CLOUD FORMATION
The differences between public, private and hybrid

WORK, EAT, SLEEP, REPEAT
How to escape the treadmill and learn the real value of resilience

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The myths, challenges and efficiency gains on offer

The Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS ◆ CASH MANAGEMENT EDITION 2019

"YOUR GROWTH NEVER STOPS"

Joanna Bonnett, group treasurer, PageGroup

PLUS

THE EURO AT 20

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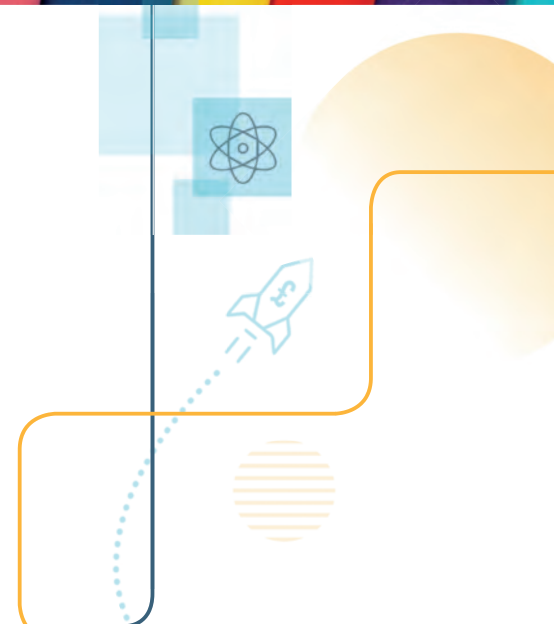

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CELEBRATING 40 YEARS
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Editor's letter

As I write this, the course of Brexit remains just too close to call. UK prime minister Theresa May has put the deal she negotiated with Brussels to successive votes in the House of Commons only to see decisive defeats against both her agreement with the EU and her back-up plan to leave the EU without a deal. Rarely has a prime minister been so embattled or a parliament so caught up on a single issue. The UK's means of exiting the EU remains firmly in the 'decision-pending' file.

Brexit or no, the euro reached a significant milestone this year – its 20th anniversary. The world's second-largest currency, brought in electronically initially and then as notes and coins in 2002, has survived the global financial crisis and the debt crisis of 2009–12, and confounded many critics – notably US economists – who believed the economies of the currency area too diverse to be shackled together. The euro still faces that very issue. Tensions in the eurozone are writ large and imbalances between the dominant economies persist. On page 20, writer and speaker Frances Coppola tracks the euro's ups and downs.

Our profile interviewee for this edition is Joanna Bonnett, group treasurer at PageGroup. Since her arrival at the recruiter in 2017, Bonnett has overseen a treasury transformation project, including the rationalisation of transactional banking alongside the automation and centralisation of banking interfaces into a new global finance system. To prevent this workload from toppling the treasury's day-to-day work, Bonnett's small in-house team and consultants adopted rigorous project-management parameters and smarter working practices. Find out more on page 16.

Elsewhere in this edition we have our usual mix of technical and professional issues: treasury management system implementation, modelling risk scenarios, the great Libor transition and post-reform money market fund investment. And alongside your magazine, you will receive the *ACT Cash Management Report*, sharing the many insights and lessons from The Association of Corporate Treasurers' (ACT's) annual conference.

Coming up in our next edition, we look forward to celebrating the ACT's 40th anniversary with a special edition focusing on the achievements of treasurers and the Association over the past four decades. It is not too late if you want to share where you were when the banks nearly broke or what you did in the face of any number of commodity crises. Feel free to get in touch. In the meantime, I hope you enjoy the issue.

Liz Loxton

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THIS ISSUE'S CONTRIBUTORS

Abis Soetan AMCT is a director in Fitch Ratings' fund and asset manager group. His responsibilities include assigning ratings to money market and bond funds, as well as publishing timely research on analytical and regulatory developments affecting the sector. His article on treasury policy in the wake of money market fund reform is on **page 30**

Royston Da Costa, assistant group treasurer at Ferguson and responsible for the group's treasury technology strategy, is a regular speaker at treasury events. Ferguson won a Corporate Recognition Award for Future-Proofing Treasury recently. His article on how to build a case for TMS implementations is on **page 34**

Peter Bregman is the founder and CEO of Bregman Partners, and author of personal productivity and leadership titles, including *18 Minutes: Find your Focus, Master Distraction & Get the Right Things Done*. He is a regular contributor to the *Harvard Business Review*. For his article on leadership, turn to **page 40**

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Joanna Bonnett, group treasurer at PageGroup

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Agenda

For the latest news and comment in the treasury world, follow us on Twitter **@thetreasurermag**

BREXIT: FINANCE FIRM RELOCATIONS MOUNT UP

Some 275 firms in the finance sector have either pulled, or are preparing to pull, business worth £900bn out of the UK because of Brexit, according to a March report from New Financial. The capital markets think tank says that more than 275 of the firms are setting up hubs on the continent dedicated to managing their EU affairs. In parallel, firms are moving parts of their businesses overseas and/or relocating staff.

Entitled *The New Financial Brexitometer*, the report shows that banks and investment banks are shipping out £800bn in assets; asset management firms are transferring £65bn of funds; and insurance firms are shifting assets worth around £35bn. For many firms in banking and finance, the report notes, "Brexit effectively happened some time last year".

It explains: "The political uncertainty since the referendum has forced firms to assume the worst-case scenario... and to prepare accordingly. Many large firms have had their new entities in the EU up and running for months and, having spent tens or hundreds of millions of dollars on their contingency plans, are not going to relocate business back to the UK any time soon."

Among the venues that have attracted business from the UK, Dublin is the clear winner, with 100 firms choosing the city as a post-Brexit base. That puts it well ahead of Luxembourg (60 firms), Paris (41), Frankfurt (40) and Amsterdam (32).

New Financial MD William Wright says: "This is not Project Fear; this has already happened... The top-line figure almost certainly understates the extent of the Brexodus. We are only looking at companies that have said publicly what they are doing or have set up a new entity in the past 18 months." He warns: "This is phase one."

$14 TRILLION FORECAST FOR ALTERNATIVE INVESTMENT SECTOR

A prominent figure in alternative investment management (AIM) has tipped the sector for blockbusting growth over the next four years. Speaking in the run-up to the 7 April Abu Dhabi edition of the 2019 AIM Summit, Dalma Capital CEO Zachary Cefaratti said: "We estimate the alternative investment industry to currently represent more than $10 trillion in assets under management today. Based on data from [market analyst] Preqin, we forecast this to grow to $14 trillion by 2023.

"As we enter the late stages of economic and credit cycles, investors increasingly consider alternative investment and uncorrelated assets."

Summit insiders note that alternative investment is "critical" to portfolio diversification.

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The OECD presents a gloomy outlook in the face of trade and geopolitical tensions.

"The global expansion continues to lose momentum. Growth outcomes could be weaker still if downside risks materialise or interact"

GREEN INVESTMENT IN 2017 TOPPED $600BN

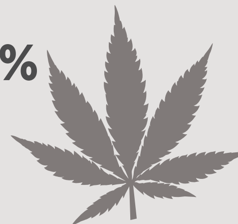
Corporate capex and R&D spend in 2017 hit $3.6 trillion – of which $611bn was dedicated to green projects or resources, according to the Climate Bonds Initiative. In a global, joint study with Corporate Knights Research, the green finance experts examined the spending habits of 7,000 large firms. While the partners welcomed the findings, they stress that the overall spend must climb to $3.8 trillion, and the green proportion to $1.07 trillion, to meet global targets.

Corporate Knights CEO Toby Heaps said: "The green economy is growing much faster than the regular economy. But we're still falling far short of the green investment needed to put the global economy on track to meet the UN Sustainable Development Goals."

DIFC ASSET MANAGEMENT SECTOR 'WORTH $424BN'

Asset management firms in the Dubai International Financial Centre (DIFC) have reached a combined value of $424bn, the Middle Eastern hub's governor has revealed. In a statement at Dubai's second Global Financial Forum, His Excellency Essa Kazim said: "To put this in context, that is equivalent to roughly 30% of the combined GDP of all Gulf Cooperation Council countries."

He added: "The wealth and asset management sector is the cornerstone of a thriving financial services industry, and is playing a significant role in attracting new businesses to Dubai... This is a reflection of the enhancements we have made in our ecosystem, and in laws and regulations to support growth."



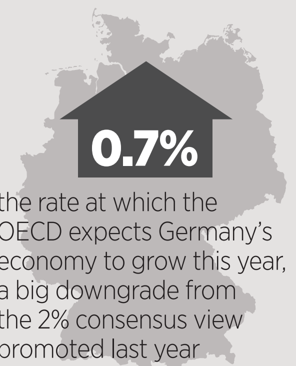
50%
the amount the world's first cannabis exchange-traded fund returned over two months this year

$621bn
the 10-year high that the US trade deficit rose to in 2018, despite US President Trump's pledge to reduce the imbalance

20.7%
the amount that Chinese exports declined by in February from the same month a year earlier, the sharpest decline in three years

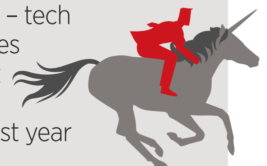
the rate that the European Central Bank has pledged to keep interest rates at this year; it also announced further stimulus in the form of cheap loans to banks

691m
the number of contactless card transactions in the UK in December 2018, according to finance trade organisation UK Finance



the rate at which the OECD expects Germany's economy to grow this year, a big downgrade from the 2% consensus view promoted last year

13
the number of unicorn start-ups – tech companies valued at $1bn – in the UK last year



IN THE NEWS...

UK PSPs TO REMAIN IN SEPA

Whatever shape Brexit takes, UK payment service providers (PSPs) will continue to take part in the Single Euro Payments Area (SEPA), it has been confirmed. SEPA managing authority the European Payments Council (EPC) announced the decision in March, following an application that trade body UK Finance filed with the organisation late last year.

As the British payments industry's representative body, UK Finance had pointed out in its application that 84 UK PSPs currently participate in the SEPA Credit Transfer scheme – with a further 40 taking part in the SEPA Direct Debit (SDD) Core scheme, 27 in the SDD B2B offering and five in the brand-new SCT Instant venture.

In a decision paper, the EPC said: "As the geographical scope of SEPA already extends beyond the EU and EEA – including several third-world countries and territories – the option remains that the UK PSPs continue operating within the scope of the SEPA schemes, provided they fulfil the EPC's eligibility criteria."

UK Finance CEO Stephen Jones

UK Finance CEO Stephen Jones said: "This is a positive outcome for consumers and businesses on both sides of the Channel who rely on the SEPA schemes to make billions of euros' worth of payments each year."

TREASURY COMMITTEE SLAMS "FRAGMENTED" AML SYSTEM

Anti-money laundering (AML) supervision in the UK is "highly fragmented", according to a withering report from the Treasury Committee. In a statement, the Committee noted that, in addition to three statutory AML watchdogs (HMRC, the Gambling Commission and the Financial Conduct Authority), there are 22 linked to the accountancy and legal professions. As such, it has proposed a 'supervisor of supervisors' to ensure greater consistency.

"Another area of concern," the Committee stressed, "is company formation, specifically the role of Companies House, which is not required to carry out any AML checks. This makes it a weakness in the UK's system for preventing economic crime."

Meanwhile, contributors to the report's research described the UK's corporate criminal liability framework as "not fit for purpose". Under the current arrangements, the Committee said it is "typically more difficult to identify which people are the directing mind and will of a larger company than a smaller one, potentially encouraging more exotic management structures to avoid prosecutions".

Committee chair Nicky Morgan MP said: "The government must ensure it does not bow to buccaneering deregulatory pressures and maintain its intentions to lead in the fight against economic crime. Leading that fight is going to require focus. The government needs to bring greater order to a fragmented supervisory system, better identify the scale of the problem, and make a greater effort to combat the known risks and gaps in the supervisory system."

FITCH: EM GROWTH PROSPECTS WANING

Growth projections for some of the largest emerging-market economies have deteriorated in light of a gloomier investment outlook, says Fitch. The rating agency's updated, five-year supply-side growth estimates for 10 major emerging markets contain downward revisions for Brazil, Indonesia, Mexico, South Africa and Turkey, with India granted the sole upward revision.

Fitch economist Maxime Darmet noted that a slowdown in projected investment growth "feeds through to lower labour productivity growth as we see less scope for increases in the capital-to-labour ratio, or 'capital deepening'". Darmet added that prospects for a re-acceleration in wider production efficiencies also look "quite limited".

GETTY

FIVE MINUTES ON...

CYBERSECURITY – USER MONITORING SOFTWARE

According to the Bottomline and Strategic Treasurer's *2019 Treasury Fraud & Controls Survey Report*, user monitoring software, while not currently at the top of corporates' cybersecurity and fraud-protection agenda, could see much wider take-up in the future and begin to form a much more significant part of mainstream cybersecurity defences.

This type of software has the potential to help organisations monitor anomalous or suspicious behaviour across financial and other operational systems and detect suspicious instances in real time.

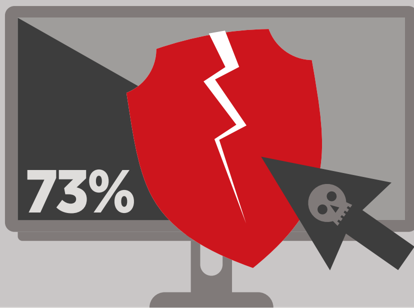
Technology vendors and banks have led the way in terms of incorporating this kind of monitoring software into their systems and product offerings. The functionality embedded within these products is designed to send alerts in instances such as a user logging in at an unusual time or attempts to access a part of the system that has limited access. Other benefits of this kind of software include increased visibility on activity, plus audit trails and system replays in the event of breaches.

Apart from protecting against the malicious insider threat, these kinds of software are also being used to detect accidental data misuse or transmission. According to a Gartner report on employee-monitoring products and services from last year, insider threat incidents can lead to disruption, reputational risk or loss and regulatory breaches. Real-time detection may help organisations investigate and detect such incidents.

IN THE LINE OF FIRE

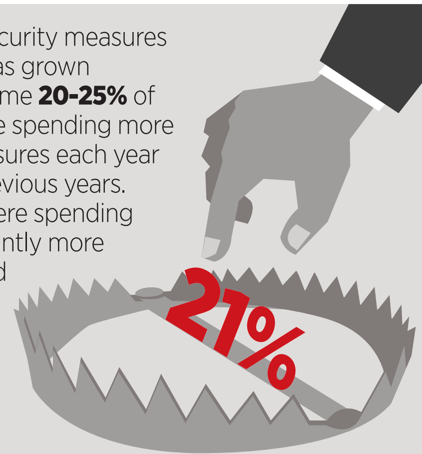
TREASURERS ARE INCREASINGLY CONCERNED WITH CYBERSECURITY GIVEN THE ASSETS AND FINANCIAL DATA UNDER THEIR RESPONSIBILITY. THE FOURTH ANNUAL BOTTOMLINE SURVEY FINDS CORPORATES ARE DIRECTING MORE RESOURCES INTO THIS AREA – BUT MORE NEEDS TO BE DONE

Year-on-year, corporates believe the fraud threat via cybersecurity breaches to be growing. 73% believe the threat of fraud has increased over the past year, while 16% of the sample said it had increased significantly.

