



## Treasury headwinds

Two treasury heads talk Brexit, pandemic recovery and the value importance of cash.



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**Cathy Fields**

Assistant Treasurer and Director of  
Global Risk Management

**Hitachi Vantara**



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# Time to act

As this edition goes to press, two days of climate discussions close with ambitious new emission pledges from countries including Japan, Canada and South Korea, counterbalanced by foot-dragging from Australia and Brazil.

A new wave of targets is a clear warning sign to public companies that governments' regulatory and reporting demands around emissions are set to increase. Companies have been producing sustainability reports for years, but as climate risk becomes financially material, sustainability and treasury teams will increasingly have to pool their expertise, processes and rigour to detail corporate emissions as a liability on the balance sheet and provide deep dive analysis of the emissions across their supply chain. It's a reporting burden that screams the need to act now. "This is the direction of travel," warns one of our interviewees.

Elsewhere, we focus on a more familiar treasury challenge: cash management. Cathy Fields, Assistant Treasurer and Director of Global Risk Management at Hitachi Vantara, recounts how she has transformed banking infrastructure and cash management at the division of the Japanese IT conglomerate. The process depended on clear messaging and communication, education and breaking down silos.

No doubt an interesting lens into transformational change for Matthew Ebersold, Head of Treasury at US photography pioneer Kodak. In our Insight and Analysis feature he talks about how post pandemic treasury strategy at the company will focus on identifying and implementing efficiencies, particularly around cash management, as the company seeks to reduce its "hundreds" of bank accounts around the world and the associated fees.

This edition also gathers expert opinion on the Greensill fallout, reminding readers that Greensill's risky future receivables financing isn't a traditional trade finance product. Minna Helppi, Group Treasurer at Finland's Metso Outotec, espouses the win-win of supply chain finance for suppliers and treasury and predicts regulation and more investment bank involvement ahead.

Finally, it's that time of the year again! The Adam Smith Awards programme recognises best practice and innovation, regardless of company size, budget or industry sector. Following the success of our 2020 virtual delivery, we will again run the Adam Smith Awards 2021 digitally, announcing the winners on 8<sup>th</sup> June.

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# Brexit: pandemic recovery and the importance of cash

*The pandemic recovery is under way, but companies face powerful headwinds. Treasury teams in the UK and US cite Brexit, rising costs and cash management as key priorities.*

Ever since Brexit ended 50 years of frictionless trade between the EU and UK, alongside ushering in new custom rules on shipments from mainland UK to Northern Ireland, UK business spanning shellfish to fashion have been scrambling to adjust. Simple rules guiding access to a market which accounted for 43% of exports and more than half of imports in 2019 have morphed into a bureaucratic nightmare under the post-Brexit EU-UK Trade and Cooperation Agreement (TCA). Further afield, the US earnings season is highlighting corporate concerns of rising costs, most visible in soaring

commodity prices. Against the backdrop of ongoing supply-chain shocks, businesses face a myriad of challenges scaling up production to meet new demand. It is a difficult time for treasury, where key strategies remain cash management, nurturing growth and scenario planning.

## **Brexit and Northern Ireland**

For Shipley-based aerospace manufacturer Produmax, Brexit fallout remains an enduring headache, none more so than

grappling with the new duties and costly customs paperwork now needed for its exports to Northern Ireland. Although the bulk of the SME's flight control components go to markets outside Europe, 20% go to Northern Ireland, home to customers like the former Bombardier factory now owned by the US's Spirit AeroSystems.

"Having a border within a country is nuts," laments Produmax's Owner and Financial Director Mandy Ridyard. "My customers pay to pick the goods up from me, but ultimately, whether I pay or the customer pays, there is a charge that makes the costs of my goods more expensive. Currently, we are in a position whereby goods shipped within our own country have become more expensive because of Brexit."

She estimates it will cost the salary of half an employee annually to fill in the required paperwork. And although Produmax's worldwide trade means the team are well versed in the complexity of export form filling, she says the SME would have benefited from having a unique point of contact at HMRC like large corporates have. "Even though the government has put in lots of help, there is nothing like a relationship. We have spent a long time sitting on helplines and talking to someone generic," she says.

Witness how processing relief became a minefield thanks to unknowns around whether sales to Northern Ireland counted as an export. "One of the things we couldn't get to grips with was if we could use our inward processing relief for what we ship to Northern Ireland – we didn't know if we were transferring the duty. The rules on Northern Ireland were written at the last minute and it was complicated." Fortunately, she has been able to draw on key support from her customers – something she links particularly to the close-knit aerospace sector. "In aerospace, you typically have lots of small companies supplying one big customer; our customers are close to what is going on." She also valued the expertise of the sector's trade body. "You need to make sure as a business you are invested in your trade body and that you have good relationships with your customers."

Although Brexit hasn't resulted in any delays in essential flows and components into the factory from EU suppliers, it remains to be seen if this is due to reduced trade flows because of the pandemic. "When you don't have customers screaming for parts it doesn't matter so much – there is more time to get things through." Moreover, the UK hasn't introduced import checks for goods from the EU yet, raising fears of even more bureaucratic problems when that happens next January.

## Cash is king at Kodak

The UK's departure from the EU and ensuing bureaucratic quagmire may not be on the radar to the same extent for US manufacturers, but other treasury challenges are just as real. None more so than cash management, says Matthew Ebersold, Treasurer at US photography pioneer Kodak, who explains in an interview from the company's Rochester, New York headquarters that identifying and driving efficiencies in cash management remains his overriding concern.

Kodak, which lacks a positive operating cash flow, had to make tough decisions to reduce its cash use through the height of the pandemic – a spend which still hit US\$34m in 2020. "Through a combination of vendor payment changes, general spending limitations, employee furloughs and pay

reductions, Kodak mitigated the reduction in sales," says Ebersold. Although tough choices are "never easy," he is resolute this early action ensured the company's ability to shore up its cash position. "We were able to avoid any liquidity concerns through these actions and also stabilised the cash used in, and provided by, our core businesses during 2020 including US\$25m in a liability clean-up and US\$12m investment in our growth areas."

Now his focus is on creating a more robust and efficient cash management system ahead. "We are a global company with over 40 active legal entities and hundreds of bank accounts around the world. We are investigating potential changes to our banking structure across the globe and opportunities to reduce bank accounts and associated fees. We will also be investigating the use of AI and new banking products through this process," he says.

Such is the importance and value of cash since the pandemic, its generation at Kodak is now viewed as a key metric of success. Ebersold's team prepare weekly cash flow forecasts by country, followed by detailing the extent forecasts tally with reality to senior management and finance teams around the globe. "We are relied upon to ensure cash spend is controlled, review spending at the vendor level and support cash needs across our businesses and locations," he says.

Cash and freeing up working capital is also a priority at Produmax. As a consequence of both pre-Brexit planning and now pandemic overhang, the manufacturer has been left holding much more stock than usual. The company increased its stock before Brexit, then COVID hit, demand fell away, and orders got pushed back, explains Ridyard. "For a small company, it is a bit of double whammy," she says. "Our working capital requirements have escalated because we held stock for Brexit. On the other hand, customers haven't been taking the orders we expected, and we are holding finished goods waiting for payment."

Elsewhere, she explains how the company is also tapping new raw material sources to meet different order specifications. It makes for an expensive, cash hungry business, and holds the ingredients of a potentially perfect storm. "We can't sell what we've already made because it's not needed and won't be for a while, and we've got more raw materials than we need. We've recently won new business which is now coming in, but it requires us to buy different raw materials to make the components. This will take longer, and ultimately means we'll have to wait longer to get paid."

## Supporting growth

Cash management is integral to helping fund Kodak's growth plans as the company hunts new markets and products in a post-COVID world. Despite coming up with a prototype for the first digital camera back in 1975, Kodak stuck with film, misjudged the digital revolution and filed for bankruptcy in 2012. Since then, new business lines have included a cryptocurrency and expansion of its ability to manufacture ingredients for pharmaceuticals. Now its traditional printing segment, Kodak's largest segment, has had and is expected to continue to have declining revenues, acknowledges Ebersold. Growth will be focused on niche areas in print like a digital packaging business following the company's wide-ranging re-financing in 2021. "The print industry was adversely impacted by the COVID pandemic but has been



The company certainly monitors interest rate policy, but our current debt and preferred stock are at fixed interest and dividend rates and any current change in policy would not have a direct impact on our structure.

Matthew Ebersold, Treasurer, Kodak

recovering. It remains unclear whether print volumes will fully return to pre-pandemic levels. These declines within our print businesses are expected to be partially offset through growth in specific areas like digital packaging.”

It leaves Ebersold preparing treasury for “active participation” in the company’s growth strategy. “We will be engaged with the finance and business teams leading our growth spend initiatives with a focus on controlling spend within approved guidelines and expectations,” he says, describing a balancing act ahead: using cash to invest in growth on one hand but keeping spending disciplined, and a focus on achieving a significant ROI on “any and all” investments on the other. “We need to ensure our cost controls remain in place, look for opportunities to settle legacy liabilities at a reasonable cost and ensure the company continues to move from cash use to cash generation.”

At Produmax, strategy is focused on diversifying sales into new markets – in stark contrast to recent years in the aerospace sector when Ridyard has struggled to meet demand. “We have too much capacity for the orders we have now,” she reflects. Investment has also been toned down. Produmax is running a “tight ship” in terms of cutting its usual investment spend, but the company is still investing in a key new satellite factory in Silverstone. “Our investment strategy is specifically focused on increasing our ability to sell. This factory is not a general investment – we have put a lot of stuff on hold.”

## Price rises

Treasury teams are also having to grapple with higher prices. Executives at the world’s largest brewer Anheuser-Busch InBev in Belgium recently cautioned that pressure on margins would continue due to higher commodity prices and packaging costs for drinks consumed at home. Elsewhere, European manufacturers have been hit by a surge in the price of polymer resins used to make plastic. According to market information service ICIS, polyethylene and polypropylene prices, the most commonly used plastic resins, have risen 25% since December to €1,500 per tonne, the highest level since 2015. A worrying shortage of cardboard packaging is on Ridyard’s mind, something she attributes to the “Amazon effect” and jump in online shopping. “Apparently the mills can’t get the raw material. If you can’t package your goods, you can’t sell them.”

In the US, more companies are warning of higher prices ahead, thanks to supply-chain bottlenecks and spikes in raw material and labour costs. Like Coca-Cola, where CFO John Murphy said during the company’s first quarter earnings that he expected a “relatively benign impact in 2021 from rising commodity costs due to the company’s hedged position,” but that inflation could become more of a headwind particularly around inputs like high fructose corn syrup metals and other

packaging materials. Add in President Biden’s plans for the first major federal tax hike since 1993 with proposals to increase corporate taxes to 28% from 21%, and corporates will feel another bite.

