



ESG policy: fact and fiction

Does treasury really have a role to play in ESG policy delivery?



The Corporate View

Rahul Daswani

Senior Manager, New Solutions –
International, Global Financial Services
Microsoft



COVID-19 Community

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amidst the COVID-19 lockdown.

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Annual Membership Rate £285
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© Treasury Today ISSN 1466-4224

Treasury Today is published bi-monthly
(6 issues) by Treasury Today Limited
Courtyard Offices • Harnet Street
Sandwich • CT13 9ES • UK

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Treasury Today USPS: (USPS 023-387) is published bi-monthly by Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES, UK.

Subscription records are maintained at Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES, UK.

A different way of living

These times are challenging for everyone. But amongst the personal tragedy and heartache, the frustration and anger, every day we can see shining examples of humanity. Those that are on the frontline in the fight against COVID-19 – and there are many – reveal to us that, fundamentally, humans can and will pull together to do whatever is necessary, because of – and yes, also in spite of – each other.

Whatever the outcome of this pandemic, we are all part of it. We all have a story to tell, whether we are on the frontline or just keeping out of the way. But the spirit that drives frontline professionals to keep going is entirely human. It is a spirit that is in us all which, if tapped, can drive remarkable results in all walks of life.

Indeed, it does not matter what our calling is; times like these make us reflect on what we do and how we do it. It can bring to the fore that other most positive characteristic of human nature: creativity. And this is an endless proposition that can be applied to every human endeavour, especially as we are compelled into a different way of living for the foreseeable future.

As treasurers, the first calling in the current environment is to protect the business from financial harm. Of course, it's what treasurers always do, but achieving this in a more effective and efficient way is essential now. The thinking that enables this need never stop; it is good for all times.

In this edition we explore the idea of 'Remote working: the new normal?', unravelling what it means now and what it might mean when we have emerged from the restrictions of the pandemic. We also look at other practical matters in our feature on 'How to support business units effectively', engaging with something that sits at the heart of all modern treasuries, and which will continue to enhance the role as the strategic partner.

There is a sense that we are all involved now in something transformational. As we play our part in tackling an immediate threat, we can perhaps begin to see how sustainability makes sense in the longer term. In 'A sustainable treasury – is it...sustainable?', we look at how treasurers can make a real difference when applying an ESG lens to everyday activities. There's continuity of this theme in our look at the idea of 'connected trade' and how digitalisation not only allows trading partners to operate more securely and efficiently but also more sustainably.

Ultimately, few could argue against the debt we owe to those who are saving lives. We can in part honour their remarkable achievements by making sure we all fully engage with, and make the most of, what we do in our lives, both as individuals and as professionals.

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STATE STREET GLOBAL ADVISORS

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Share buybacks and dividends

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Rahul Daswani, Senior Manager, New Solutions – International, Global Financial Services, at Microsoft, talks about developing strategies for payment solutions in the company’s Middle East, Africa and India territories.



Homeworking: the new normal

Millions across the globe are working from home at the moment, but how easy is it for treasurers to do, and what can companies do to help keep employees healthy, happy, effective, and secure? We also ask: will homeworking become the new normal?



A sustainable treasury – is it sustainable?

With sustainability and ESG being two of the hottest topics in the world, it's time for companies to start looking at implementing sustainability-friendly policies and processes – or risk falling behind. We delve into just how realistic a sustainable treasury is, the challenges that come with it, and the benefits that an organisation could gain from having one.

Treasurers are finding that their role in their organisation's ESG strategy is increasing, and in turn, so is their focus on sustainability. A sustainable treasury doesn't simply mean cutting out paper-based processes – though that can certainly be part of it. Instead, through the likes of sustainability-linked loans and thematic bonds (green bonds, gender bonds, water bonds, for example), treasurers are able to help steer their organisations towards a more sustainable future through one of their core functions: finance.

It's not just green bonds

As of June 2019, according to Bloomberg, green finance is worth over US\$31trn – and showing no signs of slowing

down. Looking at that figure more holistically, it may seem small. Indeed, uptake of green finance options has been slower than some experts are happy with. According to data released in October 2019 by the World Resources Institute, just 25 of the world's largest 50 banks have made public sustainable finance commitments.

The same report found that even among the banks with active commitments, "the average annual level of fossil fuel finance from 2016-2018 is nearly twice the annualised amount of sustainable finance commitments. Only seven banks have annualised sustainable finance targets greater than the amount of finance they provide for fossil fuel-related transactions each year."

From this data alone, it's clear that businesses must do more to initiate sustainable financing themselves, but many aren't aware of all the available options. Treasurers often hear primarily about green bonds or linked loans, but as has been previously noted, the demand for green bonds unfortunately far exceeds the supply.

For Leonie Schreve, Global Head of Sustainable Finance at ING Bank, the answer may instead lie in green loans and sustainability-linked bonds. "Green loans are very closely related to green bonds, and a sustainability-linked bond is a copy of the sustainability-linked loan, where you actively support clients in their sustainable transition," she says.

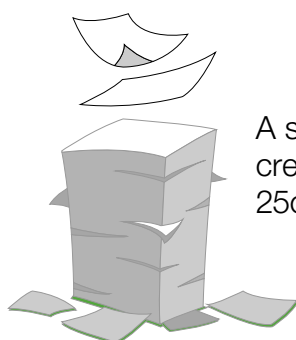
Heather Lang, Executive Director, Sustainable Finance at Sustainalytics agrees. "Green bonds and linked loans are the two major pillars, but we've seen a fair bit of diversity within those pillars," she says. "We also expect to see transition financing (transition bonds) becoming a hot topic in 2020, expanding beyond projects that would already be considered green by definition to include assets and industries that are looking to transition to a low carbon economy. This will promote entry for a lot of different industry players that haven't been part of the green bond market in the past."

Schreve adds that a new product was launched by ING last year: the sustainability-linked derivative. She explains that this is the same concept as a sustainability-linked loan, but also enables treasurers to fully integrate their sustainability target into all their financing streams – not only in the loans but also in the derivative.

There is also more diversification in loans, explains Lang. "You have green use of proceeds loans, where the loan would finance projects or assets defined as 'green' or 'sustainable'." There are also general-purpose loans, which could be syndicated loans or revolving credit facilities, that would link the interest rates of loans to sustainability performance targets.

Going green by going paperless

Having a sustainable treasury doesn't have to be limited to just finance though. Digitalisation, for example, can help a company go paperless and thus improve its sustainability agenda. The blockchain space is one that is rapidly expanding and has the potential to revolutionise trade documentation.



A shipment of roses created a paper pile 25cm high

Blockchain providers don't just hope to make trade easier, by digitalising unwieldy bills of lading and letters of credit, but in making everything paperless, the industry could save US\$400-600bn per year, according to Bain & Company.



Green bonds and linked loans are the two major pillars, but we've seen a fair bit of diversity within those pillars.

Heather Lang, Executive Director, Sustainable Finance, Sustainalytics

Shipping giant Maersk took part in a proof of concept in 2016, exploring the use of blockchain to digitalise traditional bills of lading. It found that a simple shipment of roses from Kenya to Rotterdam generated a paper pile that measured 25cm high. Meanwhile, the International Chamber of Commerce (ICC) estimates that trade generates around four billion pages of paper documents per year.

Running a quick search online for the benefits of going paperless returns millions of results on why a business should convert. In addition to cutting out stacks of paper, it's estimated that one printer ink cartridge is thrown out every second. By going paperless, or at least reducing paper-based processes, a company would reduce its contribution to this figure, and by extension its contribution to the tonnes of oil and harmful chemicals used in production of ink cartridges.

It's easier than you'd think

For Lang, key success factors when going green are working with sustainability teams and CSR teams internally. Historically, treasurers and CFOs haven't worked as closely with those teams in many companies, and it's a trend that she's seen pick up in the last few years.



Along with collaborating internally, she adds, it is also beneficial to work with financial institutions that have their own sustainable-finance teams. "Working with underwriters that have expertise in green bonds and sustainable bonds, working with lenders who have experience with target setting around sustainability performance targets for loans is key to success," she says.

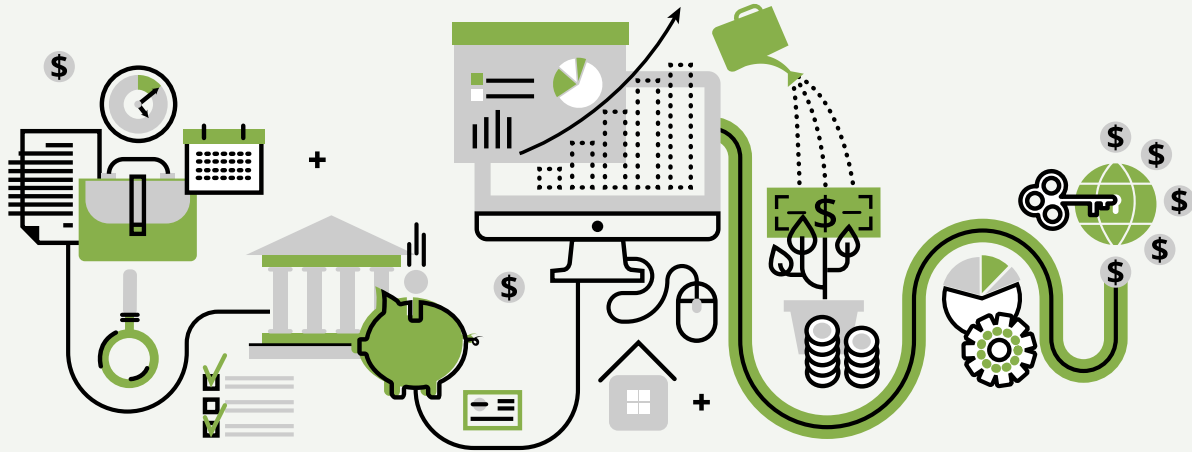
Likewise, Schreve explains that prior to the introduction of transition finance, working towards a sustainable treasury was more challenging. "Products like green bonds and green loans are specifically tied to a defined use of proceeds. If you want to go to the green bond market, first of all you need to be an issuer, and secondly you need to have a sufficient volume of green assets in your company."

Now though, having transition and sustainability-linked products which instead support you in identifying clear targets for the transition, the market is immediately opened up to a much broader spectrum of clients in a wider variety of sectors. "By opening up the markets from outside just the regular 'green sectors', there is a lot of opportunity for others to also build sustainable treasuries," she says.

What are transition bonds?

According to the Institute of Sustainable Finance, “transition bonds are a new class of bonds, the proceeds of which are used to fund a firm’s transition towards a reduced environmental impact or to reduce its carbon emissions. The proceeds can be used exclusively to finance new and/or existing eligible transition projects. These bonds require the issuer to commit to shifting to more sustainable business practices. Transition bonds do not require the project or the issuer to be classified as ‘green’, but the issuer is required to use the proceeds for climate transition-related activities.

“For example, a coal-mining firm may issue a transition bond to finance efforts to capture and store carbon. Advocates of transition bonds suggest that it is better for companies aspiring to become ‘greener’ to finance their assets using transition bonds rather than be excluded from the green bond market without an alternative source of funding to support transition projects.”



It pays to be green

A primary benefit of following sustainable finance routes, according to Lang, is accessing the capital and diversifying the base of investors and lenders. Linked to that is being able to showcase this to different stakeholders and really improve the external profile for the sustainability commitments that are being made. Showcasing to direct stakeholders isn’t all that matters though, as the public reputation of a company can also be boosted by having a sustainable agenda.

Schreve believes that this doesn’t just come from consumers, but also from potential employees. “I see all young employees and part of their decision to join ING is that they see we play a leading role on the sustainability front, and that is very important to them. With a scarcity of resources, this is a differentiator which can really help attract talent,” she says.

Of course, the rate of return on sustainable investments should also be a key driver. A 2019 study by Morningstar found that more than 34% of sustainable European funds appeared in the top quartile of their category and 63% were in the top half. Meanwhile, according to Bloomberg, nine of the biggest ESG mutual funds in the US outperformed the Standard & Poor’s 500 Index in 2019, and seven of them beat their market benchmarks over the past five years.

