expect to change the way that they communicate, or use more video chats

21%
UK

18%
Rest of the world



13%
expect more technology and automation

6%
UK

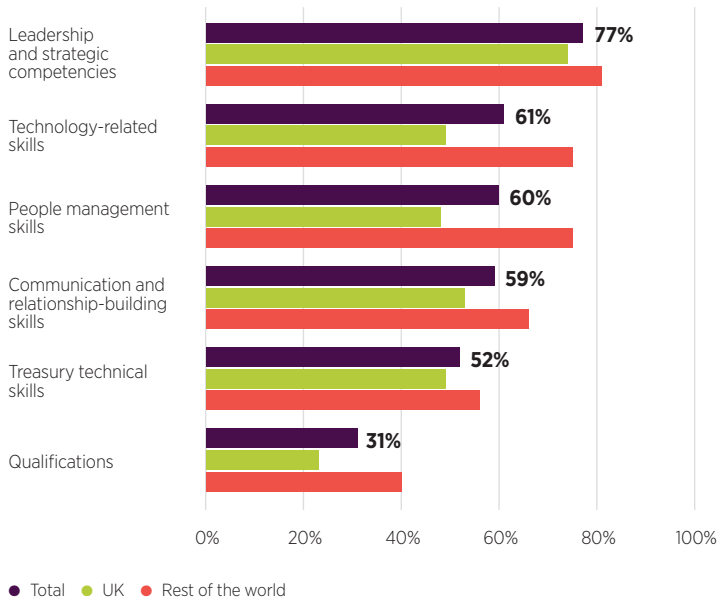
21%
Rest of the world

SECTION 3

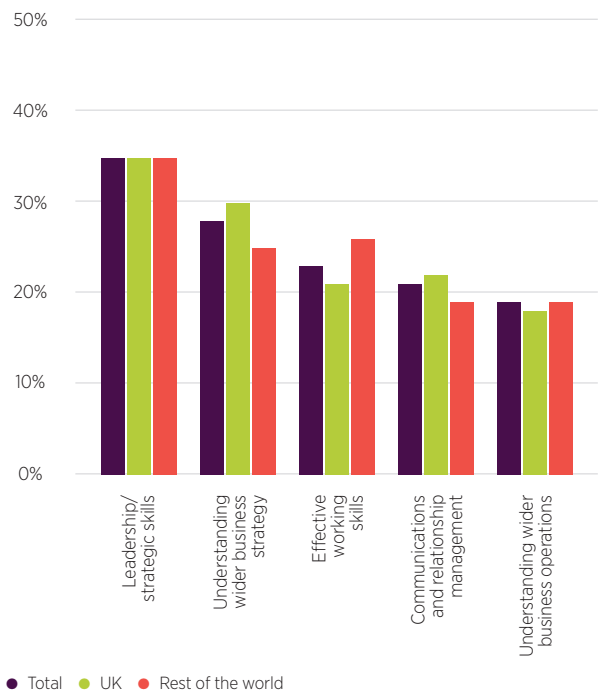
THE BIG PICTURE

The need to develop leadership and strategic skills still remains the biggest barrier to career advancement for treasurers, and the need for these skills increases as treasurers progress through their careers. We've focused on this area at the ACT in recent years, through our educational offerings as well as other opportunities for learning, such as (virtual) conferences and written content. Once you have the fundamental technical treasury skills under your belt, it's leadership and strategic skills that really differentiate you as an individual. It's good that treasurers still have this at the top of their learning priorities, although it has fallen slightly in importance. Technology skills have moved up as a learning priority.

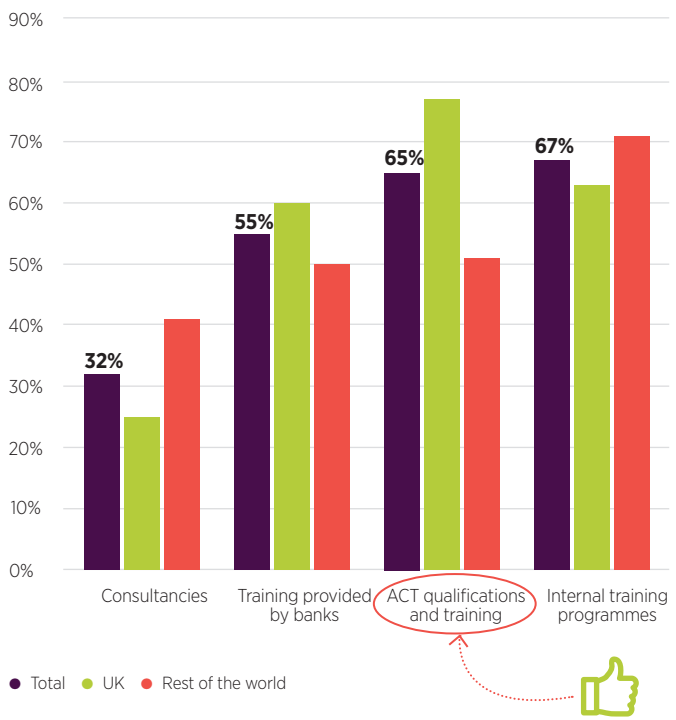
Where treasurers feel they need to develop themselves



The biggest barriers to career progression (top five)



Where treasurers look for support in developing their skills



"COVID prompted a lot of tactical and business strategy discussions. Now the situation is stabilising, more time is spent on medium-term change and risk management"
TREASURER, EUROPE

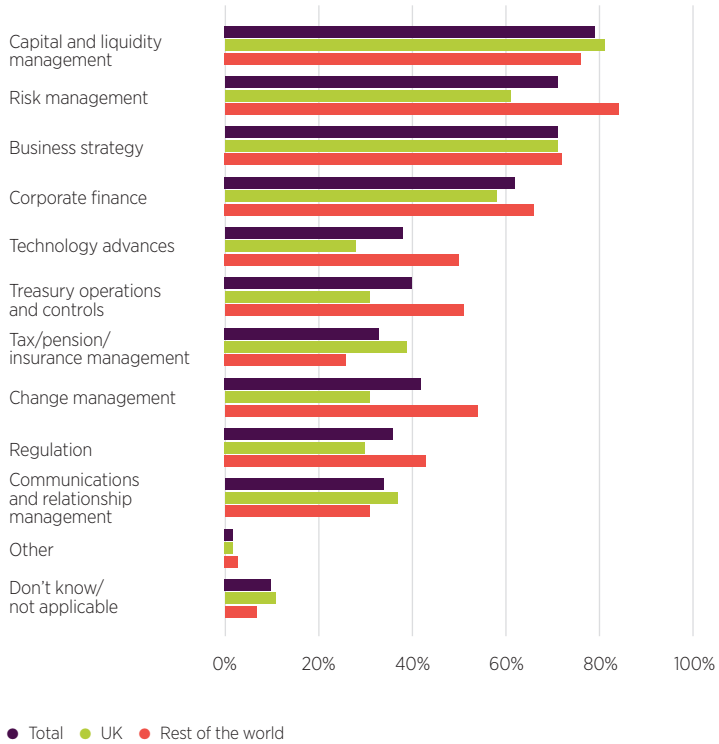
This year's survey reveals an important divergence when it comes to strategy. While boards are engaging with treasurers on a strategic level – they're looking to treasurers for input on capital and liquidity management, followed by risk management and business strategy – many treasurers have less time to spend on strategy.

Business strategy has dipped, therefore, in terms of time spent, over the past year. This bucks an upward trend.

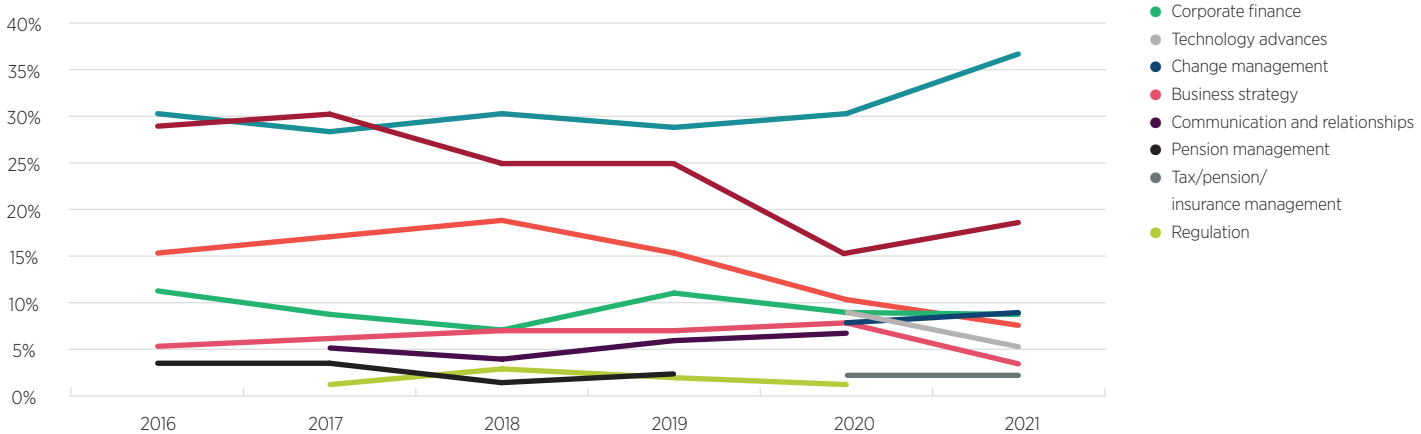
Casting our eyes forward, treasurers will have to make up for lost time to retain their place at the strategic decision-making table.

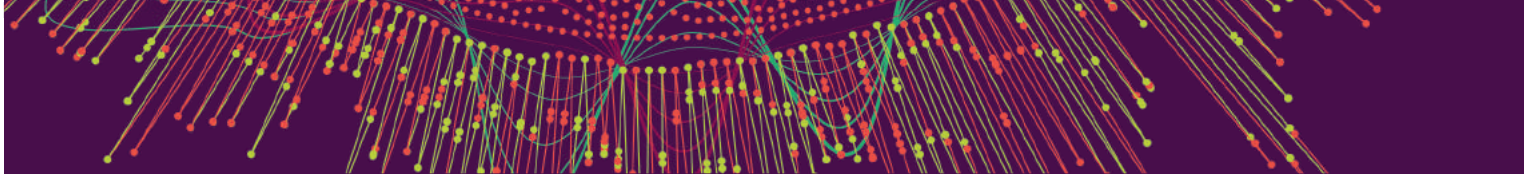
That said, the profile treasurers have received over the past year can only help. Indeed, despite the limited time available, 39% of treasurers feel that they have been working more closely with their board; 58% however say they've experienced no change. We also see that the value of the treasurer as a strategic business partner to the rest of the business continues to rise – it's now at an all-time high of 92%.

Topics on which the board has expressed an interest (past six months)

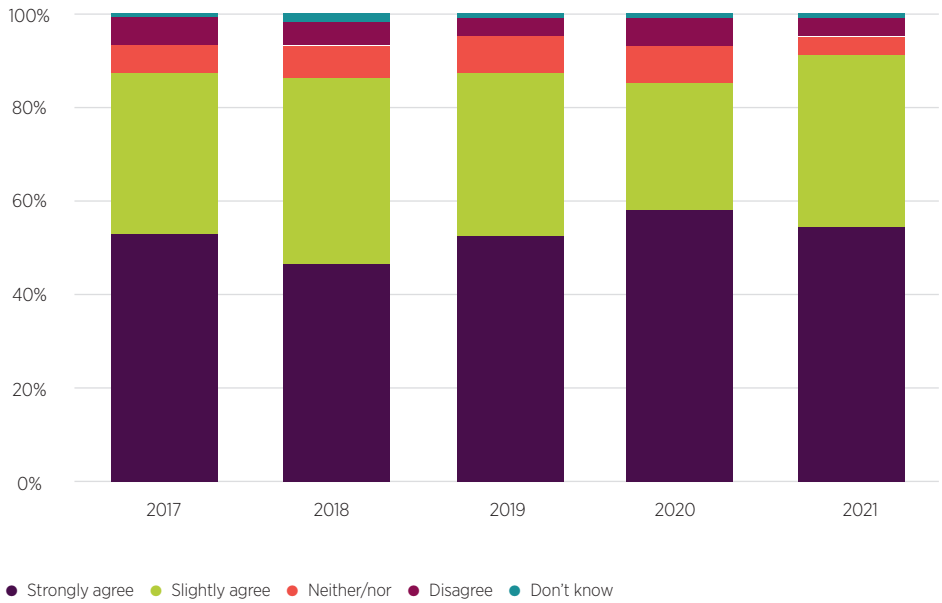


Where treasurers are spending the most time (over time)





Whether treasury is seen as a business partner



39%
are working closer with the board

58%
have seen no change

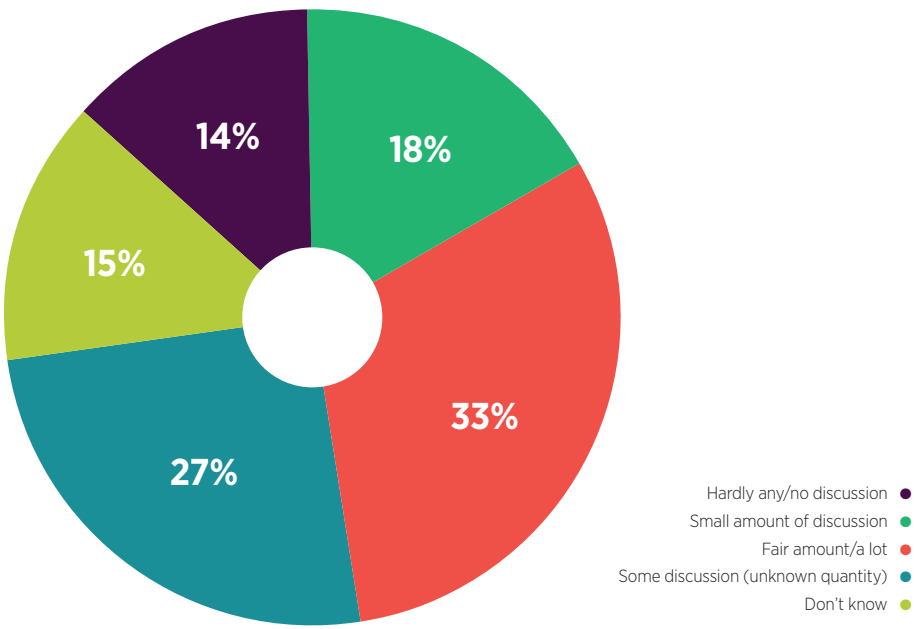
1%
are more distant from the board

...as a result of COVID-19

The level of board discussion around COVID varies, depending on the organisation. It is quite surprising, however, to see the number of treasurers who aren't even aware of discussions.

"Liquidity management was prominent at the start of COVID-19, but has settled down"
TREASURER, UK NON-FTSE

The board's topics of interest: % that was shaped by COVID



SECTION 4

BUILDING TRUST, EMPOWERING TEAMS

This year's survey threw up an intriguing, unprompted finding around trust: a significant number of treasurers said that they felt more trusted and/or they had learned to trust their team better. Relationships have been enhanced through COVID, it seems, but people are missing being together.

Again we're seeing polarised views (perhaps even within individuals!): it's not as easy to turn around and chat with someone or meet at the water cooler, but treasurers like to be efficient and appreciate virtual meetings getting to the point quicker, so they achieve more in a shorter period of time; and while treasurers feel constrained by lockdown and physical separation from others, they find they now have more flexibility in their working arrangements and are really enjoying their independence as well as giving it to others. People feel more able to empower others, and they also possess a greater sense of self-accountability.

Many treasurers have found it hard to get energy when they've sat in front of a screen all day long. Those who have actively built in flexibility to their day by, for instance, choosing to take a break or a walk, are finding they are enjoying the benefits, with enhanced energy.

Many treasurers have found they have actually communicated more as a team over the past year, and are considering how they can carry this benefit forward into the 'next normal'.