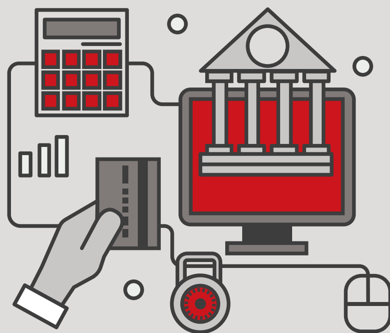


However, respondents' confidence in security measures is growing. In total, 49% said they were in a better or significantly better position compared to the previous year.

Investment in security measures and resources has grown year-on-year. Some **20-25%** of organisations are spending more on security measures each year compared to previous years. **21%** said they were spending more or significantly more on treasury fraud prevention, detection and controls.

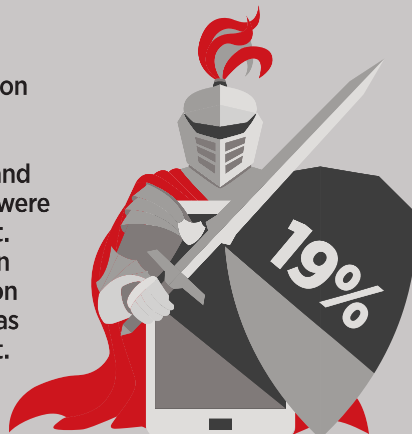


The survey identified five distinct areas of focus in terms of corporates' 2019 planned security spend: **45%** bank transaction controls; **39%** business email compromise controls; **37%** internal transaction controls; **35%** card processing controls; and **24%** bank reconciliation features.



Business email compromise (BEC), cyber fraud and cheque forgery topped the incident list in terms of security breach attempts experienced over the previous 12 months:
71% said they had seen some attempts, but no success at BEC; 6% reported a loss.
52% said they had seen cyber fraud attempts; 4% reported suffering a loss of this kind.
43% reported attempts at cheque forgery, with 7% reporting a loss.

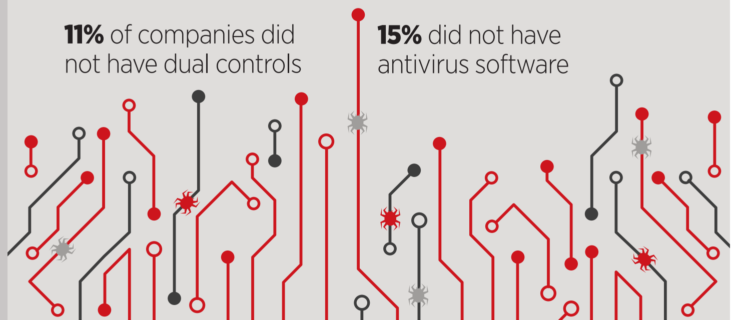
When it came to security practices:
34% said segregation of duties was the most important.
19% said firewalls and antivirus defences were the most important.
15% said encryption and other protection of sensitive data was the most important.



When it came to areas of corporate security that required strengthening, there are still worrying exposures around areas such as data encryption and dual controls or antivirus/firewall software.

11% of companies did not have dual controls

15% did not have antivirus software



Awards Dinner

SUCCESS AND STANDARDS

OUR AWARDS WINNERS CELEBRATED THEIR ACHIEVEMENTS IN STYLE AT BANKING HALL IN FEBRUARY

Words: Anne Hogarth / Photography: Carol Moir

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Phoenix Group, the specialist consolidator of heritage life assurance funds, was declared overall winner at *The Treasurer*'s 2018 Deals of the Year Awards, held on Thursday 7 February, for its £2.9bn acquisition of Standard Life Assurance Limited. The awards were held at London's Banking Hall, with an audience of more than 150 senior treasurers and treasury specialists.

Caroline Stockmann, chief executive of The Association of Corporate Treasurers (ACT), and Scott Barton, managing director, large corporates, at Lloyds Banking Group, welcomed guests to the annual ceremony. Senior treasury and finance professionals from corporates internationally had come together to celebrate excellence in the treasury profession at the 22nd annual awards. Held in the 40th anniversary year of the ACT, the Deals of the Year Awards underline the importance of the work that treasurers do, and the innovation and excellence shown across the profession.

Stephen Jones, the guest speaker and first CEO of UK Finance, the trade association for the finance and banking industry based in the UK, underlined the significance of the 40th anniversary of the founding of the ACT, and its invaluable role in supporting the treasury profession and the broader economy. In that time, the ACT has played a crucial role in driving up professional standards and providing invaluable expertise to policymakers, and was recognised through the award of a Royal Charter back in 2013. Jones urged the audience not to think about treasury's role and purpose through the prism of short-term financial value alone, but to take a longer-term focus view that would in return attract long-term investment and deliver lasting prosperity. He reminded everyone that the ACT and its members have a vital role to play in this process.

RECOGNISING EXCELLENCE

Excellence was demonstrated by all the award winners on the night, many of whom are ACT members – holders of, or studying for, our professional treasury qualifications – or ACT CPD-accredited employers. Success and standards, as always, going hand in hand.

There were more than 140 nominations, and the judging panel said that they had seen a wide range of exceptional examples of treasury practice. As volatility has been the almost constant theme over the past year, treasurers have had to be fleet-footed and opportunistic.

The famously competitive treasury team awards were hotly contested and saw global port operator DP World taking home the award for Large EMEA Treasury Team of the Year. The team also won the Bonds above £750m category. Tesco and St Modwen were the winners of the Large and Small UK Team of the Year respectively.

Philip Learoyd, group treasurer at OCI and chair of our panel of judges, said: "For all of our team award winners, the challenge of delivering change-management projects at the same time as executing the funding and takeout of major transactions is a remarkably impressive achievement." Treasurers are being asked to provide expertise and financial leadership across an increasing range of areas, something that is highlighted by the ACT's annual *Business of Treasury* survey, and shown by the nominees and winners across all the Deals of the Year Awards categories.

It was the second year of the Sustainable Finance category, and the number of nominations more than doubled with a much wider range of green and sustainable finance initiatives showcased. The award shines a spotlight on an important area of future finance. From a strong field of nominations there were joint winners: Renewi plc and Metroline.

Congratulations to all those who were nominated, to the highly commended and the award winners. The Deals of the Year Awards are a great opportunity to recognise excellence in treasury, and we look forward to celebrating more treasury achievements in the future. The 2019 Deals of the Year Awards will open for entry in the autumn.

The full details for all the winners are on the ACT's website at treasurers.org/thetreasurer

Clockwise from top left; guests mingle at the reception; the judges with ACT CE Caroline Stockmann; Stephen Jones, CEO of UK Finance addressed diners; the winners; Peter Matza, ACT's speaker's chair; Banking Hall in Cornhill was elegantly set for the event

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EMBRACING DISRUPTION

A SNEAK PEEK AT THIS YEAR'S ACT ANNUAL CONFERENCE, FOR A TASTE OF WHAT TO EXPECT

A regular highlight in the corporate treasury calendar, the ACT Annual Conference brings together leaders in treasury and finance for two days of briefings, updates and networking. The 2019 conference, held in Manchester over 21–22 May, will be extra special, as it forms the centrepiece of The Association of Corporate Treasurers' (ACT's) 40th anniversary celebrations.

This year's event is themed 'Embracing Disruption' and challenges treasurers to dare to think differently and prepare themselves for innovation and change.

Looking ahead

The Big Debate panel discussion brings together some of the top minds in politics, economics and business to share and discuss their takes on what lies ahead for treasury across the globe over the next five years. In individual track sessions, the future-facing theme continues with Financing Tomorrow, looking at areas yet to feel the disruptive force of fintech.

On the second day, a Dare to Think Differently session draws on brand-new research from *The Business of Treasury 2019*, unveiled exclusively at the conference, and looks at what lies ahead for the treasurers of tomorrow.

The digital revolution

Looking at specific areas, automation and digital transformation are themes that are picked up in several of the sessions. Pushing the Boundaries of Virtual Banking looks at virtual technology and the latest technological advancements for treasurers. Survival of the Fastest: Treasury in a Digital Age examines automation and its implications; how will it affect treasury roles and responsibilities?

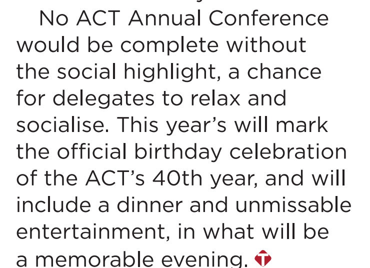
Sustainable finance

Environmental, Social and Governance (ESG) is booming and corporate treasurers are taking note – the number of corporates that have successfully issued green bonds is on the rise and many more have similar projects in their pipelines. Traditionally positioned very much on the periphery of corporate finance, sustainable financing has slowly edged its way into the corporate loans and supply chain finance space. As it moves more and more onto the treasury radar, the Sustainable Finance session gives a much-needed update.

Highlights

The conference will be opened this year by the award-winning broadcaster Jon Snow, offering his thoughts and insights into the current political and economic climate. And saving the best for last – we'll have a packed afternoon on the second conference day, dedicated to real-world corporate treasury case studies – for treasurers by treasurers.

No ACT Annual Conference would be complete without the social highlight, a chance for delegates to relax and socialise. This year's will mark the official birthday celebration of the ACT's 40th year, and will include a dinner and unmissable entertainment, in what will be a memorable evening.



FOUR STEPS TO PREPARING FOR THE ACT ANNUAL CONFERENCE

STEP 1

Subscribers to *The Treasurer* get a 10% discount – simply use the code ACTAC19TT when you book your tickets.

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TECHNOLOGY FUTURE

TREASURY AND FINANCE TECHNOLOGY ARE AT THE FOREFRONT OF EAST AFRICA'S DYNAMIC TREASURY EVOLUTION. DANIEL DOWSON REPORTS

With discussions on cash and liquidity management, trade finance and the future of treasury technology, 13 March saw the third iteration of the East Africa Treasury Forum in Nairobi.

Opening the event, Eva Wanjiku Otieno, Africa strategist at Standard Chartered Bank (pictured, right), discussed the East Africa market outlook with a focus on the international context as well as the situation of each of the main countries in the region. Otieno spoke of the impact of President Trump's administration and the effect this is having on Federal Reserve policy, which is leading to Libor rates moderating their previously upward trend. She also covered the robust economic growth in Kenya, the continued depreciation expected in the Ugandan shilling and rising risks in Tanzania for 2019, given declines in both donor funding and foreign investor appetite.

A panel made up of treasurers from Kenya Railways, Jubilee Insurance and Vivo Energy explored the role of treasury and how it is changing in East Africa's highly dynamic market, including discussion of technological advances such as reduced turnaround times for allocating payments and receivables automation.

And the cause of this? The strong focus on innovation, where Kenya has taken the lead in the region – a fact brought up time and again throughout the day. Companies are increasingly implementing treasury management systems, something very new to the region. Payment systems and mobile payment channels (which Africa leapfrogged into some years back now) have a role in simplification and automation, and the dominance of mobile and internet payments is eliminating the widespread use of cash.

Trade finance was another key discussion. Here again technology is facilitating efficiency gains, including increased information flows, vastly improving transparency. A great challenge in the African environment is a lack of data in general. Where business intelligence and corporate information is available, credit ratings tend to be more difficult to access. However, data mining and other technological developments are helping to enhance the level of information available.

Sonal Sejpal, director at Anjarwalla & Khanna, provided a legal perspective on trade and fraud, explaining that there is legal certainty in payments, which is fairly robust, except where there are allegations of corruption. Incorrect invoicing of imports led to a loss of $767m in terms of non-payment of VAT, customs duties and taxes. Changes are rightly discussed, but whether words turn to actions remains to be seen. Gulf Energy's Paul Sila described how technology and data information will grow the future of trade finance. If all parties are playing their part in a transaction, then trust is built and there is an opportunity to grow business.

Delegates enjoyed lively panel discussions at the forum

A highlight of the afternoon track sessions was an interesting discussion between Evelyne Mutua, treasury accountant at Toyota Kenya, and Titus Kamanguya, commercial finance manager at GlaxoSmithKline Kenya, regarding banking relationships and the benefits of moving from a transactional relationship to a more strategic one. They discussed the need for both inward- and outward-looking reviews: inward as the nature of your organisation will determine which type of bank will best suit organisational needs; and outward since the transactional track record of the bank is important. A key point raised was the need for both parties to appreciate the value that both customer and bank bring to the relationship, if that relationship is to be mutually beneficial.

The forum did not solely focus on technical matters. A fascinating fireside chat between The Association of Corporate Treasurers (ACT) chief executive Caroline Stockmann and Standard Chartered Bank Tanzania CEO Sanjay Rughani provided advice to treasurers on how to think like a CEO: 'be the new now', 'disrupt yourself' and silence – talk too much and trust is lost. Stockmann and Rughani also discussed the impact of ethics, their importance in Rughani's own career and how they fit with the ACT's mission to embed professionalism and integrity in the treasury community.

The closing panel explored the future of technology, which was a theme through the full day. One theory from financial innovation and transformation architect Rianna Postma was that blockchain enables a new form of communication through trust, and Safaricom's Patrick Nduati Njuguna stressed the importance of technology needing to create value for the customer. Hillary Oonge from M-KOPA Solar closed the session, highlighting that if the treasurer is empowered to think out of the box, and they are not willing to take on the challenge, they need to consider whether they are ready to be a treasurer.

From fraud mitigation to anti-money laundering to sustainable finance, the day covered many other issues and challenges – as well as opportunities – faced by East Africa's treasury community. We look forward to developing the conversation as the ACT continues to lead treasury in the dynamic markets of East Africa.

Daniel Dowson is programme manager – global events at The Association of Corporate Treasurers

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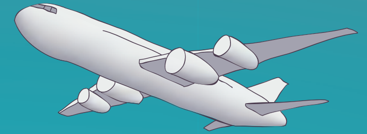

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PUTTING THE MARKET RIGHT

WHY CENTRAL BANKS ARE DOVISH AND ADVOCATING PATIENCE

US and European equity markets have rebounded strongly in 2019. Relative to the December 2018 lows, the S&P 500 has risen by almost 20%, while the Euro Stoxx 50 has gained more than 10%. This is somewhat surprising as economic news has mostly deteriorated further and political uncertainties remain elevated. By and large, it was the softer economic climate and political worries that had underpinned the market correction in the second half of 2018 in the first place.