From these results – and many others that have been published – it’s clear that ESG and sustainable investments do indeed pay. This success is showing no signs of slowing down, either. Lang points out that the most recent figures from the Global Sustainable Investment Alliance for the two-year period from 2016-2018 indicate that by the end of 2018 over US\$30trn assets under management had been

invested through some form of responsible or sustainable investing. “That was a 50% growth rate over just a two-year period,” she says.

There are also the long-term benefits to think about, says Schreve. With countries drafting their own climate bills, and the Paris Agreement still standing, certain sectors are likely to become riskier and demand for green financing will increase. “If I were a CEO in one of our clients’ companies, I would want to make my company resilient and push the sustainability agenda to make sure that I’m still there in ten years’ time as well.”

Getting others onboard

Utilising these benefits is the best way to convince others to start thinking sustainably. These could include other internal business functions as well as external partners. “Make the business case and really showcase the work that treasury is doing in bridging together financial initiatives with sustainability initiatives,” suggests Lang.

Schreve agrees and thinks that putting an investor spin on it can also help. “Sustainability is seen as a better risk, so eventually valuation of a company should also be better. It’s therefore in the interests of the CEO, CFO, the investor relations officer, and of course the stakeholders around the company to move on the transition agenda of sustainability.”

The entire sustainable finance market is still young, adds Schreve, and so the market is increasingly opening up. “I think the beauty of this space is that it really is diversifying before our eyes,” adds Lang.

How investors are ensuring they have sufficient liquidity in a time of crisis

These are testing times for investors. What are treasurers with short-term portfolios doing to maintain the right levels of liquidity? Pia McCusker, Senior Managing Director and Global Head of Cash Management, State Street Global Advisors, explains how the market has evolved in recent weeks.



Pia McCusker

Senior Managing Director and
Global Head of Cash Management
State Street Global Advisors

March 2020 will be in the history books as one of the most turbulent on record for most of the planet. As the full realisation has hit home of what the COVID-19 pandemic means from a social and economic perspective, individuals and organisations alike have been justly concerned.

Whilst the healthcare emergency continues, and the economic impact is contemplated, corporate investors have taken stock and are now necessarily building cash cushions and raising liquidity in the capital markets, with many also drawing down credit lines to strengthen their cash buffers.

It's perhaps not surprising then that in the US, our government money market fund rose from US\$60bn to US\$105bn in around four weeks. In an exodus from equities and other assets that exhibited something of a herd mentality, this tectonic shift was mostly new money too, with many investors exiting Prime funds in their flight to safety.

The trade-off to ensure essential liquidity at this time has inevitably been yield. However, at the beginning of March, even liquidity for US treasuries looked strained. It's now clear that corporate treasurers have to start thinking about how best to manage liquidity with their eyes wide open.

Asset managers, certainly following recent regulatory reform in the US and Europe, are well-versed in stress-testing and scenario planning. But corporate treasurers now also need to be thinking along similar lines if their aim is to build a portfolio that meets their needs.

Where gaining incremental yield has been a driver, Prime portfolios were the corporate cash-bucket of choice for many. In highly stressed times, such as now, government funds have become the favoured lower-risk destination, hence the flight in recent weeks.

Indeed, with the apparent shift from Prime was not good for the fund, fund manager, nor for investors – treasurers have had to reconsider whether this is the cash-equivalent that really works for them right now, especially considering Prime (which invests in non-treasury floating-rate debt and commercial paper) has a credit component.

Full facts

As ever, it's a case of investing only when in possession of the facts and an understanding of the potential risks. Some do not. With State Street Global Advisors handling a significant number of client calls since March, it nonetheless came as a surprise that some investors still struggled to feel comfortable with a floating NAV fund, and that the concept of 'breaking the buck' is no longer applicable.

But this is perhaps understandable given the scale of MMF reforms implemented in 2016 in the US and 2018/2019 in Europe.

Fortunately, whilst some investors still exhibit signs of nervousness over core liquidity in the market, as evidenced by the growth in government funds, many now appear to be at a reflection point in terms of where their portfolios should be in the current phase.

Understandably, the hunt for yield still seems to be in abeyance, with treasurers not taking the risk of getting into credit or taking on longer tenors. Fund managers too have to be cognisant of the potential for a 'second leg down' scenario, in which the initial perception of liquidity risk could, if it continues, morph into credit risk. Deep trouble in the oil and energy sectors in recent weeks, for example, indicates that the threat is real for banks and corporates, and thus some funds, with deep exposures here.

Options

The choice of assets for investors with longer-term cash that do not share the herd-mentality may feel justified in allocating it to a Prime fund or an enhanced cash fund, knowing they can ride out the storm. There are a number of investments beyond a six-month tenor in high quality banks, where the pricing is still deemed advantageous, and these could still be in the mix.

Investors looking to protect their principal, and maintain liquidity, can still seek out government funds, but short duration and enhanced cash Prime funds are available; investors just need to be conscious of their credit component.

For investors in low volatility net asset value (LVNAV), where asset value cannot deviate by more than 0.2% from par, raised risk awareness is also required. For treasurers who understand and stress-test their cash flows, these can be worth considering if they want to participate in Prime or short-duration funds and they see a gap opening up between the two strategies.

Certainly, the current environment is difficult. But fund managers are keeping significant liquidity and remain prudent in terms of potential 'second leg down' risk. For State Street Global Advisors, the unprecedented market-wide stress seen in early March required no support from our fund parent. As such, our money market funds' ideas and principles remain intact.

Building connections beyond treasury

The best performing treasurers are arguably those who look beyond the parameters of treasury and support the wider organisation any way they can. But what does this look like in practice, where can treasurers add the most value – and what additional challenges may the current crisis present?

Carl Sharman, Head of Treasury Technology Advisory at Deloitte, says that during his career as a consultant he has seen a considerable shift in terms of the treasurer's role. "Back when I started 13 years ago, there was a sense that treasury was doing treasury things and not actually engaging with the business," he says. "From a consulting perspective, we were trying to encourage treasurers to get out of the office and partner with the business by offering up their skill sets – particularly in areas such as enterprise risk management."

At the time of the 2008 financial crisis, Sharman says the increased profile of the treasurer meant some were predicting treasurers would end up on the board of directors. "We never saw that happen – the treasurer still reports to the CFO in almost every organisation, and the CFO is the finance representative on the board," he says. "And that leaves the treasurer to perhaps utilise their time better by going and supporting business units or other stakeholders."

Alex Young, head of Corporate Sales for GTS EMEA at Bank of America (BoFA), says that in recent years the treasurer's role has continued to evolve. As a result, it now plays a far more strategic role in driving company results, while also demonstrating an increased focus on risk mitigation across the organisation. "Looking at FTSE 100 clients in the UK, and their peers across other European countries, treasurers have always been very close to the strategy of the business – but increasingly, they are becoming more strategic in their roles," he says.

As a result, he says treasurers' day-to-day responsibilities have continued to grow, with treasurers taking a more proactive approach to risk management, protecting the balance sheet and putting in place clear foreign exchange and hedging strategies across the organisation. Where cash management is concerned, he notes that treasurers' areas of focus include the need for accurate cash forecasting and maintaining a strong liquidity position. And at the same time, treasurers are increasingly playing a role in developing an ESG agenda and supporting the company's strategy in this area.

Hub and spokes

Given their increasingly wider remit, it's clear that treasurers need to support a variety of internal colleagues and stakeholders in different ways. As Young comments, "treasuries are like a hub with many spokes reaching out to various functions and units across the business."

For example, he says, in addition to regular discussions with the broader finance team, treasury has expanded engagement with areas as diverse as accounts payable, accounts receivable, procurement, inventory management and sales. "And obviously, in recent years companies have set up shared service centres or centres of excellence, which may include payment factories or in-house banks – but also audit, HR and legal, which are also key functions that treasury will have connectivity with."

For treasurers who need to communicate effectively with those points of contact, there's no one-size-fits-all approach. "I will always try to engage with other departments within an organisation to better understand how the organisation functions and where and how one can contribute," says Daniel Jefferies, Group Treasurer at Equiniti Group. He observes that since everyone is different, there is no one specific method that can be used to do this effectively – "consequently one would aim to use soft skills and emotional intelligence, whilst always being honest and open."

Building connections

When it comes to supporting business units and other stakeholders across the enterprise, it's clear that treasury has plenty to offer. For example, BoFA's Young points out that treasury will be able to provide critical data on the company's foreign exchange exposures, and will be able to advise on currency restrictions in different countries, which is an important consideration when it comes to operating across global geographies or to support expansion or acquisition in new markets.

The procure-to-pay cycle is another area where treasurers can add value, as Jack Spitzer, Senior Vice President of Finance at Plexus Worldwide, explains. "There are efficiencies to be gained through automation which can shorten cycle times, increase visibility, improve analytics and allow valuable time to be redirected to more value-added tasks," he says. "The motivation can be cash improvements, better data or reduced variability for improved forecasting, or even cost reduction (profit-enhancing)."

Another important relationship is that between the treasury department and the legal department, explains Sigurd Dahrendorf, the former treasurer of braking and control systems manufacturer Knorr-Bremse. Noting that different treasury departments will have different responsibilities, he



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Alex Young, head of Corporate Sales for GTS EMEA, Bank of America

says that many will need to address legal problems in relation to financing, bank negotiations, closing contracts and guarantees.

“In such cases, it is very important to have very good cooperation with the legal department,” he says. “It is essential to have someone within the legal department who is specialised and experienced in treasury-related matters.” He adds that as well as having a clear view of legal considerations, lawyers also need to have a good financial understanding.

Consequently, in his previous role Dahrendorf worked with Legal Counsel to build a team of such people. As a result, the company was able to create rules to follow when assessing new contracts and guarantees. “This made it possible for the treasury people to have a first look over the legal requirements,” he adds. “For more complicated constructions, the relevant experts from the legal department were at our disposal – we did not have to explain a lot to them as we were a team for a long time.”

Consequently, Dahrendorf says it was easier to assess legal documents within the treasury department, as well as being in a position to discover any disadvantageous legal formulations at an early stage.

Thinking outside the box

Deloitte’s Sharman argues that the treasurers who tend to be the better performers are those who are not only focused on treasury matters, but who also work to understand how the business operates from beginning to end. “They will then figure out how they can add value to any part of that chain,” he says. “So if they work in a retail business, they will figure out where the company buys from, who it sells to and where it operates in the world.”

In a truly global organisation, Sharman adds, the best way treasurers can support their business units is by mapping their function to the underlying business. “It’s really about finding where the skill sets fit,” he comments. “So to take construction as an example, the treasurer would be looking at cash, risk and debt for the business as a whole at the macro level – but you’d also have smaller projects or initiatives where the treasurer’s skillset can be used to help the running of the business.” This might involve advising on how the cost of capital might inform decisions about which projects to embark on, or helping with cash collection at the micro level to keep those projects moving.

In particular, Sharman emphasises that by having a clear understanding of the business, treasurers will be better placed to optimise their cash forecasting process: “To be able to forecast cash, you need to understand how the underlying business flows work so that you can attach cash flows to those business flows.” By speaking to people throughout the

business, he says, treasurers can gain a greater understanding of how cash moves through the organisation and thereby build a more accurate forecasting model.

Of course, it’s not only treasurers who need to look beyond the parameters of their own jobs. As Spitzer notes, “It’s imperative that we educate business units on how their actions or lack of actions influence the company’s financial and cash status. We need to make this mentality part of their mindset.”

Achieving alignment

One important consideration when it comes to collaborating with business units is the need for common goals. “You might have one unit which is purely focused on sales and margin, whereas another unit might be measuring working capital efficiency – and those two are somewhat in conflict with each other,” says BofA’s Young. “So what you need is that clear alignment across the board, and where possible, one goal or objective that everyone is working to within the company.”

This alignment can be achieved by the treasurer working closely with the CFO, as well as with the various heads of all lines of business. “I think it’s important for each of the departments to understand what the benefit is to the organisation of deploying a programme or solution,” says Young. Where working capital solutions such as card solutions and supply chain finance are concerned, he says there are clear benefits when treasury and procurement work together in lockstep.

In addition, treasury can have an important role to play when it comes to supporting the business as it moves into new business models and new routes to market. Young says many of the bank’s consumer and retail clients are increasingly moving away from bricks-and-mortar sales into online sales, not least because of the opportunities for greater cost efficiencies and better controls. “That’s great for the company strategy, but how does that impact treasury and the management of the company’s cash?” he comments. “So it’s about open communication and alignment, with the treasurer able to suggest which digital and online solutions can allow their clients to interact with the business more effectively.”