HOW COVID HELPED TREASURERS AND TEAMS BUILD TRUST

"It's forced us to be more trusting of people and their abilities to work independently. I myself have delegated far more to the team and they have stepped up to their new responsibilities"

TREASURER, UK NON-FTSE

"This pandemic has forced CFOs and CEOs to trust their treasury department, that they can manage the risk without being sat 10 yards away from them"

TREASURER, UK FTSE

"It's increased my self-accountability"

TREASURER, UK NON-FTSE

HOW COVID CHANGED OUR WELLBEING AND SOCIAL INTERACTIONS

"Not only do I have more available time due to lack of commute, I am also more physically comfortable (no formal dressing!). Overall I am able to actually work for longer and with more energy"

TREASURER, UK NON-FTSE

"Because I don't have to commute, I have more time to be proactive. I can afford to go out for a walk at lunchtime and I live a more healthy lifestyle"

TREASURER, EUROPE

"The biggest change for me is missing the energy of having everybody together in the same room and be able to overhear each other and have a hot discussion"

TREASURER, UK FTSE

SECTION 5

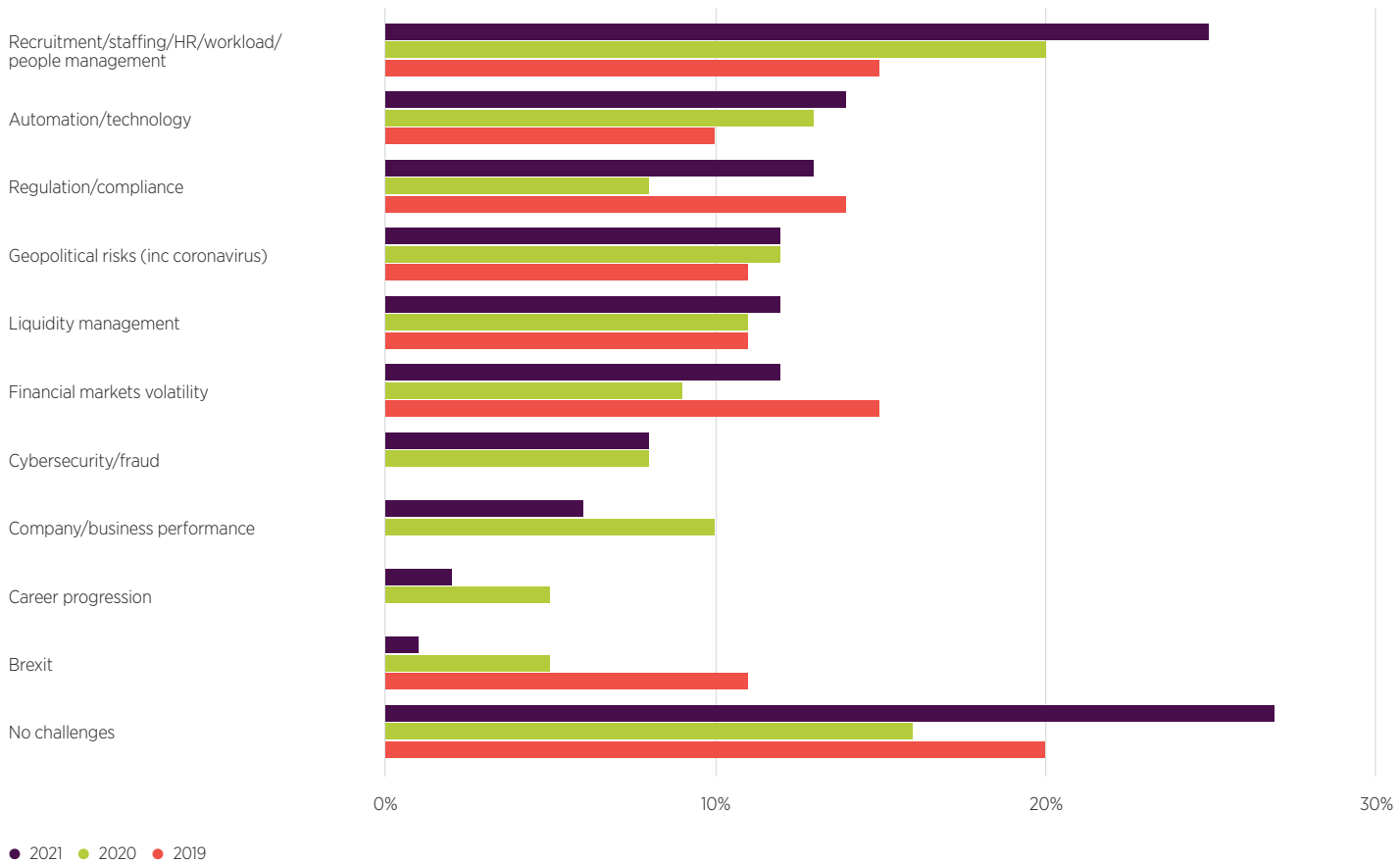
FURTHER CHALLENGES AND CONCERNS

Fewer treasurers reported professional and business challenges this year. Staffing, people management and automation remain the biggest ones, continuing the trend from 2020.

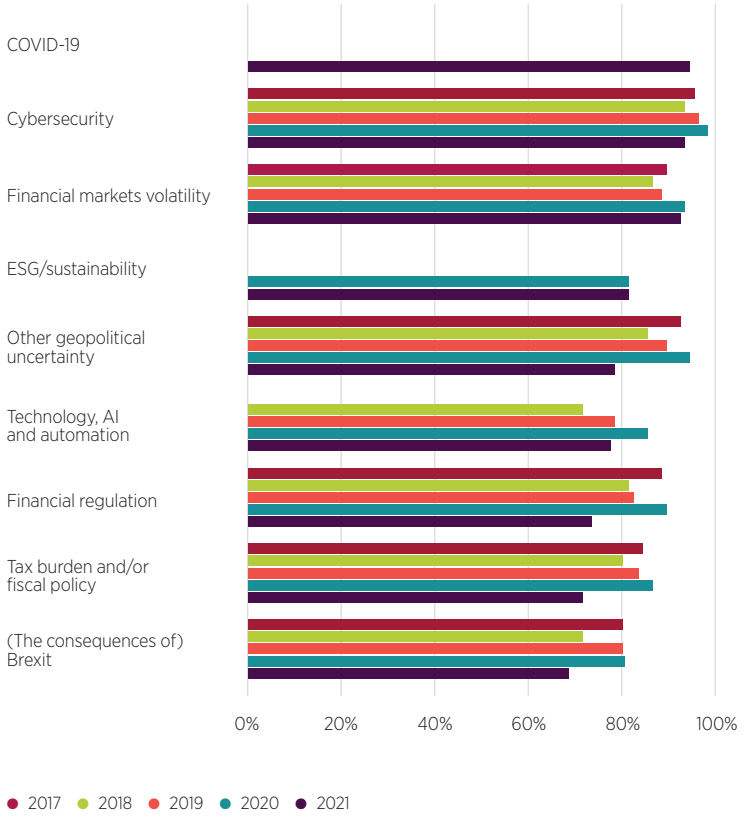
COVID-19 became the primary external concern for treasurers in 2021 of course; internally, mental health came to the fore. Reassuringly, treasurers have a little more confidence in their leadership's ability to deal with new challenges this year. However, we're seeing more concern about learning and development as this either gets put on the back-burner or just hasn't been possible. Leadership abilities and learning were of higher concern outside the UK.

Stigmas around mental health have reduced, with 60% of treasurers feeling that the pandemic has influenced this positively. But there is still a way to go to remove stigmas entirely. Some treasurers feel that enough isn't being done, and that leadership is sometimes just paying lip service to the matter.

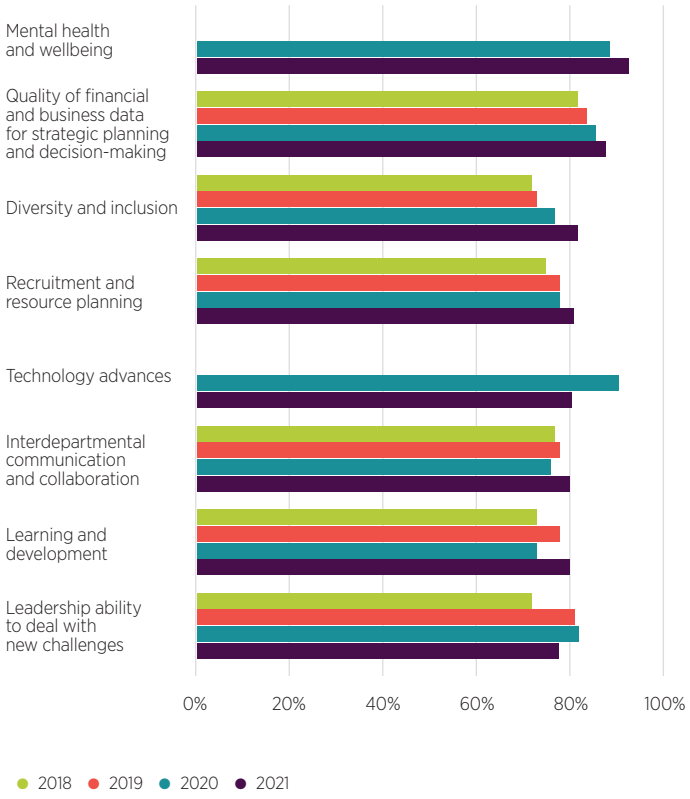
The professional and business challenges keeping treasurers awake at night



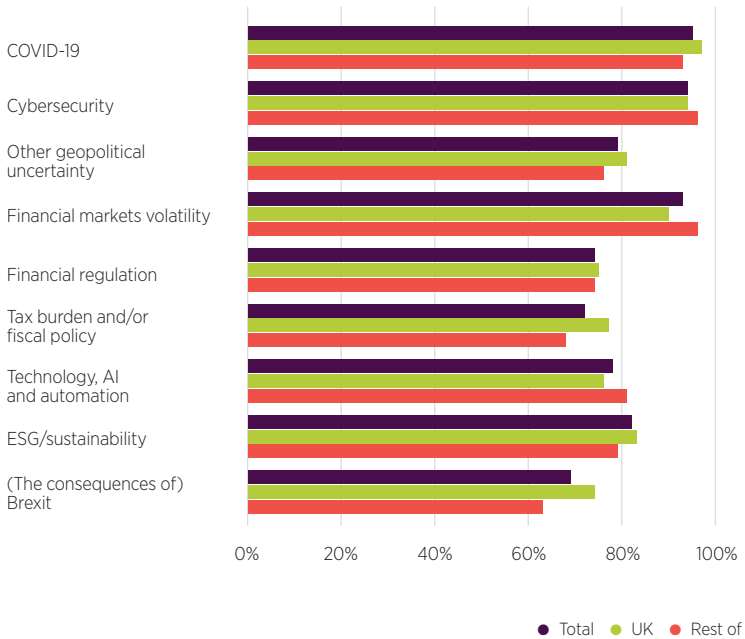
Treasurers' external concerns (over time)

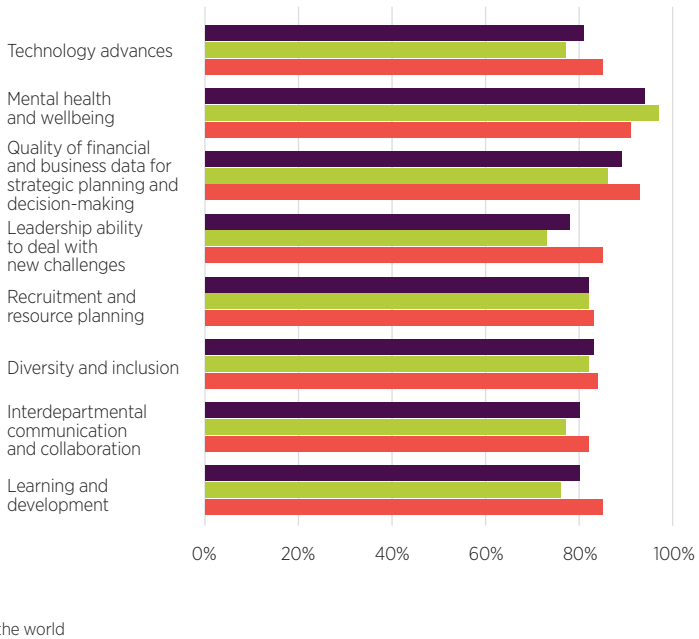


Treasurers' internal concerns (over time)



Treasurers' external and internal concerns (by location)





Total UK Rest of the world

SURVEY AND METHODOLOGY

For the past nine years, the ACT's *Business of Treasury* report has shed light on the world of treasury. This 2021 survey was conducted during the COVID-19 pandemic and necessitated some changes to our methodology. The survey, conducted by Critical Research, took place between 17 February and 19 March 2021 and, for the first time, a mixed method survey was conducted with ACT members, using both online and telephone methodologies.

A total of 180 individual treasurers from across the globe completed the survey. As we saw in the introduction, the proportion of female treasurers surveyed is the highest it's been since the tracker began. Among respondents, 45% describe themselves as leading the treasury function, 50% hold another treasury role and the rest hold other roles such as CFO. On average, respondent treasurers have spent 5.3 years in their current role. The average turnover of respondents' organisations was £4.8bn.

ABOUT THE ACT

The ACT is committed to helping treasurers at every stage of their career with both personal and professional development. We are committed to helping treasurers navigate a world of shifting priorities, and to being a support system for like-minded treasury professionals around the world.

As the only chartered professional body for treasury, we believe that treasury continues to be the compass needed to successfully steer organisations through future, as yet uncharted, waters.

A total of 180 individual treasurers from across the globe completed the survey, with the proportion of female treasurers surveyed the highest it's been

OUR FOCUS THIS ISSUE...

RESTART AND RECOVERY

With renewal in the air, how will treasurers face up to recovery?

IKON IMAGES

ROAD TO RECOVERY

Treasurers have moved on from the liquidity focus of the early days of the pandemic to broader funding issues. Rebecca Brace reports

For all the disruption that the pandemic has brought to companies and economies over the past year, it's clear that the nature of the current crisis differs considerably from the financial crisis of 2008/9. As BNP Paribas chairman of the board of directors Jean Lemierre noted at the virtual Sibos 2020 conference: "This is not a crisis in banking, or a financial crisis. It has an economic impact, but so far the financial sector has done its job."

Nevertheless, as the pandemic escalated and stay-at-home orders stacked up in March 2020, the spectre of the 2008 financial crisis was never far from treasurers' thoughts. As the COVID-19 situation gained momentum, many companies took steps to shore up liquidity by tapping into their revolving credit facilities (RCFs), securing new funding lines and issuing debt.

For treasurers, the major focus was on ensuring their companies had enough liquidity available to weather challenging markets. But shoring up liquidity can in itself result in additional challenges for organisations, particularly in a low- or zero-interest-rate environment.

"At the beginning of the crisis, some corporates were tapping into their committed credit facilities – they were drawing down just in case, because they were anticipating a possible liquidity crisis," recalls François Masquelier, CEO of consulting firm Simply Treasury. "The problem with this approach is that you can't get a return on that cash, particularly in euros, because of the negative interest rates. Between spreads and commitment fees or utilisation fees, you end up paying twice."

IKON IMAGES

As the COVID-19 situation gained momentum, many companies took steps to shore up liquidity

33%
think they will make more acquisitions, up from **25% last year**

As it happened, government interventions did much to calm the markets as the crisis continued. "I think the markets were quite jittery around this time last year, when it wasn't clear how things were going to pan out with COVID-19," says Alison Stevens, group treasurer at Thames Water. "But the announcement of government support really did change the tone – I think things could have looked quite different, both in the UK and worldwide, if it hadn't been for some of the government lending schemes. Fortunately, there was plenty of lending appetite for Thames Water, so we didn't need to use any of the funding/liquidity schemes ourselves."

ONE YEAR ON

A year down the line, while the picture has changed considerably, challenges remain – particularly for companies that have faced significant pressures during the crisis.

"What I'm hearing from banks is that the bank market is certainly not back to normal, but it's facilitating new agreements that are being put in place – albeit, as I understand it, on a shorter tenor basis," says Hailey Laverty, group treasurer at InterContinental Hotels Group (IHG).