The prospect of the US government raising interest rates to counter inflation isn’t a concern for Ebersold. “The company certainly monitors interest rate policy, but our current debt and preferred stock are at fixed interest and dividend rates and any current change in policy would not have a direct impact on our structure,” he says. The policy change he is most mindful of is LIBOR reform. “We are actively monitoring the LIBOR cessation programme and the transition to an alternative reference rate. While the majority of our LIBOR references are linked to inter-company loan agreements, our ABL Credit Agreement and Letter of Credit Facility also reference LIBOR. We want to be in a position where our path forward is set prior to the cessation date with changes to our contracts complete well in advance of the ultimate transaction date at the end of the year,” he says.

Navigating the dual impact of Brexit and the pandemic has meant treasury and finance solutions have played an unprecedented central role at Produmax. Ridyard is constantly scenario planning and running budgets in a proactive strategy to ensure she has a finger on the pulse, or as she puts it, instant recall of her P&L balance sheet and sales ledger. “I have never run as many scenario plans as I have now,” she says, listing forecasts spanning raising more finance to scenarios on slowing down depreciation on machine tools which have lain idle during the pandemic. Elsewhere she has looked at moving the year end and modelled outcomes on R&D tax credit to release cash.

Pushing finance centre stage for an SME is more challenging than at a big company which has in-house experts. “We have had to learn and upskill really quickly. Especially around things that we wouldn’t have considered in the past because they are quite technical.” Quite an achievement for only a five-strong finance team of whom only herself and one other are at the “top end of treasury.”

Similarly, Ebersold concludes with reflections on how treasury at Kodak now reaches into so many parts of the business. “The great part of my job is being involved across so many important projects within Kodak and interacting with all levels of employees across the company,” he concludes. “I know with certainty my days will be filled with challenging and interesting work. I also know that no matter my plans, most days what I expect to work on can and will change as new questions and projects arise. It is an exciting time to work for Kodak and I look forward to the successful turnaround to cash generation.” ■





*Bitcoin has made headlines in recent weeks, with some companies making high-profile investments in the cryptocurrency – so could this be a route worth exploring for typical treasury teams?*

In January, the UK's FCA warned consumers that if they invest in cryptoassets, "they should be prepared to lose all their money" – and indeed, the world's first cryptocurrency, which was first developed in 2008-2009, is nothing if not volatile. Nevertheless, the recent surge in the price of bitcoin has regularly been making headlines since the beginning of 2021. The price of bitcoin was less than US\$6,000 in March 2020, but in February 2021 it reached an all-time high of US\$58,000.

Interest in the digital currency has been fuelled by news that carmaker Tesla had purchased bitcoin worth US\$1.5bn for "more flexibility to further diversify and maximise returns on our cash" and that the company was planning to start accepting payments in bitcoin, albeit on a limited basis in the first instance.

Tesla is not the only company to set its sights on bitcoin. PayPal and Square have both embraced digital currencies in recent months, while business intelligence company MicroStrategy has accumulated over 91,000 bitcoins. In a press release, CEO Michael J. Saylor cited "our belief that bitcoin, as the world's most widely-adopted cryptocurrency, can serve as a dependable store of value."

## Currency or asset?

A previous Treasury Today article explained the opportunities that bitcoin can potentially offer treasury teams, from diversification to hedging against inflation. But for companies that do take the plunge, it's clear that the risks can be considerable. Indeed, Tesla's share price suffered steep falls as the price of bitcoin fell by 25% in the space of a few days – a decline that followed a tweet by CEO Elon Musk noting that the prices of bitcoin and fellow cryptocurrency ethereum did "seem high". Nevertheless, MicroStrategy has not been deterred from spending another US\$10m on bitcoin in recent days.

Could other treasurers be tempted to venture down this road? Francois Masquelier, Chairman of the Luxembourg Corporate Treasury Association (ATEL), Vice-Chairman of the European Association of Corporate Treasurers (EACT) and CEO of Simply Treasury, is sceptical. "It was interesting to see some major companies investing in bitcoin – but to me bitcoin is not a currency; it's a highly volatile virtual asset," he says. "I don't believe that bitcoin will be an asset that typical corporate treasurers in typical companies will adopt."

Masquelier points out that in today's world of negative and low interest rates, there are plenty of reasons for CFOs to consider how best to use their surplus cash in order to avoid destroying value. "But it's already so difficult to sell the idea of going outside of the money market and deposit landscape," he adds. "I don't see CFOs investing in virtual currencies."

## Accelerating development

Chris Skinner, industry commentator and author, has a different view. "When you see MicroStrategy moving treasury reserves into bitcoin, and then followed by the likes of Square, Mode and Tesla, what you are seeing is leading technology firms believing that a core part of their asset strategy is the inclusion of cryptocurrency and, particularly, bitcoin," he says.

Skinner points out that other recent developments include news that BNY Mellon is forming a new digital assets unit that the bank says "will accelerate the development of solutions and capabilities to help clients address growing and evolving needs related to the growth of digital assets, including cryptocurrencies." Goldman Sachs has also reportedly restarted its cryptocurrency trading desk.

As Skinner concludes, "It's time to take these things seriously, folks." ■

# Diversity, equality and inclusion in treasury

*Amidst the COVID-19 pandemic and Black Lives Matter protests which have taken place across the world, inclusion and diversity are on the lips of many executives. Therefore, as part of Citi's Treasury Dialogues series with the Treasury Today Group, we thought it fitting to discuss inclusion in action and to highlight a dialogue of implementable advice and takeaways, focused on inclusion for corporate teams across the world.*



**Debbie Kaya**  
Senior Director of Global Cash  
and Operations



**Rachel Brown**  
North America Head of  
Implementations Treasury and  
Trade Solutions



**Carlos Fuentes**  
Senior Vice President,  
Treasury and Trade Solutions



Treasury, Rachel Brown, the North America Head of Implementations of Citi's Treasury and Trade Solutions and Carlos Fuentes, from Citi's Treasury and Trade Solutions team. Cisco and Citi, like many other companies, have been further compelled by the events of 2020 to look more closely at inclusion and to confidently articulate the complexities of building an egalitarian and diverse workforce.

Kaya outlined the ways in which she tackles the issue in her role, mostly approaching it from an HR and educational perspective, primarily by rolling her sleeves up and getting involved. The most obvious impact this has is on hiring, which Kaya looks at from a practical perspective. There must be a diverse group of candidates to begin with, and a diverse board conducting the interview process itself, in terms of both gender and ethnicity.

Although Citi has long aligned itself with a progressive social policy and agenda, the events of summer 2020 have encouraged the company to publicly declare its position and to solidify its social commitments with a number of new initiatives aimed at both internal and external communities. Brown and Kaya both emphasised the importance of education.

As Kaya explained, in some cases this is about education and in some it is a matter of re-education. When she is dealing with a global team, not everybody understands the history behind recent events in North America and so opening up a dialogue is critical. This crucial work that takes place within Cisco exists alongside Kaya's support of inclusion as a whole in the industry, evidenced in her involvement with Women in Treasury and her support for industry events and discussions around inclusion and racial equity.

Brown explained that similarly and concurrently for Citi, the focus on diversity and inclusion has been a real journey that they have been on over the last couple of years. For her, operating in this space is a lifestyle approach. It is not just something that one does in the confines of one's role or work

## What do we mean when we speak about inclusion?

In conversation with Treasury Today were Debbie Kaya, the Senior Director of Global Cash and Operations for Cisco

environment, but something that becomes core and central to who you are. She began with herself, making sure that she was aware of the injustices that were taking place, better understanding the vocabulary, what unconscious bias meant, what micro-inequities meant, all in order to create a culture of belonging that would equip others to have these conversations as well. Brown explained that these discussions can be hard initially because they are new, therefore it is imperative to try to normalise them and make them easier to initiate. People must feel free and be encouraged to learn and grow, not full of fear of judgement and self-doubt.

Kaya spoke of the impact in her team of the tragic deaths in the black community. 'When I spoke with my management team, we agreed a conversation with the team about the recent events and its impact needed to happen I sent an email and asked the team to have a very open discussion, trust each other, understand that not everybody has the right language, we may use the wrong words and just created that space. It is not the job of minority colleagues to educate others on the minority experience, but provide space for them to play a role, if they wish. Some may want an active role in the discussion, and some may be okay to answer questions, but we must also recognise many people are very emotionally drained by the situation.'

As Brown summed up, 'We have had heavy hearts lately and it's been a really different time for individuals who have experienced these traumas, in their family, in their family history, and they watch the news cycle and then have to re-experience these traumas. We walk into these discussions thinking about our families and how to keep our loved ones protected from these same injustices.'

Brown and Fuentes both drew on the importance of surrounding themselves with nurturing environments and empathetic leaders. This highlights the need for diverse leaders from different backgrounds with different experiences. Fuentes then expanded to explore the international community of which Citi is a part.

'Operating in over 95 countries, it is already a quite diverse organisation when we compare amongst peers. Working with teams across multiple countries and cultures, makes you very aware of understanding the differences and integrating that within your work.' Ultimately, as all speakers mentioned and Fuentes explained, it is really a question of embedding inclusion into everything that a company does, as he has seen at Citi.

Brown echoed Kaya's point on the importance of getting involved, citing Citi's success with grass roots programmes. These are affinity programmes that are led by employees across the organisation who give of their time and they are a focus for talent recruitment and development. Additionally, she highlighted getting involved in the community, with affinity networks within Citi covering a number of different spectrums that have really seen successful. This, coupled with a focus on increased transparency, has allowed Citi to breathe new

“ When I spoke with my management team, we agreed a conversation with the team about the recent events and its impact needed to happen I sent an email and asked the team to have a very open discussion, trust each other, understand that not everybody has the right language, we may use the wrong words and just created that space.

Debbie Kaya, Senior Director of Global Cash and Operations, Cisco

life into accountability and credibility and hopefully set a tone for the wider industry.

Ultimately, all agreed that it came down to the human aspect, with individuals in the workplace being valued for their experiences and the talent they bring. A diverse team has different ideas and discussions, with challenges being placed at the table, opening up new ideas and paving the way for innovative.

Brown's hope for the future was, 'that we don't have to work so hard against score cards or representation statistics or even on trying to close gaps, my hope is that it becomes so embedded in our DNA that it is just the way that we operate and so it isn't something that we strive for.'

Regarding advice for the community, Kaya offered the following, 'the last thing I would say is determine where you want to commit your time. How much time do you have and how do you want to commit? Many people get involved because of how it appears to others, but it is important to be very authentic around this topic. Do you have a passion around this and if you do, how can you get involved?'

Summarising and amplifying Kaya's points, Brown added, 'I think that it is important to just make yourself aware of where you stand now and then give yourself goals on where you want to go. I would also say expand your network. If you look around and you see your network looks a lot like you, whether it be at home or at work, find new people to bring into it, have one-to-one conversations. Those are going to be very enlightening and will give you a greater sense of understanding around what is needed.' ■



# Don't let corporate fraudsters off the hook

*As corporate treasurers prepare for post-pandemic trading, they would be well advised to review their fraud investigation mechanisms to ensure they are fit for purpose.*

Fraud committed by employees continues to take its toll on businesses. According to data from Action Fraud, losses from corporate employee fraud in the UK amounted to £277m in 2019/20, with almost two-thirds (64%) suffering some kind of fraud. This chimes with the findings of Bottomline's 2021 treasury fraud and controls research report, in which 54% of treasurers in larger firms across North America and EMEA reported experiencing a loss in 2020.