Four factors have lifted stock markets since the beginning of the year. First, markets may have discounted too much risk late last year. The sell-off in global equity markets of almost 20% on the back of stalling eurozone economies and signs of a US slowdown reduced valuations to attractive levels. Second, policymakers in China have signalled additional fiscal and monetary stimulus to treat the ongoing economic slump in the world's second-largest economy. Third, some progress in US-China trade talks has raised markets' hopes of a breakthrough between the world's two largest economies that can avert a full-blown trade war.

Progress in US-China trade talks has raised markets' hopes of a breakthrough

Fourth, and most importantly for the story of markets so far in 2019, central banks have sent strong signals that they stand ready to alter their policy paths to bolster confidence and demand. In market speak, this is known as the central bank 'put'.

A 'put' is a financial contract that is designed to protect against losses. The concept first gained notoriety during the tenure of Alan Greenspan as chairman of the Federal Reserve from 1987 to 2006.

By promising to slow the pace of rate hikes, pause a tightening cycle, or indeed even by cutting interest rates in response to a correction in financial markets, a central bank can raise the expected level of future market liquidity and encourage risk-taking. Central banks thus have the power to halt a decline in the prices of risky assets like equities, or in the case of the 2019 rally, partly reverse a previous correction.

In 2019, central banks have woken up to the risks and changed their tune accordingly. In January, the US Federal Reserve did a U-turn following its December rate hike. The increase in the fed funds rate was coupled with guidance that the central bank's balance-sheet reduction would be on 'autopilot'. This added to the climate of risk in financial markets that had long worried about the negative consequences on liquidity resulting from the Federal Reserve's balance-sheet-reduction policy.

However, in January, the Federal Reserve retuned its forward guidance away from 'further gradual increases' in the fed funds rate to a more neutral statement of 'patience' to signal a pause in its rate hike cycle that started in December 2015. It also signalled that the pace and duration of its ongoing balance-sheet reduction could be adjusted in line with underlying economic conditions.

As a side effect, a more dovish Federal Reserve also makes life a bit easier for vulnerable emerging markets that continue to recover from their 2018 adjustment crisis to the stronger US dollar.

Meanwhile, other major central banks, including the Bank of Japan, the European Central Bank and the Bank of England (which is tackling its own local uncertainties linked to Brexit) have turned suitably dovish.

In the absence of serious inflation risks, central banks can focus on keeping demand growth on track and leaning against any drop in financial market sentiment that poses a threat to the underlying real economy. The true acid test of the central bank 'put' will come when inflation starts to rear its ugly head. Luckily for central banks, and markets, that seems to be a very remote prospect indeed.

Kallum Pickering is senior economist at Berenberg Bank

CAREER PATH

2017–present
Group treasurer, PageGroup, UK
2014–2017
Independent treasury consultant, IMI, UK
2012–2014
Group treasurer/director of treasury and banking, Australian Federal Department of Defence
2009–2012
Assistant group treasurer/ assistant director of treasury and banking, Australian Federal Department of Defence
2007–2009
Treasury analyst, ActewAGL, Australia
1999–2006
Various treasury and accounting roles, Australia

QUALIFICATIONS

CA
AMCT
CertICM
Bachelor of Accounting, the University of South Australia

"YOUR GROWTH NEVER STOPS"

Having overseen a treasury transformation project, Joanna Bonnett, group treasurer of PageGroup, fully intends to keep challenging herself

Words: Sally Percy / Photography: Louise Haywood-Schiefer

FTSE 250-listed recruitment company PageGroup has revenues of more than £1.5bn and operates in 36 countries worldwide. Nevertheless, it is a "pretty simple business model", according to its group treasurer, Joanna Bonnett. "We only ever grow organically," she explains. "We are not delivering products to complicated jurisdictions; we are a specialist recruiter operating domestic businesses."

While PageGroup's business model might be straightforward, the same cannot be said for its recent treasury transformation project. This project, which largely took place in 2018, involved the rationalisation of the group's transactional banking in 94 subsidiaries, across 41 banking jurisdictions, alongside the simultaneous automation and centralisation of its banking interfaces into a new global finance system.

The group's objectives were to gain cost and process efficiencies, to consolidate transaction processing into its four shared services centres, and to achieve centralised visibility and control over all its bank accounts globally. Key to the implementation were NetSuite, its new enterprise resource planning (ERP) system, which replaced the three existing ERP systems, and City Financials, its new treasury management system.

To say that the implementation of the treasury transformation project was a mammoth task is an understatement. "Last year, our team migrated more than 1,800 documents, including bank account opening forms, know your customer documents, and terms and conditions," explains Bonnett. "We migrated thousands and thousands of pages and more than 200 files across all systems. We also had to engage with 23 payroll providers and we reduced our banking partners from 19 to three." Furthermore, PageGroup's treasury dismantled its existing European-wide cash pool and re-established another pool with its new primary banking partner.

Already, the new system is delivering strategic benefits as well as operational ones. "From a purely treasury perspective, because we can now see all payments, we can forecast exceptionally accurately," says Bonnett. The group also benefits from straight-through processing, while bank account reconciliation and cash sweeping happen on an automated basis. Going forward, there are plans to automate other core treasury processing activities, such as FX dealing, and possibly investment of excess cash.

SMALL-TEAM RECOGNITION

Since PageGroup has a small permanent treasury team of just two, including Bonnett, three contractors were brought in for the duration of the project. A considerable amount of work needed to be accomplished within a limited time frame. So, how did the team manage this?

"We had very strong project management internally within the treasury team," Bonnett explains. "We had to liaise with many different stakeholders, so we were constantly on either phone calls or Skype calls or, on occasion, both simultaneously. As we didn't have an army of people, we needed to have open communication with each other and be well aware of what everyone was up to within the project at any point in time. Working in a very close-knit team was to our advantage."

With a project of this scale, fitting in the 'day job' could be challenging at times, Bonnett admits. And were the hours horrendous? "I would say no, I've seen worse," she responds with a laugh. "But the hours could have been horrendous were it not for us working smarter and focusing on quality rather than quantity." Indeed, the quality of the team's work was recognised by The Association of Corporate Treasurers (ACT), which ranked it as the Highly Commended UK Small Team of the Year for companies with a market capitalisation of less than £4bn in *The Treasurer*'s 2018 Deals of the Year Awards.

WHAT I VALUE MOST ABOUT THE ACT IS…

Its determination to advance the treasury profession. Despite having limited resources, the ACT does a brilliant job of championing treasury with legislators and provides leading treasury qualifications. The ACT sits right at the heart of a community of passionate treasury professionals and acts as the lifeblood of the industry. By facilitating conferences, dinners and networking events, the ACT allows treasurers to exchange ideas, share a drink and even have a laugh. Like many other treasurers, I have developed some of my strongest friendships over the years through the ACT.

Bonnett's advice to other treasurers about to embark on a similar project involving bank account rationalisation is: "Make sure that you know not only your own business, but your banks' business very well. You need to know their strengths and their weaknesses. Also, you need to understand the banks' costs of funding. Transactional banking forms a key part of ancillary business, so if you remove it from a bank, you could place pressure on other banking products you use, such as your revolving credit facility."

RISE THROUGH THE RANKS

To get to where she is today, Bonnett has literally been on a journey. Born in the UK, she emigrated to Australia as a child, with her family. After growing up in Canberra, her first taste of treasury came when she did a succession of accounting jobs that would now be regarded as treasury roles – roles that involved bank reconciliations, confirmations, FX dealing and trust accounting. "These then progressed into genuine, full-blown treasury roles," she says. "As the years progressed, the projects became more complicated and the roles became higher profile. I found the diversity of work challenging, but also very rewarding."

The high point of Bonnett's blooming treasury career in Australia came when she joined the Australian Federal Department of Defence in 2009, first as assistant group treasurer, and later as group treasurer. With responsibility for the department's treasury and banking function, she oversaw a team of 21 who covered treasury accounting and reporting, treasury cash management and treasury operations.

The role was challenging for a number of reasons, including freezes on public-sector spending, a major transformation project and the requirement to centralise the FX function of 13 groups within the department. One challenge was staffing, since Bonnett had inherited a struggling team. "I had poorly performing team members," she says, "and I had other team members who were very good at their jobs, but hadn't been motivated properly or given the right opportunities."

Since there was no prospect of bonuses, Bonnett could not use money to incentivise her team. Instead, she had to be resourceful about finding other ways to motivate them. She set up weekly staff meetings to encourage her team members to get to know each other better and to collaborate more effectively. She also invited bankers and other senior leaders from within the Defence department to come in and speak. Where staff had potential, she encouraged them to explore new opportunities, go on courses and try out new and different work. Other staff she let go, which helped to reduce absenteeism and poor performance, improving the morale of the team overall. "On a very basic level, I used to provide chocolate cake," she reveals. The success of her interventions is demonstrated by the fact that a number of her staff members subsequently received several promotions.

ACROSS THE GLOBE

Although Bonnett's career in Australia was progressing well, she had always longed to return to Europe – a longing that intensified after she and her husband bought a farmhouse in Normandy, France, in 2011. So, in 2014 she made the big decision to pack up her life and transfer her career to Europe. "I wanted to broaden my horizons, broaden my treasury perspective and understand how different companies worked away from the Australian market," she explains. "The easiest way to do that was to migrate to the UK. On a personal level, I also wanted to have different development opportunities and experiences."

Bonnett's first role in the UK was as a contractor for FTSE 250 engineering company IMI. She joined to support the assistant treasurer and was soon running a major bank tender following RBS's decision to downsize its cash management business. Next, as a contractor, she took on the group treasurer's role. In 2017, Bonnett moved to PageGroup as group treasurer, where she is responsible for the group's global working capital facilities, debt, investments, insurance and transactional banking. She also has a hand in the investor relations function, where she manages several market analysts and investors, and sits on a committee that reviews the business cases for opening subsidiaries in new markets. Additionally, she is a senior sponsor on behalf of the

WHAT I LIKE BEST ABOUT TREASURY IS...

The diversity and complexity that each role brings. Although the fundamentals remain the same, each industry and organisation has areas of focus that present a unique blend of opportunities and challenges. I personally enjoy how treasury sits at the centre of internal business operations, acting as a business partner and engaging externally with a vast network of stakeholders. It is impressive to see how the profession has matured over the 40 years since the ACT was established. I believe the next phase of treasury will evolve at tremendous speed as the profession keeps pace with technology, the development of new treasury products and the changing interactions between individuals and organisations.

group support functions for the Women@ Page gender diversity initiative, which aims to improve gender balance and inclusion at all levels within PageGroup.

Through her association with Women@ Page and the ACT's Mentor Me service, Bonnett is also involved with mentoring – a subject close to her heart. She currently mentors four women who work in finance – one through Women@Page, two through the ACT and one by private arrangement. "I find mentoring to be a mutually rewarding experience," she says. "You give your mentees a safe zone where they can talk through an idea or a problem. This helps them to work out what they want to do and build their confidence."

As well as being a mentor, Bonnett contributes to the treasury profession more broadly by reviewing technical content for *The Treasurer* and speaking at events held by the ACT and other industry bodies. "I've found helping the ACT very rewarding because it enables you to meet great treasurers as well as other people that you might not naturally cross paths with. Reviewing the magazine also keeps up my continuing professional development hours."

One thing that Bonnett is quite clear about – which is evidenced by her impressive CV – is that a career in treasury is a never-ending journey. "You don't suddenly become qualified and a senior person," she says. "And your growth never stops. It doesn't matter who you are or what you've got – there's always something else to do."

THE PERSON WHO HAS MOST INSPIRED ME IN MY WORK LIFE IS...

It's actually not one person at all. Over time, I have drawn my inspiration from a broad spectrum of current and past business leaders, political figures, influential people within society and individuals with whom I cross paths. I have just finished reading the book *Becoming* by former US First Lady Michelle Obama. I found it very insightful and, given her early struggles, ever so inspiring. I have been fortunate enough to work with some incredibly talented individuals and I have delivered a wide variety of projects that have enhanced shareholder wealth. Looking back on my career to date, I feel a deep sense of pride. Even in the most challenging of circumstances, I look for the positives and feel there is always room for personal growth.

Sally Percy is a freelance business and finance journalist

20€

THE EURO AT 20

IN SPITE OF COMMENTATORS' SCEPTICISM AND MARKET VOLATILITY, THE EURO HAS REACHED ITS 20TH ANNIVERSARY. FRANCES COPPOLA LOOKS AT ITS CURRENT STANDING

The euro has reached its 20th birthday. Despite Milton Friedman's doom-laden prediction that it would not survive its first crisis, it has not only survived, but is moving onto the global stage. Whether the euro could replace the dollar as the world's premier reserve currency is back on the dinner-table menu.

But underneath the surface, tensions remain. The eurozone periphery, except for Ireland, remains depressed relative to the core countries. Spain and Portugal are recovering at a glacial pace, but Italy remains mired in a decade-long recession. In Greece, domestic demand is cripplingly low – growth depends on an external sector, which is still failing to deliver a surplus. Meanwhile, Germany and the Netherlands have ballooning trade surpluses. The imbalances that caused the eurozone crisis have not gone away. Only tight control from the Brussels bureaucracy prevents them from blowing up the euro again.

As Martin Sandbu, economist and journalist, has eloquently argued, the eurozone crisis was a failure of institutions, not of the euro itself.[1] The euro's rollercoaster ride is reminiscent of Pharaoh's dream: seven years of plenty followed by seven years of famine. That famine was relieved by social institutions charged with fair distribution of resources. The euro lacked the institutions to distribute resources fairly. Now, there is a scramble to create them.

THE YEARS OF PLENTY

The euro did not get off to a good start. The eurozone economy was weakened by West Germany's struggle to absorb the much poorer East Germany, while the Federal Reserve's low interest rate policy after the Twin Towers disaster in September 2001 caused the euro's exchange rate to soar. By the second quarter of 2003, eurozone growth had fallen to 2.63% per annum.

Over the next few years, however, eurozone growth improved, reaching 6.2% in the first quarter of 2007. As the architects of the euro had hoped, the fastest individual growth rates were in the periphery countries, notably Ireland, Spain and Greece. It was an encouraging sign that monetary union was indeed pulling poorer countries up to the level of richer countries.

Within the bloc, everything was going according to plan. Interest rates were converging, encouraging inflows of capital to the poorer countries. Although inflows tended to widen their trade deficits, it was believed that capital investment in poorer countries would eventually flow through into higher productivity, which would improve external competitiveness as well as raising per capita GDP.

Per capita GDP did indeed rise in poorer eurozone countries. But instead of converging, real effective exchange rates between the member states – a measure of competitiveness – diverged.[2] Capital inflows were going not into productive enterprise, but into real estate, consumer spending and sovereign debt. Periphery countries were becoming less – not more – competitive.