Current challenges

Of course, the current COVID-19 pandemic presents additional challenges where this topic is concerned. Young says that the crisis has placed a huge focus on the treasurer, and that “the profile of the treasurer within the organisations we are working with has never been higher.”

Initially, he says, the focus was on the company’s business continuity planning (BCP) strategy. “Week one was all about

how the organisation would continue to operate effectively from home; on whether all those business areas were functioning correctly and adequately funded; on whether businesses could make payroll and whether they had sufficient cash on the balance sheet," he says. "So that was the first priority."

Beyond this, he says treasurers' priorities have included ensuring that the treasury is in control of the cash flow forecasting process and working with the C-suite to consider what steps might be needed to boost the company's liquidity over the medium-term solvency cycle. "That of course leads to funding, and we've certainly been seeing an enormous amount of capital raising across the industry and across the globe," Young says.

Alongside these actions, Young says treasurers have continued to focus on the importance of communicating effectively with business units. "I think that's essential at this point in time," he says. "Typically this might mean keeping in touch more regularly here and there, but I think more communication is key at the moment, and we've certainly

seen that across the corporate organisations we've spoken to." As well as adapting to a working from home environment, it is the role of the treasurer not only to implement but also to anticipate the needs of the business, Young notes. "And that includes anticipating what they see as key priorities on the other side of this crisis."

In terms of what communication with business units might look like in light of the crisis, Spitzer says that if a company is in a strong balance sheet position and prepared for a shock event like COVID-19, with a contingency plan in place, "the message is two-fold". First, he says, treasurers need to convey a message of reassurance and positivity – "We have a strong balance sheet, our financial prudence has put us in a good position." Second, treasurers should remind everyone about the contingency planning and the actions that will be taken.

"In uncertain times, you don't take strength for granted," Spitzer concludes. "Usually contingency involves reining-in spending, so this is where treasurers can work with Financial Planning to clearly communicate, ensure execution and provide updated forecasts."

Managing business units during a pandemic



George Dessing is Executive Vice President, Treasury & Risk at Wolters Kluwer, which provides professional information, software solutions and services for a number of sectors. Dessing explains that treasury is viewed as a holistic role within the company, with his responsibilities including global treasury, risk management, (non-IT) business continuity and real estate.

In previous Treasury Today articles, Dessing has argued that treasurers need to be visible and proactive in order to support business growth. But in the context of the COVID-19 pandemic, it's clear that some flexibility is needed if treasurers are to maintain effective relationships within the organisation.

While the company has taken steps to support its clients, partners, consumers and communities with COVID-19 resources, Dessing says his areas of focus include incident management, which follows the PEAR principle (People, Environment, Assets, Reputation). "It is our common foundation for building our incident strategy, action and communication plans, which align with our company's values," he says. "Even in tough situations, we're stronger together."

Where treasury is concerned, Dessing emphasises the importance of the following characteristics at a time of uncertainty and volatility:

- **Be prompt.** "Treasurers need to stay ahead of the curve, rather than waiting for the moment that cash is needed," says Dessing. "Therefore, securing your liquidity and cash flow needs to be even more top of mind in times of a crisis."
- **Be proactive.** "This includes connecting with internal and external groups, such as business units and banks," says Dessing. "A new trend could be consolidation, bankruptcies, and restructuring which could offer opportunities for larger (digital) companies."
- **Be the 'guardian of cash'.** Dessing says: "In today's digital environment, treasurers should drive awareness of fraud risk, especially when your employees work from home. We need to remember to stay vigilant for COVID-19 related cyber fraud."
- **Be open minded.** "Now is the time for change as I believe that this crisis will do something good as a big drive to automate payment processes and start eliminating the paper approach of US check processing – 'digital dominates, less print'."
- **Be passionate and care for your employees.** "Our people will ask themselves what is important in their lives, like for example their (virtual) work-life balance – it is important to be supportive of others' ideas."
- **Be a team player.** "Being a strategic partner means being open and connected, as well as an effective communicator," says Dessing. "Especially now that everybody is working from home, it feels that we are more connected than ever before."



HOW ONE LIFE SCIENCES FIRM IS KEEPING COOL AMIDST THE COVID-19 LOCKDOWN

Publicly traded life science solutions firm Cryoport provides temperature-controlled logistics services around the world. We asked its SVP, CFO and Treasurer, Robert Stefanovich, how he is managing potential disruptions to the firm's supply chain – and balance sheet – as the world responds to the COVID-19 outbreak.

“With all the uncertainties around COVID-19, it is vital for all business leaders, in all industries, to implement best practices throughout their organisations,” says Robert Stefanovich, SVP, CFO and Treasurer, of global life science solutions firm Cryoport. And as part of that responsibility, he believes that it is more important than ever to communicate clearly and transparently with all employees to ensure they remain “informed, healthy and motivated”.

To help keep the channels of communication open in the current environment, Cryoport has recently set up a separate site on its intranet, dedicated to COVID-19 information, aiming to address employee concerns.

The firm is also working in partnership with its suppliers in evaluating and mitigating the risks and accelerating PO fulfilments. This is critical for components derived from more impacted geographies to ensure Cryoport's inventory has the right level of safety stock to continue assisting the movement of the lifesaving therapies it supports globally. Clients, too, are included in consultation, helping the Cryoport team develop plans to mitigate any disruption to their services.

As the backbone supporting temperature-controlled logistics for the likes of life-saving immunotherapy drugs, getting this right now is critical. “We cannot allow for any disruption,” says Stefanovich. “It's something where we all have to be honest and proactive when communicating with suppliers and clients alike, to really understand where the risks lie, and to take the appropriate actions to mitigate them.” It is, he adds, “about working more closely on a day-to-day basis with our existing partners, ensuring we have everything in place and that we can act as the situation changes”.

Although most of its mitigant actions are geared to managing the almost hourly global developments of COVID-19, there is strategic longer-term thinking underpinning Cryoport's measures. This is an approach that Stefanovich believes other companies should adopt. He suggests that most should already have in place a pandemic ‘actions and communications’ plan specific to their operations. Every business, he says, needs to be confident that their entire management team and key employees are “fully engaged” in the process.

But this is not something just to have in writing, he warns. Companies need to be able to act quickly and decisively. To achieve this, leaders should be aware that a working pandemic policy demands significant management input. “It will take time away from other aspects of your business as you work through it because we are now dealing with real uncertainty.”

“Given that we are well funded and debt free, we are not facing some challenges that other companies are, where some are having to seriously evaluate their cash runway and near-term prospects of securing funds at agreeable terms,” notes Stefanovich.

With Cryoport's short-term investments and cash guided by strong and conservative policy, he nonetheless admits that, given the current uncertainties, there is a need to revisit this often. It's about re-balancing short-term investments in a measured way, he explains. “I do have regular calls now with our advisors to re-assess our approach.”

Of course, what's happening now is a reminder for all businesses to continue to be disciplined about how they use cash, make investments and set appropriate ROIs for those investments. “As a publicly traded company (Cryoport is traded on NASDAQ) we are engaging with our investors, analysts and bankers regularly so that they understand the actions we are taking to mitigate risk and protect shareholder value,” explains Stefanovich. This communicative approach could well stand other companies in good stead, should they need to raise funds at a future date.

For now, although risk mitigation is front and centre, Stefanovich believes that opportunities are available for most companies. “As an organisation, we are developing team-building and strengthening team spirit,” he says. “But now, in a time of need, we can also prove ourselves as an outstanding partner to our clients and partners. This can have a long-term positive effect; there is a silver-lining in all this after all.”



The art of paying attention

Rahul Daswani
Senior Manager,
New Solutions – International,
Global Financial Services (GFS)



Dubai-based Rahul Daswani, Senior Manager, New Solutions – International, Global Financial Services (GFS) at Microsoft, develops strategies for payment solutions in the company's developing and emerging territories. He talks to Treasury Today about his motivations, experiences and Adam Smith Award winning solutions.

Needing little in the way of introduction, Microsoft, founded in 1975, is a worldwide leader in software, services and solutions that help people and businesses realise their full potential.

Microsoft remains one of the world's best-known corporate names because it responds rapidly to market changes. Naturally, Rahul Daswani, the company's Dubai-based Senior Manager, New Solutions – International, Global Financial Solutions, shares this approach, ensuring business with the firm's partners continues to flow freely.

With responsibility for developing solutions that enable sales financing, Daswani, working with the company's banking partners, is at the heart of Microsoft's customer payment offering. His geographical remit alone is a test of his capacity for innovative thinking. With an area that covers Eastern Europe, the Middle East, Africa and large swathes of Asia, he is engaged with what may be loosely categorised as developing and emerging markets. His Asian territory excludes Japan and Australia, for example, because where the bulk of his work requires highly customised solutions, these financially advanced territories are able to use more standardised financing solutions.

Microsoft's stated aim is to reach every person on the planet. Whilst developed economies have consumed its technology with great enthusiasm over the decades, the level of demand for innovative solutions in many emerging territories is rapidly gaining ground.

With consumption of Microsoft's services rising, it is down to professionals like Daswani to facilitate growth, ensuring commercial customers in his territory have the right funding solutions available to them when they need them. But for Daswani, an undertaking of this nature is far removed from his intended early-years career trajectory.

Moving ahead

Having qualified in India as a chartered accountant, he started his professional life with GE Capital's shared services organisation. Although far from his eventual career path, he was exposed early on to a globalised mode of operations. In this position, he consciously involved himself in the 'lean' world of Six Sigma and what he describes as its statistically evidenced, data-driven notion of continuous process improvement.

He followed with a move into Citi. Keen to take on a client facing role, he reflects on this as one of the best decisions of his career, with Citi having encouraged him to take on a range of different roles. "The learning curve was steep but I was gaining skills across a broad range of functions, from customer services, credit risk underwriting and business

development; this helped me build core skillsets that I would use later on,” he explains.

From Citi, Daswani took another leap forward, managing the customer financing function of Nokia’s Indian division. Success here afforded him the opportunity to expand his geographical coverage into Asia Pacific. Subsequent corporate re-organisation saw him take on the role of Regional Treasurer for the Middle East and Africa, relocating to Dubai where he remains to this date.

“Those years in Nokia were both incredibly exciting and stressful,” he recalls. Having joined the firm when it was the global leader in device manufacture, it gave him “incredible opportunities” to work on new initiatives, such as mobile wallets, in support of rural business development, often in places where most banks would not go.

However, rapid technological catch-up by Nokia’s competitors brought the company near to bankruptcy. This pushed its treasury and finance function to the fore as it worked to accelerate cash flows and liquidity in “a highly resource-constrained environment”.

Such experiences had presented Daswani with the perfect training ground for what came next. With Microsoft’s acquisition of Nokia’s Devices and Services business in 2014, its entire treasury operation was integrated, moving him into a senior corporate finance role before casting him as a key player in its structured finance sub-group.

Many of the core skills Daswani has developed across the years have naturally benefitted his current position. When in 2015 Microsoft, under its new CEO, began its ongoing programme to revamp its product and customer engagement processes, it brought the opportunity to encourage amongst all personnel the development of multiple skills and competencies. The level of support offered has allowed Daswani to continually pursue new specialisations and interests as he increases his exposure to different markets. This has been a conscious decision throughout his career.

Open to options

Indeed, with many experienced professionals tending to focus either on subject matter expertise or on broader people management skills, Daswani feels that opening up as many options as possible from the outset is the wisest course of action. “I always tell people that it’s very important to experiment with different roles early on. Not only do you get a broader perspective, but also you get clarity on what you enjoy doing and where you would like to specialise later on in your career.”

What broad-based experience also brings is confidence – and thus resilience – when it comes to tackling professional challenges. For Daswani, this is an important quality. “You can back down to diffuse situations and fight another day but don’t give up too quickly,” he says. The resilient mindset, he adds, is vital at a strategic level where issues are tackled on a larger scale and can take longer to resolve because working at scale and at speed are often mutually exclusive.

That said, although he acknowledges that time and effort is sometimes required to explain to non-finance functions how his team is creating value, Daswani feels that external partners can be more challenging.