Cases of fraud perpetrated by employees rarely make the headlines for a variety of reasons, with the reluctance of the company involved to expose itself to negative publicity high on

this list. Many incidents are resolved internally – fewer than one in six incidents of fraud reported in the UK last year ended up in the judicial system according to Action Fraud.

One of the highest profile examples of alleged corporate employee fraud in the UK in recent years was Patisserie Valerie. In 2019 the Serious Fraud Office arrested and questioned five people over allegations of accounting fraud at the company, following on from the arrest and bailing of its former finance director. More recently, car dealership chain Lookers corrected its accounts in November 2020, partly due to 'a number of fraudulent expense claims'.



A comprehensive background check is going to add a certain cost to each hire as well as add time to the onboarding process, but this trade-off is increasingly deemed essential for certain positions.

Steven Smith, Managing Director EMEA, Sterling

Technology is a vital weapon in the battle against employee fraud, but treasury also plays an important role and it is the responsibility of treasury staff members to report suspicious activities by their colleagues. Bottomline describes assessing organisational payment processes to reduce exposures and speed up detection as a good first step.

Once suspicious activity has been detected, it might be tempting to confront the perpetrator immediately. However, corporate fraud investigation firm Ten Intelligence advises companies who suspect they have been victims of fraud to analyse the available evidence and circumstances surrounding the suspicion, retain accurate records, develop a fraud theory, and set out their objectives in an investigation plan.

Once the suspicious activity has been identified, fraud investigators can begin their investigation. As part of this they will ascertain the facts and make a judgement as to whether the incident demands disciplinary action or a more severe course of action.

“The scope of fraud investigators varies across different companies and sectors,” explains Tracey Carpenter, Proposition Manager – Insider Threat at Cifas. “Some organisations may allow fraud investigators to access confidential information such as human resources records, which would show if an employee had previously faced disciplinary issues or had difficult personal circumstances and could offer vital intelligence as part of the investigation.”

Law firm Kingsley Napley observes that companies should proceed with caution when engaging an investigator, noting that illegally obtained information can have serious adverse consequences. In extreme circumstances it could result in criminal proceedings being brought against the victim of the fraud personally and could also result in the loss of legal professional privilege over the instructions to (and the report of) the investigator, the discharge of injunctive relief obtained, and a costs order being made against the victim. Its advice is to provide clear instructions as to what the investigator is not permitted to do and to carefully define what they are being asked to do.

According to Avi Kahalani, CEO and Chief Financial Officer at Blackhawk Intelligence, compromised evidence is one of the main reasons why cases that are brought to the attention of the police may proceed slowly.

Upon learning about fraud, many company managers and directors tend to confront the alleged perpetrators immediately, giving them – or their accomplices – a chance to tamper with any incriminating evidence. If the alleged perpetrators are employees, this type of confrontation may also see directors risk breaking employment laws and give the

affected employees a chance to take action against the company later.

For corporates that want to ensure they are not recruiting someone who has previously committed fraud, Steven Smith, Managing Director EMEA at background and identity services specialist Sterling explains that there are several elements to a background check.

“The first is identity, confirming that individuals are who they say they are and verifying what they claim to have done in the past,” he says. “Then you have additional components such as criminal and reference checks. There are three levels of criminal record check in the UK, but for roles outside regulated industries the basic check is probably the most appropriate and will show up any conviction that is unspent.”

Checks take anywhere from several hours to several weeks to complete, with the average check taking around ten days to complete and costing less than £100. Costs have fallen in recent years as the cost of accessing the source data has gone down, making background checks accessible to a wider range of businesses.

“The final report goes to the client and it is then up to them how they use that information,” says Smith. “If there is a discrepancy or a significant finding, the employer may choose to have a conversation with that individual. Some will decide not to move that person into employment, while others may proceed but with caveats around probation periods.” He suggests there has been a sharp increase in non-regulated organisations choosing to commission background checks.

“Companies need to consider the cost of doing these checks in terms of time and money in the context of their wider onboarding process,” says Smith. “A comprehensive background check is going to add a certain cost to each hire as well as add time to the onboarding process, but this trade-off is increasingly deemed essential for certain positions.”

ACAS has produced guidance (<https://www.acas.org.uk/investigations-for-discipline-and-grievance-step-by-step>) for conducting workplace investigations. This guidance provides information on the rights of people being investigated at different stages of the investigation.

At disciplinary investigations, there is no statutory right for a worker to be accompanied to the meeting, whereas at a grievance investigation the worker does have this right. But even in a situation where there is no statutory right to be accompanied into an interview there are instances where it may be allowed – for instance under the Equality Act 2010 where it would be considered a reasonable adjustment for a disabled worker.



*Vince Tickel is the owner of wholesale trading group Hunter Worldwide. In 2018 he took a private prosecution against his former financial controller, who stole more than £1.5m from his various businesses over more than a decade.*

Having set up a marketing agency he decided to build a group of businesses and realised that he needed a better finance function. “This person came to us on a freelance basis in 1996,” he recalls. “He seemed to know what he was doing.”

Over the following years the group of companies including Hunter grew into an organisation with turnover of £15m and around 220 full and part time staff across offices in the UK and Portugal. What Tickel didn’t know was that his financial controller had put processes in place that allowed him to defraud the business.

“For example he changed the bank mandates after they were signed by directors and himself with ‘anyone to sign’ so he could write cheques to cash, taking cash directly and posting the amount to cost of sale,” he says.

Credit card statements were sent directly to his home and the total amount of the company’s three credit cards was paid by direct debit, so his individual expenditure was ‘hidden’.

“The fraud we discovered was in full swing as far back as at least 2003 (he was dismissed in 2014),” explains Tickel. “It was uncovered when we closed one of the businesses and the final credit card statement was sent to the office instead of his home.”

“I was leaving the office one evening and noticed the statement among the post,” he says. “It was addressed to him and when I opened it I found that there was nothing on my card, about £300 on my managing director’s card but more than £3,500 on our financial director’s card, which all appeared to be personal expenditure.”

Tickel contacted the card company but was told he wasn’t an authorised signatory, so he had to ask his managing director to retrieve previous statements from all the group’s cards. This revealed expenditure of hundreds of thousands of pounds over just a two-year period. In addition, the company’s bank had set up an online payment system that was in theory designed to be more secure but in reality prevented visibility on payments by batching them together so it was impossible to see who was being paid. Tickel says he recently spoke to another business that had been defrauded and that it was the same bank and method used in their case.

Over the period the fraud was perpetrated the group’s accounts were audited and it had VAT investigations, but the financial director managed to keep his activities hidden by misleading the auditors.

“I had thought that once he went to a lawyer they would get together with our lawyers and he would sell his house and pay back at least a significant amount of money,” says Tickel. “But after about a year it was clear this wasn’t going to happen so I went to the police and explained the situation.”

However, he says the police didn’t even visit him and that he was told white collar crime was too difficult and expensive to prosecute. He then instructed Edmonds Marshall McMahon to investigate and commence a private prosecution, which culminated in his former financial controller receiving concurrent sentences of seven and a half and five years imprisonment for fraud by abuse of position and theft and a ten year director disqualification.

Tickel says pursuing the case has cost him almost as much as the original fraud but that he couldn’t let the perpetrator get away with it.

“Looking back there are a number of things I would have done differently,” he says. “The systems we had in place were not robust enough and I wasn’t sufficiently experienced to know that. I would tell my younger self to ask my external auditors for a pressure check on the business to see where we should tighten up our systems to reduce the opportunity for fraud. Some people think that if they steal money and there are no consequences it is victimless, so the answer is to not leave temptation in people’s way.”

Tickel is an advocate of changing auditor every three years and also suggests companies should ‘change things up’ occasionally, especially if they are working with the same accountant for a long period of time.

“The business got so large that I didn’t look at the bank accounts, I didn’t sign off on the credit cards and the auditors didn’t look at the credit card statements in detail – it was only when we made changes that we discovered the fraud,” he concludes. “When we interview people for financial positions now, I ask them if they steal money and make it clear that the last person who stole from us is doing seven and a half years in prison.” ■

# Responsible investment: an introduction

*What does responsible investment mean to treasurers? Which factors are driving change in this area? And what sort of terminology should treasurers be aware of? Joshua Kendall, Head of Responsible Investment Research and Stewardship at Insight Investment, shares his views in the first of a series of three podcasts.*

Treasurers are looking more closely than ever at sustainability – but the industry can be confusing to investors and issuers alike, not least because of the plethora of different terms and acronyms in use, and the different interpretations of what those terms mean.

When approaching the topic of responsible investment, understanding the terminology is a good place to start. As Joshua Kendall, Head of Responsible Investment Research and Stewardship at Insight Investment explains, key terms that treasurers should be aware of include the following:

- **Environmental, Social and Governance (ESG).** While the term ESG is well known, it means different things to different investors. Some may talk about ESG as the risk factors that are integrated into their decision-making processes, while others might cite ESG as the reason for screening companies from portfolios on ethical grounds.
- **PRI.** The UN Principles for Responsible Investment (UNPRI, or just PRI) is an industry network and group promoting responsible investment. More than 2,000 investors collectively managing around US\$100trn in assets, support the initiative.
- **Task Force on Climate-related Financial Disclosures (TCFD).** Created by the Financial Stability Board, the TCFD aims to raise awareness that everyone has a responsibility for managing climate risks – companies, investors and pension funds.
- **Sustainable Finance Disclosure Regulation (SFDR).** The first comprehensive global set of regulations covering responsible investment themes in Europe, with significant impacts for issuers and investors alike.
- **Impact.** The concept of impact can be defined as achieving environmental and social outcomes – but it can also mean reducing the firm's negative impact.

## What does responsible investing mean for treasurers?

Where treasurers are concerned, Kendall says it is important to understand what this topic means for investors. “There is more emphasis than ever before on a company's sustainability performance, isolating those companies that are potentially laggards in the management of sustainability-related risks,” he comments. And as Kendall notes, there is also more recognition that poor management of ESG issues can lead to credit risks, as well as the inability to borrow at a competitive rate.

In addition, the growing focus on this area means that companies are being held more accountable for sustainability issues – not least because any egregious developments can have a bearing on credit quality and the cost of capital. “This is perhaps an area which is new to some treasury teams,” Kendall notes. “It means getting more involved across the organisation

to engage more directly with sustainability teams, hold them accountable for their actions, and ensure the treasury team has more visibility on what's being done.”

What's more, with issuers looking to introduce sustainability targets linked to the raising of debt and loans, there's a growing need for treasury teams to consider how they can use sustainability within their everyday cash management activities.

## Catalysts for change

Responsible investing is an evolving topic, but different parts of the world are experiencing different pressures. In the EU and UK, for example, regulatory developments like SFDR and TCFD are a significant driver – but regulation to promote responsible investment is less evident in the US.

At the same time, awareness of issues like climate risks has been raised by the efforts of individuals like David Attenborough and Greta Thunberg – and of course, reputation is an important consideration for companies everywhere.