Likewise, while pricing has improved, Laverty says it is not yet back to pre-COVID-19 levels – "especially for any credits that actually have been impacted by COVID-19". On the bond side, meanwhile, she says there seem to be "some reasonable and significant deals getting done at a good rate – and our pricing, if we wanted to go to market, is entirely reasonable and in line with something we would look at if the need arose".

"In the near term, the market seems to be in quite good shape," agrees Stevens. "Obviously, governments have accumulated a lot of debt during the past year, which could have more of a knock-on effect to the economy in the medium term. But for now, we have no immediate concerns."

As Masquelier emphasises, the extent to which companies are able to access funding still depends on how those companies have been affected by the pandemic: "There are companies that are benefitting from the crisis and have been able to develop alternative services – so for them, it is not a problem to get funding," he says. "There are companies that have not really changed, but are still OK. And there

> "Companies may be forced to give more pledges or guarantees that they did not have to give before"

FUNDING DURING A PANDEMIC

ALISON STEVENS
GROUP TREASURER, THAMES WATER

"Thames Water is a utility with a whole-business securitisation debt-funding structure. Our debt is organised in three categories:

- OpCo Class A debt, which is securitised against the assets in our OpCo.
- OpCo Class B debt, which ranks behind the Class A debt, but is also securitised against the assets in our OpCo.
- HoldCo debt that is structurally subordinated to the OpCo debt, but also benefits from security.

"During the COVID-19 period, utilities have been seen as being at the safer end of the spectrum – so that's helped us raise quite a bit of funding over the past year, both in the capital markets and through some bank lending.

"For example, we did a number of privately placed Class A medium-term notes in sterling, euros and dollars, including green private placements in dollars. We have also done a Class B bilateral facility with one of our relationship banks, which is over and above our normal revolving credit facility (RCF). We've got an RCF with our relationship bank group, which is primarily a Class A revolver, but it has a tranche of Class B, and we managed to extend the maturity of that by one year.

"In addition, we've done some HoldCo private placements – and we did a public bond issuance at HoldCo for £250m in November. That was well-timed, in that it was the day that a vaccine was announced, so there was some positive momentum in the markets."

ROHAN GUNATILLAKE
GROUP TREASURER, GOLDING HOMES

"We have a roughly £500m debt portfolio, of which about £200m is undrawn. Our debt is predominantly bank debt, and we also have capital market debt that is accessed through an aggregator. In terms of duration, our debt ranges from five-year RCFs up to 30-year fixed-rate debt.

"We have raised quite a bit of finance in the past 18 to 24 months, since I joined Golding Homes in 2019. We had an updated business plan to deliver an ambitious development programme and Brexit was looming, so people weren't sure which way the funding market would go. Within eight months in 2019 we entered into two new relationships raising £200m in new debt and expanded some of the facilities with our existing lenders.

are companies that have been affected by the crisis and are facing major challenges."

In particular, he says that while there do not appear to be constraints where bank financing is concerned, "companies may be forced to give more pledges or guarantees that they did not have to give before the crisis, and may be forced to accept to pay slightly higher spreads".

TRENDS AND DEVELOPMENTS

In Europe, Masquelier notes that the EU is continuing to focus on the capital markets union (CMU) – an initiative that aims to drive more integrated capital markets in the EU, deepen financial markets and make funding more accessible. "One of the ideas is to make sure that we promote alternatives to bank financing," he says. "I do believe that the portion of capital markets in the

IKON IMAGES

FISCAL STIMULUS AND RECOVERY SUPPORT

HOW THE PANDEMIC CHANGED MINDS

In contrast to responses to previous crises, governments have put in place far-reaching funding packages and fiscal stimulus.

This year, the UK government has put in place £59bn in additional stimulus. President Biden's milestone $1.9 trillion stimulus, also known as the American Rescue Plan, was passed in March.

In the EU, a Next Generation EU post-pandemic recovery fund aims to put billions in debt, collectively backed by EU member governments, into the hands of businesses in poorer parts of the EU – an approach that prior to the pandemic was roundly rejected by richer members. The fund, which was instigated mid-2020 and came into being this year, is worth up to €750bn. The Organisation for Economic Co-operation and Development estimates US fiscal stimulus will amount to 15% of GDP, compared to 7% in the euro area and 4% in Japan.

61%

say ESG is a factor when formulating debt funding strategy, up from **17% in 2018**

At 35%, sustainable loans are the most likely source of ESG financing, followed by green bonds (17%) and sustainable bonds (15%)

Source: HSF/ACT 2021 *Corporate Debt and Treasury Report*

"Since then, we have put in place another standby liquidity agreement. We're a founding shareholder of MORhomes, an aggregator owned by more than 60 housing associations, and which raises finance on the bond markets and lends it to those housing associations. We haven't borrowed through them as yet, but we have a standby liquidity agreement – so if I want to go to the market tomorrow and borrow £50m, I can do that fairly quickly. This is a valuable vehicle to access borrowing from bond markets at a faster timescale on flexible terms with the option to draw down funds up to 12 months earlier than the security is charged.

"Looking to the next 12 to 18 months, we have got a fully funded business plan, so we are in a comfortable position and there is no immediate need for us to borrow. Having said that, we will always keep an eye on the market and seize the opportunities to ensure that we have sufficient liquidity in place while minimising carry costs – it's always important to think of the future."

HAILEY LAVERTY
GROUP TREASURER, INTERCONTINENTAL HOTELS GROUP

"Our capital structure is a mix of bank debt, mainly consisting of our RCF, together with euro and sterling bonds.

"We have carried out plenty of financing activity during the crisis. In terms of our RCF, we extended the facility by 18 months to September 2023 to remove any medium-term refinancing risk. We also had to agree a series of covenant waivers and amendments, which we have done through to the end of December 2022.

"We also secured funding via the COVID-19 Corporate Financing Facility, which we repaid in March this year. And in October we carried out a sterling and euro bond issuance, in conjunction with a tender offer on one of the sterling bonds that was maturing in 2022.

"Essentially, we've done everything we need to do to get us through this period, so we won't need to do any financing until next year, when we will refinance our RCF. Other than that, we don't have any immediate bond maturities until November 2022."

IKON IMAGES

CAPITAL MARKETS UNION BROADER FUNDING

Since its very beginning, the EU has promoted the idea of a single market for capital, but progress on a Capital Markets Union (CMU) has been slow.

The pandemic has given new impetus to the project, however, and the clamour around sustainability and ESG is increasingly embedded within debate around its overall direction.

The COVID-19 crisis has made implementation of CMU even more important, proponents argue. Capital markets have an acknowledged role to play to fund recovery, particularly when it comes to recapitalising European companies, including SMEs.

Towards the end of 2020, the European Commission released a new CMU Action Plan with sustainable funding a central theme.

And the president of the European Central Bank, Christine Lagarde, recently highlighted the synergies.

"The shift to net zero emissions, together with an adequate digital backbone, will require major investments across Europe in technology, infrastructure and networks... If green finance continues to emerge to fund this transition, the consequences for Europe's financial system could be sweeping," Lagarde said in a conference in May.

"In fact, I believe that the green transition offers us a unique opportunity to build a truly European capital market that transcends national borders – or what I would call green capital markets union," she continued.

The EU Sustainable Finance Disclosure Regulation is accelerating discussions around ESG principles for companies of a broader range. The regulation, which became effective in March this year, applies principally to asset managers and other financial markets participants, including the largest listed corporates.

The European Commission subsequently published proposals for a Corporate Sustainability Reporting Directive that would cover still more companies, including publicly listed SMEs.

> "The crisis has certainly accelerated the digitalisation of the treasury function"

funding of European companies should be higher – and the CMU project aims to provide better and smoother access to the markets."

Meanwhile, the focus on green funding continues to intensify. "A lot of companies will need to consider green bonds or green financing," says Masquelier, noting the importance of the EU's Sustainable Finance Disclosure Regulation in driving standardisation. He predicts that companies will increasingly focus on ESG compliance as the investor appetite for ESG-compliant assets continues to grow.

Rohan Gunatillake, group treasurer of Golding Homes, agrees that ESG funding is becoming a higher priority. Citing the firm's standby liquidity agreement with MORhomes – a borrowing vehicle for housing associations – he notes that the next bond issued by the vehicle will be a 30-year sustainable bond: "ESG funding is becoming a hot topic in this sector."

MOVING FORWARD

Beyond access to financial markets and the availability of liquidity, treasurers will continue to be challenged in other ways as the pandemic evolves in the coming months. Much as treasurers have adapted effectively to working-from-home conditions during the past year, new challenges will arise as companies navigate a return to the office, as well as continuing to work on strategic projects.

Laverty, for example, notes that IHG is currently in the process of implementing a new treasury management system (TMS) and payments platform – a project that was already in the pipeline before the crisis began. "It was just as we were finalising the scope and contracts in March 2020 that COVID-19 hit," she recalls. "As a sector that has been heavily impacted by COVID-19, a lot of capital projects did get postponed at the beginning in order to save cash, but for the TMS project we still got the approval to go ahead."

In part, says Laverty, this was because the team knew the new system would be needed even more during the crisis, "in terms of getting that granularity on cash-flow forecasting that we haven't had in the past". The team did, however, split the project into two parts in order to spread both the costs of the project and the resource requirements while the team was adapting to the working-from-home environment.

As Masquelier observes, "Alongside the sharp focus on liquidity, the crisis has certainly accelerated the digitalisation of the treasury function and prompted treasurers to revisit the ways they work – and it's also brought an opportunity for treasurers to position themselves closer to the C-level."

Rebecca Brace is a freelance journalist specialising in treasury and banking

HOW TO RECOVER

Looking after suppliers, reducing debt, optimising forecasts, managing the return to the office and the importance of judgement. Here are five perspectives on managing the upturn

FROM SURVIVE TO THRIVE

The global pandemic has certainly provided the business world with challenges, but as professional risk managers, we treasurers know that challenges have to be faced and surmounted; as the US Marines put it – improvise, adapt and overcome.

When difficulties hit, the first reaction is to go into cash-preservation mode, which is quite right, but we have to be clever about it. There is no point in sitting on cash and starving our supply chains of liquidity. To do so can lead to a shrinking supplier base with lower productive capacity, supply constraints, unreliability and increased pricing that we may struggle to pass on.

For example, in industries like construction and logistics, delaying payments to sub-contractors can very quickly risk their insolvency. Furthermore, if key player industries act as a blockage on the cash-flow cycle, that can then cause a loss of confidence by the banks and finance providers, leading to a downward spiral.

Instead, this is the time to support the credit chain using tools such as invoice discounting and supply chain finance, but remembering that such tools only work where credit providers can feel confident. Therefore, it becomes ever more important to provide timely and reliable financial information to banks, credit insurers and credit reference agencies.

PREPARING FOR THE UPTURN

Also vital can be the use of non-cash tools such as letters of credit, bonding or other forms of guarantee that suppliers can then discount or use as security. As such, credit terms can potentially be extended to protect cash. Rather than being seen as a cost, it can be considered an investment.

This preservation of the supply chain is not an act of charity or subsidising the unviable, but is critical in being prepared for the upturn, which is expected to follow the pandemic. Those companies that have the capacity to meet demand will be the ones to benefit; those that have battened down the hatches without looking ahead may struggle.

An example of the longer-term thinking is of a global apparel manufacturer which, seeing shops closed across Europe, realised not only was its inventory stuck, but if retailers had to pay them, they risked those retailers going out of business. Instead, they bought back the stock, repackaged and resold online. They protected their customers so that there were outlets when the world reopened; they protected their cash flow by using alternative distribution channels and retained market presence by having availability.

Similarly, it may be vital to reduce costs across the business, but a 'slash and burn' approach may also harm productive

It may be vital to reduce costs across the business

capacity. You may need to do everything to reduce weight in the rowing boat if it's sinking, but chucking the oars overboard may not, in hindsight, have been the best decision. For example, if a logistics business saw reducing its warehousing capacity as a way to reduce costs in March 2020, it may have regretted that decision as internet volumes – which require large amounts of warehousing capacity – soared during the year, and as the world opens up, warehousing space is now at a premium.

The message is: preserve cash to meet an objective, not just for the sake of it in itself.

Gary Slawther is interim group treasurer at GreenWhiteStar Acquisitions

REBUILDING BALANCE SHEETS POST-PANDEMIC

Corporate balance sheets the world over are under severe pressure as businesses emerge from the crisis into an uncertain commercial landscape. Wherever boards and treasurers look, there is urgent repair work to be done. A deluge of government support is in danger of turning large swathes of even developed economies into financial zombies.

The pandemic has been seismic in many sectors, but the focus on burgeoning corporate debt facilitated by the many government support schemes misses a key differentiator to previous economic shocks. Of course, debts are now too high, but this time the picture for asset values is even more worrying.

Much of the debt overhang is on relatively soft terms and might be manageable as profitability recovers, but how relaxed will lenders be about the damage to loan covenants caused by collapsing asset values?

Intangible assets are particularly susceptible in a financial crisis, so the revelation that the goodwill in the latest financial statements of 38% of the S&P 500 and 41% of the STOXX Europe 600 exceeded their retained reserves was a shocking one. Tangible asset values are also at risk where they are linked to tumbling income streams, such as with commercial property in sectors like retail and hospitality.

The most effective way to repair a damaged balance sheet and deal with potential covenant breaches is through raising further equity, a fraught task if previous profits have been transformed into heavy losses by the crisis and when the future is so unclear.

REDUCING DEBT

If this is not achievable, two priorities are clear. Debts must be reduced to match revised asset profiles. In this regard it is comforting to note that the French government is looking at converting €130bn of its crisis loans into grants. Quite what might happen in the UK, where there are credible predictions that over a third of the £76bn of COVID-19 support scheme loans will default, remains to be seen.

Reducing debt is no easy matter. Pragmatic lenders may be willing to forgive an element of unsustainable borrowings, or else convert it to equity. Alternatively, assets need to be turned into cash, though preferably not through the sale and leaseback route, which will most likely damage profitability.

Conversely, there is also a compelling reason to increase one particular area of funding as the recovery takes hold. Historically, growth kills more businesses after a recession than their debts will. Too many management teams ignore the reality that rising sales put pressure on working capital resources, which have been eaten away by losses. Either larger or more flexible facilities need to be put in place, or the expansion must be controlled.

These are extraordinarily difficult times for businesses. Untempered optimism is understandable, but highly dangerous. What is needed is honesty and realism about the situation a company is facing, allied to prompt and decisive action.

Nick Hood is a senior adviser at Opus Business Services, long-time insolvency practitioner and business commentator

FORECASTING A STRATEGIC ADVANTAGE

Value creation comes from good strategy, good execution and operational efficiency

Last year most of us had to get very good at forecasting. Very quickly. What did we learn about forecasting in the crisis, how do we use this to build a stronger business in the future and ultimately how does best-in-class forecasting confer a strategic advantage to the business? Here are some thoughts and experiences from the forecasting front line.

CREATING VALUE

What do you really want to achieve from forecasting? Pre-crisis a great many corporates would have talked about tracking performance against the budget and year-end earnings guidance. Not many would have said best-in-class forecasting is a competitive advantage and a source of value creation. Like wildfire, the rapid onslaught of COVID-19 last year certainly induced the destruction and then reinvention of many processes, business models and strategies. Re-engineering the forecasting process was one of these. The key elements of a productive forecasting process are:

1. Get the profit and loss and cash-flow forecast on one page. Everything. If it doesn't fit, it isn't needed.
2. Make sure the profit and loss and cash-flow forecast link together and come from the same source.
3. Forecast regularly and on a rolling basis.
4. Compare forecast-on-forecast variance to seehow things are changing.
5. Chase up big or consistent variances between actual results and the corresponding forecast to improve accuracy.

A SPECIAL WORD ON WORKING CAPITAL

The cash impact from working capital changes can dwarf those from changes in profitability in the short term. To take it seriously, drop the focus on days sales outstanding or days payable outstanding and drill down to the account receivables, payables, payroll and tax teams whose job it is to focus on the flow of cash under their control. Accounts receivable, for instance, will work on a cash target for collections for the month. Make sure that is in your forecast. Good forecasting requires a collaboration across many teams bringing together a deep understanding of the myriad of drivers behind financial performance. Forecasting is not a desktop exercise performed centrally; it should be owned by the commercial and working capital teams operating in the engine room of the business.