Needing to work with multiple financial institutions to build a framework in which all parties can collaborate equitably, he admits that it is not always easy to find partners with the standards, scale and depth of operations and flexibility which Microsoft requires to meet the needs of its own clients. This, he believes, is more a symptom of dealing with emerging market territories, and is an effect which, at times, is exacerbated by the somewhat fragmented regulatory environment to which he is exposed across his territories.

Keeping pace

Another concern for Daswani is what he perceives as the “lack of pace” at which some domestic financial institutions have shown in keeping up with technology. This is most evident in how customers expect to transact with those institutions, and the speed with which credit risk approvals are handled.

Technology is progressing rapidly in the payments space, and it will continue to accelerate with the development of telecoms technology and the emergence of 5G, but Daswani believes that it is “just unacceptable now for any customer – retail or corporate – to be in a state where they cannot send a payment instruction virtually on mobile, or not be able to receive confirmations in real-time”.

Microsoft can build and offer customers new real-time technologies, only for those customers to face downstream process delays. The need to pick up the pace at every touch point is, he feels, essential if customers are to experience the fast and smooth execution they want and need.

Emergence of the fintech community is forcing the progress within financial institutions. Daswani’s team is driven to keep up the pace, and cut transaction times, with every one of its partners, including the banks. Those that make the cut, he notes, are encouraged to constantly explore and deliver solutions “as rapidly as is possible”.

Award winner

As evidence of Daswani and his team’s commitment to finding the right customer solutions, he collected the Treasury Today Adam Smith Award in 2019 for Best in Class Treasury Solution in the Middle East (Microsoft has submitted for and won several awards in different categories over the years).

Through the Microsoft GFS group, an innovative solution was developed that allows customers, when purchasing via resellers, to make monetary commitments to Microsoft’s cloud and simultaneously sign up for extended, multi-year payment terms backed by Microsoft’s banking partner.

This is an innovative trade finance solution, using non-recourse assignment of receivables and is combined with Microsoft’s sales offering to customers who purchase cloud products from any of its resellers. The end result effectively removes friction from purchases, kicking in even before a deal has closed. “We no longer think of it simply as a working capital solution; we now organise the whole structure of receivables and payables flows as a sales-enabling tool,” comments Daswani.

Strategic moves

Daswani’s GFS function was born in treasury but now has been carved out in a separate vertical that reports into commercial finance. Microsoft’s activities in this space

represent “a different evolution” from many other large corporates, and yet still remain connected to the treasury organisation, notes Daswani.

GFS works closely with treasury – not least to keep its multiple banking relationships on an even keel – whilst with deeper specialisation treasury has become more focused. Daswani sees treasury’s strategic role as an opportunity for it to remain well-connected to the entire value chain of cash flow across the organisation (including GFS), whilst still developing its specialist role.

“Being well-connected allows treasury greater visibility over what is happening at an enterprise-wide level, which in turn allows it to better plan its response to future activities,” he explains. It means the function can leverage technological advances to develop and offer new tools to the wider business. “Unless treasurers spend time understanding the broader organisation, they may not realise the full value of all of those tools which are becoming available. Having that strategic view helps with this supply-and-demand match.”

Being strategic of thought and action requires certain skills though and Daswani sees finely tuned collaborative skills as crucial. It would always have been the case within the team, he says, but now the need is to be able to work beyond even the walls of the business.

Collaboration, he feels, is borne out of the ability to listen and to communicate without pre-conceived notions. “It’s about taking a step back and walking through ideas; you may have dismissed something out of hand but as you explore it, aspects may emerge that could become workable.” It’s not easy, he admits.

“Often in corporate life we are short of time and need people to get to the point quickly, but that’s where you can miss the detail.” Of course, having the ability to decide what to focus on, and then finding the time to listen and explore fully, is something else that comes from experience – for which he knows there is no shortcut.

Training ground

That said, Daswani is convinced of the value of formal professional training and education, seeing it as “investing time in strategic knowledge development”. With the AMCT qualification from the Association of Corporate Treasurers (“the gold standard”) complementing his professional accountancy exams, he believes the experience has been beneficial.

Daswani chooses to supplement his formal treasury knowledge by attending courses normally pitched at other professionals, like the Fixed Income Money Market Dealers Association of India course on bond mathematics; highly specialised but nonetheless useful for understanding valuations on bond purchases, he says.

It’s this kind of learning that underpins his everyday work, but Daswani has also come to realise that there is a lot of training available for free that many do not often consider. There is a wealth of educational content on LinkedIn, for example, and the Massive Open Online Course facility is available for anyone to enrol on. He also advocates attendance at relevant conferences, where even casual conversations with peers can prove invaluable.

Whilst his formal educational experience has obviously introduced new facets to his work, sometimes courses have served to refresh his understanding of the fundamentals. Ultimately, he feels that his studies – formal and informal – have allowed him to execute his current work “in a much more enhanced manner”, and he urges all busy professionals “to make time for them”.

Starting out

For those just starting out in their career in corporate finance and treasury, Daswani not only advises familiarisation with the latest technologies, but also encourages going further, learning coding for applications in the worlds of AI, machine learning and data analytics, for example. “Our environment continues to become more automated. Having a basic grasp of coding will be a valuable asset for anyone coming into treasury now,” he comments.

Another useful asset for newcomers is the ability to stay grounded. “It’s very easy to get lost in the buzzwords and technicalities of the role. You need to get out of your workspace and meet with other people in the organisation. That way you can begin to understand the different perspectives and be able to respond to the wider business needs more sympathetically and effectively.” Indeed, he adds, with careers taking many different turns these days, an enhanced and broad personal understanding of corporate activity is highly prized.

It may not come to everyone naturally, continues Daswani, but understanding at an early stage that treasurers do not undertake treasury for the sake of treasury, but for the sake of the organisation, helps give younger professionals a more rounded approach not just to their work and colleagues, but also to their careers.

One factor that is often ignored at an early age but which most experienced professionals say is vital, is achieving an acceptable work/life balance. For Daswani, this means moving away from the traditional ‘9 to 5’ regime and embracing flexibility.

Mobile technology means employees can be ‘always on’ if allowed to go unchecked, but it also means many can manage the time as they wish within the working day. “To me, work/life balance now means being able to use my time in ways that I want to. I use technology to be more effective and productive,” he explains. If that means drafting brief responses to emails in the evening or taking time out during the day to attend his children’s school events, so be it.

Personal reflection

The latter is particularly important as outside of corporate life, Daswani is very much a family man. With young children, he is keen to be a big part of their development, something which many professionals do not always find easy. Providing dedicated family time is important to him and he aims for “at least two good relaxing holidays” – and at least one new country – every year.

Personally, he enjoys nothing more than sitting on his balcony and watching ships go by. For someone who clearly relishes the pace and thrill of the new in his working life, the ever-changing yet unhurried seascape before him offers the perfect counterpoint.



No to paper, yes to trade

Trade growth is all about making strong connections, and yet the paper-trail that follows cross-border commerce stubbornly remains the weakest link. We explore how digitalisation can improve connectivity, paving the way for better business and stronger growth.

Global trade can be challenging with all the tariff wars, protectionist policies and regulatory uncertainty to navigate. But these are transient worries; for most businesses, there is a greater menace that remains largely unchallenged, accepted almost, and that is the fact that paper still rules supreme.

Of course, it's no great mystery why trade documentation represents around 20% of the cost of moving goods; it's grossly inefficient. But as Gert Sylvest, Co-founder, Tradeshift, and GM Tradeshift Frontiers, notes, "although digitalisation within large enterprises is actually at a pretty advanced stage, globally just 8% of trade transactions are digital". If the means of dramatic improvement is available, why does this state of inefficiency persist?

For many, the missing piece in the puzzle is digitalisation between business partners across the broader supply chain ecosystem. As Sylvest explains, "you can have the greatest level of digitalisation internally, but if the partners you are dealing with – banks, suppliers, buyers, logistics handlers – are not digital, then the whole process reverts to the lowest common denominator."

With International Chamber of Commerce (ICC) suggesting an annual count of around four billion sheets of paper required to represent current levels of 'lowest-common-denominator' activity, it's no wonder technologists are

frustrated. Martin McCann, CEO and Founder of Trade Ledger, even sees current global trade finance practice as "pre-industrial".

The reason why digitalisation across supply chain ecosystems has yet to take off is clear to Daniel Cotti, MD, Centre of Excellence Banking & Trade at the Marco Polo Network. Where multiple parties involved in international trade are located in different jurisdictions, process harmonisation is often absent.

Re-invent, not fix

But setting out to 'fix' trade is always going to end in failure, warns McCann. "People have been trying to do this since the 1990s. When you've got different laws in different jurisdictions, and different industries with different needs and procedures, where do you even start trying to standardise trade finance documentation?"

Research by BCG last year explored the transit of trade information through paper documents. It found that in typical international trade documentation "a single transaction often requires the interaction of more than 20 entities, and involves between ten and 20 paper documents and 5,000 data field exchanges". And yet it says only one to two per cent of the available fields are commonly used.

Bodies such as the World Trade Organisation and the World Customs Organisation, charged with driving standardisation initiatives in this space, have “lacked the appetite for transformative change”, says Dai Bedford, EY NextWave Global Trade Leader. Noting a predisposition in some quarters for physical documentation, he says that in some emerging markets, for example, “documentation and administrative processes around customs and port authorities creates jobs”.

It’s a difficult approach to challenge. Nonetheless, change is in the air. With China central to global trade, Bedford says it has invested massively in digitising its whole trade ecosystem. It has been adopting innovations, such as blockchain, to create smart documents, has brought about the legal enablement of digital signatures and is using new technologies to create ‘smart’ ports and shipping.

The knock-on effect in neighbouring trade-focused jurisdictions, especially Singapore, is significant. Challenged by Chinese port efficiency, Singapore has a roadmap that is looking to accelerate development in ASEAN. Singapore Customs has already launched its Networked Trade Platform, described as a ‘one-stop trade and logistics ecosystem’, with reports coming through already of talks to connect this with Hong Kong’s own eTradeConnect blockchain-based platform.

With many stakeholders involved, connecting different ecosystems could allow trade credit services to be consumed at the point of the transaction. “Then we’ll see de-aggregation of the vertically integrated supply chain for trade finance,” states McCann. His ‘ideal’ will necessarily see trade finance providers stop producing and distributing traditional products, and start thinking in terms of new customer propositions and experiences. “The product wrapping and fulfilment factories can just melt into the background; it’s not something customers need to interact with.”

But bringing disparate parties together remains a challenge, comments Marie-Laure Gastellu, Deputy Head of Trade Services, Societe Generale. The possibility of a fully paperless trade value chain within the next five years, to her, seems unrealistic. “There have been commendable initiatives designed to encourage standardisation – the ICC, and the Bankers Association for Finance and Trade, are some notable examples – but we have a long way to go,” she believes.

“Our industry involves many stakeholders who share few common standards, meaning paper is often unavoidable. Between the placing of an order, and that order’s delivery, manufacturers, shipping companies, port authorities and banks must reconcile the information they share in their own standards, sometimes varying from country to country. Despite its limitations, paper continues to help with this.”

The ambition to have paper-free trade can already be met with today’s – and even yesterday’s – technology, says Gastellu, but the problem of ‘admissibility’ refuses to go away. “We could just stop printing the required forms and share them digitally, something for which AI and blockchain are not even necessary, but the lack of shared admissibility that rules within our industry makes this impossible.”

Interoperability

The answer for McCann is not to try to patch-up trade but to focus instead on interoperability. Creating a trusted digital data-sharing environment will, he believes, make individual processes more efficient and inexpensive.

Bedford agrees, adding that collaboration between governments and agencies which are prepared to change the law to move beyond simple digitisation of documentation (using tools such as character recognition software) towards dispensing with documentation altogether, will enable the exchange of data between different trade ecosystems. We are, he notes, “already seeing pockets of progress”.