Alongside these factors, the COVID-19 pandemic will likely continue to define the investor landscape for years to come. “Sustainability has a greater purpose than ever before,” says Kendall. “It's not just seen as a ‘nice to have’, but as a ‘must have’.”

## Market drivers

Where market drivers are concerned, another point of interest is the development of impact bonds. “These are a conventional bond where the use of proceeds is carved out to invest in specific projects which might have an environmental or social purpose,” Kendall explains. “That's increasingly relevant for us as an investor, because we have clients expecting us to allocate a small percentage of their portfolio towards green bonds – but the big challenge is that there are not enough green bonds.”

As Kendall points out, there is “strong evidence” that a green bond issued by a treasury department may create opportunities to borrow at a lower rate than a non-green bond – “and that financial incentive is one that should be explored in more detail by treasury departments.”

In addition, he notes that while responsible investment has historically focused on equities and, more recently, on corporate bonds, “we're starting to see asset class is now expected to have a process where ESG factors and stewardship factors are incorporated into the investment decision-making process.”

As Kendall concludes, “responsible investment is something that treasury teams should be spending a lot of time thinking about. It doesn't just impact investors – it impacts treasury teams and corporations too.”

Thanks to Joshua Kendall for sharing his insights. You can listen to the accompanying podcast to hear more. ■



# Trade finance digitisation: what's next?

*Trade finance processes are still predominantly paper-based, resulting in unnecessary costs, delays and inefficiencies. With a number of digitisation initiatives and developments currently in play, how could trade finance benefit from digitisation and how much progress has been made so far?*

In the global trade arena, the need for digitisation is widely understood. “The current process for trade is notoriously paper-heavy, manual and iterative,” explains Peter Jameson, head of Asia Pacific Trade and Supply Chain Finance, Global Transaction Services at Bank of America. “Digitisation can help treasurers create simpler workflows, track flows of goods and funds in real time, and make smarter financing and funding decisions based on available data.”

While various initiatives have been attempted over the years, these have tended to create digital islands that fall short of digitising the industry in any meaningful way. But with numerous industry initiatives under way, not to mention

the opportunities brought by emerging technologies, could trade finance digitisation finally be an achievable prospect?

## Why digitise trade?

Given the costs, delays and potential for error associated with traditional processes, everyone in the trade ecosystem stands to benefit from greater digitisation. Indeed, the abundance of paper and the lack of common standards can sometimes mean that the paperwork related to a transaction is still being processed days after the actual goods have arrived – particularly when it comes to trade finance instruments such as guarantees and letters of credit (LCs).



“In a digital process, a guarantee can be issued within minutes, rather than days,” says Enno-Burghard Weitzel, SVP Strategy, Digitization and Business Development at Surecomp. “And documents under an LC can be reviewed within hours rather than days.” In addition, with participants able to access full transparency over the status of the transaction, “such instant feedback allows corporates much better planning and greater reliability.”

Beyond the ability to speed up individual transactions, digitisation also has the potential to improve the resilience of global trade on a much wider scale. “Digitisation – in other words, not having to rely on physically moving pieces of paper around the world to support the movement of critical goods – makes global supply chains and trade more robust, more reliable and less prone to shocks,” says Steven Beck, Head of Trade & Supply Chain Finance at Asian Development Bank.

Beck explains that digitisation could drive numerous improvements throughout the trade ecosystem, which includes exporters, shippers, ports, customs, warehousing/logistics, finance and importers. “Digitisation would reduce costs, lowering barriers to entry for SMEs. It would drive higher productivity – and it would also drive transparency, thereby improving environmental and social safeguards while reducing trade-based money laundering,” he says.

In addition, he notes, digitisation has the potential to create metadata that can support the closing of trade finance gaps by providing “granular information on risks including credit risk, performance risk and money laundering risk.”

## Developments to watch

Various developments and initiatives currently under way could pave the way for greater digitisation. For one thing, Weitzel notes that the rise of digital transferable records, together with relevant legislation, has the potential to replace paper with digital tokens.

One notable development is the United Nations Commission on International Trade Law (UNCITRAL) Model Law on Electronic Transferable Records (MLETR). Adopted in 2017, the MLETR provides legal recognition for electronic transferable records and has so far been enacted by Bahrain and Singapore.

Digital identity is another area of focus. Weitzel explains that the Global Legal Entity Identifier Foundation (GLEIF) has created a framework for a chain of trust relating to the “digital identities of corporates and the natural persons acting on behalf of these entities.” He adds: “There is a growing number of very interesting fintechs that provide an ecosystem with services around these digital identities. Ultimately, this will drive down the effort for corporates and banks/financiers alike to verify counterparties.”

Another notable initiative cited by Asian Development Bank’s Beck is the Digital Standards Initiative (DSI) which has been created by ADB together with the Government of Singapore and the International Chamber of Commerce (ICC). “DSI is bringing together industry from each component part of the trade ecosystem to agree common standards and protocols that will drive digitisation and interoperability,” says Beck.

In addition, when it comes to facilitating interoperability between digital islands, Vinay Mendonca, Global Head of



In a digital process, a guarantee can be issued.

Enno-Burghard Weitzel, SVP Strategy, Digitization and Business Development, Surecomp

Product and Proposition Management at HSBC, says the ICC’s Uniform Rules for Digital Trade Transactions (URDTT) “is a key initiative which would create a framework for an end-to-end digital trade transaction and adoption.” He adds, “HSBC is an active participant in the design and construct of these standards, which are in the final stages of release.”

## Innovation through digitisation

Enno-Burghard Weitzel, SVP Strategy, Digitization and Business Development at Surecomp, says innovation is key when it comes to enabling corporates to compete successfully. “Think of an import of dried fruits from Namibia to Hamburg,” he says. “The fruits need a certain temperature band and also humidity level. If the temperature or humidity are outside the bands, the fruits will be rotten and worthless.”

In the traditional process, says Weitzel, the status of the fruit would only be discovered at the destination port – and if the fruit is worthless, the importer would have to wait for three or four weeks to receive the next shipment and get funds from the insurer.

In a digital process, says Weitzel, “there are almost no barriers to the scope of innovation that can be adopted.” In this case, he says, a sensor within the container could continually measure temperature and humidity. “In case one of them is outside the bands, the insurance would automatically pay, the importer could immediately order a new lot, and the container could be discharged at the next best harbour.”

## Digital trade finance tools

Alongside these initiatives, efforts are under way to bridge the trade finance gap and support digitisation through the adoption of technology. “One of the most meaningful by-products of the pandemic for trade finance is the renewed drive to digitise its historically manual and paper-based processes,” comments Bank of America’s Jameson.

He adds that this has led to a greater emphasis on accessing trade finance online portals remotely, converting non-digital data into a digitised format, leveraging e-signature capabilities, “and simply being able to operate effectively outside the office environment in a fully electronic manner with enhanced visibility and control.”

Different companies have different requirements where trade finance digitisation is concerned – and as such, Jameson emphasises the role of “digitisation opportunities across



End-to-end automation is hampered by the least sophisticated party (or country) in the supply chain, which in turn is governed by local market rules.

Peter Jameson, head of Asia Pacific Trade and Supply Chain Finance, Global Transaction Services, Bank of America

multiple technologies which can offer the right mix of digital solutions". He adds that digital trade finance tools include secure trade finance online portals which can automate workflows for traditional trade and supply chain finance transactions.

Also of interest, says Jameson, is "an innovative concept called 'supply chain as a service', which creates the ability to integrate bank systems directly with clients' ERP systems to identify transactions that can shore up the financial health of a client's supply chain through early payment financing."

## Blockchain and beyond

Where technology is concerned, Jameson also notes the role blockchain can play in tracking goods and funds in real-time, while providing transparency to instruments throughout the lifecycle of a transaction.

Indeed, blockchain/distributed ledger technology (DLT) has emerged as a key enabler for digitisation. As HSBC's Mendonca points out, this is due to its ability to offer decentralisation, real-time visibility for all participants, and tokenisation. "Digitalising and tokenising assets enables banks to have better control over the financing of trade assets," he comments. "It also opens possibilities to finance deeper into the supply chain to lower tiers."

Mendonca adds that HSBC has pioneered the use of blockchain technology in global trade since the first blockchain-enabled letter of credit transaction in May 2018. "Since then, we have been instrumental in the evolution of the Contour platform, and we're currently working with several clients to help them to move their flow transactions onto the platform," he says.

In addition, Mendonca says a number of other technology developments have a role to play in trade finance digitisation, from big data and advanced data analytics to artificial intelligence (AI), Optical Character Recognition (OCR) and Robotic Process Automation (RPA).

## Overcoming the obstacles

While there are plenty of developments and initiatives in the pipeline, adopting technology in the trade finance space is not always straightforward due to the complexity of global supply chains and the proliferation of different standards and practices in different markets. As Bank of America's Jameson notes, "End-to-end automation is hampered by the least sophisticated party (or country) in the supply chain, which in turn is governed by local market rules."

In addition, he says there is sometimes a perception that the adoption of technology is too expensive or futuristic, or that only large or newly set up companies have the luxury of being able to put funding aside for investment in technology.

"Unless all parties in a supply chain are aligned in moving towards paperless, there is little incentive for a company, especially a smaller player, to make the first move and invest in digitising their internal trade processes," he says.

## Forward thinking

So what is needed in order to accelerate digitisation? Where specific solutions are concerned, Surecomp's Weitzel emphasises the importance of focusing on users in order to encourage the wide adoption of digitisation. "The smaller the change for the user, the more likely is the adoption," he points out.

At the industry level, Jameson notes that as governments recognise the importance of keeping supply chains moving during the pandemic, "many policymakers are re-examining how legal and regulatory environments need to evolve in order to accommodate greater digitisation of trade finance, whilst providing the same level of certainty and risk mitigation afforded by paper-based predecessors. These moves should set the framework for – finally – enabling trade finance to move towards a digitised future."

He adds, "To realise the full potential of digital trade, it is also crucial for industry leaders and practitioners to drive the development of digital standards that will enable trade digital solutions to function and communicate with one another."

As such, the coming years could be critical. Citing the importance of developments such as the widespread adoption of MLETR and the standardisation of API interfaces, Weitzel predicts that in 2030, "If we look back to the year 2021, we will realise that the pandemic was a great shift towards digitisation, and that the years until 2025 saw a steady growth in the adoption of digital solutions." ■

## Accelerating digitisation

When it comes to accelerating trade finance digitisation, Steven Beck, Head of Trade & Supply Chain Finance at ADB, cites the importance of the following developments:

- Closing legislative gaps for the digitisation of trade – countries should adopt UNCITRAL model laws on legislation.
- Global implementation of standards and protocols for digitisation, which would drive interoperability between IT platforms and between the component parts of the trade ecosystem.
- Global implementation of the Legal Entity Identifier.