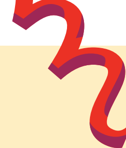
> The euro's rollercoaster ride is reminiscent of Pharaoh's dream: seven years of plenty followed by seven years of famine

Inflation also remained higher in the periphery than in core countries, not least because of substantial wage growth. The common interest rate set by the European Central Bank (ECB) was too low for the periphery, discouraging saving and encouraging borrowing for consumption.

THE EURO 20 YEARS FROM NOW

Unless there is more integration on tax and social issues, I think it is likely we will see some kind of breakup or two-tier eurozone in the future. Some countries are deriving a bigger benefit of being part of the EU than others. The strength of the currency against the US dollar has been a surprise. It is essentially driven by the strength of the German economy. There are still big issues in southern Europe that are being glossed over.

FTSE 100 treasurer



EURO FACTS

ELECTRONIC FIRST

Treasurers will recall that the euro was introduced via electronic payments first, in 1999. The first notes did not appear until 2002.

US DOLLARS AND EUROS

Only the US dollar surpasses the euro in terms of international trading volumes.

Prior to the euro's introduction, **80%** of the world's currency reserves were held in US dollars, compared to **62%** in 2018. The euro's share for 2018 was

20.5%

But the real problem was the banks. Poorly supervised banks chased a toxic combination of yield and safety, helped by the absence of nominal exchange rate differences. In real estate, rising property prices encouraged banks to invest heavily in construction and mortgages, secure in the knowledge that defaults on loans would be more than compensated by the sale price of property.

Banks also invested heavily in periphery sovereign debt. Despite provisions in the Lisbon Treaty preventing eurozone sovereigns from bailing each other out and restricting the ECB's capacity to support them, investors believed that they were implicitly backed by eurozone institutions. This was tacitly encouraged by the ECB, which allowed banks to apply the same risk weight to all eurozone sovereign debt. Consequently, even as periphery debt increased and competitiveness declined, interest rate spreads on eurozone sovereign debt narrowed. By 2007, despite stubbornly high twin deficits, Greece could borrow nearly as cheaply as Germany.

THE YEARS OF FAMINE

Although the eurozone suffered a deep recession after the 2007/8 financial crisis, it bounced back quickly and returned to growth in 2010. But the respite was short-lived. Both Ireland and Greece were bailed out in 2010. And in 2011, attention turned to Spain and Italy. Spreads on eurozone government debt widened sharply as investors withdrew their funds and banks retreated behind their borders. For a while, it seemed as if the euro might break up.

Mario Draghi's 'whatever it takes' speech is widely credited as the turning point in the eurozone crisis. The ECB guaranteed to ensure that the euro did not break up. For the first time, it acted as a lender of last resort not only for banks, but also for sovereigns. But it was not followed by decisive reflationary action until 2015, when the ECB belatedly started quantitative easing. Inflation throughout the bloc remained stubbornly well below the ECB's 2% target.

Under Brussels' supervision, periphery governments imposed austerity measures to rein in government spending and restore balance to the fiscal finances. In Greece, the austerity measures were so severe that they caused a deep depression from which the country has not yet emerged. Core countries also reined in public spending to balance their budgets and reduce public debt.

Concurrent fiscal tightening with inadequate monetary support locked the eurozone into a low-growth, low-inflation, high-unemployment equilibrium. The years of plenty turned out to be an illusion; the years of famine were all too real.

INSTITUTIONAL REFORM – TOO LITTLE, TOO LATE

As risk-averse banks withdrew behind their borders after the crisis, interest rates between core and periphery countries diverged, along with real effective exchange rates. A euro in Spain was no longer worth the same as a euro in Germany. Locking the eurozone member states into a fiscal straitjacket kept the eurozone together, but it didn't restore the monetary union. That required institutional reform.

Bank reform was the most urgent need. Capital inflows during the 'plentiful years' had overwhelmed some smaller countries, notably Ireland and Cyprus – bailing out their oversized financial sectors cost them more than they had to give. In Spain and Italy, a dangerous dependency had developed between banks and governments – banks bought government debt, which helped to support its price, but meant that when a government hit an iceberg, the banks went down with it, forcing an already distressed government to recapitalise its banks.

> Mario Draghi's 'whatever it takes' speech is widely credited as the turning point in the eurozone crisis

Capital market reform was also a high priority. Eurozone capital markets were underdeveloped and fragmented – companies depended on borrowing from local banks. The ECB's single interest rate could not eliminate interest rate spreads arising from higher risks in periphery countries. A company in Spain faced higher borrowing costs than a company in Germany, undermining its competitiveness.

In 2012, the eurozone agreed to create a banking union. Big banks would be supervised by a central authority, rather than by national regulators. There would be a single standard approach to resolving failing banks, which would – by imposing losses on private-sector creditors – limit the cost for governments. The eurozone also embarked on an ambitious programme to harmonise capital markets and reduce dependency on banks.

But both the banking and capital markets union depend on fiscal union – and that remains incomplete and contentious. Germany balked at the notion of common deposit insurance, which would ensure that a deposit in Spain was as safe as a deposit in Germany. And although the eurozone created an emergency fund, the European Stability Mechanism, which would be able to recapitalise banks as a last resort, this would be conditional on the sovereign accepting Brussels-defined fiscal austerity.[3] Even though large banks are now supervised at eurozone level, recapitalising them is seen as financial assistance to individual sovereigns. The dangerous dependency between sovereigns and banks is by no means eliminated, and neither is the unfair dumping of the liabilities of large banks onto the taxpayers of small countries.

Germany also remains implacably opposed to any form of risk sharing. But countries that have no control of monetary policy and increasingly little control of fiscal policy cannot defend themselves from a shock like that of 2008. If the euro is to survive, risks must eventually be shared.

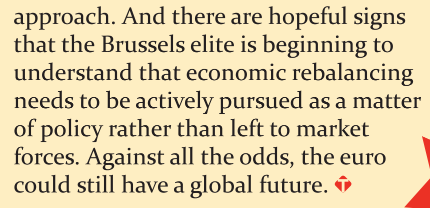
SEPARATING THE EURO FROM THE EUROZONE

The Greek crisis of 2015 showed that the eurozone is still a conglomerate, not a country. It would be unthinkable for, say, Michigan to be presented with a stark choice between submitting to the demands of the federal government or leaving the US. But that was the choice presented to Greece. The Greek government chose to stay and submit, but the precedent had been set. There is now political acceptance that a country could leave the euro – or be kicked out.

Would a country leaving the euro cause its breakup? During the eurozone crisis it was widely believed that if Greece left the euro, the whole bloc would break up, effectively ending the euro as a currency. But institutional reforms since then appear to have convinced people that a country could leave without causing a domino-like collapse. Refined in the fires of the eurocrisis, the euro now has an identity independent of the countries that make up the eurozone.

The eurozone remains fragile, held together only by political will to abide by strict rules. But there is growing popular anger at the unfairness of a monetary union that benefits some countries at the expense of others.[4] A populist eurosceptic wave is sweeping across Europe. As it passes, one or more countries might leave the eurozone.

However, Greece has chosen to stay in and fight for reform; other countries, most recently Croatia, are joining. German chilliness towards other states may give way to a more cooperative approach. And there are hopeful signs that the Brussels elite is beginning to understand that economic rebalancing needs to be actively pursued as a matter of policy rather than left to market forces. Against all the odds, the euro could still have a global future.



THOUGHTS ON THE EURO

FOR...

The strongest institution in the hands of the EU is the euro.
Viktor Orbán, prime minister of Hungary

AGAINST...

A single currency entails a fixed interest rate, which means countries can't manage their own currency to suit their own needs. You need a variety of institutions to help nations for which the policies aren't well suited. Europe introduced the euro without providing those structures.
Joseph Stiglitz, economist

AN UNLIKELY PROJECT

I was sure we would never see the adoption of the euro. Countries giving up their currencies for a common tender was, it seemed to me, completely out of tune with currency being a carrier of people's cultural identity, celebrating national heroes and events, as it had been for hundreds of years.
John Naisbitt, futurist

1 *Europe's Orphan*, Martin Sandbu, press.princeton.edu/titles/10564.html
2 'The real effective exchange rate in euro area member states', European Parliament, europarl.europa.eu/RegData/etudes/ATAG/2017/602099/IPOL_ATA(2017)602099_EN.pdf
3 'The European Stability Mechanism: Main Features, Instruments and Accountability', European Parliament, europarl.europa.eu/RegData/etudes/BRIE/2014/497755/IPOL-ECON_NT(2014)497755_EN.pdf
4 'CEP study: Germany gains most from euro introduction', DW, dw.com/en/cep-study-germany-gains-most-from-euro-introduction/a-47675856

Frances Coppola is an economics and finance commentator and speaker

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TREASURERS.ORG/ANNUALCONFERENCE

SUSTAINABLE FINANCE: HOW DID WE GET TO HERE?

IN THE FIRST OF A SERIES OF ARTICLES ON SUSTAINABLE FINANCE, NARESH AGGARWAL EXPLORES HOW TREASURERS CAN MOVE FROM A THEORETICAL STANDPOINT TO ENGAGEMENT

This is the first in a series of articles that The Association of Corporate Treasurers' (ACT's) policy and technical team will be writing this year on sustainable finance. Commonly referred to as Environmental, Social, Governance (ESG), it is clear from discussions with treasurers and market participants more broadly, that interest in the area is growing rapidly and transitioning from the theoretical to real and actionable events. Banks have entered the landscape and are now offering preferential terms for loans that meet ESG credentials, and corporates are starting to link their borrowing rates on revolving credit facilities to ESG performance metrics.[1]

This year will see a number of new initiatives, including the establishment of a Green Finance Institute in London backed by the government and the City of London Corporation, and extensive work undertaken in the EU. This will increase the range of opportunities available to the treasurer.

But we start the series by explaining what it is (and is not), and how it has evolved from the middle of the 20th century to today.

Definitions

Let's start with some definitions:

Each of the three constituents of ESG has a number of components and these are:

1. **Environmental:** climate change, nuclear energy and sustainability.
2. **Social concerns:** diversity, human rights, consumer protection and animal welfare.
3. **Corporate governance:** management structure, employee relations, and executive and employee compensation.
4. **Responsible investment:** investment strategies, principles for responsible investment and equator principles.[2]

However, reflecting how quickly this ESG universe is now evolving, even these definitions are not set in stone, with the EU currently developing a taxonomy to be used when discussing all things sustainable.

Background

Environmental, social and corporate governance is not a new phenomenon and has been around since at least the 1950s. In researching this article, I was reminded of the Sullivan principles established during the time of the apartheid regime in South Africa.

At that time, key drivers that influenced investment decisions were government support, pressure from the investment community and campaigns by individual protest groups. ESG displays many of the same characteristics, with a number of UN initiatives and pressure from consumers and rating agencies causing investment firms to look at the ESG credentials of their investments, and hence issuers must consider how any initiative will be viewed in this new environment.

Global framework

The UN has driven a number of the global initiatives. The most important are noted below.

In 1992, the United Nations Framework Convention on Climate Change (UNFCCC) provided a framework for international cooperation to combat climate change by setting targets to limit average global temperature increases and the resulting climate change, and coping with impacts that were, by then, inevitable. There are now 197 parties to the convention.

By 1995, the international community launched negotiations to strengthen the global response to climate change and, two years later, adopted the Kyoto Protocol. The Kyoto Protocol legally binds developed-country parties to emission-reduction targets. The protocol's first commitment period started in 2008 and ended in 2012. The second commitment period began on 1 January 2013 and will end in 2020. There are now 192 parties to the Kyoto Protocol.

In 2016, the Paris Agreement came into force, with the aim of unifying the global response to the threat of climate change by keeping a global temperature rise this century below 2°C above pre-industrial levels and

to pursue efforts to limit the temperature increase even further, to 1.5°C. The agreement also aims to strengthen the capacity of the international community to deal with climate change impacts, and to make finance flows consistent with a low greenhouse gas emissions and climate-resilient pathway.

The Green Climate Fund (GCF[3]) was established in 2014 as a new global fund created to support the efforts of developing countries to respond to the challenge of climate change. GCF helps developing countries limit or reduce their greenhouse gas emissions and adapt to climate change. It was set up by the 194 countries who were parties to the UNFCCC in 2010, as part of the convention's financial mechanism. According to the fund's website, the GCF "aims to deliver equal amounts of funding to mitigation and adaptation, while being guided by the convention's provisions".

It has gathered pledges worth $10.3bn and aims to catalyse a flow of climate finance to invest in low-emission and climate-resilient development, driving a shift in the global response to climate change, and multiplying the effect of its initial financing by opening markets to new investments.

What's happening in 2019?

To support efforts to implement the Paris Agreement, the UN will bring world leaders – from government, finance, business and civil society – to the Climate Summit on 23 September. The summit will come a year before countries will have to enhance their national climate pledges under the Paris Agreement. The Secretary-General said, "We will bring together players from the real economy and real politics, including representatives of trillions of dollars of assets, both public and private."

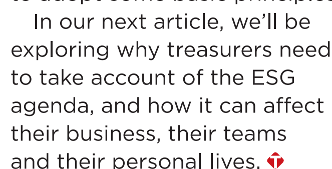
In the UK, the government, alongside the City of London Corporation, will establish the Green Finance Institute in May. The intention is for the body to help develop the UK's green finance market and mobilise the investment required to reach the country's climate targets.

In his announcement in 2018, the Chancellor said, "The UK is already leading the charge in this market – with nearly 80 green bonds raising more than $24bn across seven currencies. But if we are collectively to meet our global climate goals, we will need to mobilise $90 trillion by 2030. And it is my ambition that the UK leads the world in financing this investment."

Relevance for treasurers

Treasurers are encouraged to move away from a watching brief and to start to think strategically about how ESG can add value to their treasury activities, support their broader business and benefit the planet we all inhabit. We're currently in the 'carrot' stage of adoption of ESG, but it will follow that, at some point, a 'stick' approach will also be applied. In order to be ahead of the curve, treasurers need to consider their activities through an ESG lens and plan for how to adopt some basic principles.

In our next article, we'll be exploring why treasurers need to take account of the ESG agenda, and how it can affect their business, their teams and their personal lives.



1 euromoney.com/article/b1c5z8pp3v9gxw/esg-thames-water-puts-its-money-where-its-mouth-is
2 equator-principles.com
3 greenclimate.fund/who-we-are/about-the-fund

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

QUIZ

CHALLENGE YOUR KNOWLEDGE OF TREASURY MARKETS

TAKE OUR NEW SEVEN-QUESTION CHALLENGE TO TEST YOUR KNOWLEDGE OF TREASURY MARKETS. MOST ANSWERS ARE IN OUR PREVIOUS EDITION. SCORE ONE POINT FOR EACH CORRECT ANSWER (TOTAL POINTS PER QUESTION IN BRACKETS)

1. **What is an accordion?** How does it differ from a trombone? (2)
2. **What is a secondary spread?** As a corporate issuer, would we want a larger or smaller secondary spread? (2)
3. **Which debut issuer achieved a stronger credit rating than the UK government?** (1)

TECHNICAL

4. **What is fallback language?** Why is it important? (2)
5. **What does 'vanilla' mean in finance?** (1)

TREASURY TIMELINE

6. **What was the Plaza Accord?** Why is it significant today? (2)
7. **Match the days with the years: Black Monday, Black Wednesday, Black Friday – 1992, 1989, 1987.** Are we due another Black Friday? (4)

(Total 14 marks)
Answers can be found on page 37.