FORECASTING FOR STRATEGIC ADVANTAGE

Value creation comes from good strategy, good execution and operational efficiency. The glamour side of things may lie with the long-range business plans that discuss strategy, but forecasting on a rolling 12-month basis is the corporate's sonar system for measuring good execution and operational efficiency.

The forecast process should measure returns against capital consumed to ensure the strategy and the execution thereof are working and that the business is operating as efficiently as possible. Get all the above right and the forecasting process starts to become a key plank of a reporting framework, which encourages and recognises value creation.

Ben Walters, FCT, ACA is a deputy treasury at Compass Group. He believes finance can better support strategic analysis and enhance the overall value of the firm, and has developed innovative thinking in this area. He is always keen to be contacted through enquiries@mwacc.co.uk

USING YOUR JUDGEMENT

IN THE NEW NORMAL

It's tempting to see the release from lockdown as the corporate equivalent of going back to your favourite restaurant. For many businesses it won't be anything of the kind. Here's how to make better choices to navigate the new normal.

WHAT YOU TAKE IN

This includes watching for signs about your competitive position. Changes to customer spending patterns or withdrawal of government subsidies will mean some firms go bust. In April 2021, Begbies Traynor estimated that 720,000 firms are in financial distress. This group could also include competitors and suppliers. Look at the evidence. Don't rely on your own comfortable mental model.

WHO AND WHAT YOU TRUST

Mid-2022 is the current forecast from the authoritative Office for Budget Responsibility for the UK getting back to pre-COVID-19 output levels. That is six months faster than its forecast made late last year. Meanwhile, experts are divided on the inflation prospects. Assume that all forecasts will continue to move – take most with a big pinch of salt, checking underlying assumptions in the small print. Build in sufficient leeway to be flexible.

WHAT YOU KNOW

Little is known about coming out of a pandemic, and using the financial crisis as an analogy is inappropriate. Another reason it's different is that artificial intelligence applications, including remote working and online commerce, have developed hugely. Even major museums have geared up their digital access. Treat the recovery as unique, not 'just like' anything else.

OUR FEELINGS AND BELIEFS

Because we want something to be so doesn't mean it will be. Some of us are pessimists, some optimists, and it's more comfortable talking to those we agree with. These feelings should not get in the way of a cool look at the realities. Property company Shaftesbury, heavily involved in problematic London retail areas, talks about strategic acquisitions and selective disposals. Avoid wishful thinking or groupthink.

MAKING THE CHOICES

Ensure there is enough discussion to test out propositions and look at more than one scenario. Next plc gives shareholders three possible forecasts rather than hoping for the best with one. Discussions also need to include timescales. Take the opportunity to embed lessons learned, such as on agile and remote working, developed during the lockdown. Allow enough flexibility to respond to changing circumstances.

ENSURING DELIVERY

The temptation will be to resume financial planning using an annual cycle as part of 'getting back to normal'. For 2021 that would be a mistake. A quarterly or even rolling three-month budget is safer than an annual one. Ensure that performance targets match the shorter time horizons. And, learning from the disastrous attempt to launch a football European Super League, take your stakeholders with you. Keep to shorter times until the path ahead is clearer.

Getting out of the pandemic may be less of a shock than getting into it in 2020. But the upturn, too, will have winners and losers. The quality of your judgement is again on the line.

Sir Andrew Likierman is a professor of management practice at London Business School

Treat the recovery as unique, not 'just like' anything else

COMMERCIAL

PROPERTY

Any discussion of lockdowns and their impact on commercial property immediately highlights the significance of this sector – for our work and social lives, for our wellbeing and even, to a degree, for our financial health, for example, through our pension funds.

Two commercial property classes are attracting particular attention at present – retail and office space.

The impact of lockdowns around the world was immediate and highly visible. Urban centres emptied out.

With restrictions easing, retail centres are benefitting from pent-up demand.

Destination retail centres are performing well, with shoppers spending more per visit than usual levels. Those centres with outside dining space have proved particularly attractive. Online retail has asserted its dominance during lockdown, certainly, but bricks-and-mortar shopping is far from over.

When it comes to the financial health of this sector, landlords will vary as to whether they will accept reduced rents or move to take action with non-performing tenants once eviction protections come to an end. If retail areas are to return to health, boarded-up shops and voids are undesirable, one might argue. Turnover rents, where landlords share in the success or failure of tenants, are increasingly a topic of conversation.

THE RETURN TO THE OFFICE

The future of the office is also potentially complex. For most white-collar work we've proved that working from home is entirely possible. But is it desirable?

Younger people living in flats in urban centres around the world may have found working from home chaotic and lonely. For them, a return to the workplace is becoming a welcome prospect. Anecdotal evidence suggests that preferences have shifted from working from home entirely to more of a half-in, half-out model.

Others with office space at home have weathered the crisis more comfortably. For them, the return to the office decision may depend more on their work culture. Employers are taking varied stances: blanket 'work from anywhere' offers through to clearer 'return to office' guidance.

A full or partial return to office-based working can facilitate better collaboration and ensure younger employees have visibility, fair access to senior people and meaningful projects, but this will need to be managed in conjunction with employees' desire for greater flexibility. So there is certainly a future in traditional office-based jobs, but much still to play out in terms of how it will look.

The pandemic has accelerated the trend towards better office environments and reinforced the wellbeing part of an employer's offering.

Certainly, in London, investment money is drifting towards well-designed, well-ventilated buildings with clear targets around achieving net zero by 2030 or even 2025.

Large employers know that ESG is a big consideration for younger workers in particular and a divide is opening up in terms of rental returns for premium offices versus poorer-quality office space.

Commercial property has long been a stable asset class for institutional and pension fund investors. Like many other parts of the business and financial world, it will need to evolve in the post-pandemic environment.

Ian Chisholm is group treasurer at the Grosvenor Group

The future of the office is also potentially complex

HOW TO INTEGRATE TREASURY SYSTEMS IN THE WAKE OF AN M&A

From initial analysis to execution, Paul Baram looks at the interventions treasurers need to make to ensure smooth restructurings

Treasury's role in providing support for mergers and acquisitions (M&As) is evolving from protection of a company's cash position and assets to serving more as a strategic adviser to the finance function. Assuming the acquiring company takes on additional debt in this process, the changes in working capital, liquidity and financing of debt all become extra items for the treasury team to manage.

Here, we take a look at the practical impacts of M&As to interrelated areas of banking, systems and operating processes through analysis, day one and end-state execution.

ANALYSIS

Before embarking on a transition of treasury practices arising from a merger or acquisition, it is important for your team to consider the following areas.

1 BANKING INVENTORY

Understanding the details of the new treasury operation is key to ensuring an accurate analysis of the current and future state goals. At a basic level, this entails collating full and correct lists of all bank accounts, bank account owners and cash-pooling structures. Additionally, it is important to list all the banks and the respective services they provide, be it payments, pooling or transactions, to keep them on the organisation's radar. Once everything is properly itemised and outlined, the team can begin looking for potential enhancements.

2 SYSTEM ARCHITECTURE AND OPERATING PROCESSES

An old adage states: 'a picture is worth a thousand words'. In treasury, however, it is a high-level view of processes that tells a story – particularly one that highlights key areas for improvement. Overlaying the system architecture to cover all aspects of treasury, specifically the production of cash visibility, will help uncover issue areas and open the discussion of an ideal future landscape.

For instance, is there an opportunity to speed up the generation of cash forecasting? Are the existing payment processes still right for the new company? Your team members might have different goals in mind, but this stage plants the seed for important conversations and realistic goals.

3 DESIGN PRINCIPLES, KPIS AND GOALS

When creating a high-level view of processes, it is almost inevitable that redundancy will appear in both banking and systems. As such, it may be helpful to keep certain principles in mind while analysing the inventory to propose an attainable future state design. For example, consider the following questions: What is the organisational goal – is it purely cost reduction? Or is there a mandate to make operational improvements, or making the goal regulatory compliance? No matter the reasoning, it is necessary to keep the core business operational while change is enacted.

To phrase it differently, another way to think about this is to establish a set of key performance indicators (KPIs) to act as goals – for instance, focusing on payment charges per transaction, forecast variance, debt-maturity schedules or bank-fee analysis, and quantifying these into targets that will then help drive decisions around systems, processes and banking partners.

In terms of systems, it is also important to consider downsizing for ease of use. In the case where a company now owns two treasury management systems (TMSs), determine if one can be retired or operationally reduced. For example, the team might approach the review like purchasing a new TMS, both outlining a set of requirements and scoring the incumbent systems against them. Regardless, strive to understand what is needed from the 'new' TMS and work from those desires. Post-integration, the team can then consider additional requirements, like a centralised data warehouse, which can support global cash forecasting, or determine whether the system's role is best placed within the enterprise resource planning system or TMS.

Concurrently, the same exercise should be undertaken for the banking landscape. Here, the expectation is almost always a reduction in the number of bank accounts with an ensuing realisation of cost savings.

Beyond that, a new proposed set of banking relationships is essential because they can best support the global geography of the new combined operation and its functional requirements. When analysing the banking landscape, the following considerations may assist the analysis: Can one bank handle the majority of the payments required globally? Can the combined new volumes allow a renegotiation of fees?

Finally, it is also necessary to review and document a set of new treasury processes. Where the two treasury teams are to be combined, their policies and procedures must be standardised. Reflect on any changes to be expected from this unification, like if netting could be part of the new operation or if the approach to intercompany debt must be enhanced.

Ultimately, the desired destination of these best practices is to establish both day one and end-state goals for each of these areas to forge a clear path for execution.

EXECUTION

Once a proper plan is in place that takes both current and desired future state analysis into account, the next step is to focus on a smooth implementation. The team should have determined design principles and/or KPIs for its banking partners, systems and how it will interact with new operating processes. Working towards the end state while continuing operations is a tricky balancing act for organisations and can be made easier through the best practices set out below.

In any M&A, ultimately achieving the desired end state will take diligent, mindful planning and high-level execution. Treasurers should take advantage of external help, particularly in areas like system architecture, where the skills to properly analyse are not commonly available in-house. With the right tools and by following industry best practices, however, achieving a restructure doesn't have to be extremely difficult.

Paul Baram is director of UK office capital markets and treasury at Actualize Consulting

THE BEST PRACTICES FOR A SMOOTH IMPLEMENTATION

DAY ONE

Engage banking partners and establish project teams early. Utilise the banks to track and execute changes, ensuring banking mandates are updated to fit with new signatories and changes to limits. Typically, day one systems re-engineer focuses on ensuring the continuation of cash visibility and payment execution. It may be necessary to temporarily shift to a more manual process for cash forecasting. Where treasury teams stay intact in the short term, processes for day one may largely remain as they are. With day one successfully managed, there is enough time to complete the end-state changes. These should be sequenced for interdependencies to allow for the resolution of each component and for the company to benefit from incremental change.

END STATE

Bank rationalisation: The nature of the acquisition itself has an impact to what can be achieved, such as where cash cannot be repatriated from some countries. Post-integration, there is likely an overabundance of bank accounts, cost savings and improvements from consolidating the in-country cash pools as well as the set of payment banks used. As the team reaches the end of one system, decommissioning is typically complex and costly; it may plan by business process rather than system. So, instead of implementing all decommissioning changes at once, strive to do those relative to end-state cash forecasting before payments. Also use robotic process automation to streamline the data migration of old data to the new systems.

Processes: With the end-state solution architecture in place, core operating procedures should now be streamlined and efficient to unlock the ability to implement new functions.

IKON IMAGES

KEEPING UP WITH CHANGE

What do restart and recovery mean from a payments perspective, and how will this affect the treasurer? Naresh Aggarwal explores key trends

We will all have seen reports on how COVID-19 has accelerated the use of digital payments with the physical use of cash declining at an increasing rate. Businesses are experiencing an increase in the use of credit and debit cards, with online sales supported by card-not-present transactions reaching all-time highs.

Changes in payment channels can affect treasurers in a number of ways, and it's important that businesses look at these strategically, given that these are longer-term trends.

SHORT-TERM DEVELOPMENTS

The charging structure for credit and debit cards can sometimes be opaque with fees dependent on where the card issuer is based and where the specific merchant identification code is located. To further complicate matters, Brexit has taken the UK out of the EU's Interchange Fee Regulation, which capped the charges that Visa and Mastercard could impose on relevant card transactions. Additional developments are the growth of solutions such as pay-by-bank, where payers pay directly from their bank account.

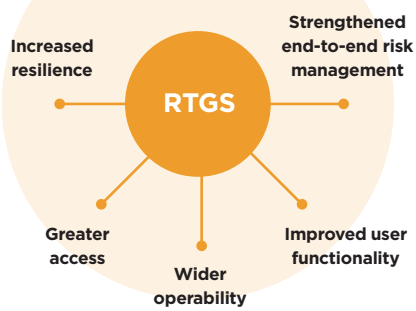
These changes can affect the costs to the business, the timing of when receipts are paid to the seller and sometimes the currency of the proceeds. In each of these cases, the treasurer can play a key role in optimising the cash flows and minimising costs and currency risks as businesses seek to rebuild their businesses in a more digital payment world.

For the rest of 2021, many of the world's economies will have faltering growth prospects. The use of real-time/faster payment channels will increase as many companies take greater control over the timings of their outbound payments. It is important that treasurers ensure their banks offer the highest payment threshold for their faster payments and work with their payments teams to ensure that the cheaper faster payment channel is used in preference to CHAPS payments, where possible.

LONG-TERM DEVELOPMENTS

The payments landscape has been undergoing significant changes over the past few years and, as noted earlier, COVID-19 has accelerated a number of trends. As the graph opposite shows, debit cards have already exceeded cash by volume and this is expected to continue. Bacs direct credit is decreasing and faster payments are expected to exceed them in the next few years.

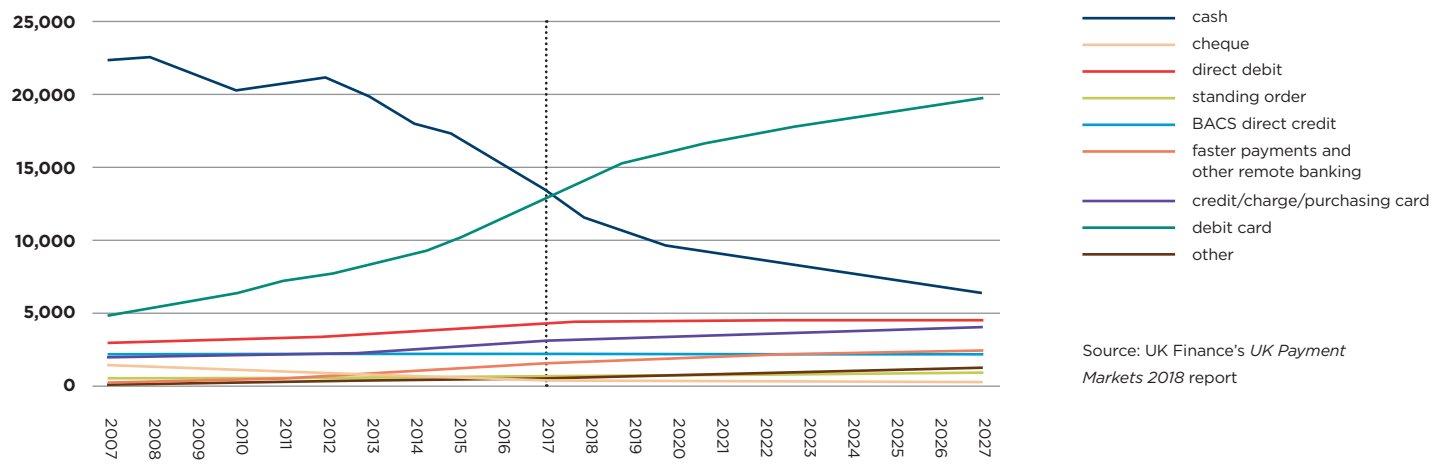
The Bank of England's vision for RTGS



As businesses look beyond 2021 and identify more sustainable growth options, it is important to follow some of the strategy being employed by the

Payment volumes and the decline of cash and cheques

By type: 2007 and into the future



Source: UK Finance's *UK Payment Markets 2018* report

Bank of England as it replaces the CHAPS clearing system in response to developments in the marketplace and the trends noted above. As the picture here shows, the Bank is focused on a number of areas, including greater access and interoperability.