# Transformational Change

*Hitachi Vantara's Cathy Fields talks to Treasury Today about the importance of cash and how she drives transformational change. Education and communication are key to her celebrated approach.*



## Cathy Fields

Assistant Treasurer and Director of Global Risk Management



Hitachi Vantara, a wholly-owned subsidiary of Hitachi, Ltd., guides its customers from what's now to what's next by solving their digital challenges. It applies its unmatched industrial and digital capabilities to their data and applications to benefit both business and society. Hitachi Vantara helps its customers develop new revenue streams, unlock competitive advantages, lower costs, enhance customer experiences, and deliver social and environmental value.

When Cathy Fields joined Hitachi Vantara seven years ago, she was tasked with creating a best-in-class treasury for the subsidiary of the Japanese IT conglomerate. Hired back then as a senior manager for treasury and risk management (she has since made assistant treasurer and senior director of global risk management) her remit was to transform the division's banking infrastructure and cash management processes which comprised around 300 different bank accounts and some 45 different banking partners.

Today the division has 120 bank accounts with three main partner banks and two liquidity structures or cash pools. "We have created a finely tuned machine with respect to how we manage cash. It's definitely one of the things I am most proud of," she says in an interview from Singapore where she moved 18 months ago from her Californian home as part of her current assignment, a two-year stint helping to lead a global treasury transformation project for parent company, Hitachi Ltd. That pride still rings out as she begins a sweeping conversation of her long and distinguished treasury career by recalling the details of that overhaul and the skills it required, a recollection that captures both her view of treasury's role within a firm – and an enduring passion for her profession.

For decades, in-country treasury heads at Hitachi Vantara ran and controlled their own banking relationships and cash strategies. It was a fragmented structure that resulted in pockets of cash accumulating in multiple countries around the world. Under the pooling process, local teams handed over their cash management to regional pools. "They no longer needed to worry about managing cash or liquidity."

However, convincing colleagues of the benefits didn't happen overnight and required a year of groundwork prior to implementation. Fields and her team reached out to internal in-country teams in a marketing process, selling the strategy and vision. "We had to explain what we were doing, why we were doing it and how it would make all our lives better," she recalls. "It was about getting people to understand the value of what we were selling."



We have created a finely tuned machine with respect to how we manage cash. It's definitely one of the things I am most proud of.

Robust communication and educational skills were vital in ensuring everyone got onboard. "Our in-country treasury teams were used to managing their own cash and would say 'this is my cash.' My role was to educate them, explaining it wasn't their cash but the cash of the parent company and that it was my responsibility to make sure it was well-managed." Without this educational process, which included ensuring colleagues also understood the workings of the new pooling structure, smooth implementation down the line would be jeopardised. "The last thing we wanted was to move down an execution path and have stumbling blocks, personalities or

issues that might prevent us from moving forward. You have to solve all the hurdles up front.”

As to what constituted good communication then, and is just as relevant today, she says understanding counterparties, or “knowing where your partners are coming from,” is key. This means having a grasp of colleagues’ key interests and concerns before that first meeting. It meant she could address each concern upfront and hone relationships founded on mutual trust, transparency, and confidence from the start. “Partners have to get comfortable and trust that I will address their concerns. They have to understand that my team will do what we say we will and follow through.”

“ Different perspectives are critical to optimising solutions, everyone sees things differently and must be allowed to share their views.

Of course, the ability to listen is just as important – and Fields is a good listener. “When I come into a new environment I sit and listen. I ask questions to make sure I have a clear view of who the leaders are and who has the capability to get things done. You need to know your internal business partners and understand the personalities you are working with, and the environment you are in. This helps guide you to understand how to effectively communicate.”

Along with communication and education, the banking overhaul captured another element of her job which she finds particularly thrilling and is often unique to treasury. Driving transformational change is a collaborative, cross functional initiative that places treasury at the very heart of a firm. More so at Hitachi Vantara which, she says, has a reputation for its divisional silos. “Treasury is in a great position to break down silos. We are constantly attacking silos; our team is known for this. We will bring all participants or stakeholders to the table at the beginning of a project, big or small. Not everyone does this, so we are happy to lead by example.”

## The perfect fit

Fields never set out to work in treasury. She initially wanted to be a doctor, but her career path took a different direction when she found herself a young, single mother in the late 80s. “I needed a job. I had another person to take care of and med-school is tough on your own. I had to change my career objectives.” When a friend flagged a vacancy as an accounts receivables clerk for computer drive manufacturer and data storage group Western Digital, Fields grabbed the chance to join the corporate world.

It wasn’t long before she turned a job born out of practical necessity into a fulfilling passion. Witness the important career milestones Fields has celebrated en route, like earning an MBA at National University and making assistant treasurer at Western Digital within ten years. “Within a couple of years, I was managing different credit regions. I soon realised if I wanted to get anywhere, I had to go back to school. I earned

my MBA in International Business which helped prepare me for what was to come. Treasury is not always a concept people grasp, but treasury made sense to me and everything fell into place. It was really the perfect fit.”

The element of treasury she has always found easiest to understand is its role in supporting an organisation in what she calls a “fascinating” relationship. For example, at Western Digital her small department was key to supporting an increasingly acquisitive, global business, integrating technology, growing the treasury function, and preparing the organisation for the future. “We were doing acquisitions and integrations which propelled the need to find better ways to do things. Additional resources were not an option,” she says. It forced her to learn how to network, talk to banking partners and quickly get across new technology. “I was mastering the treasury world and really enjoyed creating a best-in-class treasury organisation,” she recalls. Prowess Hitachi Vantara sought when it came knocking with a new opportunity. Although leaving Western Digital after 25 years was a wrench, she says a new challenge was essential for her career progression. “I knew Hitachi was the perfect opportunity to use my skills.”

It leads her to reflect on the difference between banking and treasury, and why at career junctures she never went down the former route. The reason, she reflects, is because working in-house for a corporate gives ‘skin in the game;’ a connection to a company that can be impossible when working for a bank or as a consultant – something she also briefly tried. “When you are connected to the company you have a deep-rooted need to make sure things are executed properly. I need this connection, goal and vision. It is the driver behind my commitment to do the best job I can for my company. As a consultant, I lost that connection.”

## Mentorship

Despite her emersion into corporate life, Fields doesn’t trace the inspiring leaders and mentors who have helped shape her career in treasury to the business world. They are found closer to home and have contributed particularly to her ability to mould treasury as both educator and communicator. “My mum was a teacher; my grandfather was a teacher. I have aunts and uncles who are teachers; my brother and sister are teachers, and my sister married a teacher,” she lists, laughing.

“ When you are connected to the company you have a deep-rooted need to make sure things are executed properly.

It is no surprise to hear that she also thought about being a PE teacher (she is passionate about sport) until she realised she lacked the patience to teach children. Alongside learning how to communicate and educate from her own “family of teachers,” she honed her own skills early on in her career, citing a lesson she’s never forgotten. At Western Digital one of her roles in Credit was to support customers in challenging



I had to find better ways to communicate. I quickly understood the importance of clear communication and how being clear with both words and intent makes things easier. I have applied this throughout my entire professional career. Knowledge is power, and communication makes things work.

markets like Latin America, the Middle East and APAC. “I had to find better ways to communicate. I quickly understood the importance of clear communication and how being clear with both words and intent makes things easier. I have applied this throughout my entire professional career. Knowledge is power, and communication makes things work.”

Clear communication is certainly central to her leadership of a five-strong treasury team at Hitachi Vantara, all with different strengths and weaknesses incumbent on her to harness. She describes her team as comprising personalities that “just fit,” each individual “bringing something to the team we were missing.” Nor can she hide her pride in the fact her treasury organisation has one of the lowest attrition rates in the company. Her own mentorship and support for colleagues is offered through the prism of recognising there is no one size fits all. “Everyone has different needs, and everyone is motivated by different things,” she says.



To be truly effective, a good treasurer needs to understand how the entire organisation comes together.

She is particularly conscious of diversity of thought within her team. “Different perspectives are critical to optimising solutions, everyone sees things differently and must be allowed to share their views,” she says, adding that ensuring good communication through lockdown and remote working has involved talking one-to-one to each member of her team, every week. “Sometimes we talk about work; sometimes we just talk about how we are getting through this crazy time.” They also meet online as a team twice a week, and she communicates with her boss daily. “We are diligent about staying connected. These conversations are important to ensure nothing falls through the cracks; on getting feedback and rounding out the teams current activities.”

It’s late in the evening (9pm) in Singapore, and before Fields winds up a typically long day the conversation comes full circle to her current role, overseeing a digital transformation and putting in place better liquidity tools and payment structures at a global level. “One of my aims is to try and minimise the amount of cash movement necessary between entities,” she explains. “We are building out a global treasury management system that will support all the different group companies for Hitachi Ltd around the world.”

In a candid glimpse of the complexity afoot, she describes the transformation as a “massive undertaking;” a project “on

steroids” compared to all she has undertaken before. The process involves designing new functionality from bank account management to cash visualisation and cash forecasting to pooling and netting processes. “The majority of standard treasury functionality will be implemented and executed by Hitachi companies globally. With my background and desire to effectively communicate the project status to the companies, it’s not surprising I have been dubbed the change management person,” she jokes.

The project, which comes with the added challenge of bridging cultural and linguistic barriers with partners in Japan, has drawn more than ever on her skills of planning, educating and good communication. Her job, she says, is to ensure that all group companies understand why they are being asked to do certain things and to drive the desire for change into the organisation. “We need to put in all the work up front before trying to kick off the implementation and system build,” she reiterates.

Cue her most recent initiative to help the communication juices flow: a newsletter updating all users of the company’s TMS on how the digital project is moving forward. “There is an education corner in the newsletter which always details a specific function related to the TMS and how group companies will be engaged.”

Fields huge remit, coupled with the lingering impact of Singapore’s strict initial lockdown (when she only left her apartment once or twice a week for groceries) has left her out of the habit of being active. As things return to normal, she is most looking forward to kick-starting her twin hobbies of sports and travel. “I love to travel; I have been travelling with work for so many years and I really miss it.” As for sports, although she says she is mostly a spectator now, her younger passion for all team ball sports where she excelled because of her height, as well as dancing, endure. “I enjoy being active. That is one of the things I’ve missed most with the pandemic. It’s been a challenging year. On the bright side, it sparked my hobby of crocheting. I am working on my third pandemic Afghan!”

The conversation draws to a close with a reflection on the common thread that has woven through her rich treasury experience. Treasurers can only understand a business when they have a firm grip on cash, the one thing, she says, that never lies. By following a company’s cash performance (good or bad), a treasurer can trace back and find out what is driving all corporate behaviour. “I tell people that cash will always tell you what you are doing, and what is really happening in a business. It will always tell you the truth.”

And cash, just like its treasury warden, is also the one seam that ties and brings an entire business together. “To be truly effective, a good treasurer needs to understand how the entire organisation comes together,” she concludes. ■

# Real-time data

*Real-time data is a hot topic in the world of corporate treasury, with potential benefits ranging from better cash forecasting to more effective hedging. We take a look at what sort of data treasurers should be focusing on, how they can benefit from real-time data, and why it's important to have a data strategy in place.*

Real-time data is a significant focus for treasurers. In 2019, a survey of 400 treasurers carried out by IDC for Finastra found that 59% predicted that getting real-time data and payments would be a priority by 2022. And more recently, the pandemic has further sharpened treasurers' focus on the importance of data.