THE FUTURE OF LIBOR

SIGNIFICANT MOVES FORWARD IN THE TRANSITION AWAY FROM LIBOR ARE EXPECTED THIS YEAR. ALBERT SHAMASH AND STEVE BULLOCK ASSESS THE BACKGROUND, THE CURRENT LANDSCAPE AND NEXT STEPS FOR TREASURERS

The phasing out of Libor has been well documented, and 2019 is likely to see acceleration in transition activities.

A catalyst for this will no doubt be banks implementing transition programmes in response to the 'Dear CEO' letters written by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) to CEOs of major banks and insurers in September 2018, asking what preparations they are making to manage transition from Libor to alternative interest rate benchmarks.

In January 2019, Edwin Schooling Latter from the FCA delivered a speech highlighting contractual fallbacks and the need for market participants to focus on these ahead of any potential cessation of Libor. "The best and smoothest transition from Libor will be one in which contracts that reference Libor are replaced or amended before fallback provisions are triggered," he said.

With changes already taking place and 2021 approaching, inertia is not the way forward. The transition away from Libor to alternative rates is a key area of focus for the market, and firms need to be acting now if they have not already done so.

What have we seen so far?

A number of firms have issued bonds using Risk-Free Reference Rates (RFRs); Lloyds Bank was the first UK Retail and Commercial lender to price a bond using sterling overnight index average (SONIA), which was followed by a further issuance in January 2019. In December 2018, we priced the first securitisation to reference SONIA. We have also been facilitating transitions to SONIA for some derivatives clients. In addition, both the Intercontinental Exchange and London Stock Exchange now offer trading in SONIA futures contracts.

In Schooling Latter's January speech, he noted that, on a monthly basis, cleared notional value in SONIA swaps is now higher than that for sterling Libor.

To overcome cash-flow challenges, bond issuers have adopted mechanisms to smooth the settlement process. This is required to bridge the gap between the Libor market convention, where a term rate sets the cash flow on a bond coupon on day one of an interest period vs RFRs, which reset daily and where cash flows cannot be determined until the end of a period.

In SONIA referencing bonds, we have seen the Interest Determination Date set five days in advance of the interest payment date. This essentially creates a five-day lag between the interest period and the interest rate reference period. For example, for a bond that is due to rollover on the 15th of the month, the final interest rate applicable in that period would be finalised on the 10th of that month, enabling market participants sufficient time for calculation of cash flow and settlement. For the first coupon period, the cash flow would accrue from five days ahead of the settlement date, and for the final period would end five days prior to the bond maturity date.

It is possible that over time the five-day period could shorten as the market becomes more familiar with this change in convention.

In the US, we have seen a slightly different approach in bonds that reference the USD RFR (the secured overnight funding rate – SOFR).

These bonds have typically used a lockout period. This means that for the last days in the coupon period, the same daily interest rate fixing is assumed, for example, the rate used for the 10th of the month is also used for the 11th, 12th, etc for payment on the 15th of the month. This is an alternative mechanism for finalising cash flows in advance.

Early issuances followed a four-day lockout period, although since then we have seen issuers shorten this to two days.

What lies ahead in 2019?

A number of key changes to the market can be expected in the coming year. However, we do expect to see further growth in RFR product volumes across the cash and derivative markets. We could also see

changes to market conventions as the markets become more accustomed to using daily RFRs.

Coming up with a market solution for legacy trades, with Libor references beyond 2021, remains a core focus for the RFR working group. Market conventions for RFR continue to evolve.

Currently, all RFRs are overnight rates only, although some market participants and products require or desire term rates. According to the milestones and timelines set out by the RFR working group, a term SONIA rate will be launched in the second half of 2019. There are similar plans in place for other currency RFRs, albeit with different time frames. An alternative to using a term SONIA could be the increased use of the Bank of England Base Rate (or currency equivalents) in certain products.

In the eurozone, the euro short-term rate (€STR) is scheduled to be published by the European Central Bank from October 2019 at the latest.

Additionally, the International Swaps and Derivatives Association (ISDA) is likely to finalise its proposals for fallback language in derivative contracts, following further consultation. It will then publish a protocol to allow market participants to include the revised fallbacks within legacy interbank offered rate (IBOR) contracts if they choose to in the second half of 2019.

The ISDA proposal is to fall back to an adjusted RFR plus spread adjustment. Following the first market-wide consultation, ISDA has proposed using the daily compounding RFR set in arrears plus a fixed-spread adjustment based on the average over a historic look-back period (still to be determined) of the realised RFR vs Libor.

Once a Term Sonia Reference Rate is available and starts to be adopted as well as when agreed fallbacks are in place for derivative contracts, firms will likely accelerate transition activity.

We can also expect to hear more from the Bank of England communication sub-working group, which has already started to publish information on transition.[1] Banks will also likely increase communications with their clients on this topic.

What are the challenges of moving away from Libor?

The major challenge in the transition from Libor is the sheer scale of the task. Libor is embedded across the whole financial system. It is a key interest rate benchmark for hundreds of trillions of dollars in financial products and contracts worldwide. It also plays a key role in the insurance world under Solvency II. Furthermore, even while the transition is under way, the Libor market continues to increase, with new contracts being written.

The transition presents different challenges for different products. For example, while derivatives are possibly the simplest product to transition from a contract perspective, bonds present more challenges; to make changes to contracts that reference Libor, it may be necessary to gain consent from all bondholders or the majority of bondholders. Additionally, there may be economic impacts from those changes, while any fallbacks already in place may not be optimal under a permanent cessation.

There are accounting and tax issues to be considered, and the potential for discrepancy between the derivatives market and the loan or bond market if they are not coordinated.

Furthermore, in order to succeed, transition building blocks – product and market infrastructure – must be in place. There also needs to be a meaningful build-up of liquidity in the alternatives.

From a corporate perspective, challenges include exposure to loans, bond market and derivatives, as well as any associated hedge accounting and other financing and contracts that are Libor linked.[2]

What can firms do now?

While the 'Dear CEO' letters were sent to the largest banks and insurers, the FCA and PRA are encouraging all firms that rely on Libor to read the letter. It sets out the reasons for moving away from Libor and the importance of developing new standards and solutions, market structures and technologies to meet the challenges this presents.

If they have not already done so, firms are encouraged to look at their Libor exposures and fallbacks, and identify risks and impacts of a transition from Libor. This includes consideration of pre- and post-2021 inventory to help corporates see if transition activities need to take place.

An inventory of existing systems is also encouraged, as well as liaising internally with operations and legal teams. Treasurers can also sign up to the RFR working group newsletter to keep abreast of the latest developments.

While the quantum of change is of a large scale, a market where the industry works together from an early stage will help to facilitate a smooth and orderly transition.

1 bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor
2 For more information on transition issues, go to The Association of Corporate Treasurers' webinar at treasurers.org/webinars/Libortransition

Albert Shamash is managing director, business development & innovation, financial institutions; and Steve Bullock is head of benchmark submission & supervision, group corporate treasury, at Lloyds Bank

TREASURY POLICY AND MONEY MARKET FUND REFORM

FOLLOWING THE BIGGEST SHAKE-UP TO MONEY MARKET FUND REGULATIONS SINCE THE FINANCIAL CRISIS, ARE YOUR TREASURY POLICIES UP TO DATE?

The principles of good cash management rarely change. The facts on the ground do, however, change, and can change significantly. A major example is the global regulation of money market funds (MMFs), one of the key implications of which is for treasury investment policies. Regulatory changes have created new MMF types, and treasury policy needs to accommodate them.

The regulatory reforms are now largely complete: the US implemented sweeping reforms in 2016; China (now the world's second-largest MMF domicile) has seen three rounds of reforms since 2015; and reforms in Europe finally concluded in March. A key focus has been pricing, with stable or constant net asset value (CNAV) funds out of favour.

In Europe, there are now four fund types. The prime CNAV fund type, which was a favourite of corporate and public-sector treasurers, no longer exists. This has been replaced by two new variants: the low-volatility net asset value (LVNAV) fund and the public-debt CNAV fund, both of which are classified as short-term MMFs.

The LVNAV fund type can offer a stable unit value per share, but there are complexities in some of the technical features of these funds. Chief among these is the presence of liquidity fees and redemption gates which, while unlikely to be implemented, must be understood (see the Fitch report *European Money Market Fund Gate Risk Low*). The pricing of these funds can also move to a variable basis in the event of extreme market movements.

Some investors in the new LVNAV funds have had chequered experiences. For euro investors there were last-minute changes to contend with, effectively delaying the conversion of many funds. The background here is negative rates in the eurozone. Fund providers have been passing negative yields on to investors since market yields went negative in 2015, by reducing the number of shares held commensurate with the yield loss incurred. However, regulators had concerns with this mechanism and consequently banned it under the recent reforms.

LVNAVs with stable value shares are off the table in euros, at least until eurozone rates reach sustainably positive levels. In its latest update, Fitch Ratings' Economics group expects negative policy rates to end in 2020. For investors in other currencies, stable-priced LVNAVs are readily available.

Some MMFs are more equal than others

Treasury policies will now need to identify which funds are suitable for any cash-investment purposes, and rule out those that are not. Central to this consideration is the credit, market and liquidity risk posed by these funds. A further consideration, in Europe anyway, is the accounting treatment of these funds.

Liquidity risk is a major focus of the MMF reforms. In Europe, new minimum overnight and weekly liquidity requirements have been introduced. The minimum liquidity requirements are substantially higher in public-debt CNAV and LVNAV funds (at 10% for overnight and 30% for weekly liquidity) than they are for variable net asset value (VNAV) funds (7.5% and 15% respectively).

The differences between fund types allow for clearer definitions in cash management policy documents. This, combined with fund ratings, can help inform cash segmentation – a growing trend in response to a prolonged period of low yields, and with ever-better cash forecasting.

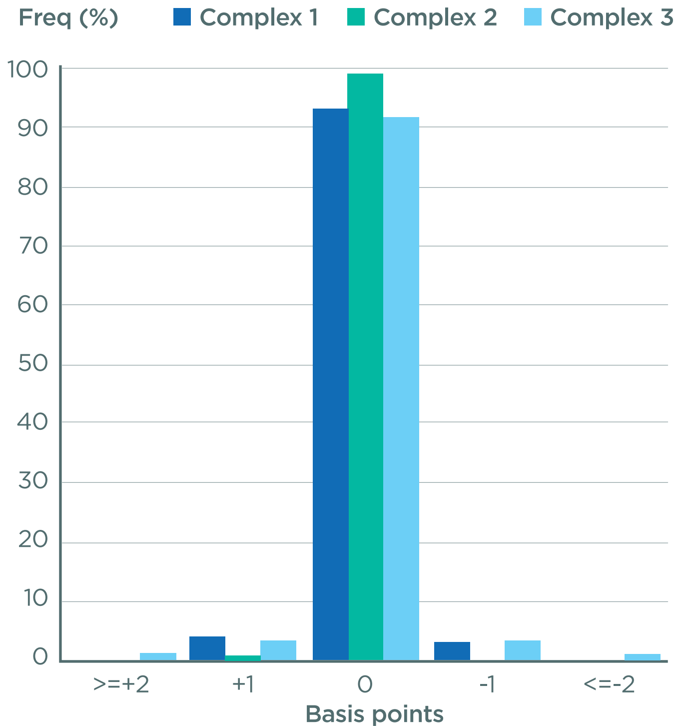
Fitch rates MMFs according to their ability to preserve principal *and* provide timely liquidity. Ratings, just like treasury policies, are driven by risk considerations. Fitch can rate both variable and stable price funds at the highest level (AAAmmf), provided they adhere to extremely conservative investment standards – going beyond regulatory requirements in some areas, particularly for European

Global MMF reform

	US	EUROPE	CHINA
Reform status	Complete	Implementation: March 2019	Ongoing
MMF AUM and one-year growth rate[a]	**AUM:** USD2.8trn **Growth:** 7.1%	**AUM:** USD1.5trn **Growth:** 2.4%	**AUM:** USD1.2trn **Growth:** 35.7%
Seven-day net yield[b]	Prime: 2.09%	EUR prime: -0.47% GBP prime: 0.66% USD prime: 2.21%	3.0%

[a]Data for period ending 2Q18. [b]As of 30 September 2018.
Source: Fitch Ratings, EFAMA, ICI Global, AMAC information, SEC

Negligible MTM NAV movements over the past five years



Source: Fitch Ratings, Fund Managers

VNAV funds, which have lower regulatory requirements on liquidity. Another key area in which Fitch's rating criteria goes beyond regulation is credit quality.

Short-term VNAV funds have provoked some debate in the context of cash equivalence. This is clearly an issue above all for auditors; however, there are some important considerations. First, several major regulators have defined VNAV funds as cash: notably the US Securities and Exchange Commission and France's Autorité des Marchés Financiers.

Second, the fundamentals of funds, at least from a regulatory perspective, have strengthened, implying that the ability of treasury investors to convert funds into a known amount of cash in a timely manner has increased since the reforms.

Third, fund shares can either be accumulating (ie the price of the share changes as income is accumulated) or distributing (the price of the share does not change, with all income distributed). However, the type of share is independent of the actual holdings of the fund. It is entirely possible for a fund to have an identical *portfolio* risk profile, but different share types.

Lastly, the evidence shows that when a fund has a VNAV, the price does not really vary. Even in theoretical terms, the shock needed to move a European LVNAV to variable pricing (which is temporary) is extreme. From a rating agency perspective, these facts mean that we consider short-term MMFs – stable and variable priced – as cash equivalents in our rating methodology.

Short-term credit matters most

Fitch's rating methodology for MMFs has always taken *short-term* ratings as a primary input to its MMF rating methodology. MMFs are short-term vehicles, so the most appropriate credit reference points for such funds are short-term credit metrics. Conversely, many treasury policies, despite addressing short-term cash deployment, will focus on *long-term* credit ratings.

Fitch is consulting on changes to its rating methodologies to place a greater emphasis on credit factors more relevant to short-term risk, and hence increasing the value of short-term ratings as inputs. We are considering ways of offering a more differentiated analytical view of short-term risk between issuers. This could include changes to the correspondence table between long-term and short-term ratings to expand the number of long-term ratings corresponding to more than one short-term rating.