Indeed, in the UK, digitalisation of trade ecosystems – driven in part by Brexit as the country seeks to open up trade with new partners, including China – has seen improvements in data sharing, with subsequent transparency and trust making efficiency improvements, for example, in shipping insurance. Here, as part of the Insurwave platform, blockchain combined with IoT data gives parties access to real-time information. This allows shippers to track assets and share data with brokers and insurers, enabling dynamic premiums so vessels in transit are never over- or under-insured, with commensurate cost efficiencies. On the finance side, for McCann, although open account and structured trade are seeing some interesting developments, he believes the industry shouldn’t be thinking in terms of an evolution of documentary trade, “rather we should be thinking in terms of revolution”. And this, he says, is all about data accessibility – confirming interoperability as the essential step forward.

Network of networks

One solution that can aid progress is the API. At the behest of legislation (largely Europe’s PSD2), banks have been moving towards API-based data-driven infrastructures and the notion of open banking. This is starting to significantly disrupt traditional models of documentary trade, providing alternatives which can begin to de-aggregate the network origination and customer experience at the front-end, from the product and fulfilment elements of the back office.

Visa’s acquisition in January 2020 of Plaid, a technology that allows consumers to share their financial information with apps and services, is a play to begin controlling the evolution of the ecosystems around the customer experience network. It’s an important battle ground and connectivity between FIs and developers is becoming increasingly essential as consumers seek enablement to use fintech applications. Their appetite is irrefutable: according to EY, 75% of the world’s internet-enabled consumers used a fintech application to initiate money movement in 2019, versus 18% in 2015.

Why does this matter? Where consumers go, corporates will follow. Creating a ‘network of networks’ using APIs and augmented by robotic process automation, AI/machine-learning and, for security, blockchain, would allow data to be acquired, analysed and transformed into a common format for all permissioned participants to consume. This network could then be exposed to any new types of workflow that trade participants require, across any digital channel. And then, as Cotti says, “by connecting a critical mass of parties in the trade ecosystem, it makes digitalisation of trade finance a real possibility”.

Imagine the future

Of course, technology is only ever the enabler. “The real disruption is in the demand,” notes McCann. Indeed, within many sectors, as new generations join the workforce, so pressure to replicate their consumer-level experience in their professional lives increases. Millennials, it seems, “just don’t

have the same level of tolerance for the inconveniences and challenges in trade services that previous generations do,” he notes.

However, he feels that one of the biggest challenges for a full trade revolution is change management. The tier one banks, which have cornered the MNC market, have seen Basel III capital requirements erode their interest in this space for anything other than key clients. With fintechs typically serving the lower end of the market, the global trade finance gap, which is currently estimated by Asian Development Bank to be around US\$1.5trn, is now largely a mid-market issue.

This gap is fast becoming an opportunity for co-operation or disintermediation. On the latter, Big Tech players such as Amazon, Google, Apple, Alibaba and Tencent are moving to control the ‘network of networks’, enabling service origination at scale. “In the next few years we are going to see some very big plays in this area,” predicts McCann. “We’re starting to see disintermediation happen already.”

Indeed, Bedford notes that e-commerce platforms are already providing credit to its small business partners on their platforms “because they have the data” to make correct credit risk assessments. PayPal is offering products like debit cards, cheque deposits and small business loans. In Asia, challenger banks are rapidly gaining ground, with WeBank, MYbank, and Kakao Bank all backed by Big Tech (Tencent, Alibaba, and Kakao respectively). These Big Tech players have the money and, crucially, they have the data.

As for the MNCs, if holding data is vital in this new digital world, at the large corporate end of the spectrum, Bedford says the major banks should still be in a prime position, having a view over entire networks of trade that they are financing. But change is coming here too.

With more stringent Basel IV capital requirements applying from January 2022, bank money could become even more expensive for trade-based products. No wonder then that banks are reportedly looking to sell down trade assets to non-bank investors – institutional investors, fund managers and even wealth managers – to try to plug the financing gap. Banks may retain the corporate data and, critically, trade compliance elements but, he warns, “it’s not going to be easy for them”, as other players really are sensing opportunity.

Driven by millennial demand for a consumer-like experience, fintechs are driving connectivity and data sharing, enabling non-banks to take on trade finance as an asset class through trade platforms. And now it seems more large corporates are looking to self-finance trade, either in-house or through these non-bank investors.

Technology is increasingly making corporate access to their own trade transactional data possible, enabling them to make informed funding decisions on their own trade relationships. What’s more, the emergence of Reg Tech platforms is enabling corporates to manage compliance issues around self-funding (becoming a regulated entity in this respect would be a major concern otherwise).

Banks appear to be under huge pressure from a model that, as Bedford argues, “could completely disintermediate them”. However, whilst many corporates do own all the data they need on their total-cost-of-trade, they can’t necessarily collect it, let alone analyse where the opportunities for self-financing lie. It’s an interesting thought to which McCann adds that

MNCs, as currently the least well-served by digital trade services, will be the slowest movers, and thus the last to abandon the old-school documentary trade model.

Treasury challenge

The need now is for forward-looking corporate treasurers who want to be “innovative value-drivers”, says Bedford. “They are going to have to start looking at a more complex view of how they finance,” he says. “It may be that it will be cheaper to issue a corporate bond and have a revolver to finance a supply chain, and make money off that, than it is to deal with a bank.”

Pulling together corporate data from treasury and the rest of the business, and then getting it into a usable state to make such decisions, remains a struggle for the MNC, for now. The notion of a virtual trade function, taking structured and unstructured data into a cloud-based platform, requires investment that as yet might prove elusive for treasury. But as digital solutions are incorporated into the flows of information in open account trade, and the gap in the low to middle markets is increasingly serviced, the idea of digitalisation will begin to feed through to the upper end of the market.

Self-financing will gain ground as more companies seek to better understand the flexibility and security of their supply chains. Access to granular data on fees around finance, insurance, taxation, shipping and so on – and a deeper understanding of production and inventory management – should begin to alert senior management, the board and other stakeholders, to the benefits of greater preparedness and proactivity in meeting the challenges of a rapidly changing business environment.

End of the trail?

As large swathes of the lower end of the market start to move towards next-generation solutions, a tipping point will be reached, McCann believes. “All the tools and data are there; what’s been missing so far is the imagination and ambition on the part of the large service providers.”

Quite naturally, caution is encouraged by Gastellu who says reducing the use of paper should not be pursued as an end in itself. “Limiting paper use, and, where necessary, making use of AI and blockchain, is only worth it if it makes trade and supply chain processes more time and cost efficient,” she says.

“Paper should be regarded as what it is: a vessel for information. The ability to decipher and share this information quickly and to a high standard is what differentiates best in class service from time-consuming, inefficient processes. It allows payments to be made quickly and prevents ships being stuck at port.”

Paper still has a future in the trade and trade finance space, and may do so for years to come, despite the promise of APIs, AI and blockchain. “As a very first step, these technologies are used to improve our operational efficiency to the very benefit of our clients, in terms of speed, cost efficiency and security,” says Gastellu. “And they are also the basis for a paper-free trade industry – one day.”

Banks are beginning to respond; it’s that or face disintermediation, warns McCann. But only when true connectivity is established between ecosystems, will corporate treasurers across the spectrum be able to look forward to managing growth, not paper.

Remote working: the new normal?

People across the world have had to adapt to working remotely in the past few months – but often with the hope that everything will return to business as usual in due course. Does it have to be this way, or has the ‘new normal’ awakened an appetite for home working? How realistic is home working for treasurers, who need to be more connected to the office than most?

With a third of the world’s population experiencing some form of lockdown, working from home has suddenly become commonplace. In some companies, the transition from working in the office to working remotely has been seamless. Indeed, many companies offered remote working models to their employees pre-COVID-19, making it easier to adapt to the current situation. For others, however, the challenges involved mean that it isn’t a feasible long-term option.

Eric Sim, Founder of the Institute of Life, believes that with some adjustment and the right knowledge, corporate employees can easily work from home – and that this will become the norm for at least one day per week for most companies.

But for Ramana Konda, Director, Treasury Asia, Middle East and Africa at Mondelēz International, remote working is more nuanced, especially for treasurers. Konda explains that for the data management side of a treasurer’s role, remote working is easy, owing to the limited requirement for interaction with others in the business. But he also asks, to what extent is treasury only about data? Treasury is playing an increasingly strategic role within businesses and Konda feels that they need a physical presence in the office to do so effectively.

Happy employees = happy company

There are, of course, many benefits to working remotely. For Helen Hanby, Director, International Treasury at Biogen Idec, a big benefit of working from home is the ability to save two hours per day by not commuting. People may choose to put this time to good use: Sim, for example, spends the time he has gained on learning, and is currently educating himself on positive psychology and video editing.

Home workers generally report better productivity and a higher quality of work than when they are in a traditional office, and the flexibility that home working offers can also help companies retain employees that might otherwise leave. For parents, working from home isn’t a substitute for childcare, but it can enable a better work-life balance by removing commuting time and allowing them to be more present at home, whilst also keeping them in the professional loop.

Likewise, disabled employees who struggle to commute may be able to handle a regular workload from the comfort of their

house. Sim also points out that when employees are feeling slightly under the weather, they may be able to work from home instead of using up sick days that might be needed for serious illnesses.

Employees whose families may be relocating, perhaps because a partner has secured a new job elsewhere, may be able to use home working to continue in their employment. And of course, in times of crisis or other disruption – such as severe weather conditions – having the infrastructure already in place means that the switch can be as seamless as possible.

Cybercrime is on the rise

Security is one major consideration when weighing up the pros and cons of home working – particularly given the current focus on this topic. Indeed, the COVID-19 pandemic has caused such an increase in cybercrime that the World Health Organisation had to post an advisory on its website as fraudsters are impersonating it in phishing emails.

The increase in cybercrime comes as fraudsters and hackers try to take advantage of the upheaval that many companies are experiencing in going remote. Treasurers, as always, are primary targets for these attempts, and so need to be vigilant about any suspicious activity. In particular, emails that ask for files or links to be opened, bank details to be changed or payments to be made should be inspected thoroughly and secondary authorisation should be sought if necessary.

Is remote working cyber-secure?

However, Anish Kapoor, CEO of AccessPay believes that if approached in the correct way, remote working can actually be more secure than working in an office. “A prime example of what we see is when treasurers have a SWIFT workstation, that’s just sat on a desk in the office,” he explains. “With access to that SWIFT workstation, an individual can pretty much do whatever they want. But when you move to having a different technology stack that lets you work from anywhere and you’re not linked to that one workstation anymore, you can normally build a lot more control, having maybe biometric authentication, or two-factor authentication.” Alongside that, there are also multiple layers of access control, and the potential to have other layers of approvals processes.

From a cyber-security standpoint, there are also other things individuals can do to ensure they are staying safe when working remotely – many of which should be company policy. Cyber-security and anti-virus provider Kaspersky recommends making sure that a home WiFi router is encrypted, meaning it requires a password to connect. If using a public WiFi, and indeed sometimes using a personal one, it is also recommended to use a virtual private network (VPN) to encrypt all data from any potential prying eyes.

Additionally, using a company's regular corporate services to transfer files and data between colleagues can help security. These services are regulated by a company's IT department, whereas file-sharing services such as Google Drive can become public very easily if someone has the correct keywords.

Can remote working replace face to face?

Remote working may be more convenient for some employees, but Konda feels that the importance of face-to-face interaction and a physical presence in the office cannot be ignored.

He cites the example of carrying out an FX hedge. "Even today in most markets across the globe, the application for FX involves a manual vetting process," he explains. In Asia this is especially true, with the array of regulations across countries meaning that many of the processes associated with FX hedging must be done on paper, and often in person. "FX transactions are one of the activities that the company conducts in 'live mode', where the coordination of the paper signature is crucial to reach the central bank, or a specific market, and is just one example of why it's important to stay close to the transaction," says Konda.

Indeed, aside from the business benefits of having a physical presence in the office, it has also been suggested that physical interaction serves communication better than virtual meetings. Use of video conferencing tools like Microsoft Teams, Skype and Zoom have skyrocketed since the beginning of the year, and their usefulness cannot be ignored.

Being able to connect with people across any distance, the only requirement being an internet connection, is revolutionary for businesses.

Hanby, who is based in the UK whilst working for an American company, explains that she is currently working from her home, with three members of her team working from their respective homes in the US, and her treasury analyst working from home in Poland. "We are regularly checking in with each other and the company has been hugely supportive, offering many wellness and mental health support initiatives and opportunities, including virtual training and community groups," she says.