"Having the most up-to-date accurate, integrated information is very important to businesses of all sizes to be able to effectively forecast and manage their funds at times when they need to closely monitor them, because revenue may be lower than it typically is, or because receivables are coming in slower," says Christine Barry, Research Director at Aite Group.

Marcus Hughes, Head of Strategic Business Development at Bottomline, likewise points out the importance of real-time data in the current landscape. "The pandemic lockdowns, combined with the uncertainties of today's business environment, have highlighted that it is mission critical for a treasurer to have real-time visibility of their cash position over multiple bank accounts, in order to have full control over their treasury, payments and receivables," he says.

It's clear that real-time data is an important topic for today's treasury teams. But what does real-time data mean in the context of corporate treasury? How can treasurers benefit from real-time data? And how important is it for treasurers to have a real-time data strategy?

## Which types of data?

In simple terms, real-time data is data that is delivered to the end user as soon as it has been collected. For treasury teams, which come into contact with many different types of data, the term 'real-time data' is one that incorporates a number of different topics and activities, from cash balances to foreign exchange exposures:

**Cash position and liquidity.** Having a real-time view over the company's cash across different bank accounts is an important tool where decision-making is concerned. "Any latency in the availability of current cash balances can and will have a negative impact on the treasurer and CFO's ability to make decisions," explains Paul Bramwell, Principal & Founder of Treasury Tech Advisory. "The complete understanding of where your cash is, why it's there and when it will be needed is critical to the business."

**Cash forecasting.** Likewise, access to real-time data on the company's cash position is an important component of the cash flow forecasting process. Out-of-date information will make it more difficult to generate accurate forecasts that can support effective liquidity planning and cash management.

**Market rates.** Hughes notes that in today's volatile markets, treasury teams need real-time data feeds of market rates to manage their foreign exchange exposure and hedging strategy, "as well as other financial risks and derivative instruments related to interest rates and commodity prices."

**Fraud prevention and compliance.** Sanctions lists are becoming increasingly complex – and while sanctions screening remains an important focus for banks, treasurers are increasingly putting systems in place to prevent their businesses from sending payments to sanctioned countries, entities or individuals. Likewise, with the risk of payments fraud continuing to rise, real-time fraud prevention systems have an important role to play in screening payments for suspicious activity.

Across these different areas, the benefit of real-time data is not the data itself so much as the decisions that can be made as a result. For example, if treasurers are basing investment decisions on out-of-date information, there will be a greater need to keep excess cash readily available in case of unforeseen developments.

As Bramwell points out, "If a treasurer has access to data on cash balances, historical flows/trends and the ability to forecast with increasing predictability, the company is much better placed to manage capital markets activity, investments, debt and any risks inherent in the business such as foreign exchange, interest rate and operational risks."

Consequently, says Bramwell, there are a number of ways that treasurers can benefit from real-time data. For one thing, treasurers can benefit from real-time cash data to place surplus cash in different instruments with better yields as early as possible. They can also use accurate and timely data on orders, expected inflows and outflows to place investments longer and thereby generate better yield, "given the predictability of cash flows."

In addition, the real-time data resulting from business transactions may generate foreign exchange risks which need to be managed or mitigated, explains Bramwell. In addition, "the application of cash balances to business flows will tie into the sales pipeline where goods and services are sold on credit," he says, adding that if this doesn't happen in real-time "there is a risk of turning business away."

## Impact of ISO 20022

The opportunities brought by real-time data are also becoming more interesting as a result of the transition to ISO 20022 messaging, which will not only standardise payment

formats, but also enable payments to carry more structured data than in the past.

“ISO 20022 will make it easier to ensure compliance with Anti-Money Laundering requirements because the format has many structured fields which can be made mandatory for including important details, such as the name and address of the ultimate beneficiary, the originator and the intermediary bank,” explains Hughes. “This means payments using ISO 20022 can include all the information necessary to comply with FATF 16 requirements and EU Wire Transfer Regulations.”

In addition, Hughes points out that ISO 20022 messaging will increase efficiency, thereby resulting in lower costs and higher straight through processing rates. “The increase in information provided can also be used to make it easier to track payments in real-time across multiple banks and payment systems,” he says.

“It will also reduce the risk of errors, as users will be able to include additional payment details and references. Using rich data in a structured way will also make it easier for parties receiving payments to achieve higher levels of automated and real-time reconciliation.”

## Tools and resources

When it comes to accessing and using real-time data, treasurers need to have the right tools and systems in place. “A starting point will be a treasury management system that is connected to the banking world where balances can be obtained with as little latency as possible,” says Bramwell. “With the advent of APIs and the PSD2 directive, this is becoming far more prevalent.”

While sourcing data is important, treasurers also need to have the ability to analyse that data effectively in order to support better decision making. Hughes notes that data analytics, and techniques such as machine learning and predictive analytics, “are becoming a key tool for treasurers and other financial decision-makers.” He adds, “Treasurers greatly benefit from analytical tools which enable them not only to measure their KPIs (DSO, DPO, customer payment performance) but also to improve these metrics and therefore have a positive effect on overall financial performance.”

## Barriers to real-time data

While the benefits of real-time data are clear, getting access to the necessary data isn't always straightforward. As Aite Group's Barry explains, “Sometimes banks have legacy technologies in place that make it a challenge to get real-time data, especially when you are looking for that data to be integrated and accurate.”

In order to optimise access to real-time data, Barry says that treasurers may need to put pressure on their financial institutions and technology providers. “I think a lot of banks, especially for real-time information, have historically had more of a tendency to focus on the retail or consumer side,” she comments.

One reason for this, says Barry, is that corporates have accepted near-real-time or next-day information until recently – “but that's no longer the case.” As such, she suggests that corporates should put pressure on financial institutions to understand their needs and understand the challenges they face with older data, such as not being able to make the right

financial decisions. Further challenges may need to be overcome when it comes to aggregating data. Hughes points out that it can be challenging to aggregate real-time data from a range of disparate business and bank systems – although he also says that the use of APIs is helping to make data aggregation and analysis easier and faster.

## Real-time data and cash forecasting

Where cash forecasting is concerned, data from systems such as the treasury management system, ERP system and bank accounts needs to be combined in order to generate accurate cash flow forecasts. As Hughes explains, this data typically includes: future inbound payments relating to outstanding sales invoices, maturing deposits and investments, and tax refunds; future outbound payments relating to outstanding supplier invoices, payroll, maturing loans, interest and tax payments due and existing and up-to-date cash balances and uncleared items on multiple bank accounts in multiple currencies.

“These cash flow forecasts must be constantly reviewed against actual cash flow by performing variance analytics in order to improve the accuracy of these forecasts,” Hughes says. He notes that some inbound and outbound flows, such as loan repayments, are highly predictable – but others, such as when a customer will pay an invoice, are less easy to predict. “It is also essential to constantly reconcile bank statements against the ERP ledger to allocate cash correctly and take revenue to profits,” he adds.

## Planning ahead

For Bramwell, a key enabler when it comes to making the most of real-time data is having a plan and vision in place setting out “what data to collect, what to use it for, who to provide it to and how to harness the value to broader decision making.”

As such, he says it is “incredibly important” for treasurers to have a data strategy in place. “Data is everything and the tools required to handle the sheer amount of data available are easily able to package and present the data into usable dashboards and KPIs to enable decision making and action,” Bramwell says. “It's also important to bear in mind the usability of data across the organisation which transcends the treasury department.”

Bramwell adds that a data strategy should include “every aspect of the treasurer's world – cash, forecasts, debt, investments, hedges etc. All are of broader use to the CFO's organisation and indicate the health of the treasury function in servicing the business.”

Hughes agrees that having a data strategy is increasingly important. “This should cover the aggregation and analysis of data from multiple sources, such as treasury, AP/AR, CRM, debtor management and collections,” he says. In addition, advanced techniques such as artificial intelligence and predictive analytics “can be applied to historic performance and improve the accuracy of forecasts.”

In conclusion, real-time data brings real opportunities for treasurers to improve visibility over cash, manage risks more effectively and support better decision-making. But to harness these benefits, treasurers first need to be able to access and aggregate the data they need – and having a strategy in place is an important enabler for companies looking to get real value from their data. ■



# Time to act: treasury's role in integrating financially material ESG data

*Sustainable reporting has grown over the last decade. Now investors see it as increasingly financially material, and the pressure is on companies to integrate it into their corporate accounting models. It involves the expertise of sustainability teams with the processes and rigour of treasury and finance.*

The pace economies decarbonise is set to pick up in the years ahead. Corporate success will increasingly depend on companies' ability to articulate to all stakeholders how they are adapting to the new business model coming down the track. It means finance and treasury teams will need to publish corporate accounting models and balance sheets that put financial numbers on their sustainability data and information.

"Companies should prepare for the same legislative and regulatory overhaul in corporate accounting ushered in after the 1930s US stock market crash," says Leon Saunders Calvert, Head of Research & Portfolio Analytics at London Stock Exchange Group (LSEG). "Back then, reporting via balance sheets and cash flows was challenging. Eighty years on, public companies face another drive in transparency because decarbonising is financially material."



Of course, sustainable corporate reporting has been growing steadily over the last ten years with some 80% of global companies now reporting on sustainability, according to KPMG. Of this cohort leaders have emerged, already integrating their financial performance with their sustainability performance in a single, annual report. However, it is the pace of this convergence that is about to pick up, as standard setters increasingly eye ESG reporting as financially material, and financial statements no longer giving the full picture. “There are developments towards a more integrated form of reporting,” says Arjan de Draaijer, Global Co-lead, Impact, ESG and Sustainability at KPMG in the Netherlands. “Financial reporting standard setters and sustainability reporting standard setters like GRI (Global Reporting Initiative) and SASB (Sustainability Accounting Standards Board) are increasingly looking at the similarities and connections between financial and sustainable reporting. It all points towards a more integrated perspective on reporting that caters to all stakeholders.”

However, de Draaijer doesn't believe this means companies will produce one document. “I expect there will be a portfolio of different reports,” he says, predicting a myriad spanning human rights in the supply chain to the financial impact of climate change and, going forward, the impact of biodiversity and inequality on financial statements as well.

According to KPMG, currently only around one quarter of companies at high or medium risk from biodiversity loss currently disclose that risk in their corporate reporting. “This is another element that should be on a treasurer's mind in the future,” he says. As for the reporting burden, he believes digital publishing and linking reports from corporate websites will make the process easier. “Stakeholders will just be able to search for the information they need.”

## Outside in

Another important shift in reporting is also under way. Companies have traditionally approached disclosure and reporting from an inside-out perspective. This typically involves measuring and reporting a firm's impact on the outside world – like its carbon emissions. Increasingly, companies are using new disclosure requirements (namely the Task Force on Climate-related Financial Disclosures, TCFD) which focus on disclosure through a different, outside in-lens that reports on how climate change will impact the company's financial performance.