Make your policy decisions now

Treasury policies have to keep pace with rapid developments in regulation to remain relevant. MMF reform is no exception. Over five years in the works, the biggest shake-up in money fund regulation since the financial crisis has finally taken shape and must be confronted.

Abis Soetan AMCT is a director in Fitch Ratings' fund and asset manager group

FitchRatings

THE GAIN-LOSS SPREAD

RISK IS ALL-PERVASIVE, BUT TO EXPLAIN IT AND MAKE IT RELEVANT TO NON-TREASURY COLLEAGUES IS A CHALLENGE. BEN WALTERS EXPLORES THE PRESENTATION OF RISK IN A CORPORATE INVESTMENT SETTING, IN THE FIRST OF A TWO-PART SERIES

While it is fair enough to say that FX, interest rate, commodity and liquidity risks are absolutely core areas that treasury departments must address, the most fundamental risk facing any firm is where it invests its capital. Getting the strategic direction of capital flow right in the medium to longer term is ultimately what determines if the firm will succeed, survive or fail.

This marriage between strategy and risk in the context of investment appraisal can be difficult to communicate, however. What follows is a very straightforward, effective, yet little-known technique for presenting risk, called the gain-loss spread.[1]

What is it that bothers decision-makers?

When I interviewed the late Richard Cousins, former CEO of Compass, on the topic of corporate investment decision-making, he was cynical about the way modern corporate finance had left things. It was almost as though there was only half a job done with theory not quite addressing the practice. He felt many participants had a poor understanding of what they were really presenting and that there was little transparency around the risks embedded in a static set of numbers.

Cousins was an exceptional leader and clearly a great decision-maker as his record testifies, and I think his views sum up a general suspicion around corporate finance on the one hand and presenting risk in a transparent and simple manner on the other. The quality of risk analysis in investment evaluation is variable and often inconsistent and confusing. Many companies are wrestling with the best way to present risk in a transparent and simple manner. Gain-loss spread is one tool that should be added to the toolbox.

In theory, those putting together the business case for investment analysis will have considered the key influences of future performance – or, things going better or worse than expected. However, in the context of discounted cash-flow analysis, for example, a common response from decision-makers is to increase the discount rate used. The problem with this is twofold:

1. It is the lazy way out, as the temptation is then to ignore what might go wrong (or right) within the cash flows on the basis that the discount rate has taken care of this.
2. Those championing the investment may take an optimistic view of the cash flows because they know these will be discounted at the higher rate.

The truth of the matter is that executives making investment decisions are hugely concerned about the risks they are taking on and yet frustrated by the tools available to them to measure risk.

THE GAIN-LOSS SPREAD

	NPV	Probability of gain	Average gain	Weighted gain	Probability of loss	Average loss	Weighted loss	Gain-loss spread	Standard deviation
High-risk implementation	27	**54%**	132	71	46%	(95)	(44)	**115**	**129**
G-L index								**4**	
Low-risk implementation	9	**88%**	11	10	12%	(2)	(0)	**10**	**9**
G-L index								**1**	

Project with two implementation strategies compared on a gain-loss basis.

The gain-loss spread, which is the weighted gain to weighted loss range, is a measure of overall riskiness

Consider this conversation:
CEO: So, the net present value (NPV) of this project is £15m, but how risky is that figure?
Eager young finance manager (EYFM): Well, the standard deviation of returns is 20%.
CEO: What does that mean?
EYFM: It means that the square root of the average quadratic deviation around the arithmetic mean of outcomes is 20%.
CEO: You're fired!

What does the decision-maker really want to know? It is probably along the lines of:

- What are the chances of the investment destroying value?
- If it destroys value, how much?
- Can we turn the project off if it goes wrong, and how much will this cost?
- What are the biggest risks, how are we going to monitor them, and how do we mitigate them?

Good investors worry more about the losers than the winners. Avoiding big losses keeps you in the game and allows the successful investments to accumulate wealth and create value over time. How much investment analysis performed in the corporate environment gets close to answering the questions listed above?

Consider this conversation, now with some input from gain-loss spread analysis:

CEO: So, the NPV of this project is £15m, but how risky is that figure?
EYFM: Well, we looked at the main risk areas to the project, those being supply disruptions, wage inflation and the response of competitors, and using some straightforward estimates of how those factors could influence outcomes we came up with some probabilities of how our base case might vary. We believe the project could be value destructive around 25% of the time. If this should occur, the average downside is approximately £10m.
CEO: OK, what have we learnt from carrying out this analysis?
EYFM: This analysis has identified certain key indicators we should monitor, and we have also priced in some mitigating actions, which give us some flexibility to terminate the project should it appear to be heading in the wrong direction. These are included in the NPV of the project. We have looked at the risks in the context of our competencies as a firm and believe the project is a good fit with these.
CEO: Your analysis has added some real value to the decision-making process. You're hired!

The concept of the gain-loss spread was introduced by Javier Estrada, professor of finance at IESE Business School, in the context of portfolio investment. However, the concept can easily be used in the corporate environment. The technique is simple and best illustrated by an example. The table (left) shows a situation where a range of potential project outcomes has been derived. (We will cover how to derive a data set of potential outcomes in the next article on Monte Carlo simulation.) There are two ways to set up this project: a low-cost, high-risk route, and a high-cost, low-risk route.

The first thing to note is that the average outcome is the NPV, as this represents the expected cash-flow result. A gain-loss spread analysis of the results would then split the results into two camps: those with a positive and a negative value. Dividing outcomes like this then allows a simple calculation of probability of the project creating or destroying value. Further, the average level of gain and loss can be calculated, which informs as to the size of the potential loss should things go badly. Lastly, the gain-loss spread, which is the weighted gain to weighted loss range, is a measure of overall riskiness.

The low-cost, high-risk route has an NPV of 27, but half of the time it makes a loss. The average gain is 132 and the average loss is 95, giving a gain-loss spread of 115. The high-cost, low-risk route has an NPV of only nine, but loses value only 12% of the time, and when it does, this is on average only a loss of two. Would management accept a project that would destroy value half the time? The point is really that at least the risk is now presented in a transparent manner and the decision-maker can make a more informed choice.

Some other uses for this gain-loss output include:

- Liquidity planning, as the average loss informs as to a sensible level of headroom to have in place.
- A useful way of ranking projects where resources are limited. For instance, management time could be completely dominated by a higher-risk project. In the interests of maximising the total value created, this can be an important consideration.

The second part of this short series will appear in our post-conference edition, and explores ways of addressing the second major criticism of investment analysis: that of being able to better reflect the complex and ever-changing real-world environment into which a firm's capital is invested.

1 Gain-loss spread was introduced by Javier Estrada in: *The Gain-Loss Spread: A New and Intuitive Measure of Risk*, Javier Estrada, *Journal of Applied Corporate Finance*, Vol 21, issue 4, Fall 2009

Ben Walters FCT, ACA is a practising corporate treasurer with a keen interest in the practical application of corporate finance

HOW TO REQUEST A TMS

BEFORE A TREASURY TEAM CAN IMPLEMENT A SUITE OF NEW TECHNOLOGY, IT MUST FIRST PRESENT ITS FIRM WITH A COMPELLING BUSINESS CASE. ROYSTON DA COSTA PROVIDES INSIGHTS ON HOW TO PITCH IT

Since the global economic crisis, corporate treasurers' credibility has undergone a dramatic renaissance. Indeed, recent figures show that the scale of treasurers' responsibilities to their CFOs and boards has flourished. For example, according to The Association of Corporate Treasurers' (ACT's) *The Business of Treasury 2018* report, in 2017 just 36% of treasurers around the world considered themselves to be playing a key role in defining corporate strategy. By the following year, though, that figure had risen to 45%: a 25% positive shift. The report also revealed that:

- On a global scale, 58% of treasurers routinely prepare reports or presentations for their boards; however...
- In the UK, that figure jumps to a massive 92%.

In the US, meanwhile, 80% of respondents to a 2017 survey from the Association for Finance Professionals (AFP) said that treasury was playing a more strategic role within their organisations than it had in the preceding three years.

That resurgent platform of credibility is particularly significant against a backdrop of two, parallel developments: i) the threat of cybercrime has become a huge concern to treasury departments, with most corporates having neither the resources, nor the investment to protect themselves from sophisticated attacks; and ii) compliance controls in the treasury function are under tighter scrutiny from auditors – particularly in light of accounting, regulatory and legislative developments such as European Market Infrastructure Regulation (EMIR), IAS 39, IFRS 16 and PSD2.

All of this provides treasurers with a prime opportunity to leverage their status as trusted, strategic aides, and call upon their firms to implement best-in-class treasury management systems (TMSs) – tools that will tackle not merely day-to-day operations, but cyber risks and compliance issues, too.

Pre-implementation changes

When treasury heads ask their firms to introduce TMSs, they typically hit the following barriers:

1. A pervasive view that, if the current method isn't broken, then why attempt to fix it? In other words, "We can manage with what we already have" – regardless of how inefficient it is;

2. An impression that there will be an additional cost with very little return. Corporates tend to run treasury departments as cost centres, so they perceive investment in new technology as an increase in costs; and

3. A sense that any efficiency gains are not visible: treasury teams are quite small – 45% of firms in the ACT report and 61% of those in the AFP survey have fewer than five staff.

Those are not the only challenges that treasurers face when making a case for the technology they need. But there is a more local one, too, which is the impact on team members. Many treasury teams are comprised of staff who are trained to handle data in a relatively manual fashion. As such, a treasury head looking to implement a TMS should evaluate:

- Whether a team member's process could be automated, and their role 'upgraded', so they can take on a more analytical role. How would that employee react? Would they be willing to be trained or upskilled?
- Whether, if their role becomes redundant, that affects the structure and team morale.

> Many treasury teams are comprised of staff who are trained to handle data in a relatively manual fashion

Efficiency gains

One of the key challenges facing treasurers is the perception that manual processes are somehow 'simpler' than using a TMS.

We all see the impact of technology opening up efficiency gains in every walk of corporate life and the impact on business processes. For example, McDonald's now offers customers the ability to order their meals using touchscreens. Interestingly, this has enabled outlets to redeploy some of their staff to delivering meals to tables – which many customers have wanted for years.

Some of the world's largest companies have failed to invest promptly in new technology and we see these business failures in the press all the time. I believe that any company without a basic TMS to handle its cash management and regulatory reporting tasks is hindering itself.

For instance, the future-proofing benefits that technology – and specifically TMSs – offer are significant. As technology has evolved, many corporate back-end systems have had to accept urgent upgrades to interface with new applications entering the marketplace. A carefully selected solution should offer corporates the assurance of future-proofing against regulatory change and potential new applications the business wishes to interact with.

For corporates that are on SWIFT, there are additional benefits around international payment tracking, transparency and speed. Most TMS solutions offer an integrated SWIFT service, which offers full transparency and delivery within 90 minutes.

The business case should therefore focus on unlocking the potential of the treasury function and the way that the technology will enable change and improve efficiency.

Building the business case

Any treasury business case that seeks internal investment in new technology from the firm must quantify the benefits that could be realised. Based on my own experience, when Ferguson plc looked to introduce a TMS, the business case was fully costed and contained a wealth of detail to satisfy the group treasurer and CFO that the investment was prudent and worthwhile.

Today, a standard cloud-based TMS is relatively simple and cost-effective to implement and cannot be compared to the experiences of the past, ie a situation heavily reliant on IT support and regular upgrades.

In addition to the business case benefits of better efficiency, ability to process all our transaction types and improved reporting, we included extra requirements in our search for the right TMS. The following are examples of some of them:

Consistency with internal IT standards and protocols

- No ActiveX controls or Java applets required.
- Runs with the aid of only limited internal IT support.
- Easy to roll out to other users via a simple web-browser connection.
- Integrated SWIFT solution: straight-through processing for payments and collating MT940s, for cash visibility.
- Provides a strong support system that will evolve in line with the business and market conditions.
- Potential for broader application across the group

to tackle areas of further cost reduction – for example, i) replacing legacy systems; ii) providing greater visibility at group level; and iii) facilitating greater communication and working relationships with other business units, such as the integrated trade repository solution and internal FX trading platform.

Compliance with regulation and controls

GENERAL SECURITY

- Functionality supported crucial points, such as segregation of duties, two-factor authentication, four-eyes transaction approval and white-label IP addresses.

EMIR

- Automated upload of all eligible deals to the Trade Repository-RegisTR, and full outsourcing of future obligations under this regulation.

IAS/IFRS

- Ability to comply with the requirements of IAS 39 or IFRS 9. Incidentally, it was a recommendation of our auditors to implement our first TMS solution because of the challenges of financial reporting standard IAS 39. It was therefore crucial that the TMS can both measure, report and account for the hedge effectiveness of our hedging instruments.
- Capability to support future requirements such as IFRS 16, which came into effect at the start of this year.

PSD2

- Ability to obtain visibility and access to e-wallets (non-banking financial institutions) – for example, Amazon, PayPal, Apple Pay – on their TMS dashboard using its application programming interface.

Further to those points, can any company continue to ignore how poorly the cybersecurity safeguards around their hosted servers compare to those of the larger SaaS providers – some of whom have Gold-standard security certification?

In relation to the concerns that treasury leaders have over their teams' skill sets prior to implementation, there are plenty of measures that can be put in place to ensure everyone is prepared. Firstly, though, it's important to note that treasury staff who have followed the same manual procedures for several years present a conspicuous cyber risk. Cybercriminals study patterns and behaviours that corporates apply when making payments. In recent years, the results of that scrutiny have manifested through the phenomenon of CEO fraud. So it is important for corporates to acknowledge that risk and address it by providing their new systems with the appropriate coverage – such as two-factor authentication and/or biometric identification.

On the capabilities point, corporates should work with their TMS suppliers to provide advance training for their treasury teams and upgrade their skills, especially in cases where there is an identified aversion to change or a fear of job loss.

Workshop and documentation pre-implementation

In addition, as part of our TMS implementation, there were several steps that Ferguson took to secure buy-in from group-wide users, such as:

1. A customised system manual was made available to all users via the provider's online portal;
2. 'Show-and-tells' were held to highlight the TMS's primary benefits to various departments and entities within the group; and
3. Detailed scoping workshops help the wider group with more extensive use of the TMS.