Konda is in a similar position, as his role sees treasury managers reporting to him from 18 countries. As such, the ability to communicate effectively is important. "Some of my team members are data-driven, and some are also sitting in their respective leadership teams and managing a sub-cluster of the region," he says. "For the people dealing with the day-to-day operations of letters of credit which are not immediately payable now – particularly treasury transactions like card repatriation payments or interest on loans – those can definitely be managed remotely." He continues: "I think for my team specifically, 50% are happy working remotely – and so am I, as long as they're getting the job done."

Options for treasurers

As the world moves to more digital solutions, so too does treasury – or rather, it should. Many companies are trying to move away from a reliance on spreadsheets by implementing treasury management systems (TMS) and ERPs. When it comes to working from home, these sophisticated systems become more important, as they keep information centralised and easier to access.

For Biogen's Hanby, having the right equipment and software is an important first step. "The company has been very supportive, providing essential IT equipment, and we use online systems which are all still accessible remotely," she explains.

Can virtual offices work?

The extent to which virtual offices can replace a real-life meeting is questionable. One study found that the inevitable delays in virtual communication, both over the phone and online, cause significant feelings of awkwardness and confusion. Transmission delays of just 1.2 seconds meant that other parties were rated as "less attentive, friendly and self-disciplined than if there was no delay".

Sim has a few tips to help with making video conferencing run more smoothly:

- Always use headphones to ensure good audio quality and, if possible, use an external webcam. "I see a lot of bad audio and video quality, as the hardware that comes with computers is not always the best."
- Place the camera at eye level, "otherwise participants will be looking up your nostrils".
- Sit next to a window if you can, so that one side of your face is nicely lit up. "If that's not possible, then use a desk lamp aimed at the wall, to bounce the light off."
- Try to maintain professionalism on business calls. "I put on my standard white shirt and navy suit, but long pants aren't necessary!"





I think across a huge number of businesses there will be a massive shift in how people work post-pandemic. I think this enforced working from home has made people realise that in a lot of cases it is absolutely possible, and that there are huge associated benefits such as saving time and money, environmental considerations and being able to spend more time with family.

Helen Hanby, Director, International Treasury, Biogen Idec

Kapoor notes that in 2018, AccessPay conducted a Finance & Treasury Automation Adoption Survey, which found that spreadsheets were still the predominant tool used by most treasurers. When it comes to working remotely, Kapoor explains that this approach “would involve emailing around lots and lots of spreadsheets – which isn’t great from a technology and data protection perspective.”

If cloud-based systems aren’t feasible for a company at the moment – for example, implementing a TMS can prove very costly – then there are other options available. These might include the use of a reliable remote desktop – using a secure VPN, of course.

Virtual project management tools such as Basecamp, Microsoft Teams or Trello are also a necessity, particularly if a treasury team has more than two or three members. But, Konda reminds, technology is an enabler and not an alternative to the core conduct of business in treasury. He notes that new projects that arise, especially automations such as implementation of automatic debit or an ACH, require partners to be connected to the physical office rather than remotely.

Similarly, there are some aspects of treasury that move so fast – the enormous and rapid fluctuations in the markets are evidence of that – that Konda feels a physical presence in the office is a necessity, if only for the strategic ease of being able to contact someone and take action immediately, rather than have to wait for a reply to an email.

From the bottom up

In Kapoor’s experience, the main problems that come from working remotely aren’t generally technological, but rather human ones. For essential treasury activities like cash forecasting, input is required from a variety of people across the business, bringing with it the risk of human error.

“A number of cloud-based TMS projects have been entered into with the thought that ‘oh we’ll just put this TMS in place and it’ll solve all our problems and we can work from anywhere’, and actually it doesn’t work like that,” Kapoor explains. “The problem is how you get all this information from all the people and systems in the business.”

As a result, the businesses that have transitioned seamlessly to working remotely have been the ones that have put a great deal of thought into how these systems work. “They’ve used technology to automate as much of that input as possible, working from the bottom up,” says Kapoor. “So when everything started to happen with the coronavirus and they

had to go remote, they didn’t have some of the problems that other companies have experienced.”

The best way to overcome the data-input challenge, aside from automating everything, says Kapoor, is for the treasurer to engage with the people they need the data from and ask them ‘what can I do that would make your life easier? How can I help to take some of the burden from you, because presumably pulling all this data together every day is not something you look forward to?’ This type of empathetic engagement and human connection can help overcome problems while paving the way to a smoother remote working experience.

Will remote become the norm?

“This isn’t going to go away,” says Kapoor. “There are going to be more of these events, and so everyone we talk to is thinking long term, thinking that actually they’ve got to be prepared for a world where we have to work from home not all of the time, but certainly more of the time.”

Konda, despite his belief that a fully functional treasury department requires a physical presence in the office, is of a similar view. “Five years ago, we had a lot of offices and many rooms in companies. There came a trend where a company would hire a floor with just cubicles, no offices, and so we graduated down into that space. We saw hot desks, where you could walk into any of them and start working. Now, the gradual transition will be towards working remotely.”

A lot of companies already offer remote working as a benefit, and Konda notes that Mondelēz has offered it for a while. In the situation of the COVID-19 pandemic though, he says it’s important to note that the remote working instigated by the virus is not indicative of a future of remote working. “Entire communities have gone into lockdown; your colleague community, your external party community, such as banks, meaning a reduced number of available banking hours, the situation is different.” He’s hopeful that post-COVID-19, remote working will be a possibility for all employees by default.

Hanby is already a supporter of remote working, and like Kapoor and Konda she sees it becoming more popular in the future. “I think across a huge number of businesses there will be a massive shift in how people work post-pandemic. I think this enforced working from home has made people realise that in a lot of cases it is absolutely possible, and that there are huge associated benefits such as saving time and money, environmental considerations and being able to spend more time with family,” she concludes.



Working from home, virtual meetings and online communications have shot up the agenda as the COVID-19 pandemic impacts businesses globally. Are your communications skills up to it?

For the majority of professionals, virtual meetings are now the 'new normal' as COVID-19 persists. But making virtual business work isn't always as easy as jumping on a video conference and expecting business as usual. Now, more than ever, sharper verbal behaviour skills are needed, says Tony Hughes, CEO of communications specialists, Huthwaite.

"Whilst we may all think we're pretty good at communicating online or virtually, the likelihood is that you are frequently making errors that are off-putting to whoever it is you're speaking to," notes Hughes. "It's simple, yet many of our verbal behaviour habits actually work against us. This can be costly, especially in the current climate where often, big budget, complex projects are being conducted over the phone or online."

To address the needs of treasurers, Hughes offers a rundown of the top mistakes made time and time again when trying to strike a deal or building relations online, as well as some advice around how to avoid these common pitfalls.

Avoid a push verbal interaction – aim for a 'pull'

Voice, data and video over IP have given us the power (used properly) to interact fairly fully and to practise plenty of the behaviours that are used more often by successful communicators. "On a customer conference call, have one of your team lead the conference, or your part of it, and have another colleague on the lookout for who is itching to ask a question, build on a proposal or challenge a claim to ensure the customer feels you are 'listening' fully to their needs," advises Hughes.

Avoid the verbal 'poker face'

Some people avoid emotive language in business, feeling it isn't appropriate to express their emotions when it comes to striking a deal or communicating with their team. This can lead to ambiguity and a lack of clarity. "Be clear. If you're disappointed with an offer or a situation, say so. Likewise, if you're pleased with how the negotiations are moving or something your team has achieved, don't be afraid to express this," says Hughes. Indeed he adds, sharing your feelings in these scenarios is powerful verbal behaviour as nobody can refute your feelings, and it can create a more cooperative environment to strike a deal that benefits your needs or motivates a team to complete a task to the best of their ability.

Avoid the counterproposal

Research shows that successful communicators only make half the number of counterproposals than most. However, many professionals are still falling into this trap, even among the most experienced. "Negotiating is about listening and understanding the needs of the other party, whilst maintaining a strong stance," says Hughes. "By immediately counteroffering it shows that you're not listening to the other party – which is an immediate turn off, meaning they are less likely to be flexible when it comes to striking that all-important deal and agreeing to prioritise your work."

There are a number of behaviours that work to immediately irritate people, from self-praising declarations, such as using the words 'fair', 'reasonable' and other presumptuous behaviour, to telling someone you're 'being honest with them', indicating you may not have been before. "Steer clear of this use of language, it can be damaging to any relationship you are building and may put whoever you're communicating with on the defensive," Hughes warns.

Perhaps the biggest and most important hurdle to overcome is to sit back and listen. "Digest the information you're receiving properly and take time to really understand the position," he advises. This will provide you with an opportunity to explore the underlying objectives of who you're talking to. You can also use this to build incisive questions that may create doubt in their minds about their position or the point they're trying to make. "In a negotiation, this is particularly important – doubt leads to movement, and movement is what you're trying to create as a negotiator."

Give and take – share buybacks vs dividends

When a company is doing well, it can use its cash to enhance shareholder value through dividends or by share buybacks. We go back to basics with these two closely connected themes.

A business that is doing well will often have what is known as retained earnings – the portion of net income it keeps in a separate account. This can be used in a variety of ways, such as funding expansion or major capital projects. However, retained earnings can also be used to pay dividends or to repurchase its shares in the open market.

Share repurchases (or buybacks) and dividends are a means by which publicly traded companies can return cash to their shareholders. A company can fund its buyback by taking on debt, with cash on hand, or with its cash flow from operations. A set of corporate principles, known as a ‘pay-out policy’, will typically guide the value of any proposed cash dividends and share buybacks.

In practice, a buyback will see the company buy its own shares from the open marketplace, effectively cancelling these to reduce the number of freely trading shares (or ‘share float’) in the market (hence a buyback is sometimes referred to as a ‘float shrink’). The company can also make a tender offer, where existing company shareholders are asked if they wish to tender some or all of their shareholdings within a certain time frame; the offer includes the number of shares the company wishes to acquire and its offer price range.

Conversely, dividends are offered as a share in the company’s profits on a discretionary basis. These are paid out or ‘distributed’ at regular intervals to shareholders, mostly as cash but sometimes as shares of stock or other benefits. Dividends are declared (authorised) by the board of directors. Their value or distribution may be constrained by debt covenants.

Of the two, buybacks are usually seen as the more tax efficient, if less direct, way to return capital to shareholders. Whereas dividends are a definite taxable return and are subject to different tax treatments at both the corporate and personal levels, buybacks have uncertain value and tax is deferred until the investor sells.

Returns on share buybacks can never be guaranteed, but with corporate cash pools increasing, they appeared to be on the rise, especially in the US. In 2018, US companies saw a peak buyback of US\$866bn, Apple alone undertaking US\$100bn in buybacks during that year.

However, according to the FT in February 2020, citing preliminary figures from S&P Dow Jones Indices, US corporates bought back US\$736bn of their own stock in

2019. This was down 19% on 2018. On the other hand, a record-breaking US\$485.5bn was paid out in dividends, with 2019 now the second year in a row that more than US\$1trn was returned to shareholders.

Why dividends?

Dividends are a share of company profits, paid at regular intervals to its shareholders. Its directors are free to distribute dividends at whatever value they see fit, on the proviso that they are derived only from company net profits.

Not every company pays dividends. Rarely will a start-up or high-growth company offer a pay-out. These businesses often report losses in their first few years. If there are profits, these will often be ploughed back into the business.

Dividends are usually associated where a mature business has notable positive (and predictable) income streams and profits. These companies may not exhibit the huge growth curves of their formative years, but as established market players, dividends (usually paid at a higher rate than more dynamic/less predictable businesses) can boost overall returns for those that have invested in the company’s stock.

Cash is the most common pay-out but some companies issue shares of stock as an alternative. According to Standard & Poor’s, since 1932, cash dividends have made up about one-third of the total returns on US stocks, with the remainder coming from price appreciation, or capital gains, on that stock.

Dividends have two main roles: to signal to investors that the company is healthy and has a future, and to attract investors by paying them a regular income, possibly increasing the market value of the company’s stock.

There are several reasons why a business may choose not to pay dividends. If rapid growth is part of its strategy, then earnings can be invested back into the company. That business may also wish to use its cash to fund M&A activity. Conversely, a business that is perhaps not so strong may choose not to pay dividends simply to avoid the negative impression it gives to the market should it ever need to stop paying or lower its pay-out.