This could entail disclosure on how rising temperatures could impact suppliers in developing nations, or how changing consumer behaviour will impact demand for a core product. “The indicators that are related to this type of reporting are of a different nature,” says de Draaijer. “A carbon footprint is still useful information in terms of detailing the carbon intensity of a product and its vulnerability to a low carbon economy, but this new type of information and data is increasingly appearing,” he says.

## Investor pressure

Treasury and finance departments need to be able to articulate how sustainability data and numbers are integrated into the company's business strategy to investors and lender banks. The best way to do this is to make externalities directly financially material and view them as a liability on the balance sheet, urges Saunders Calvert.

Most companies have only just begun. Positively, Saunders Calvert estimates around 41% of the 10,000 companies LSEG covers already report their Scope 1 and Scope 2 carbon

# PHILIPS

## CASE STUDY

Dutch health-tech multinational Philips has taken a pioneering lead in sustainability reporting. The company now reports its environmental impact on society at large via a so-called Environmental Profit & Loss (EP&L) account which includes the complete environmental costs associated with its activities and products from cradle to grave. The Philips Environmental Profit & Loss (EP&L) account guides the company's efforts on all things ecological; it is an economic valuation of the impact that Philips has on the environment, and an environmental footprint of Philips' complete value chain expressed in monetary terms.

The EP&L account is based on Life-Cycle Assessment (LCA) methodology which are in turn used to steer the company's EcoDesign efforts and to determine the Green Focal Areas (GFAs) of the Philips product portfolio. The GFAs are product characteristics like energy efficiency, weight and product lifetime that determine the environmental impact of the company's product portfolio. They form the basis of a steadily growing green solutions portfolio. The EP&L account is a logical next step to extend the scope from individual product value chains to Philips' complete value chain. It will support the direction of the company's sustainability strategy by providing insights into the main environmental hotspots from an overall business point of view.

Philips also has a well-established methodology to calculate the number of lives the company positively touches with its products and solutions. It is the firm's aim to look into valuating these societal benefits in monetary terms as well, including them in future EP&L accounts where possible.

In its 2020 annual report, Philips reported its Green Revenues, generated through products and solutions that offer a significant environmental improvement in one or more Green Focal Areas – Energy efficiency, Packaging, Hazardous substances, Weight, Circularity, and Lifetime reliability that also deliver a contribution to SDG 12. Green Revenues increased to €13.9bn in 2020, or 71% of sales (67.2% in 2019), reaching a record level for Philips and exceeding the 2020 target of 70%.

<https://www.philips.com/c-dam/corporate/about-philips/sustainability/downloads/ecovision-methodologies/epl-methodology-2020.pdf>

emissions associated with energy consumption in their own operations. “There is a demand for this kind of information from investors,” he says. “Investors are telling companies that this is financially material information regarding their cost of capital.”

In contrast however, he says a much smaller proportion of companies have a cost of carbon internally that they manage to; deploy a liability to the balance sheet and seek to offset emissions by, say, paying carbon credits. “Only a small proportion of companies recognise the cost of carbon in the way they manage their financials.”

Nevertheless, he is convinced this is the direction of travel and it matters more that firms have embarked on the journey than their position en route. “If treasury actually have this information on the balance sheet; if they have it as a proxy, or even if they can just show they are on a journey to treating carbon as a cost to the organisation, it will demonstrate to investors they are somewhere on the road to internally quantifying and internalising these externalities,” he says. “Data points around carbon emissions will make their way in time, into actual corporate liabilities. It won’t be a separate statement; it will just sit there as financially material next to other liabilities.”

## Scope 3

Disclosing emissions as a liability on the balance sheet becomes even more complicated around Scope 3, a data set ESG reporting leaders are only just starting to get to grips with. Under Scope 3, companies disclose the emissions in their supply chain – the carbon footprint of both the components in their products and of their products once in use.

For example, a coal mining company won’t produce huge emissions in its mining processes, but its product has a profound impact on emissions. In contrast, Tesla’s production processes, says Saunders Calvert, typically score poorly in ESG ratings because manufacturing the electric car is a carbon intensive process. In Scope 3 reporting, this is counterbalanced by a Tesla having minimal downstream emissions. In carbon intensive industries, having a high carbon footprint today isn’t necessarily a bad thing so long as a strategy for decarbonisation is aggressive and credible. Interpreting the data and its financial consequences requires nuance and expertise, he says. “Treasury teams really need to be able to address all sides of the story.”

It will get even more complex with Scope 4 reporting – although this is not a formal category yet. The idea is that when companies report sales of products that have a positive impact on climate or society like, say, insulation, it should carry a benefit on the balance sheet. “Reporting Scope 1 and 2 is mainly about making sure you have the right information from your internal systems around fuel use and energy bills. Scope 3 requires more effort and is quite a struggle,” says de Draaijer.

## Industry standards and regulation

Companies have resources to help them get reporting right. Industry standards like TCFD and SASB articulate what good disclosure looks like and are gaining traction, helping companies disclose and map their data to specific

frameworks. But take up is still slow. According to a report from the corporate governance team at FTI Consulting and Sentio, a financial and corporate research company, fewer than 50 UK public companies currently comprehensively report on climate risks and set targets in line with the TCFD.

Regulation coming down the track will force the process. By 2025, climate risk assessments will be mandatory across the UK, including for listed companies, large private companies, pension schemes, insurance companies and banks. Elsewhere, the EU’s giant taxonomy will land through the course of next year, introducing a classification system of what constitutes sustainable economic activity. Cue the associated EU regulatory drives in support of the taxonomy like growing pressure for mandatory sustainability reporting requirements under the Non-Financial Reporting Directive (NFRD). Under the EU Taxonomy companies will have to articulate what proportion of their revenue is green, says Saunders Calvert. “Revenue is a good proxy for a company’s products or services and is a different set of data points to reporting their carbon emissions,” he says. “Regulation is going to drive clarity around what kind of information is required.”

## Collaboration

Of course, gathering data and disclosure won’t only sit with treasury, but much of the responsibility could head treasury’s way. Although many firms have set up reporting systems out of their sustainability departments, as ESG reporting becomes more financially material it is increasingly the focus of CFOs, finance and control departments. “It involves a combination of the subject matter knowledge of the sustainability team with the processes, rigour and risk of treasury and finance,” says de Draaijer, who observes that many of the initial ESG corporate laggards without sustainability departments have fast tracked their sustainable reporting and accounting processes by placing the issue directly with finance teams. “Banks and investors want to know how aligned to the future decarbonised economy a company’s business model is. Are they backing the Netflix of tomorrow – or Blockbuster Video,” concludes Saunders Calvert. ■

### The international initiatives pushing convergence of reporting standards

The European Union is updating the EU Non-financial Reporting Directive.

The World Economic Forum has released its paper on common metrics and consistent reporting for sustainable value creation, defining 21 core metrics.

The five major non-financial reporting organisations (GRI, SASB, IIRC, CDSB and CDP) have published a Statement of Intent, committing to work together towards comprehensive corporate reporting.

The IFRS Foundation’s consultation, still in process, on establishing a global non-financial reporting framework has already received strong support from other organisations, including IOSCO.

Source: KPMG Survey of Sustainability 2020



# CRUISE SHIP OPERATOR CARNIVAL ON LIQUIDITY MANAGEMENT AND CAPITAL RAISING IN 2020

*Over the last year cruise ship operator Carnival Corporation has raised over US\$22bn in emergency funding to stay afloat in a sweeping liquidity strategy.*

At first it was just about survival, executing capital market transactions with the greatest likelihood of success in a highly challenging environment, which wouldn't handcuff the company in the years to come. Next, the priority was debt transactions that fitted Carnival's maturity towers with the flexibility to pre-pay, followed by debt conversions as the economic environment began to improve. Most recently, and with dry land finally in sight as the vaccines roll out and the company has begun to sell cruises again, Carnival has stepped back into the unsecured market able to issue bonds not backed by its ships or other assets once again.

## One shot

Survival, and what turned out to just be the start of the process, involved securing a comprehensive combination of debt, equity and convertible debt via a package of over US\$6.5bn in early April 2020. "We had one shot to convince investors," recalls Campbell, speaking from his home in Miami, Florida, explaining that his key consideration at that time was making sure there was enough equity underpinning the capital structure, and navigating a pivot to the secured debt market when the unsecured debt market abruptly closed.

Generating financial models based around different scenarios in such a period of huge unknowns was hard enough. Add in articulating them "on the flack" to a new and unknown investor group and it turned positively challenging. "The group of investors we were targeting were high-yield. Even though our credit rating was still investment grade, we looked like a high-yield company. Our messaging had to be precise, our timing had to be precise and planning for what came next had to be precise."

Shoring up liquidity came at a cost. On one hand Carnival was locked into a higher rate of borrowing than normal on a secured basis – although the team set this at three years with the view that the company would then be able to refinance at a more favourable rate and without collateral. On the other, a necessary US\$600m equity offering in early April coincided with a historic low in the stock price.

Two months later and another swathe of transactions followed, with Carnival approaching a new set of investors with US dollar and euro term loan B issuances for a combined US\$2.8bn last June. This time the debt was structured to give the company the flexibility to pre-pay with call options in anticipation of the recovery.

Come August, the team started to approach investors to convert the debt issued in the heat of the crisis to equity. "This was important to help us deleverage," he says, adding how timing on this seam of the strategy also coincided with a rebound in the company's share price to US\$14 a share from a low of US\$7.80.

In the next wave of financing, against the backdrop of the continued rebound in the share price, Carnival launched a US\$1bn ATM programme, followed by another US\$1.5bn in October. "When we got to September, we started looking at ways to issue more common stock," says Campbell. "By this time, we had enough liquidity even in the worst-case scenario and news of the vaccine was starting to come out." At this point the company also began restarting cruises off to Italy and Germany. It was also able to opportunistically return to the unsecured debt market, borrowing US\$2bn last November in a bond offering not backed by its ships. ■

# Greensill fallout

“ How important is supply chain finance for companies; what are the implications of Greensill's collapse on SCF? ”



**Minna Helppi**  
Group Treasurer at Metso  
Outotec, Board Member at  
Finnish Industry Investment

At Metso Outotec we run one SCF programme for our large suppliers that utilises a programme run by Citi, and one for our smaller suppliers that uses C2FO's dynamic discounting. The idea is that both programmes enable all our suppliers to obtain faster payments, improve their cash flow, liquidity, and DSO ratios. Rather than waiting for payment under our typical 90-day terms, under our SCF programme suppliers can get paid in ten days.

The Citi programme is global and run across Europe, North America, Australia, Brazil, China and India. The programme has increased in size and we are regularly onboarding new suppliers, especially since our merger as we are now onboarding ex-Outotec suppliers. We have also recently syndicated the programme, adding a couple more banks to the Citi programme to share the risks and diversify the portfolio. It has also allowed us to enlarge the programme with suppliers and countries.

Our SCF programme has a direct link to our strategy. Our aim is to continue to be an investment grade rated company, and SCF helps us to improve our working capital and cash flow with longer payment terms. It also allows us to deepen our supplier relationships by providing them with an opportunity to finance their receivables on good terms. Suppliers are interested in improving their cash flow, liquidity and ratios, and the programme provides them with a competitive financing option. Much of our procurement is from developing countries, where financing costs are typically higher. We have only ever utilised the Citi platform with SWIFT connectivity so have no experience of third party platforms.