The Bank of England, as with the majority of other central banks across the world, is exploring the potential of a digital currency partly to increase access to its payments infrastructure. The policy and technical team at the Association of Corporate Treasurers (ACT) provides regular updates on the status of central bank digital currencies (CBDCs) and the latest one can be found at treasurers.org/hub/blog/update-payments-landscape/May-2021

As treasurers look at the rebuilding of their businesses, it is important to understand and assess the potential benefits that changes to the payments landscape through projects such CBDCs, the growth in the use of stablecoins and the benefits of initiatives such as Request to Pay. Any change to the way in which money in and money out is managed can take a significant amount of time and money, and it is important not to wait until competitors have a working solution. As a result, it is crucial that treasurers follow the developments and work with the business to assess what and how any changes will affect customers and/or suppliers, and the extent to which the organisation wishes to be proactive or reactive to these developments.

As companies pause and consider how they restart and rebuild their businesses, it is important to take account of the changes driving through the payments landscape. As the variety of payment channels increases and as payees look to customise their payment experience, treasurers will have the opportunity to determine a payment strategy that takes full advantage of new products and service capabilities being designed for the new decade.

Naresh Aggarwal is associate director in the ACT's policy and technical team

KEY TAKEAWAYS

1 THE RISE OF DIGITAL PAYMENTS

Digital payments are increasing – a trend that is only set to accelerate. But digitisation doesn't necessarily equate with simplification and treasurers will need to ensure they keep up with considerations such as mounting costs and FX issues.

2 REAL-TIME GROSS SETTLEMENT SYSTEM

The Bank of England's real-time gross settlement system (RTGS) is about to enter its next implementation phase to ensure greater stability in the settlements infrastructure. For more on RTGS, go to bankofengland.co.uk/paper/2017/a-blueprint-for-a-new-rtgs-service-for-the-uk

3 TREASURY TECHNOLOGY INFRASTRUCTURES

Across card payments, settlement systems and central bank digital currencies, treasury technology infrastructures must keep pace with changes. There is competitive advantage to be gained from determining which changes affect your organisation and ensuring in-house infrastructure is in step.

FULL STEAM AHEAD FOR RATES MIGRATION

THE ENDING OF LIBOR FOR GBP AND OTHER CURRENCIES REPRESENTS A HEFTY CHALLENGE FOR THE REMAINDER OF 2021. HERE, FOUR TREASURY PROFESSIONALS GIVE THEIR PERSPECTIVES

While the pandemic crisis and lockdowns have preoccupied treasurers, ongoing challenges around the cessation of LIBOR as an interest rate benchmark remain. LIBOR is widely used and embedded across the corporate world and financial system, and transition to alternative rates requires action now.

SIX STEPS TO BUILD A FRAMEWORK

JAMES LEATHER, CORIUM TREASURY

'Bigger than the euro' is how some have described the event that is the end of LIBOR. And that is because LIBOR, since its invention by the Greek banker Minos Zombanakis in the late 1960s, has become so entrenched in the financial system that even towards the end of Q2 2021, many trillions of financial contracts worldwide are still using it as their reference rate. It is also prevalent in commercial contracts, organisational enterprise resource planning and treasury management systems, valuation models and pension planning.

For those still working on transition or seeking a methodology, the criteria by which Federal Reserve supervised institutions will have their LIBOR transition plans assessed (SR 21-7) offers a framework that potentially other organisations can build their transition efforts around. These criteria are:

1 Transition planning
The detail of such a plan should be proportionate to its scope, but that in itself provides a starting point – the business needs to create an inventory of where LIBOR exists. This gives a clue as to the size of the problem – and thus the budget (yes, *budget*) required.

The business needs to create an inventory of where LIBOR exists

2 Risk assessment and financial exposure measurement
Once the LIBOR exposures are known, the firm should try to quantify them and report them to senior management.

3 Operational preparation and controls
Identify any internal and vendor-provided systems and models that use LIBOR as an input and make necessary adjustments to enable their smooth operation by the end of Q3 2021 – our targeted transition date (or longer in the case of the USD LIBOR rates that will exist until the end of H1 2023).

4 Legal contract preparedness
This step requires reference to the main plan, to identify which legal contracts LIBOR is residing in – it could be a financial or commercial contract – and the development of a mini-plan to understand which contracts need to be modified and the steps required.

5 Communication
A key part of all plans is communication. Proportionate to its LIBOR exposure, an organisation should communicate to its relevant stakeholders about transition – the why, the how and the progress against the plan to date.

6 Oversight
Linking back to the plan itself and the creation of a governance structure proportionate to the size of the LIBOR exposure, organisations should provide regular updates to senior management, project sponsors and possibly the board. Involving the board means the issue will gain visibility at the highest level.

To read James Leather's article on transition, go to treasurers.org/hub/treasurer-magazine/libor-transition-james-leather

PROJECT PLANNING AND COMPLEXITY

EDEL HOUGH, HEAD OF CORPORATE FINANCE, BRITISH AMERICAN TOBACCO (BAT)

As we got into the detail of dealing with BAT's transition plans, we had to deal with the technicalities of figuring out how interest would be calculated based on a backward-looking rate that is published daily instead of a forward-looking term rate. An additional complexity was that we were trying to propose and implement changes while at the same time market conventions were continuing to evolve.

Upon a review of our legal agreements, we realised that we had to develop appropriate fallback language to allow us to potentially amend floating-rate transactions that were historically based on LIBOR as the reference rate.

In March 2020 we engaged with our banking counterparties and moved from theory to practice to incorporate fallback language into our £6bn revolving credit facility (RCF). This was the world's first syndicated multi-currency RCF to incorporate both the sterling overnight index average (SONIA) and the secured overnight financing rate as the replacement rates for GBP and USD LIBOR respectively. The facility also incorporates the euro short-term rate as the reference rate for euro swingline loans, which is intended to replace the EONIA as the overnight euro rate.

As a market participant, we believe this transaction helped the progress of official sector-led efforts to transition the sterling and USD LIBOR loan markets to their alternative reference rates and provided an opportunity to aid the broader market evolution towards new approaches and interest-rate conventions. It also provided a helpful reference point for the wider market.

For more on BAT's project planning experience, go to treasurers.org/hub/treasurer-magazine/transition-ethos-planning-to-succeed

LONG-DATED LOANS AND DERIVATIVES

SHAUN KENNEDY, GROUP TREASURER, ASSOCIATED BRITISH PORTS (ABP)

At ABP, we could see we had significant exposure to LIBOR, with long-dated loans going out 20 or 30 years. What's more, our long-dated debt was not all hedged perfectly, so we had a degree of mismatch in terms of our exposure.

All of that made us appreciate that we would need to be more actively engaged on the issue of LIBOR transition than other corporates perhaps would.

Much of the work has focused around our derivatives portfolio. We took the decision not to enter into new LIBOR-linked instruments in September 2018. Since then, new loans have been issued on a compounded SONIA basis or, where banks were not ready, on a LIBOR basis with a pre-agreed switching mechanism and spread.

That still leaves a lot to do in terms of transitioning existing debt – our plan is to work through the remaining LIBOR-linked loans over the next three months.

In addition, there is a publicly listed bond still outstanding and US private placements, which also need to transition. We will be tackling those in the next six months.

With standard loan facilities there is a question around whether the onus is on the banks to initiate conversations with corporates. In many cases, it will be a question of banks getting in touch with clients to explain what needs to be changed.

For ABP, we have loans and private placements with pension funds and life companies as counterparties. In cases like these, the onus is probably just as much on the corporate to make the changes and push LIBOR transition through.

The other challenge we are seeing on loans right now is managing the transition of instruments with zero-LIBOR floors in the documentation. The Working Group on Sterling Risk-Free Reference Rates (RFRWG) has set out a recommended approach, but putting this into practice has needed further work on our part and remains a work in progress.

For more on the ABP transition, go to treasurers.org/hub/treasurer-magazine/libor-transition-long-dated-debt-derivatives

TIME TO MOBILISE

IAN FOX, GROUP IBOR TRANSITION DIRECTOR, LLOYDS BANKING GROUP

For a successful transition in the remaining time available, preparation is key. LIBOR transition has been described as the biggest change in financial markets in 200 years and the use of LIBOR is pervasive, so there is often far more to be done to get ready than might appear at first glance. Also, changes to products, systems, models and processes take time to design and implement, so getting a strong start is essential. Some of the interest conventions involved in daily compounding lead to complex calculations, so need to be thoroughly understood. The RFRWG page on the Bank of England website is an invaluable source of reference material giving guidance on SONIA conventions and recommendations.

> LIBOR transition is a complex process that involves a range of activities

The challenges will vary from firm to firm. For some it might be getting an understanding of all exposures. For others it might be necessary internal system changes. In other cases it might be explaining the detail involved in risk-free rates compared to LIBOR to governing bodies to achieve the necessary approvals. In all cases, time is of the essence.

What is clear is that transition from LIBOR is a complex process that involves a wide range of activities that must be reviewed for impact and potential change.

Key considerations for transition include:

- Identification of exposures;
- Understanding of fallbacks;
- Development of a detailed transition plan with realistic timelines;
- Engagement with counterparties to LIBOR contracts;
- System and infrastructure changes to accommodate risk-free rates;
- Changes to processes – finance, settlements, transfer pricing;
- Tax and accounting implications; and
- Required internal governance.

The cessation date is fixed and will not move, so it is important that firms get themselves mobilised on this now.

For more from Ian Fox, go to treasurers.org/hub/treasurer-magazine/libor-transition-from-scratch

With thanks to James Leather, Corium Treasury, and Sarah Boyce, associate director, policy and technical, the Association of Corporate Treasurers (ACT).

The ACT's LIBOR transition resource can be found at treasurers.org/hub/technical/libor/act

THE TREASURY COMPETENCIES YOUR TEAM NEEDS

ACT

TREASURY EXCELLENCE AS STANDARD

Whether bridging a critical skills gap or addressing specific develpment needs for team members, the Certificate in Treasury Fundamentals (CertTF) from the ACT provides the knowledge and tactical 'hands-on' skills necessary in treasury and finance.

Our flexible online learning and assessment format means students can access study material wherever and whenever they want, and could **qualify in as little as 3 months.**

The programme includes:

- how to provide support to the business and its key activities
- the main financial markets and products used to raise funds
- key tools to identify, manage and mitigate risk.

Show your team's commitment to adhering to the very highest professional standards in treasury with the ACT.

Looking for a more advanced level?

We offer qualifications up to master's level. Visit our website to find the one that is right for you.

There has never been a better time to learn.

Visit academy.treasurers.org/quals

For group solutions, email: clientsolutions@treasurers.org

MAKING GOOD USE OF A CRISIS

RENTOKIL INITIAL'S CEO TALKS ABOUT THE QUALITIES THAT TAKE TREASURY TEAMS FROM GOOD TO GREAT – AND WHY BATTENING DOWN THE HATCHES MEANS MISSING OUT ON OPPORTUNITY

Over the course of the pandemic, treasurers have demonstrated that diligence, patience, but above all, agility have been fundamental to responding to challenging situations. Andy Ransom, CEO of Rentokil Initial and a keynote speaker at the ACT Annual Conference, talks here about the qualities and performance of treasury and the wider workforce that have impressed him over the past year.

WHAT QUALITIES HAVE YOU OBSERVED AND ADMIRED WITHIN THE TREASURY PROFESSION AND IN YOUR OWN WORKFORCE?

I was impressed by the speed with which Rentokil Initial and its treasury function reacted to the rapidly changing environment at the start of the pandemic. The focus was very much on ensuring the organisation had sufficient liquidity to continue to operate under all potential scenarios. The treasury team understood what was required and took decisive action. The revolving credit facility was drawn down in full. As Rentokil Initial did not have a commercial paper programme to enable it to draw on the Bank of England's Covid Corporate Financing Facility, the treasurer turned that around in a week and Rentokil Initial was one of the first corporates to draw on the facility.

The team also had to ensure that each of our 80-plus countries had sufficient liquidity and set up a 13-week cash-flow forecast to enable us to monitor funding needs. One of the key responsibilities of the treasury function is to manage relationships with our banking partners, advisers and rating agencies. Working on that prior to the pandemic has paid off over the past year. Keeping in close contact with these key relationships meant that we were well supported throughout.

RECENT ASSOCIATION OF CORPORATE TREASURERS (ACT) RESEARCH INDICATES THAT TREASURERS ARE RIDING HIGH IN TERMS OF BEING RECOGNISED AS STRATEGIC BUSINESS PARTNERS WITHIN THEIR ORGANISATIONS. DOES THIS TALLY WITH YOUR EXPERIENCE AND WHY DO YOU THINK THAT IS THE CASE?

I think, since the 2008 financial crisis, treasurers have been seen as strategic business partners. Their strategic influence comes to the fore during turbulent times like the current pandemic. The requirement to closely manage the relationships with providers of debt funding has and remains of great importance to the survival of organisations.

Within Rentokil Initial, the treasurer is an important business partner supporting the senior management team on strategic issues, such as our value-creating M&A programme. As CEO, I set the strategy and the CFO will set out the requirement for funding – and it's the treasurer's responsibility to provide the best solution for the organisation.

WHAT FEATURES OR EVENTS DURING THE PANDEMIC CRISIS HAVE STOOD OUT TO YOU AT RENTOKIL INITIAL AND WHY?

I think there were three Cs that stood out as key features of the pandemic: collaboration, communication and culture. And from these came the ability to act decisively.

The need for collaboration was a major feature of the pandemic. Despite disruption from the COVID-19 crisis, we grew revenue, profit and cash this year. This has only been achieved because of a massive collaborative effort from all our colleagues across

Since the 2008 financial crisis, treasurers have been seen as strategic business partners

ACT ANNUAL CONFERENCE 2021

The ACT's 18th Annual Conference and International Treasury Week took place virtually once again this year and expanded on the theme of strategic change. In addition to a live interview between Rentokil Initial's Andy Ransom and the ACT's chief executive, Caroline Stockmann, attendees heard from Andrew Bailey, governor of the Bank of England; Sarah Breeden, executive director, UK deposit takers supervision, Bank of England; and Professor Kevin Fong OBE, consultant anaesthetist at University College London Hospital (UCLH), TV presenter and honorary senior lecturer at UCLH. It's not too late to take part. The full conference, exhibition and networking can be accessed until 17 July. Book your ticket at treasurers.org/annualconference21

the group to protect the business during the pandemic.

Clarity of communication was vital to take our stakeholders with us. We introduced a consistent approach based on three phases: managing the crisis phase, the recovery phase, which we entered in the second half of the year, and the strategic opportunities phase, which came from the changes in a post-pandemic world, such as the massive importance now given to hygiene.

Finally, the right culture was an essential enabler to allow us to act at speed. We had to make some very tough decisions during the crisis phase, but because everyone was in this together, we were able to get very high levels of support and commitment. Equally, we were able to introduce new disinfection services across 60 countries and train 7,000 colleagues in just four weeks. That agility to roll out at speed generated £225m of additional revenues in 2020.

It's so important to embrace and confront a crisis – not just to batten down the hatches or simply adjust to the new status quo, but to positively and proactively get on the front foot and to pivot very, very fast.

WHAT HAS THE PANDEMIC MADE POSSIBLE, IN TERMS OF – FOR INSTANCE – BROADER, MORE INNOVATIVE THINKING? WHAT OPPORTUNITIES HAS IT BROUGHT YOUR COMPANY AND THE WIDER BUSINESS WORLD?

From the start of the crisis phase we undertook two executive board meetings each week, which we extended to bring in a wider range of operational and specialist skills. The first meeting was all about managing the crisis; the second was focused on taking every opportunity.

From this second meeting came the launch and rollout of disinfection services. From offering the service in a small UK-based business, we were able to pivot at speed – sharing best practices across our territories, developing training and standard operating procedures, building sales capability and deploying at scale. We were able to support many high-profile customers to protect their people and clients – helping supermarkets to stay open after a case of COVID-19 had been identified in a store through to protecting people on public transport, where in Paris we undertook more than a million disinfection treatments across its network.