Types of dividend

Although cash tends to be the preferred form, dividends may take several forms. The list includes:

Cash dividends

As the most common form, cash dividends issued per share are simply a cash payment whose value has been calculated by using the dividend per share (DPS) formula shown below.

Other forms may be known as distributions-in-kind. These may be used as a means of reducing corporate tax liabilities that may arise from, for example, an increase in an asset's value.

Stock dividends

As an alternative to cash, a number of shares may be awarded to each shareholder based on the amount of shares they hold. This may be done on a pro-rata rights basis. This is not obligatory in terms of offer or uptake but the idea is to ensure that extra share issuance does not dilute the existing ownership or voting rights of the shareholder, maintaining their percentage of equity stake at the same level.

Property dividends

Dividends may be offered as an asset such as property, plant, and equipment (PP&E), which is generally highly illiquid, or inventory, which is more liquid.

Scrip dividends

Sometimes a company will offer its shareholders a choice of either receiving a cash dividend or the equivalent in additional shares of the company. Scrip issues are usually offered when there is insufficient liquidity for a cash dividend to be paid. By increasing the number of shares, these secondary issues will dilute share value but they are exempt from stamp duty as they are not an investment per se – even though investors can sell them on the open market (at which point they are subject to capital gains).

Liquidating dividends

This is an end-of-the road dividend where all assets are liquidated and the remaining proceeds (if there are any) after satisfying creditors are paid out to shareholders as a dividend. Creditors are always senior to shareholders in such a case. A liquidating distribution usually only occurs where a solvent business is in voluntary liquidation.

How much?

The main calculation used to decide the value attributed to each individual share in a dividend pay-out is DPS. DPS determines total income for each investor, based on share ownership.

DPS formula

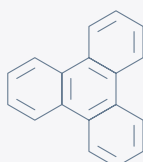
There are two version of DPS calculation:

$DPS = \text{total dividends paid} / \text{number of shares outstanding}$

or

$DPS = \text{earnings per share} \times \text{dividend pay-out ratio}$
(This figure is the expected percentage of profits returned based on historical dividend pay-outs, which could be in the region of 50%, or as low as 20%.)

Basic EPS takes the net income applicable to common shares for the period and divides it by the average number of shares outstanding for that same period.



Why buybacks?

Both buybacks and dividends are of interest to market analysts because, as distributions to shareholders, they affect investment returns and financial ratios. One of the major benefits of a share buyback is that it reduces the number of shares outstanding for a company. Share repurchases made with excess cash (as opposed to debt) therefore can increase per-share measures of profitability, notably cash flow per share (CFPS) and earnings per share (EPS) which are key metrics for investors when assessing stock values.

Buybacks can enhance EPS, even when the company is reporting otherwise unexceptional top-line and bottom-line growth. This may see the business being given a higher valuation by investors, and as long as the price-earnings (P/E) multiple at which the stock trades remains unchanged (P/E = current stock price divided by EPS), the buyback should drive up the share price.

Indeed, the FT recently noted that share buybacks “have played a role in bolstering the stock market to record highs by reducing the share count and boosting company earnings per share”. It said that the S&P 500 ended last year (2019) up nearly 30%, “even as underlying profits growth stagnated”.

Firms that often buyback their own shares can grow EPS at a faster rate than by its normal business activities alone, especially for well-established market leaders. It is a way of attracting investors, especially as it also demonstrates the power to generate sufficient cash to buy-back its own shares in the first instance. However, the buyback process has been seen as a way of manipulating key financial metrics such as EPS, and has even been criticised as signifying a lack of imagination within the business, in that if the business has nothing better to do with its cash than buy its own shares, then has it run out of ideas, and is thus a poor long-term investment.

Impact on financial statements

Reducing outstanding shares has an effect on a company's income statement and other financial statements. The balance sheet will see a reduction in cash holdings, and thus its total asset base, following a buyback (to the value of the buyback). Shareholder equity will also lower on the liabilities side by the same level.

As well as increasing EPS, buybacks reduce the assets on the company's balance sheet – cash – and so will similarly improve the health of other financial performance metrics such as the aforementioned P/E ratio (simply because fewer outstanding shares, but with the same earnings, equates to a higher EPS and thus better P/E), return on assets (ROA) and return on equity (ROE).

The cost of a buyback programme will normally be reported in the following quarterly earnings statement, although the total spend should also be visible in the company's Statement of Cash Flows, under Financing Activities, and in its Statement of Changes in Equity and Statement of Retained Earnings.

Dilution effect

To keep senior executives happy, public firms can give their employees the right to buy the company's stock at a specified price for a finite period (good value for the employee if the stock rises and they exercise their option and then sell



Regular dividends can signify corporate stability, keeping shareholders keen and attracting new investors, but once on that pathway it is difficult to leave without damaging after-shocks.

those shares – usually with vesting controls put in place by the company – on the open market). But employee stock option plans, if issued in significant numbers, can dilute EPS and P/E by adding shares to the market, weakening these key metrics.

A business that has pursued stock options (or indeed one that has seen M&A result in new shares being issued, or perhaps has issued dilutive securities such as stock warrants or convertible preferred stock) may elect to minimise the effects of dilution, reducing the number of outstanding shares through a buyback programme.

Diluted EPS (and all potential dilution) has to be reported under GAAP as an adjustment of the basic EPS. In a profitable business, diluted EPS is always lower than basic EPS (as profit has been spread amongst a greater number of shares), just as in a loss-making business, diluted EPS always shows a lower loss than basic EPS because the loss is spread out over more shares.

Which is best?

There is no definitive answer as to which is best; both have advantages and disadvantages. Here's a brief list of pros and cons:

Buyback advantages

- Gainfully deploys expensive-to-hold cash, and signals healthy liquidity of the business.
- Boosts key valuation metrics such as EPS and CFPS, making the business look more attractive to investors.
- Counters market undervaluation: companies buy low then re-issue upon market correction.
- Pays off investors and reduces overall cost of capital.
- Flexibility for company to engage with the market when it is ready to do so.
- Little or no market negativity when buybacks are reduced or halted.
- Tax efficient for investors; deferred until stock sold and then subject to a capital gains rate. If held for more than one year, a lower capital gains rate may apply.

Buyback disadvantages

- Shareholders may expect excess cash to be better used for investment activities such as a new manufacturing plant, increasing market presence, R&D or M&A activity.
- Wise investors can see through buybacks designed simply to increase key financial metrics (or pay large bonuses to senior executives).
- Buybacks can be a sign that the company has few profitable long-term opportunities, at least in its current form.

- Can affect a company's credit rating if it borrows money to buy-back ie taking on debt never outweighs an EPS boost.

Dividend advantages (for a stable dividend policy, as opposed to irregular distributions).

- Signals 'business as normal', giving shareholders and potential investors confidence.
- Stabilises market value of shares.
- Meets the needs of institutional investors who can only invest in companies with stable dividends.
- Can improve the company's credit standing and make access to financing easier.

Dividend disadvantages (again, for a stable dividend policy).

- Difficult to suspend or cease pay-outs once started.
- Suspension or cessation can see knee-jerk stock disposal by investors.
- Suspension or cessation can negatively affect the market price of shares.
- Less tax efficient for investors (subject to ordinary income tax, with no deferrals).
- Paying dividends despite financial difficulties is potentially ruinous.

Shareholder happiness = corporate happiness

Listed companies operate to keep their shareholders happy. Buybacks increase a stock's value, but knowledgeable investors will ask if that is just a short-term boost for certain financial ratios or over-compensating of executives. Regular dividends can signify corporate stability, keeping shareholders keen and attracting new investors, but once on that pathway it is difficult to leave without damaging after-shocks.

If the financial benefit of both is considered on behalf of the investor, there are two US indices that might steer opinions one way or the other. The S&P 500 Dividend Aristocrats includes only companies that have managed to raise dividends annually for at least 25 consecutive years. S&P's equivalent for signalling active buyback companies is the S&P 500 Buyback Index, which lists stocks with the highest buyback ratios, defined by cash paid for share buybacks in the last four calendar quarters, divided by the company's market capitalisation.

S&P reports that between March 2009 and March 2019, the annual return on the S&P 500 Buyback Index was 21.09%, whereas the Dividend Aristocrats Index delivered an annual return of 19.35%. The standard S&P 500 posted an annual return of 17.56% over the same period.

Education for all

“ What are the benefits of taking professional treasury exams? ”



Alessandra Mogorovich
FCT, Head of Accounts Payable
YOOX NET-A-PORTER GROUP

Amongst finance departments, treasury professionals play a critical role that affects the financial health of any organisation.

Since the start of my career, by joining a treasury department, I've constantly felt that the team always wanted (and needed) to be one step ahead, not only by understanding and anticipating trends in the financial markets, but also in following the developments of a profession that is constantly evolving.

Even though I had graduated from a business school, I felt the need for a solid technical foundation for the skills that I was applying in my daily job. Through the Association of Corporate Treasurers (ACT) Diploma in Treasury Management (AMCT), achieved in 2015, I've gained a 360-degree technical knowledge on the five areas of treasury and the access to up-to-date treasury resources has supported the shift of my focus slowly away from operations towards improving processes, with a positive impact on the quality of the job for both myself and my team.

Since joining YOOX NET-A-PORTER GROUP, the leading online luxury fashion retailer, in 2017, my role as Treasury Manager has been to establish a more sophisticated working environment, by leading several projects necessary to build the operational backbone of the department.

In 2019 I was promoted to Head of Treasury and I felt that the expectation for the role in a fast-growing company required a new set of skills, to enable me to make a bigger impact in the organisation. In fact, in such an industry, I needed to become a forward thinker with a strong commercial acumen, able to face challenges at a more strategic level.

The ACT's Advanced Diploma in Treasury Management (FCT), which I achieved in 2020, helped me to develop such competencies, not only by building on the technical foundation I had achieved through the AMCT, but also by training to become a "strategic treasurer" and "influencer", able to use the appropriate leadership skills required in every business situation – particularly in the boardroom.

It was quite natural to change my approach in my daily job and the feedback that I have been receiving from my line manager both for the effort that I was putting into my studies and in the improved quality of the job I was delivering, was really rewarding. I've also started sharing the same approach with my team and the main benefit has been seeing them more involved in cross-departmental projects and becoming trusted partners in the organisation.

These achievements and qualifications helped build my confidence, to the point that I felt ready to accept a new challenge by moving into a role outside of treasury. In this role I have helped to redefine the operational processes and strategy, while implementing an innovative culture within the team, a change that was needed to redesign a department at the heart of the company's business success.

Finally, the networking opportunities offered by professional qualifications are also invaluable: the peer group offers support not only during the preparation for the exam, dissertation and presentation but it also acts as a platform to share problems, experiences and guidance due to the variety of the participants' backgrounds.

As a treasury professional you need to accept that you will never stop learning: as the business evolves, you need to keep your knowledge up to date and the resources offered by professional qualifications make them a worthwhile investment.



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Actualize Consulting

Skilled and certified treasury professionals who have attained their qualifications through a recognised body are increasingly in demand for their particular knowledge set and ability to navigate through the critical financial, liquidity and risk management decisions facing organisations regularly.

Part and parcel of a certified treasury qualification, aside from the rigorous examination of the student's industry knowledge, are a raft of benefits which further enhance the proposition for attaining a certification, including the following:

- Demonstration of commitment to the treasury profession: a professional qualification is a significant undertaking consuming a substantial amount of time outside of one's normal working hours. This is a sought-after attribute that employers view as a differentiator when recruiting for positions. A certification adds gravitas to your experience gained to date, in addition to demonstrating that you are well-versed in the principles and foundations of treasury.
- Certain certifications are globally recognised, allowing qualified treasury professionals to migrate and work abroad more easily than their unqualified counterparts. There are abundant opportunities and rewards for those seeking challenges that will push their personal comfort levels and their limits of understanding when it comes to treasury careers and life goals where travel is concerned. Having a globally recognised professional qualification will

speak volumes for you when seeking out such opportunities across the world stage, where the validation of competencies in treasury have been meticulously tested and certified.