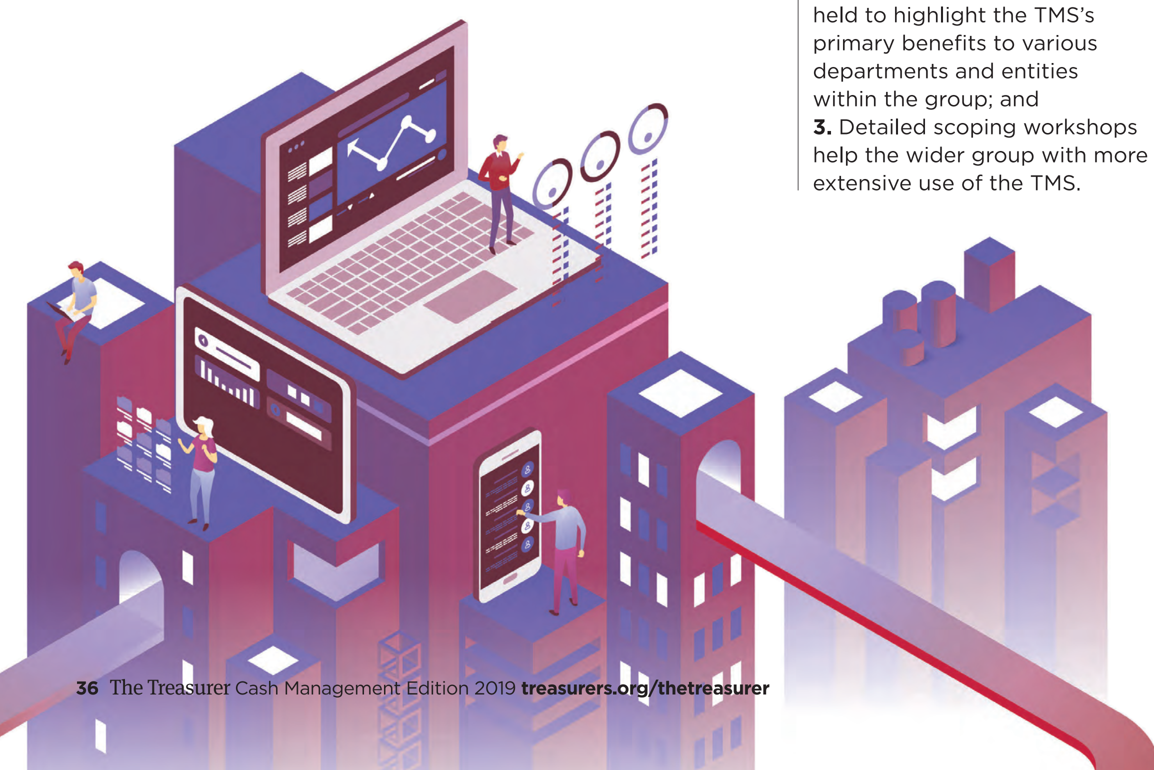
Harnessing engagement

Treasury staff are generally quick to recognise how a TMS will not only make their teams' lives easier, but create opportunities to do more interesting or challenging work – thereby adding value to the business. It is the treasurer's responsibility to manage the team's expectations and fears. However, for a successful implementation, the supplier can also help to alleviate any concerns by supporting the treasurer and setting out the benefits to the team of using the system.

This can be done by setting out the opportunities for personal development that the TMS will provide. At the very least, the TMS supplier can support the team with their capability and knowledge of new treasury technology.

If staff recognise that peers and competitors are advancing their knowledge of new technologies such as artificial intelligence, robotic process automation and machine learning – they will be more likely to be open to embracing it fully.

All these pre-implementation activities should be considered before embarking on any technology implementation. A TMS implementation is strategic, complex and, for most treasury teams, the largest technology project that they will work on. It should therefore be approached carefully, addressing the internal as well as the external challenges. The benefits of a TMS for businesses, however, are persuasive and, with proper management, outweigh any risks of implementation.



Royston Da Costa is assistant group treasurer at Ferguson

QUIZ

7Q CHALLENGE ANSWERS

Mark your answers generously and encouragingly throughout...

1 Accordions. An accordion feature is a clause in a loan agreement that gives the borrower the option to increase the principal on the same terms as the original borrowing. John Laing Group's £650m revolving credit facility includes an accordion.

A trombone is a similar feature in an equity or convertible issue, rather than a borrowing.

(2)

2 Secondary spread. In corporate borrowing, spread is the difference between the yield on corporate debt and a comparable risk-free rate. The smaller the spread, the lower the corporate's cost of borrowing. Secondary spread is the spread on debt securities trading in the secondary market. Secondary spread provides an indicator of the likely spread on a refinancing or new borrowing.

Therefore, borrowers prefer a smaller secondary spread, as achieved by Tesco following its return to an investment-grade credit rating.

(2)

3 Stronger than UK. Oxford University enjoyed a Aaa credit rating from Moody's (on 100-year debt), stronger than the UK government's Aa2.

(1)

TECHNICAL

4 Fallback. In interest rate documentation, fallback language deals with a situation where a contracted reference rate, such as Libor, is unavailable.

Fallback language ensures continuity of contract for legacy transactions specifying Libor as the reference rate, maturing after the expected retirement of Libor in 2021.

(2)

5 Vanilla means there are no additional or complex features in a financial contract. For example, vanilla options are simple call or put options.

(1)

TREASURY TIMELINE

6 Plaza. The 1985 Plaza Accord was a G5 agreement to depreciate the overvalued US dollar against the yen and the deutschmark, to support US exporters.

The strong dollar policy is also under pressure today.

(2)

7 Black days. Black Monday was the stock market crash of 19 October 1987; Black Wednesday was 16 September 1992, when heavy falls in the value of sterling forced the UK to leave the European Exchange Rate Mechanism; Black Friday was the mini-stock market crash of 13 October 1989.

Future trading crashes are almost certain to recur. Don't bet your company, nor anything else significant, on the timing. Some will have considered the prospects of Brexit Days on 29 March or 12 April 2019 to be Black Fridays, others as Golden Fridays. In either case, the next shopping Black Friday is 29 November 2019.

(4)

(+ 1 bonus mark for participating)
(Total 15 marks)

Your personal rating

Marks	Rating
13-15	Prizewinner
9-12	Distinction
5-8	Merit
1-4	Well done for making a start
0	You forgot your participation mark

With many thanks to James Lockyer FCT and James Leather FCT.
(Refer to page 27 for the quiz questions)

Doug Williamson FCT is principal contributing editor to *The Treasurer's Wiki*; see wiki.treasurers.org/wiki/Trombone

BEHIND THE CLOUDS

TREASURERS CAN GAIN MORE FROM THE CLOUD BY LEARNING A LITTLE MORE ABOUT ITS TERMS OF REFERENCE, SAYS LESLEY MEALL

Averda, a provider of waste management solutions, chose a cloud treasury management system (TMS) – Kyriba – because it has the functionality and flexibility to support its ambitious growth plans and the remote locations of its offices. Microsoft Treasury sings the praises of cloud analytics (Power BI) because of how easily the team can use it to combine data from multiple sources, analyse and visualise information, and share insights. The Private Export Funding Corporation integrated its enterprise resource planning (ERP) system (Oracle Financials Cloud) and treasury risk management system (Reval), so that its treasury team could automate more manual tasks and save time, improve control and reduce risk.

There are many reasons why treasurers choose to use cloud-based resources and the benefits are growing along with the variety, utility and interoperability of the specialist software and services available. Bank of America Merrill Lynch provides mobile access to treasury services through its CashPro online banking platform. Encompass offers a know your customer solution that automates the repetitive activity of accessing, retrieving and analysing data from multiple sources. Fluidly provides automated 'intelligent' cash-flow forecasting and credit control. Mitigram offers an online platform for funding and hedging trade risk, connecting corporates and banks via a browser.

Make better decisions

Some treasury departments are responsible for their own systems and data. As digital technologies proliferate and create new possibilities, more treasurers will be involved in decision-making around technology strategy, providers, products or services – and cloud is a factor. Very few treasurers need to become technology experts, but if you want to get the most from such systems, it helps to have a basic grasp of the technologies and terms of reference that you will come across, because not all clouds are created equal. To start with, there is more than one cloud-delivery model: there are public clouds, private clouds and hybrid clouds (see box, opposite), and each of these contains variations on the theme.

Even 'the cloud' (as we all call it) is a misnomer. It's not a single thing in a single place. The cloud is actually a collection of technologies that are used to provide 'as a service' access to 'shared' resources, such as software applications, data storage and computing infrastructure. This access usually takes place 'on demand' from anywhere with an internet connection, using fixed and mobile devices. Cloud computing is an umbrella term that encompasses all of this, and it is made possible by 'virtualisation'. Without this, there would be no cloud.

> The cloud is actually a collection of technologies used to provide 'as a service' access to 'shared' resources

Use resources more efficiently

In the world of technology, everyday words can acquire new meaning; but virtualisation simply describes the creation of 'virtual' rather than 'actual' versions of something. It is complex in design and execution, but treasurers don't need to understand the bits and bytes. It's enough to know that virtualisation allows computing resources to operate more efficiently and cost-effectively, because it overcomes the physical constraints of things like servers (hardware for storing, securing, accessing and managing data and services) and operating systems (that manage hardware and other software).

Virtualisation is one of the elements that enables the entire (public, private and hybrid) cloud ecosystem; because the manipulation of hardware and other resources made possible by virtualisation are used to deliver shared resources 'as a service'. Hence, software as a service (SaaS), infrastructure as a service (IaaS) and platform as a service (PaaS), which manifest as cloud software applications (such as Google Maps and WhatsApp); data storage (such as Apple's iCloud and Dropbox); and computing infrastructure (such as Amazon Web Services (AWS) and IBM Cloud Services).

Be adaptable and flexible

You may be more familiar with Google Maps than AWS, but all treasurers benefit from such services because they are used by

OWN THE RISK

Here is a description of the various cloud deployment and delivery models.

PRIVATE CLOUD most closely mirrors traditional 'on-premise' systems (that live on a box in your office or data centre), as this set-up allows businesses to retain dedicated hardware and software. This can be operated on or off your business's premises, using hardware and software it owns/leases/rents, or using hardware and/or software that is owned/leased/rented by a managed services provider. Either way, these resources are generally (but not always) used by a single 'tenant' – your business.

PUBLIC CLOUD is the set-up that most of us are most familiar with, because of the many public cloud services we use privately (if not professionally). These are always multi-tenant services and pretty much everything about them is shared: from the hardware (such as virtual servers) to the software (operating systems and applications). Data belonging to different users sits side by side and may be located on servers belonging to your service provider or another third party.

HYBRID CLOUD allows businesses to combine the flexibility of cloud services with the comfort of knowing that sensitive data is being taken care of within your own four walls. This approach can enable businesses (and their treasury functions) to, for example, retain their investment in a traditional on-premise ERP system, while taking advantage of selected cloud applications, by integrating the separate systems and different delivery models.

It's important to understand the differences, not least because some software vendors support public, private and hybrid cloud deployments. The decisions you make on this have implications for access; application and data security; where and how your data will be stored and managed; how it is encrypted; and whether this happens just when it is 'at rest' or also when it is in transit; and more.

many other cloud services. Your cloud ERP system may rely on AWS. When you store photos in iCloud, Apple uses AWS servers and storage; so do Airbnb and Netflix – a good example of what techies mean when they describe cloud services as 'dynamic' and 'scalable'. As viewer numbers fluctuate, Netflix meets streaming demands by dynamically scaling up or down and switching on or off the AWS servers and storage.

All of the very many cloud software and services out there are interdependent – which brings us to application programming interfaces (APIs). They glue software and services together by enabling the 'connectivity' that makes data and functionality in one system available to another system, often (though not always) without the support of integration specialists. Some APIs are open (or publicly available) and some are private – and you can learn more about the benefits of the former, and what they can mean for treasurers, by reading recent coverage on open banking at treasurers.org/thetreasurer/why-open-banking-will-be-better-for-corporate-treasurers

Focus on the future

Being armed with a little knowledge on the technologies that underpin the cloud can help treasurers to better exploit the potential benefits, avoid the potential burdens and make more informed decisions. For example, awareness of how interconnected cloud resources are highlights the complexity and importance of thoroughly assessing and ensuring compliance with legislation such as the General Data Protection Regulation and security standards like SOC 2. Treasurers have always been aware of the significance (and risk factors) associated with physical and financial supply chains; understanding the cloud supply chain can help to complete the picture – now and in the future.

Lesley Meall is a freelance journalist specialising in technology and finance

HOW TO LEAD WITH EMOTIONAL COURAGE

EFFECTIVE LEADERS OFTEN NEED TO ADDRESS THE EMOTIONS BEHIND DIFFICULT SITUATIONS. PETER BREGMAN MAKES THE CASE FOR EMOTIONAL COURAGE

Think of a hard conversation you know you should have with someone that you haven't initiated. Now, consider why you haven't had the conversation.

Is it because you don't know what you want to say? I'm betting you know exactly what you want to say. Is it because you haven't had the opportunity to say it? I'm guessing you've already missed a few ripe opportunities to raise this uncomfortable issue. Is it because you don't know how to say it? I'm sure you're struggling with the perfect words. But why do you need perfect words? Adequate words should be enough. So, why haven't you had the conversation? Because it's scary.

As you think about it, your heart rate quickens and your adrenaline flows. What if they lash back or get defensive or blame you? What if they simply stare at you and become passive-aggressive? Or maybe you're afraid of your own response. What if you lose control and fly into a rage?

That would be uncomfortable, to say the least. You would have to feel things you don't want to feel. And that, it turns out, is what holds you back. What actually derails us from acting powerfully in our lives, in our relationships, at work or in the world, is discomfort – the discomfort of follow-through.

On the surface, it seems like the key to follow-through is the courage to act. And it is. But

what underlies the courage to act is the courage to feel – emotional courage.

Any gap in emotional courage limits your freedom to act. When you avoid feeling, it's a huge drain on your productivity and your organisational outcomes. By far and away the biggest block to contributing to your maximum potential is invariably self-imposed, the resistance to following through on uncomfortable actions. If you don't follow-through, if you don't have that conversation, then you won't have the hard feelings.

More than anything, our collective lack of emotional courage is what prevents us and our teams from moving forward. The opposite is also true. If you are willing to feel and address difficult feelings, you can gain massive traction on your most important work. You can close the gap between strategy and execution.

Emotional courage is not a talent that some people are born with and others aren't – it is entirely developable. We all feel things deeply. In fact, that's why we let feelings stop us – we have learned, through experience, that some feelings – shame, embarrassment, rejection, to name a few – are painful. And we do our best to shut those feelings down, mostly by restricting our behaviour so that we don't do things that might invite those feelings. But that strategy is flawed. It makes us much less powerful in the world.

What I have learnt from our leadership work is that emotional courage is not just an idea, it's a muscle, and, like all muscles, it grows with exercise. Every time you initiate a difficult conversation, take a risk, make a decision or influence others, you are growing your emotional courage.

To get your most important work done you have to have hard conversations, create accountability and inspire action by attracting people to trust you and commit their effort to a larger purpose. You need to care about others and connect with them, and speak persuasively while listening with openness and compassion.

In 25 years of working with leaders, I have found four essential elements that all great leaders demonstrate, four ways of showing up that predictably rally people to accomplish what's important to them. They need to:

- be confident in themselves;
- be connected with others;
- be committed to a purpose; and
- act with emotional courage.