More broadly, we see clear opportunities in digital, with the need for more remote monitoring and also the importance of trust. Post-pandemic, people will want to associate with brands they trust and which act responsibly.

Lastly, of course, the most significant opportunity the pandemic has brought to our company is the change in perception and need for hygiene services – from a relatively low-interest topic, today it is probably one of the most important categories in the world. Initial Hygiene is the world's leading hygiene services company, so the opportunity is significant. Last year we delivered 17 times the level of hand soap and sanitiser than the prior year, and what we're seeing now is that organisations from companies to schools and retailers to transport want hygiene everywhere.

AS A FRONT-LINE BUSINESS, WHAT HAVE BEEN THE PRACTICAL, DAY-TO-DAY IMPACTS ON RENTOKIL INITIAL? HOW HAS YOUR WORKFORCE RESPONDED?

Firstly, our colleagues have responded magnificently and our values of service, relationships and teamwork really came to the fore.

Safety is always our first priority – but with the pandemic, clearly we needed to create and implement new operating procedures, and for those colleagues working in disinfection to be in PPE from head to toe as they entered a building. Despite this, we had a record year for safety with our Lost Time Accident rate improving by 26%. That's pretty remarkable and a tribute to how colleagues responded.

At the height of the crisis, in April 2020, around 11% of our customer premises were in temporary lockdown, improving during the year to 1.8% by December. This meant that we changed many roles and moved many colleagues into disinfection services, either full-time or part-time, in addition to existing roles in pest control and hygiene.

Colleagues also used the pandemic to undertake more training. We delivered a 77% increase in training with 3.2 million content views on U+ (our in-house 'university') in areas such as new safety protocols and remote working. We also saw a significant increase in colleague retention – now approaching 90% – and an increase of around 80% in visits to our careers portal.

For our colleagues in functional roles, the biggest practical change has been working from home, but we were well prepared, as we were already one of the largest users in the world of Google video calling Hangouts. Home-based teams were very effective with, for instance, record levels of cash collection, and for some roles we're now moving to hybrid contracts.

Overall, our success through the pandemic has been a tribute to our colleagues. The response of our 44,500 colleagues around the world has been nothing short of amazing.

Andy Ransom has been CEO of Rentokil Initial since 2013; he joined the company in 2008. Prior to that, he spent 22 years at ICI in roles in the UK, US and Canada

11 LESSONS FROM THE ACT TREASURY FORUM

FORWARD MOMENTUM ON THE TECHNOLOGY AND ESG FRONTIERS WERE AMONG THE MESSAGES AT THE MOST RECENT ACT TREASURY FORUM. **MICHELLE PERRY** REPORTS

This year's ACT Treasury Forum took place online due to COVID-19 restrictions, but it was as packed as ever with inspiring speakers and panellists offering vital insights for treasurers to consider over the year ahead. The theme was: 2021 Outlook – Preparing for change. Here, we outline 11 messages we learned at the forum.

1 TREASURERS WILL CONTINUE TO BE BOMBARDED BY FINTECH

COVID-19 will accelerate the rush of new technology, HSBC's global head of innovation and partnerships, Craig Ramsay, told the Forum. In the next 18 to 24 months, the level of change will not slow down as treasurers continue to react to the impact of the pandemic. The challenge for a treasurer will be how to harness technology to drive change quickly to improve the business.

2 TREASURERS NEED TO BE MORE TECH LITERATE

As a treasurer, you can no longer consider solely the business requirements, as you might have done in the past, and expect another team to translate those into what systems or capabilities you need. Treasurers will need to better understand how their business can employ technology and translate that into impact for teams and their business.

3 DON'T BE DISTRACTED BY SHINY, NEW WHIZZ-BANG TECH

Go back to basics and determine the problems you are trying to fix and then find the solutions to fit. Don't get sucked in by a beautiful solution, said Ramsay, that will only solve 1% of your business. Consider scalability and whether you need more data points for better forecasting. Or is it more a question of better access to data?

4 MAKING AN IMPACT IN SUSTAINABLE FINANCE

From a treasury standpoint, the link between ESG and funding requirements is critical, Will Rook, leader of VIVE sustainability programme at Czarnikow Group, told treasurers and panellists during the panel discussion on redefining sustainable finance in the face of COVID-19. If you want a sustainable impact, be commercially led – and linking that into funding is very important, he added. Align your financing needs and your funding requirements with your environmental and social aspirations. If you don't, you won't be achieving the most competitive rates of funding out there, Rook told the audience.

5 AVOID FALLING VICTIM TO GREENWASHING

In the past few years, hundreds of companies have proclaimed their green credentials. But cutting through the detail, it's clear that many of these claims to be net zero by a certain date are simply ambitions – not concrete targets with measurable goals. Investors are becoming increasingly wise to greenwashing. When setting up new structures around sustainable finance, ensure the credibility and robustness of the structure you put in place. Full traceability and transparency of any financial structure through industry benchmarks or key performance indicators are essential. The quality of data is critical in sustainable finance.

6 EMBED CLIMATE RISK

By the end of this year, the Bank of England expects all regulated banks and insurers to have embedded an understanding of climate risk across their operations, Chris Faint, head of climate at the Bank of England, said in his keynote speech. Although initially there was concern that the pandemic would distract from the urgency of climate risks, the bank has been pleased to observe that it has remained a priority area in both the financial community and the real economy. And this is important, as "the point at which you realise how severe the risks from climate change are is the point where it might be too late to address them", he said. Faint said firms across the economy should therefore be investing in tools, such as scenario analysis, to understand climate risks and opportunities now and embedding them throughout their operations.

7 NET ZERO TRANSITION RISKS ARE REAL

The government has usefully legislated for the UK to reduce its emissions to net zero by 2050. To achieve this, there needs to be a whole economy transition on a major scale. This transition will represent material changes, so it is important that it is undertaken in an orderly way to reduce any associated risks from issues such as

Companies are under more and more regulatory pressure to ensure they are focused on sustainability

stranded assets and obsolete business models. Central banks and governments play a significant role in helping to smooth that process, for example, by helping to create tools that better allow for scenario analysis and decision-useful disclosures. Every company will have a role to play in this transition, and treasurers will in turn have an important collective role in delivering this smooth transition.

8 REGULATORY PRESSURE SET TO GROWTH ON ESG FACTORS

Companies are under more and more regulatory pressure to ensure they are focused on sustainability, and that will continue over the coming years. Like most corporates, Balfour Beatty treasurer Andrew Beaumont said he has spent the past few years ensuring that treasury and sustainability are in "lockstep going forward". To have a meaningful sustainability programme, treasurers must embed it in all policies and processes across the business.

9 GLOBALISATION ISN'T DEAD

Despite proclamations that COVID-19 would put an end to globalisation in terms of supply chains, research by HSBC suggests that, although there has been a restructuring of where goods are produced, corporates continue to source them on a global basis. Andrew Robison, European head of sales for global trade receivables at HSBC, told the Forum that China remains a major supplier to the world. In fact, its market share has actually gone up, supplying more goods intra-Asia, thereby offsetting those reductions in direct exports to the US. Because lockdowns tend to be geographically focused, corporates have also restructured supply chains in part so that they have 'China plus 1 or China plus 2', whereby they have a major supplier in China plus another one or two in a different country or geographic region. "We think globalisation is still a powerful force, and that while there's some reconfiguration of global supply chains, this is by no means a total retrenchment," Robison said.

10 DEFENSIVE STRATEGIES WILL REMAIN

With low interest rates continuing and the pandemic still around, it will likely be a long time before corporates shift away from the need for security in liquidity. COVID-19 has brought into focus the whole concept of core cash, and the need to ensure strong liquidity, especially if corporates are operating at high commercial and business risk. The relationship between board members will be critical at this time, as treasurers persuade boards of the need to have an efficient capital structure. But they will still need to explain to boards how they are making cash work – whether that is in shareholder returns or investment in new projects.

11 TREASURERS NEED TO PARTNER TO BUILD DATA-DRIVEN TREASURIES

Long gone are the days when treasurers can sit alone in the corner of the office, Ross Mackay, group head of global shared services and finance optimisation at International SoS, said. Treasurers have to be true business partners to the wider operations. They sit on huge amounts of data and can make this available in the right way to their colleagues to help make the right business decisions.

Although each corporate is at a different point in the curve of change in terms of automation, treasurers need to "come into the middle of finance to drive decisions". That said, there will be no big bang makeover in treasury functions using new technology, but rather the adoption of smaller, bite-sized projects that gradually automate the function.

"Treasurers are trying to find new ways to drive the business forward and use new technology. Cash forecasting is one of those areas where we are seeing this acceleration already," Joanne Towers, MD, Europe regional head of payments and cards, global liquidity and cash management at HSBC, told the audience.

Michelle Perry is a freelance writer and editor specialising in business and finance

SUPPLY CHAINS & THE ESG JOURNEY

SMES HAVE CONSIDERABLE ESG ISSUES TO ADDRESS, WITH SCANT RESOURCES COMPARED TO THEIR LARGER CUSTOMERS. **JONAS PERSSON** LOOKS AT THE UK SITUATION AND SUGGESTS THREE MAJOR THEMES FOR TREASURERS

According to figures from the Federation of Small Businesses, there are nearly 6 million SMEs in the UK. These are the businesses that in many ways will be the most important to the UK's green transition – the ones working at the front line to deliver national projects. They hold the specialist skills that large corporates need.

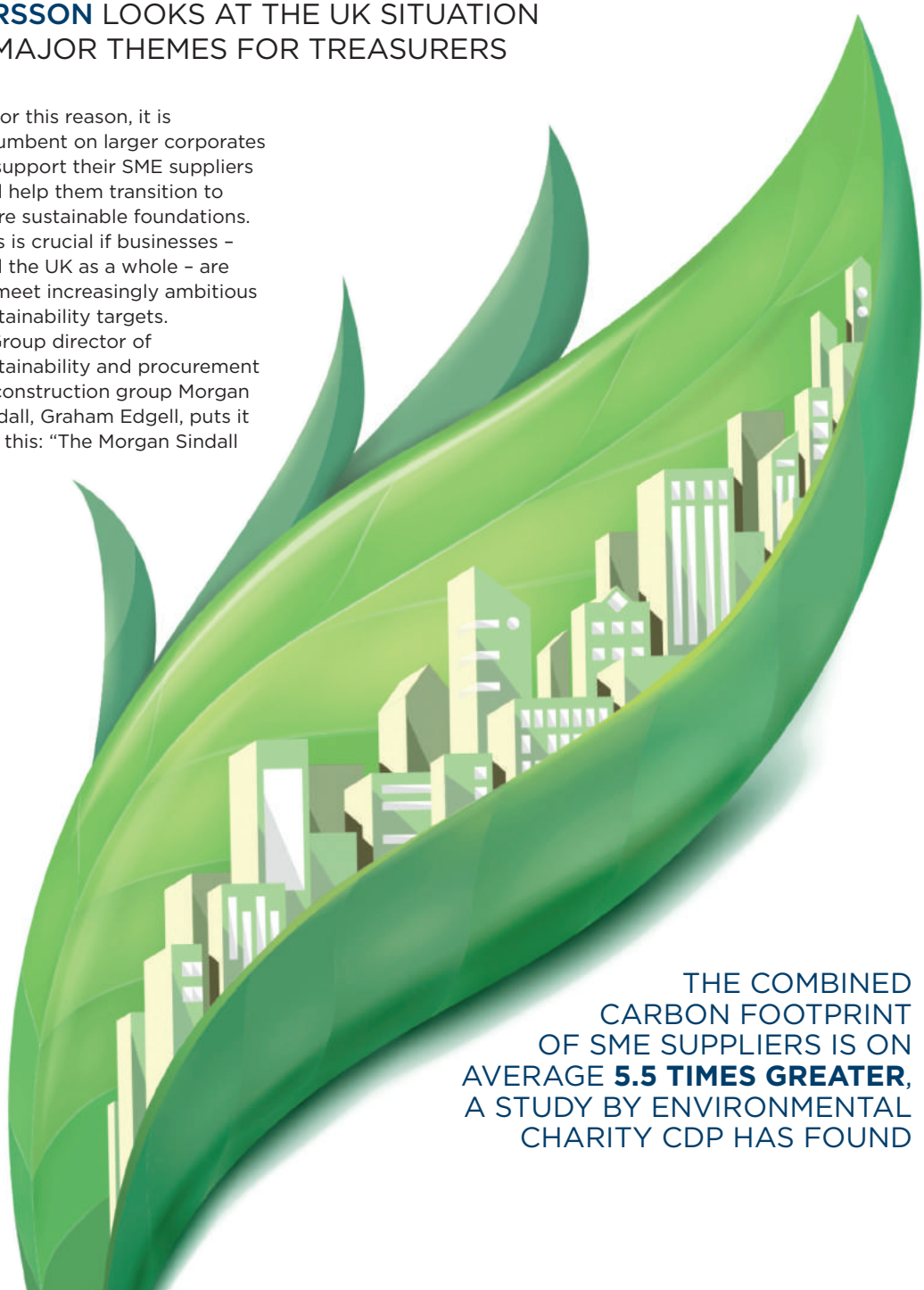
However, they are also the firms that often have the least resource to invest in transitioning to a more sustainable footing, and this paradox poses a major challenge to the UK's progress towards net zero.

These SMEs are part of a bigger ecosystem. If larger corporates want to operate sustainably, they require the buy-in of their whole supply chain, not just the tier 1 contractors with a direct commercial relationship with the client.

While we see corporate organisations starting to get their environmental, social and governance (ESG) plans in order, the combined carbon footprint of SME suppliers is on average 5.5 times greater, a study by environmental charity CDP has found. This will ultimately have an impact on the metrics that large organisations report.

For this reason, it is incumbent on larger corporates to support their SME suppliers and help them transition to more sustainable foundations. This is crucial if businesses – and the UK as a whole – are to meet increasingly ambitious sustainability targets.

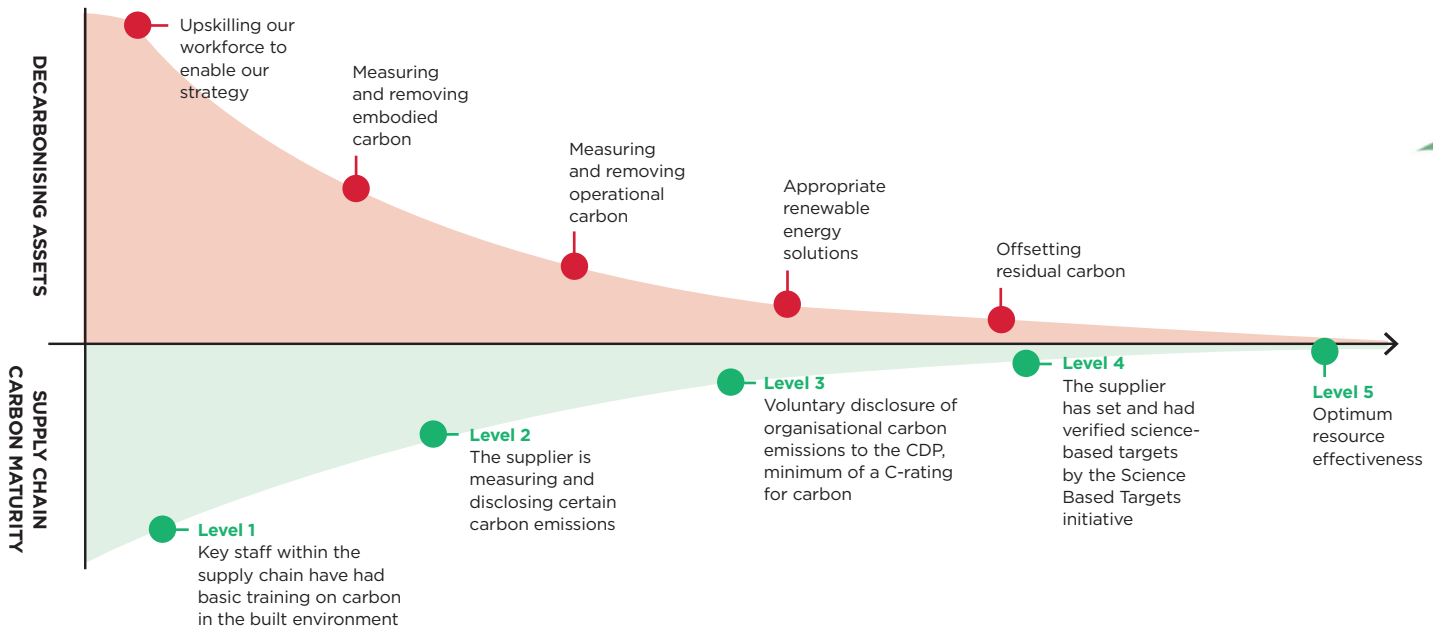
Group director of sustainability and procurement at construction group Morgan Sindall, Graham Edgell, puts it like this: "The Morgan Sindall



THE COMBINED CARBON FOOTPRINT OF SME SUPPLIERS IS ON AVERAGE **5.5 TIMES GREATER**, A STUDY BY ENVIRONMENTAL CHARITY CDP HAS FOUND

Working in parallel with a supply chain

Morgan Sindall Group: As part of its decarbonising communities strategy, Morgan Sindall Construction aims to take SMEs alongside them on a journey towards minimising carbon



Group has been acting on climate change for many years, recognising its responsibility in a sector that can have an immense impact on the environment.