The Greensill case has not directly impacted us, but I believe there may be indirect impacts, such as increased regulation and reporting requirements. I expect regulators will require companies to report their SCF exposure in their annual report. At Metso Outotec, we don't externally report on the programme, but because we already report our SCF exposure internally, reporting externally wouldn't be a big step if we were required to do so.

We have strict risk analysis underpinning the programme and have a limit to our overall exposure – a maximum amount that we won't exceed. And our bank programme is not committed, so our banks can stop financing suppliers anytime if they want. If we didn't offer a SCF programme, I assume

many of our suppliers, now used to obtaining payments early, would start negotiating shorter payment terms. This would have an impact on our working capital and liquidity. SCF helps with our procurement and supplier relationships. It is a win-win for our suppliers and our treasury.

Another consequence of Greensill's collapse could be that more large players such as global investment banks start financing supply chains, especially if investors grow wary of SCF, and start avoiding the asset class. The Greensill case will also make everyone involved in SCF more careful and prudent in selecting counterparties.



**Michael Vrontamitis**  
Trade Finance and  
Banking Leader  
Independent Consultant

SCF, payables finance or reverse factoring, has been going on for years. It involves banks or lenders financing the gap between corporate buyers receiving goods from their suppliers, and the point the payment is due. SCF programmes are distributed amongst banks which manage the onboarding of suppliers onto their programmes.

Greensill was running traditional SCF programmes using Taulia's technology platform. After Greensill's collapse, Taulia secured financing from a consortium of banks led by J.P. Morgan which quickly picked up the invoice information and brought money to the table. Companies on the platform may suffer a slight delay to their funding cycle, but this is a small interruption for such a significant event. It proves the resilience of the product.

SCF in support of high quality, investment grade corporate supply chains are a good investment in terms of return on capital for banks, but it is low margin and needs scale. If lenders go down the value chain, they take on a higher risk and make a higher margin, but SCF as a product is not designed for this. SCF is about taking the best credit rated entity in the supply chain and shifting the funding cost of that entity down the supply chain, making it cheaper for small suppliers to access finance. When you have a poor rated entity at the top, suppliers down the chain don't benefit as much because the gap between drawing on the SCF programme compared to other costs of borrowing reduces.

Greensill's lending was also based on future receivables: this isn't a trade finance product. Trade finance doesn't intermediate the financing of a transaction that hasn't happened – all trade finance products rely on the underlying

trade documents being presented to the bank in order to get financed. Financing future receivables like Greensill was with GFG Alliance is straightforward lending that should have been priced appropriately.

Greensill's collapse won't have a huge impact on SCF. Most of the funders in the space are financial institutions that understand the risk. When they buy a SCF asset, they ensure any structure in place has ultimate access to the obligor and SCF assets are also sold under a trust structure. However, expect more investor scrutiny in terms of asset securitisation vehicles, or SPVs. Investors will look more closely at what makes up these assets, but this is a due diligence that should have been done anyway and is nothing to do with SCF.

Platform providers have an opportunity now. They provide visibility on what is being bought and a dashboard of flows and legal entities. Don't expect more regulation of fintech providers. There may be a cause for more regulation for alternative lenders or shadow banks, but this depends on how systematic the risk is, and I believe Greensill does not pose a systematic risk.

It is incumbent on treasury teams to double check the strength of their underlying platform provider and reliability of their funders. They should check their quality, ability to onboard suppliers, and provide transparency. Elsewhere, treasury teams may face changes in accounting rules. Investors are increasingly calling on the Financial Accounting Standards Board and the International Accounting Standards Board for clarity on companies' supply-chain finance programmes to ensure their true financial health of the buyer is disclosed.



**Steven van der Hoof**  
Founder & CEO, Capital Chains  
SCF Consulting & Training

The Greensill case has only directly impacted the companies that used Greensill's SCF programme. But even here, other banks stepped in and Greensill's SCF programmes for large corporates have been snapped up. Moreover, these companies will continue to use Taulia as their main technology provider.

However, companies using riskier SCF will see an impact. Rather than regular payables finance, Greensill was doing

something different. It couldn't make enough margin on standard SCF transactions, so it looked to corporate anchors with lower credit ratings and charged a higher margin from providing certainty to their suppliers. SCF is a low margin, big volume, sticky product. When you introduce platforms and asset managers wanting to get paid, or investors wanting yield, it can take on much higher risk.

Greensill got involved in future invoicing. This involves discounting the value of future receivables far into the future to lend money today, effectively allowing corporates to monetise future contracts. Greensill was taking on much greater risk than other lenders in the market by financing future trades that might never happen, based on the prediction that they will. No one is willing to do these kinds of trades for corporates now. There will always be investors in plain vanilla SCF, but returns are low.

Investors looking for yield will now ask more questions about what they are we investing in. Greensill shows that future receivables are a whole difference ball game, and investors will be cautious. Greensill's structure saw SPVs mixed with various anchors and comprising different programmes, not just receivables but also future receivables. The danger comes when you mix up the anchor corporates and tell investors it is a great mix and put credit insurance on top. For this reason, structures around SPVs will change.

I don't expect any scarcity in standard SCF, or pricing to increase. Most programmes comprise a large anchor with a technology provider or bank in a one-on-one relationship whereby the funders know what they are investing in. If they don't know every supplier, they will have a note or structure that they know applies to that one buyer.

Investors and corporates will increasingly look to platforms for transparency around when payments are coming in, and payment trends. Technology providers have an opportunity to provide transparency so that anchor corporates, suppliers and funders all know exactly what is outstanding, and understand on an individual invoice level what they are financing.

SCF has two aspects of due diligence, one around the anchor and one around individual suppliers. Banks' due diligence around anchors is good, but due diligence around a long tail of suppliers is more difficult. It involves more work and is a trade-off between the cost of onboarding and the benefits to lenders. It's one of the reasons why KYC is always mentioned as a stumbling block to long tailed suppliers. The important thing is that plain vanilla SCF or paying confirmed invoices early is beneficial. It is a force for good, particularly for SMEs coming out of the pandemic. ■

### Next question:

"What are the possible implications of Biden's global corporate tax plans? How might they impact corporate locations and supply chains, and who will be the corporate winners and losers?"

Please send your comments and responses to [qa@treasurytoday.com](mailto:qa@treasurytoday.com)



# Persistent upward pressure on interest rates

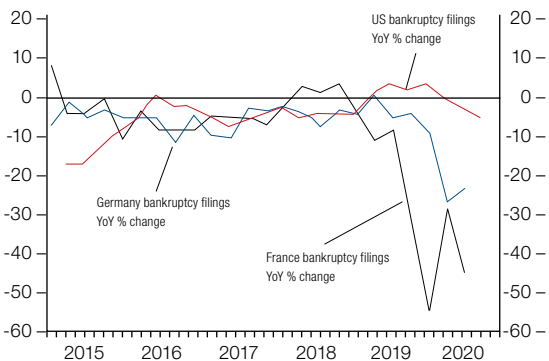
*Expectations of high economic growth rates and building inflationary pressures have pushed up long-term interest rates in the first quarter of this year.*

When focusing on subsequent developments in terms of long-term interest rates, it is important to distinguish between the US and the rest of the world. This is because US vaccination programmes are running far more smoothly, and the US is implementing by far the most fiscal stimulus. This is bound to culminate in more economic growth and more upward pressure on inflation compared to other economies in the world (perhaps with the exception of the UK). So, if long-term interest rates rise further, this will initially be evident in the US. Nevertheless, many other countries – especially those in Europe – are increasingly moving towards more fiscal stimulus, and they will probably soon begin to catch up with their vaccinations.

Strikingly, US policy makers are placing far more emphasis on the high unemployment rate and the considerable

overcapacity at this point. Both factors are the main reasons why higher structural inflation is generally not anticipated for the time being. However, it is very difficult to measure the level of unemployment and capacity utilisation. So far, many theatres, restaurants, bars, and so on, have been kept afloat with government support and are therefore included on the supply side. However, this government support will largely disappear once the lockdowns are lifted. In this case, a significant number of companies in vulnerable sectors will disappear after all. The supply of goods and services will decline in this case, while the demand side will remain stable due to fiscal stimulus and the spending of accumulated savings. In addition, commodity prices are likely to stay under upward pressure once the global economy picks up. It is also striking that more and more companies are unable to recruit well-qualified staff at this point. This is evident in a climate in

**Chart 1: After lockdowns are lifted, government support will decrease leading to more bankruptcies**



Source: Refinitiv Datastream/ECR Research

which there is a surplus of money and credit supply is gaining momentum.

In view of the above, we believe that events in the US will go beyond just a temporary rise in inflation. This will subsequently also apply to the rest of the world.

**Too little, too late?**

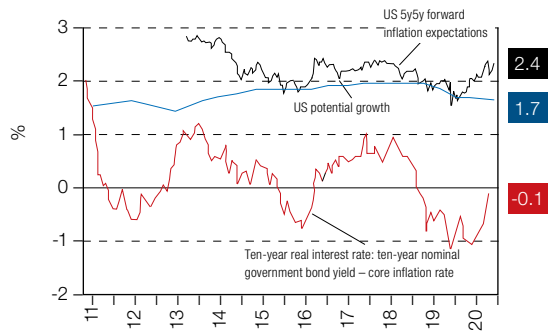
However, we wish to go one step further. At any rate, the Fed has stated that it only wants to take proper action once wage increases and inflation have risen to distinctly higher levels. The latter depends on developments in terms of unemployment and capacity utilisation. If we look at the relevant forecasts – which are too conservative in our view – the general expectation is that there will be full employment and capacity utilisation by late 2022/early 2023. From that point onwards, wage increases and inflation will be under upward pressure.

However, changes in monetary policy will only have an impact on inflation with a delay of roughly four quarters. If the Fed, in turn, says that it only wants to take action if inflation shoots up

to above 2.5% – measured by the CPI – this means that an inflation rate of 3% or higher will have to be anticipated for a long time to come. It subsequently remains to be seen whether the Fed will really reduce inflation. Importantly, the US is also faced with a massive debt pile.

In addition, economic growth will have to go back to potential growth once the point of full employment and capacity utilisation has been reached. This serves to prevent all manner of major imbalances. Potential growth is the sum of productivity growth and the increase in the workforce. Potential growth will continue to hover close to 2% for the time being, in spite of recent positive reports about higher productivity growth over the next couple of years. Therefore, if the Fed is going to counter inflation, we will have a prolonged period during which growth ends up below 2%, debts end up at ever higher levels and real interest rates rise. This combination could soon cause the debt mountain to become unstable and therefore trigger a new credit crunch. It would barely be possible to absorb the impact of this crisis, as the scope for monetary and fiscal stimulus would still be limited in this case. ■

**Chart 2: Combination of low potential growth, rising real rates and lower inflation rates could lead to credit crisis**



Source: Refinitiv Datastream/ECR Research

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