Any gap in emotional courage limits your freedom to act

To inspire action you need to excel at all four simultaneously. If you're confident in yourself, but disconnected from others, everything will be about you and you'll alienate the people around you. If you're connected to others, but lack confidence in yourself, you will betray your own needs and perspectives in order to please everyone else.

If you're not connected to a purpose, something bigger than yourself, and others, you'll lose the respect of those around you as you act aimlessly, failing to make an impact on what matters most. And if you fail to act powerfully, decisively and boldly, your ideas will remain in your head and your goals will remain unfulfilled fantasies.

ELEMENT ONE: Build your confidence

You will often hear people say it's important to be confident, but that's easier said than done. Knowing who you are; staying true to yourself – even when it risks disappointing others; and asking for and taking in feedback without becoming defensive are all measures of confidence and worth cultivating.

ELEMENT TWO: Connect with others

Your success in creating collective action is based on your ability to develop relationships with others. When people know that you trust them and listen to them even when you disagree; when people understand that you are genuinely curious about their views and approach tricky problems with curiosity; and when you energise people around you and don't fail to initiate hard conversations – these are all measures of a good level of connection with others.

ELEMENT THREE: Commit to a purpose

Inspiring people to act together requires a shared focus that supersedes individual interests. Some of the hallmarks of committed people and teams are: a willingness to prioritise shared projects over individual interests; involving others at an early stage of shared work; and being effective at helping others recover and perform following mistakes or struggles.

ELEMENT FOUR: Cultivate emotional courage

Developing a willingness to feel and acknowledge hard feelings and acting boldly are actions that help to develop emotional courage. Being able to identify emotion, not allowing discomfort to deter from what needs to be done, and routinely taking calculated and bold risks are all measures of emotional courage.

With practice, emotional courage will become second nature and, though some things will feel daunting, many will be less so and you will have the courage to feel whatever it is you need to feel in order to move ahead.

Peter Bregman is the author of *Leading with Emotional Courage* (Wiley, 2018) and CEO of Bregman Partners

SHORTER AND SWEETER

AS WELL AS BEING SEEN AS WASTEFUL, MEETINGS MAKE MANY OF US UNCOMFORTABLE. MATT PACKER SUGGESTS METHODS FOR MAKING THEM MORE PRODUCTIVE

Of all the people in the human race who have ever held a job, only a very few could honestly say that they've never experienced a bad meeting.

Meetings have become a bugbear of organisational life. Countless leaders have tried to crack the riddle of how to make them more interesting and effective, before simply ploughing on with the time-worn formula of yanking team members into rooms at short notice for overlong, meandering snoozefests, in which the loudest voices routinely crush quieter staff with better ideas.

This all comes at a cost. In February last year, governance software provider eShare revealed that unnecessary meetings are costing British firms more than £191bn per year.

In the US, home to around 55 million meetings per day, University of North Carolina professor of organisational science Steven G Rogelberg, author of *The Surprising Science of Meetings: How You Can Lead Your Team to Peak Performance*, argues that meetings simply engender unconstructive behaviour. "We know that meetings are experienced like interruptions," he says. "We know from the research that interruptions put people in bad moods. We also know that when people are in bad moods, they tend to be more rigid in their thinking and less creative – and just not as open and receptive to others' ideas."

In light of all these issues, here are three tips for how managers and leaders can conjure up more vibrant and impactful meetings cultures.

1. THE APPLIANCE OF SILENCE

In September last year, an employee of digital payments firm Square took to the Medium blogging platform to share the company's approach to meetings, as set out by its seller-facing products lead, Alyssa Henry.[1] Under Henry's direction, all of Square's team meetings begin with 30 minutes of complete silence, during which staff view a series of amendable Google docs containing notes on the project, idea or strategy up for discussion.

Attendees patiently make their way through the docs, typing any comments or questions they may have onto their pages as they go, with everyone moving at the same pace. Only once that process has ended does anyone speak – and because everyone has already absorbed the relevant information, the conversation part tends to be short and focused.

Outlining her rationale behind the policy, Henry wrote: "Lots of research says that minorities, women, remote employees and introverts are talked over in meetings and/or have trouble getting their voice heard in traditional meeting culture. I want to build a culture where thoughts can be voiced (or written as the case may be) without worrying about someone talking over you."

2. SHAKE A TAIL FEATHER

Do meetings really have to take place in the same meeting room or location? Rogelberg is an advocate of standing or walking meetings. "Standing-up meetings produce the same quality of outcomes as a sitting-down meeting, but in half as much time," he says.

Walking meetings, meanwhile, also have benefits. They need to be kept to two or three participants, but they create focus and get people out of the office. He does suggest planning a route, however. "As funny as it sounds, you want to make sure you're walking in a circle, so you wind up back where you started."

3. NO STRINGS ATTACHED

In 2017, writing on Inc.com, US coach Bruce Eckfeldt urged leaders to just make one simple change to transform their organisation's attitude to meetings: make every single one optional.

Eckfeldt identified a number of positives: meetings with little to no value will be cancelled and people will think twice before arranging get-togethers in the first place. If they do propose a meeting, they will work harder to sell them to the relevant audience. Agendas will focus more clearly upon creating value, and meeting times will shorten.

Given the low enthusiasm and even dread with which many people approach meetings, changing how we go about them seems long overdue.

1 medium.com/square-corner-blog/a-silent-meeting-is-worth-a-thousand-words-2c7213b12fb6

Matt Packer is a freelance business, finance and leadership journalist

Amsterdam

Madinat Jumeirah in Dubai

Münsterbrücke Bridge and Fraumünster Church in Zurich

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ACT EVENTS

8 April, London

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The next event in the ACT's D&I calendar focuses on an area that is often overlooked and where the impact of this can be far-reaching. Get advice on improving your financial wellbeing, assessing the importance of it and how it fits into an organisation's wider wellbeing discussion.
treasurers.org/diversity

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treasurers.org/annualconference

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treasurers.org/middleeastawards

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FROM FRAGILE TO AGILE

RESILIENCE IS ON TREND. BUT WHAT IS IT? AND HOW DO WE GET IT? AMANDA BRADLEY EXPLORES

Resilience is commonly referred to as the ability to bounce back from difficulties and remain positive, thereby allowing us to resolve problems and move forwards. But it sometimes morphs into being able to take on increasing workloads without breaking a sweat: keep calm and carry on.

I set my definition of resilience early in my career. I looked around the late 1990s workplace and saw people being effortlessly brilliant, emotionless and self-reliant. I figured the way forward was to be a kind of corporate machine. Wake, work, eat, sleep, repeat. Great idea! What could go wrong with an emotionless machine? Think HAL from *2001: A Space Odyssey*, Ava in *Ex-Machina* and *The Terminator*'s T-1000. Oh.

When I was in a straightforward role, machine mode worked fine. When things got higher pressured, that definition tripped me up. Wake, work, eat, sleep, repeat became wake, work, eat, worry, try to sleep. I became tired, emotional and eventually poorly. Then I'd have to stop, rest and reset before starting the whole cycle again. Hopefully, this isn't familiar to you, but if it is, read on.

I became known as excellent, but fragile. The fragile label hurt because I tried so hard to push down how I felt. Thinking back to the article on confidence and Kahler and Capers' five drivers (*The Treasurer*, October/November 2018, page 48), I used my Be Strong driver to keep going. Then I'd snap after being too strong for too long – not because I wasn't strong enough. I'd be told "toughen up", "grow a thicker skin" and "don't take it personally", which all translated as "feel even less".

I eventually realised that I was making myself fragile by ignoring myself. But I also discovered resilience isn't a birthright. I could learn it.

There are countless blogs on 'how to do' resilience. We must eat our greens, exercise daily and prioritise sleep. All good stuff. But it felt like a bad joke – "be happier by doing even more". For some people that worked, but for me, resilience started with listening to what I needed.

You're the only expert on you

The only person who knows how you feel is you – but we need to be listening. Otherwise our feelings will start to shout until they're heard.

It's like letting the gas out of a shaken cola bottle. Leave it to fizz and it will explode, making a terrible mess. If you twist the cap gently and slowly, the gas dissipates, and the cola remains contained. The emotion is recognised, which allows it to discharge appropriately. You are left with an actionable insight that can be communicated calmly, increasing your chance of getting what you need. If the bottle explodes, everybody's too busy to listen – running around looking for a cloth and blaming you for shaking the bottle.

Consider these examples. You could suddenly find yourself biting a colleague's head off with no warning, or you could notice your growing frustration and use it to realise you need to establish a boundary. Instead of skipping lunch and retreating into ourselves, we can notice we are beginning to feel anxious that there's too much to do, reprioritise and agree with our colleagues what won't be done until later. We can discover at the end of the year that we've coasted through, or we can realise we are getting bored and proactively look for our next challenge. When we use how we feel as facts and data to show us what we need, we stay in control.

But how do you listen to yourself? Try this simple exercise. Give yourself 20 minutes in a quiet room with a pen and paper. Write down whatever comes to you: thoughts, observations – you might like to try starting with "when I..." or "sometimes I wish..." and see what comes next. Stick with it and your feelings will eventually emerge. Avoid using the time to write yourself a new to-do list, though! Daily reflective space helps us understand our feelings and use them to show us what we need. The more you do it, the easier it becomes to spot how you feel in the moment, increasing your mastery over your reactions.

Relentlessly seek choices

Feeling we are victims of circumstance stinks.

> Whether with your boss or with yourself, be clear about what you can deliver and when

Relentlessly seeking choice shows us where we can exercise control for ourselves.

Imagine you aren't a treasurer – instead, you've been in the same role for five years, you are bored stiff, the commute is hell, but it pays the bills and the benefits are good. What are your choices?

You could resign immediately. Perhaps move closer to work. Go to night school. Retrain as a plumber. You could tell your boss you'd like to reshape your role. You could decide that paying the bills and having the benefits makes everything worthwhile. Or ring a recruiter and move jobs.

It doesn't matter what you choose, you just need to choose. Choice stops us being a victim of circumstance. It's like a 'do nothing' hedging strategy – it's still a choice if you've considered the other options and decided to do nothing. Otherwise, you've just surrendered your control.

Contract for success

Whether with your boss or with yourself, be clear about what you can deliver and when. One of my senior leaders was famous for calling around 4pm on Fridays to ask for a written update on something. I'd spend until 7pm in the office writing and sending the report and then Saturday checking my phone for comments, which invariably didn't come. It sounds simple, but the day I got my weekends back was the day I asked how urgent his request was. That simple question let me prioritise and agree with myself when I would do the work.

Contracting with ourselves on how much we can reasonably do in a day and then rewarding ourselves when we achieve it also lets us begin to feel proud of ourselves and be comfortable that we have done enough. We get to leave work fully and go and enjoy the rest of our lives. By being more boundaried, we become more resilient and, ultimately, more useful.

Imagining is worse than knowing

Our imaginations can be our own worst enemies. Stress can make us highly self-critical, even paranoid. "If I leave before 7pm, everyone will think I'm a slacker." The antidote is simple. Seek and offer regular feedback. I'm not advocating looking to others for validation – there's a fine line between transparency and giving someone else responsibility for making you feel good about yourself. Transparent feedback connects us to each other and builds the trust that you and your colleagues can count on each other. For more on feedback, check out *The Treasurer*, February/March Deals Edition 2019, page 44.

Resilience lets us be kinder to ourselves

Resilience isn't being a machine that just keeps going. It's being responsive to our environment. By knowing what we need, what we can control, what is expected of us and what we are willing to do, and by leaving no space for our imaginations to run wild, we can disconnect from the machine and find that resilience is actually a great way to be kinder to ourselves.

Amanda Bradley is an executive coach at Liberty EQ

"WE CONTINUALLY CHALLENGE THE STATUS QUO"

ANTHONY FORD, HEAD OF TREASURY AT CLSA LTD, EXPLAINS WHY NO TWO DAYS ARE ALIKE AT THE INVESTMENT GROUP

CLSA is an Asian capital markets and investment group, offering asset management, corporate finance and capital markets, securities, and wealth management services to institutional investors, corporates, governments, family offices and high-net-worth individuals.

As in all financial institutions, the treasury function plays a critical role in ensuring cash is readily accessible to meet business and client needs. Strategically, treasury works to reshape the balance sheet and optimise CLSA's evolving business.

Responsibilities

Treasury is part of the CLSA's finance team, and as treasurer I report to the CFO. I work closely with the CFO and management committee, providing input and advice on the business strategy while considering our funding and capital regulations, costs and constraints.

The team is located in Hong Kong, India and the US and manages the balance sheet, funding and liquidity, capital, funds transfer pricing, debt issuance, banking relationships, cash settlements and FX and interest rate risks.

My role also involves meeting banks and clients, explaining our business, the strength of our funding, capital position and our approach to risk.

Managing these responsibilities appropriately ensures CLSA remains financially secure, stable and able to withstand market stresses.

No two days are the same

A great part of working at CLSA is that every day is different. We continually challenge the status quo and look to identify opportunities that can improve the way we operate.

As a central function, we work with all parts of the organisation to advise on various trades and projects. There is never a dull day.

Some examples include changing internal booking models to better capture our risks, refining our funds transfer-pricing framework to optimise utilisation, and discussing relative business strengths and weaknesses to formulate strategies. I might be meeting with bank risk officers and negotiating credit facilities, pricing non-vanilla FX derivatives, making interest hedges, reviewing limits and controls, or merging cash pools.

Working in treasury offers the opportunity to interact with all businesses and infrastructure functions. It's important for people to understand how their business activities impact CLSA's funding and capital.

Funding and capital are scarce resources. Treasury works together with each business to understand their strategy and aspirations. We then make recommendations to management on how best to allocate resources and optimise the risk-adjusted performance of CLSA as a whole.

Treasury also meets with external stakeholders, including banks, investors, regulators, market exchanges and rating agencies. It is important for stakeholders to understand the strength of CLSA's balance sheet and attitude towards risk to facilitate the credit and pricing negotiations.

Liquidity is critically important to CLSA treasury. Ensuring that we remain comfortably above CLSA management's liquidity risk appetite is a successful, business-as-usual day.

Finding and implementing innovative solutions to problems is very satisfying, particularly when it involves working with others as a team to ensure there are no unexpected consequences.

Advice for aspiring treasurers

Treasury is a great career and enables you to get a real understanding of how a company operates. In general, smaller treasury functions offer much broader experiences, while larger treasury functions enable the development of specialist skills and best practices.

Treasury responsibilities can be quite different between industries and even within industries. Treasurers need to be dynamic in their approach to arrive at solutions appropriate to the mix of business in their companies.

Gaining experience across industries and company sizes can make treasury a very interesting and rewarding career. The breadth of skills and knowledge can also lead to opportunities in different areas of the business.

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