"We have changed our processes, our materials and our mindset to bring carbon impact to the forefront of decision-making right across the businesses and beyond it, along our supply chain."

Here, we look at three key issues for corporate treasurers who are working to help their supply chains along their sustainability journey.

1 LISTEN AND LEARN: ENGAGE AND INCENTIVISE SUPPLIERS

Larger firms must listen to their suppliers to understand the complexities and challenges they face in greening their operations. It is especially important in the current environment, where many smaller businesses are under great pressure. Some are even fighting for survival.

Emphasise the strong commercial incentives for them to transition, from reputational benefits to business continuity. The business case for sustainability should be well understood.

Suppliers that fulfil ESG requirements may well become preferred suppliers and benefit from securing long-term contracts. Not only that, the absence of a sustainable strategy and action on this front potentially poses a threat to their existence in the medium and long term.

> "We have changed our processes, our materials and our mindset to bring carbon impact to the forefront of decision-making"

Treasurers must ensure they know and understand the businesses in the supply chain, given how important they are to their company's own success and – as we have seen – given how fragile supply chains can be. The focus should be on getting to grips with their challenges and the solutions they have put forward, which will identify where the larger business can support and incentivise progress.

Sharing best practice will help inform suppliers' transition, but financial support may also be needed. If there is supply chain financing available, this can provide much-needed liquidity for smaller firms, so they have the capital to transition.

There are also circumstances where direct financial incentives for making positive changes are appropriate. For example, on many big building projects, contracts will include incentives to reduce waste. This creates an environment where conversations between tier 1 contractors and their supplier around agreed targets and rewards can take place.

2 STAY ON TARGET: SET CLEAR AND MEASURABLE GOALS

Larger businesses should help suppliers to set measurable, achievable and relevant key performance indicators. Smaller firms lack the resources of many corporates but, as mentioned earlier, their role in helping to meet ambitious emissions targets is crucial.

We have seen firms set lofty targets, sometimes far into the future. However, the key is to find a balance. Stakeholders must be able to look at a company's strategy and see it has committed to metrics that are realistic and timely. Some commitments are not tangible, so the focus must be on contributory factors that are in the control of management teams.

For example, we set two main sustainability targets back in 2018. The first was a funding target for financing renewable projects. The second was to reduce the carbon footprint of our own operations by making office space more energy efficient. In both cases, these were targets that could be easily benchmarked against previous performance, so progress could be clearly quantified.

Targets may change over time and sustainability journeys are unlikely to be linear. Larger businesses and their supply chains must be prepared to recognise when strategies and actions are not working well and act to rectify them quickly.

By the same token, when targets are met, there is an opportunity to share the good news and set new, more ambitious goals.

3 DON'T UNDERESTIMATE THE 'G' IN ESG

It is truly heartening to see how ESG has risen up the boardroom agenda in recent years. In the past there has been criticism that corporates treated ESG, and its forerunner corporate and social responsibility, as a box-ticking exercise to give the impression of progress being made. Now, driven by key stakeholders including investors, customers and suppliers, as well as legislation, it has become a strategic priority and key differentiator.

Many stakeholders are no longer satisfied by simply understanding a firm's ESG aspirations. Rather, they want to see a defined strategy aimed at achieving hard targets. To that end, businesses are fundamentally changing their operations and bringing ESG strategies into their capital structures.

This shows a real commitment to change. If businesses don't meet their targets, stakeholders have a mandate to ask searching questions and potentially take action to further focus the minds of boards. It raises the question of what steps businesses – with corporate treasurers playing a key role – can take to avoid such pitfalls.

This is where the 'G' in ESG comes in – governance. Any organisation that fails to meet its ESG targets or is perceived to be failing to address the issue with sufficient urgency risks being perceived as having substandard governance. In that eventuality, businesses may be judged to be inadequate, with consequences for their relationships with key stakeholders, including investors.

On the other hand, there is huge reward on offer for those businesses with a clear ESG strategy and targets. Here, treasurers have an important role to play, whether in their own organisation or in supporting those in their supply chain.

There is no question that transitioning can be a very complex process and the expertise to do it effectively may not be found in-house.

Lloyds Bank's newly created Sustainability and ESG Finance team is a natural extension of the group's mission to help Britain recover from the pandemic crisis in a sustainable way, supporting clients of all sizes as they transition their businesses to become more sustainable.

With COP26, the UN's Climate Change Conference taking place later this year in the UK, now is the right time for corporate treasurers to hold these conversations. The stakes have rarely been higher.

Jonas Persson is managing director and head of the Sustainability and ESG Finance team at Lloyds Bank Commercial Banking

LLOYDS BANK

TREASURY ACTIVITY AT "A HIGHER CADENCE"

STACEY PANG AND **KRISTEN ROBERTS** ELABORATE ON EIGHT KEY FINDINGS FROM THE HSF AND ACT ANNUAL *CORPORATE DEBT AND TREASURY REPORT*

Last month the latest annual *Corporate Debt and Treasury Report* was published by Herbert Smith Freehills (HSF) in conjunction with the Association of Corporate Treasurers (ACT). Produced on the basis of views shared by members of the corporate treasury community across more than 100 large UK corporates, the report touches upon the impact of the COVID-19 pandemic on the corporate treasury world; environmental, social and governance (ESG), sustainable finance and its rapid advance up the corporate treasury agenda; and how banks are withstanding the shocks of the pandemic.

Overall, respondents reported a feeling of optimism in the market in the sense that the pandemic didn't cause a financial crisis and that significant pools of liquidity were available to those who required it. Although not necessarily met with enthusiasm, corporate treasury teams said they were braced for LIBOR transition and the switch to risk-free rates. Very few had braved the transition at the time of the report; we expect activity in this area to pick up keenly as we move into the second half of 2021.

1 BUSINESS AS USUAL – BUT MORE OF IT

Treasury teams were busy in the past year navigating their usual treasury activities through the turbulence brought on by the pandemic, with one interviewee commenting that it was "normal treasury activity at a higher cadence". While the position differed from sector to sector, the preparation and contingency planning undertaken in recent years had placed many on a strong footing as the pandemic hit and lockdowns came into being. We found a general sense from respondents that, in many ways, this level of preparation was a result of lessons learned from the global financial crisis in 2008/9.

2 FOCUS ON CASH

The key focus was cash collection and proactive cash management. However, only a small number of respondents (15%) said they had raised additional debt and a similar number of respondents (11%) stated that they had required amendments and/or waivers in relation to their debt terms. Those that wanted to bolster their liquidity buffer, and/or protect against bank liquidity issues, raised additional debt and made significant drawdowns under their revolving credit facilities (RCFs) early on in 2020, but later cancelled those liquidity lines or repaid the drawings once the impact of lockdown restrictions on businesses were better understood. Similarly, waivers agreed early to mid-2020 were either not required or not extended past the initial 12- to 18-month waiver period.

3 SUPPORT MECHANISMS

We also found that limited numbers had accessed government-backed lending schemes (and the majority who did undertook the process of setting up the ability to issue commercial paper pursuant to the Covid Corporate Financing Facility). Many of those had either decided not to borrow under the schemes or have paid it back, and in part due to certain negative connotations or the restrictions linked to such arrangements.

4 SUSTAINABILITY FRONT OF MIND

A hot topic of the year was – and continues to be – ESG and sustainable finance. A number of respondents suggested that ESG and sustainable finance is becoming business as usual and that those who did not engage with it in relation to debt financings would be left behind.

The key driver to adopting ESG features in financings is not pricing, but rather investor and customer expectations of corporate responsibility and board pressures to respond to such expectations.

One respondent noted that the additional upfront work

Treasury teams said they were braced for LIBOR transition and the switch to risk-free rates

You can find the report on the ACT website at treasurers.org/hub/research/corporate-debt-report-2021

and monitoring certainly outweighed the net 0.01% commitment fee saving they would benefit from under their undrawn liquidity RCF. Respondents still see impediments to ESG and sustainable finance; however, these are weakening as the market continues to develop.

A large majority of respondents (65%) thought they would incorporate ESG features into their next debt financing, with sustainability linked loans the most likely type of financing (35%), followed by green bonds (17%), sustainable bonds (15%) and green loans (11%).

The report reveals that sustainability linked loans are sector-agnostic and structured as RCFs, so provide the necessary flexibility. Green bonds and green loans have more stringent reporting and structural controls over funds, and so we might see less take-up now. However, we would expect these to become more attractive as corporates pursue green lending to achieve their specific ESG targets, such as the transition of a fleet to electric vehicles, for instance.

5 DEBT AS NEEDED

Those who needed to increase their net debt were likely to have done so in 2020 (against the backdrop of the fear of a liquidity squeeze), and that perhaps goes some way to explaining why 60% of the respondents did not think they would raise their net debt in 2021. Those corporates that chose to put off refinancings and negotiate one-year extensions in 2020 are looking to refinance their debt in 2021.

The US and European debt capital markets are extremely active and corporates are taking advantage of the demand and favourable pricing and covenant terms to satisfy their funding needs, particularly for those who require larger issuances. The US private placement market is also highly in demand and active. However, some corporates are put off by inflexibility of terms, and lengthy and tough amendments and/or waiver processes for those falling outside the typical credit profiles most attractive to private placement investors (for instance, when they suffered a downgrade in ratings during the pandemic).

6 BANKS AND OTHER FUNDING SOURCES

There were mixed responses from respondents on the approaches of their lending banks during the pandemic. Some noted that their relationship banks provided waivers and liquidity lines at short notice and were generally supportive. Others reported less favourable reactions and, when coupled with the evidence that banks are becoming more selective as to where they deploy their capital, pushed corporates to look for alternative sources of funding.

7 LIBOR TRANSITION

The results also indicated that only a very small percentage (5%) were not impacted by the imminent cessation of LIBOR and IBOR, but just 9% had implemented solutions to transition to risk-free rates. This leaves a large number of respondents who will need to take action this year to switch to risk-free rates. The 'wait-and-see' approach taken by 27% of respondents was fast coming to a close. We expect that those who have not yet started will now start to begin to transition, as it would be prudent to provide a buffer to do so before the end of the year, when LIBOR/IBOR for all currencies other than USD will cease. (For more on LIBOR transition, turn to page 46.)

The results of the survey indicated a marked change in the planned use of interest rate and FX derivatives compared to 2019/20. There was a significant decrease in the expected use of FX derivatives (31% down from over 70% in 2019/20), which may reflect market sentiment, particularly on Brexit, as sterling-denominated businesses are more confident around sterling volatility. There was a slight decrease in the expected use of interest-rate derivatives (an approximately 15% decrease from 2019/20), which may reflect the expectations of public funding and central bank interest rates remaining low in response to the pandemic. Corporates continued to utilise commodity derivatives, which is prudent given recent volatility in hydrocarbon, raw materials and other prices.

8 BREXIT

Many of the respondents had put in place contingency plans and processes to ensure that Brexit would not have the significantly adverse effects that some had predicted. As a result, around two-thirds of respondents described Brexit as having had a 'minimal' impact on their business. Those who did report adverse impacts cited delays in shipment of goods, pre-Brexit structuring costs, impacts on the workforce and efficiency of trading with the EU. One respondent stated that there was a "huge cost to prepare for something that simply adds complexity and no value".

We are encouraged by the optimistic outlook of respondents and expect that ESG and sustainable finance will remain firmly on the agenda for next year. And perhaps as a welcome relief to many, by the time of the next report, IBOR/LIBOR transition will become old news.

Stacey Pang is a senior associate, and **Kristen Roberts** is a partner in Herbert Smith Freehills' finance practice

THE IMPORTANCE OF CASH MANAGEMENT DURING THE CRISIS AND BEYOND

GROUP TREASURERS FROM TWO BLUE-CHIP COMPANIES EXPLAIN THE PRIMACY OF CASH VISIBILITY. **MICHELLE PERRY** REPORTS

What the pandemic has highlighted for organisations of all kinds is the importance of cash. Treasurers have, of course, always been keenly aware of this; however, the speed and urgency with which they have had to make decisions during the past year has reinforced that message and made visibility of cash vital.

Business continuity, risk assessment and securing operational funding became an immediate focus for treasurers when the first lockdowns hit in March 2020, as senior management teams scrambled to ensure staff could work safely and effectively from home.

But as treasurers told the ACT Cash Management Conference, it was the granular work required on cash management that really challenged treasury functions. Watch the replay of the session at treasurers.org/node/387657

A QUESTION OF FOCUS: VIRGIN MEDIA

James Marshall, head of treasury at Virgin Media, sets the scene on key issues at the media and telecoms group: "We operate in a large complex industry, with many moving parts and big payments to make, be they suppliers, interest or VAT bills. We had to keep a really good grasp

of all of that and maintain our visibility of systems," he says.

In this new and high-pressure situation, Marshall says he had expected to see difficulties in some areas. In the event, few materialised – a result he puts down to the calibre of the team and a collective desire to perform well even under extreme conditions. "Great teamwork and nobody wanted their area to be the one shown to struggle. That was very important to them.

"My message to the team was to concentrate on systems security and cash visibility. My treasury background and Association of Corporate Treasurers [ACT] education certainly helped in setting a platform for us to work to."

THE LESSONS OF CRISIS MODE: IHG HOTELS & RESORTS

For Hailey Laverty, group treasurer at InterContinental Hotels Group (IHG), which owns the brands Holiday Inn and Crowne Plaza, being in an industry particularly hard hit due to the global lockdown meant she had to consider funding and cash flow in each territory.

"Assessing things operationally from a treasury perspective, we had to think in terms of funding some of our subsidiaries, which historically didn't need a lot of regular funding. We had to think in a very individual country-by-country way. Could we anticipate what the cash-flow impact of the crisis might be, for instance? Obviously, we knew that as a hotel company we were going to see a significant impact. We had to do a lot more granular work on some of those countries than was needed previously," says Laverty.

VISIBILITY IS KING

The onset of COVID-19 accelerated the move towards digitisation in treasury, with the notable need to analyse data and capture trends to provide real-time answers on cash flow. The period has also highlighted how clearer cash visibility will be progressively vital to manage future unknowns. Experts suggest the speed of digitisation will continue to increase as treasury functions require access to real-time information.

Nicolas Christiaen, global CEO of cash and working capital forecasting fintech Cashforce, adds that during the crisis it became apparent that additional focus around cash visibility is far from a short-lived fad. "In the future, it will remain vital to keep a good grip on cash for potential unknowns. The COVID-19 crisis introduced new risks for the future into the system, leading to more questions being asked by different stakeholders that required faster answers," he says.

THE DIGITISATION FUTURE

The complexity of cash management has increased with organisations at different stages of their digitisation journeys. Few corporates have perfect, clean data to analyse, but the growing adoption of machine learning and artificial intelligence treasury tools have shown that they can speed up these processes to provide treasurers with quicker answers and solutions – a realisation that can be expected to pay performance dividends in the future.

For instance, one aspect of treasury technology brought into focus is how very Excel-dependent treasuries are when collating information to make decisions. The message around future-proofing has now been heard loud and clear.

"Cash forecasting and putting together statements, making better use of some technology is something that we're going to be doing with more rigour in the future," says Marshall. "I think that more future-proofing is needed."

BANKING RELATIONSHIPS

Despite the economic turmoil, treasurers found their bankers were supportive, positive and vital. In the future, treasurers said they anticipate that the emphasis on the two-way relationship with banks would be key, as well as perhaps a broader church of banks for more specialist areas.

Marshall comments: "The ability to talk freely with bankers about operational issues was very helpful."

Laverty agrees: "Right at the start of the crisis, all our banks were interested to try to understand the impact on the operational side, and whether we needed any additional support with any potential cash-flow impacts. It was useful to have those conversations with our bankers just to set the scene in terms of where we are practically."

Laverty adds that her group's banks were very supportive in helping the team negotiate covenant waivers and amendments, as well as discussing the business model and always thinking about what the picture looked like going forwards.

KEY LESSONS

- "Always make sure you understand the granularity underneath your cash forecast. You never know when you need it" – Hailey Laverty, IHG Hotels & Resorts
- "Along with understanding cash cycles, working capital cycles are also important. Make sure you do both" – James Marshall, Virgin Media
- "What's now key to future progress in treasury functions is lowering the barrier to new technology in order to get it in the door and rolled out without huge investment" – Nicolas Christiaen, Cashforce

FINAL THOUGHTS

Having underscored the need for detailed cash forecasts and a deep understanding of working capital, the pandemic crisis will – it is to be hoped – clear a path for new technology in treasury functions.

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

Michelle Perry is a freelance writer and editor specialising in business and finance

"Assessing things operationally from a treasury perspective, we had to think in terms of funding some of our subsidiaries"

NEW FORMAT FOR MEMBER EVENTS

A NEW SUITE OF INTERACTIVE AND VIRTUAL EVENTS HAVE MADE THEIR DEBUT. **LOUISE TATHAM** DESCRIBES THE NEW OFFERING

During 2021, in addition to our public events, we are also hosting exclusive member events virtually. Open to all members and students, these one-hour sessions are designed to provide some insight, tips and thoughts on key areas covering technical, business and behavioural skills. But we also want to hear from you; the events are designed to be interactive, so you have the opportunity to ask questions or share your thoughts on the topics covered.

Virtual events ensure that members can join us irrespective of their location and we have purposefully chosen to run them so that members in Asia can join us at a time in their late evening while US members can join us for breakfast!

Our member events are now organised under two themes: '*talkingtreasury*' and 'In conversations with...' events.

talkingtreasury

These cover technical hot topics and are hosted by our policy and technical team. They provide an update on what the team is working on and what treasurers need to have on their radar. They also provide an opportunity to give feedback from meetings or initiatives in which the team is involved with institutions such as the Bank of England and European Association of Corporate Treasurers. There has been one *talkingtreasury* session on LIBOR so far:

LIBOR

The *talkingtreasury* LIBOR corporate forum included guest speakers Frances Hinden of Shell International, Toby Williams and John Wadsworth of the Financial Conduct Authority and Luke Hasham-Smith of NatWest Markets. Sarah Boyce, Association of Corporate Treasurers (ACT) associate director of policy and technical, provided an update on the latest developments and facilitated the discussion, which was followed by a Q&A session.

Technical update

The second *talkingtreasury* event provided an update on the latest issues that should be on treasurers' radar and included discussions on LIBOR transition, ESG and the road to COP26, 'recovery' from the events of 2020, the growth of interest in crypto and the fallout from the collapse of Greensill. This was followed by a Q&A session, which enabled members to share their experiences.

IN CONVERSATION WITH...

The In conversation with... series is designed to broaden members' business and behavioural skills. The series consists of conversations with our chief executive, Caroline Stockmann, herself a trained coach, along with a variety of guest speakers and experts who talk informally on the behaviours and skills needed to develop a successful career. There have been two In conversation with... events to date:

How to create a personal communications strategy

The first In conversation with... event looked at why we don't approach developing our communication skills in the same way we do for other areas of development. The event provided tips and checklists on putting together a communications strategy, including how to assemble a project plan, with milestones, and how to understand the resources and support that we would need.

The art of speaking

The second In conversation with... event looked at how we communicate verbally with others. We need to communicate effectively throughout our careers – whether this is by making a presentation to the board, delivering a speech at a conference or simply by sharing our views in a team meeting. The event looked at the art of speaking and provided tips on how to ensure you come across as confident and use your nervousness to your advantage.

GET IN TOUCH

If there are topics you would like us to cover, or if you would like to comment on any of the member events we have run so far, please let us know at membership@treasurers.org

FIND OUT MORE

Visit treasurers.org/events/member-events for the latest information on the events we have coming up.

Louise Tatham is head of professional development at the ACT

THE ART OF SPEAKING

The speaker for the art of speaking event was Agnes Favillier, treasury director at Sage. We asked for her top presenting tips and what she thought about the new format for member events.

What do you think about the new one-hour member event format?
The online format ensures that you use it to develop your skills while limiting the time away from your day job – and you can listen anywhere in the world! It's less formal than webinars, so it's easier to ask questions during the Q&A session.

What did you learn through your involvement with Toastmasters?
Toastmasters helped me to feel more confident when speaking in front of a large group of people. Everything is covered: structure, presentation style, vocabulary, feedback, speech rehearsal and improvements, and so on.

What are your top three tips for preparing for a presentation?
1. Don't be put off by blank faces – it doesn't mean people are bored!
2. Think about what gives you energy – maybe a soundtrack will put you in a confident mood.
3. Watch videos/TED talks by good speakers and learn from them.

IKON IMAGES

ACT DIARY DATES

ACT EVENTS

■ **28-29 September | A virtual event**

ACT MIDDLE EAST TREASURY SUMMIT 2021

Registration is FREE for corporate treasurers, with reduced rates for other attendees.
Under the patronage of the Ministry of Economy, the region's premier treasury event returns to our award-winning virtual platform for 2021 to offer strategic insights, a benchmark against best practice, and key learnings to take away and apply to your own treasury teams and operations. This year's theme is: Transforming Challenges into Strategic Growth Opportunities. View the overview agenda and book now at **treasurers.org/middleeasttreasurysummit21**

■ **10 November | A virtual event**

ACT 'NOT' THE ANNUAL DINNER

Winner of Best Audience Engagement Model
The ACT Annual Dinner returns to our award-winning virtual format, enabling the treasury community to network from the comfort of their own homes. Having won Best Audience Engagement Model at the Digital Event Awards, we are both proud and excited to bring you an even better experience for 2021. Book your table, put on your finest attire and join us for a highly enjoyable evening of live entertainment and socialising. Book your table now at **treasurers.org/nottheannualdinner21**

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

ACT FESTIVAL OF TREASURY TRANSFORMATION 2021

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

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

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

ACT LIVE ONLINE TRAINING COURSES

We are back in the virtual classroom!

■ **21-25 June**

THE A-Z OF CORPORATE TREASURY

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

■ **6-9 July**

ADVANCED CASH MANAGEMENT

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

■ **13 July**

TREASURY IN A DAY

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

■ **15 July**

THE NUTS AND BOLTS OF CASH MANAGEMENT

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

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

"UNILEVER'S PURPOSE IS TO MAKE SUSTAINABLE LIVING COMMONPLACE"

UNILEVER'S **MARIANA SANDOVAL** ON SUPPORTING REGIONAL NEEDS IN HER ROLE AS A SENIOR CORPORATE FINANCE MANAGER

"The World Health Organization [...] believes a new coronavirus [...] may be the cause of mysterious pneumonia cases in the city of Wuhan" (January 2020)[1]
"Within the scope of governmental measures taken due to the COVID-19 pandemic, dividend distributions are limited" (Turkey, April 2020)[2]
"Myanmar's military has seized power" (February 2021)[3]

These are some of the headlines we have woken up to in the past 18 months, referencing world events that have affected life as we know it to varying degrees. Some of them had global impact, others are more regional in scale.

However, for a company that operates in more than 190 markets worldwide, it is fundamental to understand how these events affect our business. As treasurers, ensuring we recognise the impact these events have on, for instance, cash, FX, liquidity and remittance flows, is fundamental. Equally, changes in our business and in consumer behaviour, such as the rapid development of new channels like e-commerce, also require scrutiny, since they necessitate a different transactional banking strategy.

I work in Unilever's global treasury team as senior corporate finance manager, overseeing the regions of Africa, Asia, the Middle East, Turkey and Russia, and reporting to the corporate FD for the same regions. Our role is to maintain an optimal capital structure, efficient access to liquidity and funding, and effective tools for working capital management across all countries in which we operate.

We continuously educate our colleagues on treasury topics and ensure finance risks are identified and managed

We act as advisers to our local operating companies on financial exposures and related risk management activities such as hedging, and we are supported by product experts in our global treasury operations department. This not only entails understanding the business and its cycles, but also working with the economic and political macroenvironment our businesses are facing, and managing all types of event risks as we encounter them.

Corporate finance deals with securing and optimising funding of our companies on a medium- to long-term time frame. Funding needs might arise due to operating cycles or due to specific M&A or CAPEX activities. We also evaluate the best repatriation avenues for cash generated in-country to ensure an optimal cash utilisation strategy for the Unilever Group. Additionally, we act as advisers for our businesses in terms of investment options, assessing FX exposures, how to best hedge, minimise risks encountered by the business and cross-pollinating successful treasury projects and innovations in different geographies.

We continuously educate and grow our colleagues in the markets on treasury topics and ensure finance risks (interest, liquidity, funding) are identified and managed by the business. This also means that I am constantly focused on my personal growth agenda, making sure I can deliver the best possible support to the business in a dynamic environment. Next to working on my accounting qualification, this has caused me to complete a formal Association of Corporate Treasurers qualification, which was supported by Unilever.

DAY TO DAY

Our day-to-day activities vary depending on the project work we are doing with the countries under our responsibility: funding requirements to be met through an intragroup loan, onboarding a new business into an existing cash pool, analysing a new or extending an existing supplier/distributor programme, ensuring we have all requirements in

IKON IMAGES

place for a dividend payment, reviewing the most recent interest forecast for submission, discussing a capital injection, etc.

Funding requirements vary in each market as we have a spectrum of countries on the cash-generation journey. We have many mature solid cash-generative businesses, and we have some geographies where we have recently entered the market, as well as many newly acquired businesses that we are starting to integrate into our treasury infrastructure. Legal ownership also has an impact on the execution of funding (we have fully owned subsidiaries, entities with minority shareholders and joint ventures, as well as some publicly listed entities).

Those earlier headlines are also examples of situations that might require crisis management and agility to reallocate resources away from ongoing steady-state projects.

Unilever's purpose is to make sustainable living commonplace. Treasury serves as an enabler function for the rest of our business so that it can achieve its purpose and contributes to this very mission by integrating sustainability into the function itself. We are the guardians of cash and debt, and we manage the financial risks of the business.

Treasury serves as an enabler function for the rest of our business… and contributes to this very mission by integrating sustainability into the function

THE TREASURER'S ROLE

Our value to the business is to ensure treasury contributes to different discussions, whether we are analysing the best supplier/distributor financing programmes available for the supply chain, mitigating exposures to high-risk countries or establishing strategies to minimise risks in conjunction with supply chain, tax and performance management. We also look to add value and ensure access to financing across our full value chain, including smaller retail businesses and small farmers or suppliers. We do all this in close collaboration with our key relationship banks and, as necessary, local banks.

To analyse the best funding strategy or optimal capital structure of our businesses, we must consider the input from our tax and legal colleagues to ensure we understand the regulations, opportunities, constraints and timelines required in each market. We also must work closely with other functions – we have many consultations with our group chief accountant's department to understand group accounting implications of transactions; with M&A to understand, acquisitions in the pipeline requiring funding or receiving consideration locally for divested businesses and ensure the best repatriation route for the same.

Our role is greater than protecting assets or ensuring liquidity. If we are able to provide value by strategically supporting our business counterparts, we can consider our role successful. This might not only be providing a better programme for working capital management, but perhaps a simple conversation for a market to understand the treasury risk attached to a business decision and how to best manage it.

At Unilever, we deal with many emerging and challenging markets. Some projects could take months – even years – as navigating regulations and negotiating with local authorities can take time. With the diversity of political, economic and cultural landscapes, as well as the diversity in our countries' teams, there are always new adventures in the treasurer's life.

1 statnews.com/2020/01/08/who-says-mysterious-illness-in-china-likely-being-caused-by-new-virus
2 esin.av.tr/coronahelpdesk/covid-19-limitations-on-dividend-distributions
3 bbc.com/news/world-asia-55882489

ANDREW WOOD TALKS ABOUT THE GREEN SHOOTS OF RECOVERY AND

WHY WE NEED TO REVIEW, REINVIGORATE AND REPLENISH IF WE ARE TO BE READY

REVIEW YOUR FOCUS

I recently facilitated a conversation with a group of senior leaders who were feeling overwhelmed by new uncertainty, demands and possibilities. Together we mapped all their tasks, projects, processes, activities, relationships and goals onto a four-stage eco-cycle and then decided how to prioritise and direct energy.

- **Sowing:** What's promising? How do we respond to new opportunities created by changes in organisational priorities and structures? Has the market changed? Have we developed new understandings that feel worth exploring?
- **Tending:** What has emerged? New networks, relationships, ways of working and work streams have all been created in the pressure of the past few months – some will be worth protecting and nurturing.
- **Harvesting:** What's bearing fruit? Think about how you could extract more value from core activities; perhaps you can also give them less energy without diminishing their existing value.
- **Ploughing:** What will we creatively destroy? There are likely to be old ways of doing things that have outlived their value; letting go of them is important and may be hard.

REINVIGORATE YOUR TEAM

It's worth thinking about how team members support one another. The most adaptable, energised, resilient and productive teams are those where people can contribute without fear of judgement.

You can build more of this psychological safety by consciously thinking about:

- **Creating clarity:** Spend time on your purpose, shared priorities and expected outcomes now; acknowledge how those have changed and make sure everyone's understanding is the same (and don't assume).
- **Inviting participation:** Make more space for team members to share their ideas, opinions, doubts and concerns. Step back and listen. Show vulnerability and courage by asking for help and saying, "I don't (yet) know." Farm for dissent, and lean into respectful conflict.
- **Responding appropriately:** Appreciate people's contribution, particularly when they are taking risks, disagreeing or showing courage and creativity. Show that it's OK to not be OK.

REPLENISH YOUR ENERGY

Uncertainty, change and growth require energy. For much of the past year, many people have been relying on their reserves, and your own energy may be running low, just as hope rises on the horizon. Effective leaders hold back energy for themselves; tending to our physical, mental and spiritual energy and health is a core leadership responsibility, especially if we expect to be able to do the work of reviewing and renewing.

As well as the work we all (should) do to keep ourselves physiologically fit – eating well, exercising regularly and getting enough rest – the following neurobiological 'modes' have also been shown to restore the mental energy we need for change:

- Connecting with others meaningfully – in conversations that are not about work.
- Engaging in regular self-reflection – journaling, mindfulness or just making time to take stock.
- Switching off and engaging in low-brain-energy activities (like watching rubbish TV).
- Creative activities and play – with others or alone, in or outside of work.

Renewal and growth ask us to conserve and direct our energy. Now more than ever, it's worth making space to think about how you will engage with the opportunities and requests that may be starting to spring up around you.

Andrew Wood is an accredited transformational coach, facilitator and organisational development specialist, and a director at leadership consultancy h³

FIVE KEY TAKEAWAYS

1 TIME FOR CHANGE
Change requires us to replenish and redirect our energy and that of our teams.

2 TEACHABLE MOMENTS
Recontract with your team on values, purpose, behaviours and responsibilities.

3 SPEAKING FREELY
Amy Edmondson's book *The Fearless Organization* has some good advice for leaders.

4 THE STATE WE'RE IN
Adam Grant's article 'Languishing' explains how COVID-19 may have dulled our focus.

5 LEADERSHIP ROLES
Dan Siegel and David Rock's article 'Healthy Mind Platter' looks at a balanced mental 'diet'.