- Knowledge of good practice and current standards through continuous professional development (CPD): a key component of professional qualifications is the need to be up to date with current views on good practice, standards and relevant industry regulations via the accreditation requirement to recertify or enrol in CPD courses. It is paramount that we, as treasury professionals, are armed with the knowledge that can aid us in the ever-changing treasury landscape and keep us up to speed with the rapid evolutionary pace of banking, finance, and technology.
- Industry networking and career-advancing opportunities: the ability to network amongst peers within the treasury community provides several advantages, especially given the treasury community is generally smaller and close-knit in comparison to other professional communities. Networking within the infrastructure that a professional association has built can prove more fruitful for discovering opportunities. If you're in the professional services arena, you can obtain more client work. You will also have many opportunities to identify a mentor to aid in one's career in treasury as well as uncovering other career-advancing or enriching prospects.

To those considering taking a professional treasury qualification, it is a highly rewarding experience that will significantly add breadth and depth to your knowledge, career, and professional network. The commitment demonstrated to the treasury profession through accreditation will undoubtedly pay dividends and is highly recognised by peers and employers alike.



Zarine Swamy
Head of Treasury
SOTC Travel

Attempting and obtaining a professional qualification is certainly beneficial. Here are a number of points I believe to be worth considering:

1. Professionals who are already in a particular specialised field of work can refresh their knowledge and upskill. In the corporate dynamic, it is beneficial: all things being

equal, an individual with a professional certification will be considered over one without, for bigger responsibilities.

2. Certification often helps individuals enter a certain field they wish to work in. I personally know of one individual who has been guided by her company towards Certified Treasury Professional (CTP) exams, awarded by the Association for Financial Professionals (AFP), so she can move into treasury.
3. All things being equal, it may also play a role in an experienced individual landing a better role outside their organisation.
4. It gives a direction to professionals to better implement the theories they have learnt in practice. The CTP details regulations and processes around, for example, cash pooling. A treasury professional of a company with branches in several countries can certainly benefit from her prior knowledge gained from CTP when it comes to implementing cash pooling. The qualification may also help individuals create solutions to their company's existing problems.
5. Obtaining certification is very beneficial if one wishes to enter the workforce of a different country. Many job listings for treasury roles in the US demand the CTP. Similarly, job listings in the UK demand an ACT qualification. While these may not be the only requirements for the role, the certification does give a certain edge.
6. Again, the CTP for example, gives one a detailed perspective of US regulations, functioning of US-based treasuries, and best practices. These will help treasurers who are already functioning in US treasuries.
7. My points 5 and 6 come with their own notes of caution. Prior to going in for a certification, it may be prudent to study the relevance of the certification in the environment in which one wishes to operate. If one wishes to work in a specific country, it may be wise to go in for the qualification most readily accepted there. Dubai, for example, holds the ACT in high regard when it comes to recruiting treasury professionals.
8. Lastly, qualification/certification from a reputed body like the AFP has opened a lot of doors for me. I am talking about opportunities such as speaking at various finance forums, and the opportunity to share my knowledge in industry publications. These opportunities will also indirectly add weight to a resume.
9. Lastly, going back to the drawing board to be a student does get those rusty cogs of the brain moving. It helps in keeping 'over-30' professionals like me agile and updated!

Next question:

"With the impact of the COVID-19 pandemic likely to be felt for some time, how should companies be examining the effectiveness of their treasury policies and approach to financial risk?"

Please send your comments and responses to qa@treasurytoday.com



From deflation to inflation

A lot is written on the coronavirus, the effects of the lockdowns on economic activity and the appropriate measure to stem the economic fallout. However, this crisis will also have important long-term consequences. One of them is a likely change from deflationary pressures to higher inflation.

At first sight, a collapse in demand due to the corona-crisis is deflationary. However, supply is constrained at the same time. It's therefore difficult to tell whether the lockdowns are conducive to deflation or to inflation. Most importantly, however, the economy is contracting sharply while debt is rising fast. As a result, total debt/GDP ratios will rise to even higher levels. This entails the risk that the financially weakest companies and countries will be unable to honour their debt obligations in full, leading to losses and financial problems elsewhere. In other words, the risk of a domino effect on bankruptcy figures is increasing. In this case, a negative deflationary spiral will threaten, as was often the case in previous crises, for example in the 1930s. During this crisis, deflation coincided with a massive economic decline, very high unemployment, a collapse in share prices and ultimately very dire social consequences.

Paid for and free lunches

However, there are two major differences between then and now:

- Keynes's theories only became commonplace well into the 1930s. He suggested that the government could absorb a large part of the impact by raising its deficits to a considerable extent.
- The Gold Standard applied at the beginning of the Great Depression, which made it very difficult for central banks to intervene on a large scale.

This is different in the current situation. Governments know that they have to significantly raise their deficits in a crisis, while central banks can create money at will and can cut their rates as they please. However, Milton Friedman has shown that there is no such thing as a free lunch. If the above is done to excess, inflation will ensue and entirely different problems will arise. This is particularly the case if the central bank funds soaring public deficits by creating far more money.

However, there is no direct relationship between money creation and inflation: a great deal of money can be created without rising inflation – or it could be that inflation rises at a far later stage. This is because inflation is not only influenced

by the amount of surplus money, but also by the velocity of money. If company A borrows money from the bank, it uses it for a purpose. It could build a new factory, for example. Companies and people who do the construction work are paid for this by company A. Most of this money ends up in the banking system, so that a loan can be issued with the same money, and so on. The speed at which this happens is called the turnover rate – or velocity – of money.

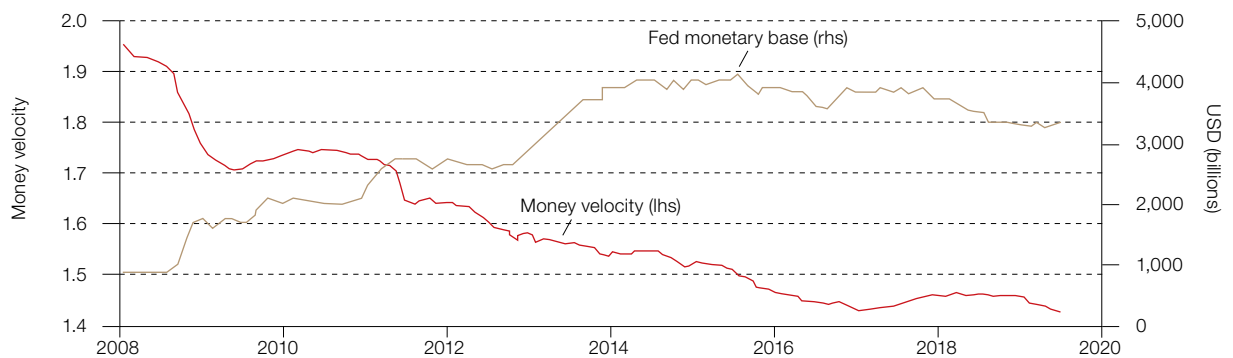
Friedman assumed that the turnover rate of money would remain fairly constant over time. In this scenario, there is indeed a fairly close relationship between the amount of money that has been created and inflation. However, this was not the case following the credit crisis in 2008 – because the credit crisis made lending more difficult, which caused the turnover rate to decline considerably and kept a lid on inflation.

This does not mean that Friedman's theory is completely off the mark. The combination of considerable money creation and a decline in the turnover rate guarantees that interest rates decline considerably and that far more money is created than the real economy is able to absorb. This ensures that the additional money largely flows to the asset markets (bonds, shares, property, etc). This is why asset prices are pushed up to ever higher levels. Ultimately, asset inflation will arise rather than consumer price inflation. It will not stop here: higher asset prices improve the balance sheets of companies and households, which will lead to an increase in credit supply in the long run, as a result of which the turnover rate will increase. If the central bank does not quickly remove the surplus money from the economic system, asset inflation will turn into consumer price inflation in this phase. The effect is therefore that the surplus money initially boosts asset prices and subsequently credit supply. There are economic situations in which this does not work. Japan is a case in point (over the last three decades).

Helicopter money

In most cases, however, there is a way to rapidly increase the turnover rate in a crisis. This can be done by allowing the government to raise its deficits rapidly. At the same time, money creation should be stepped up considerably –

Extra liquidity created by the Fed did not lead to higher inflation due to a declining money velocity



Source: Refinitiv Datastream/ECR Research

preferably by having government bonds bought directly by the central bank and having them financed with money created by the central bank. This should be done to a far greater extent compared to actions taken following the credit crisis. This basically comes down to helicopter money. This means that 'free' money is distributed to the population. People will soon start spending this money, which will improve the economy and – after some time – credit supply will receive a boost. This is far more the case now.

As long as the lockdown persists, people will not spend much, and this will probably continue for some time. However, if the combination of a large public deficit and a great deal of money creation persists, the economy will gradually be boosted, especially if lockdowns are gradually removed. When this happens, the central bank could, in theory, remove money from the economic system and the government could reduce its deficits. In this case, inflation stays under control.

However, in practise this won't happen any time soon. This is because the economy will still fall back, deflation will occur, and a negative deflationary spiral will be evident before long in this scenario. A far more appealing alternative – which has

generally been opted for throughout history – is therefore to keep money flowing and to allow inflation to rise. This has the great advantage that nominal – rather than real – incomes of companies and individuals rise more rapidly, which makes it increasingly easy to meet interest and repayment obligations on old loans. The disadvantage is that inflation causes all sorts of misallocation of capital, as a result of which productivity declines to ever lower levels. Interest rates will rise in tandem with inflation. The former is a longer-term problem, while the latter can be delayed by the central bank for some time.

End of an era

We believe that it will take several years for the economies to really overcome the current coronavirus shock. The deflationary pressure will certainly be high at the beginning of this period. However, an inflationary policy will basically be pursued. This will gradually come to the surface, and we believe that it will increasingly shape inflation expectations and long-term interest rates in the decade ahead. This will create a fundamentally different climate for companies and investors compared to the one to which they have become accustomed over the last 30 years.

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INSIGHT & ANALYSIS

KYC – how can treasurers streamline the burden?

It remains a pain-point despite numerous attempts to build registries and reduce the burden on businesses and banks alike. What can treasurers do to comply with this essential process, and how can life be made easier for all involved?



INVESTING

Should treasurers be looking to modify the order of the ‘liquidity, security yield’ mantra?

It's always been ‘liquidity, security, yield’, in that order, for treasurers. With markets in turmoil and revenues under pressure, short-term portfolios come under close inspection here, to see if that mantra will ever change or if there is room to manoeuvre.



EVENTS

Adam Smith Awards 2020

In the most challenging of times, treasurers have risen to the occasion. We celebrate the winners of the 2020 Adam Smith Awards, exploring the vital role played by the profession, highlighting the greatest innovations of the year across a wide spectrum of categories, and talking to the winners.

We always speak to a number of industry figures for background research on our articles. Among them this issue:

Rahul Daswani, Senior Manager, New Solutions - International, Global Financial Services, Microsoft; Leonie Schreve, Global Head of Sustainable Finance, ING Bank; Heather Lang, Executive Director, Sustainable Finance, Sustainalytics; Pia McCusker, Senior Managing Director and Global Head of Cash Management, State Street Global Advisors; Maarten Spek, Senior Analyst Financial Markets, ECR Research; Alessandra Mogorovich, FCT, Head of Accounts Payable, YOOX NET-A-PORTER GROUP; Kunle Aladewolu, AMCT, MEng, MBA, Manager Capital Markets & Treasury, Actualize Consulting; Zarine Swamy, Head of Treasury, SOTC Travel; Eric Sim, Founder, Institute of Life; Ramana Konda, Director, Treasury Asia, Middle East and Africa, Mondel z International; Helen Hanby, Director, International Treasury, Biogen Idec; Anish Kapoor, CEO, AccessPay; Gert Sylvest, Co-founder, Tradeshift, and GM Tradeshift Frontiers; Martin McCann, CEO and Founder, Trade Ledger; Daniel Cotti, MD, Centre of Excellence Banking & Trade, Marco Polo Network; Dai Bedford, EY NextWave Global Trade Leader; Marie-Laure Gastellu, Deputy Head of Trade Services, Societe Generale; Carl Sharman, Head of Treasury Technology Advisory, Deloitte; Alex Young, head of Corporate Sales for GTS EMEA, Bank of America; Daniel Jefferies, Group Treasurer, Equiniti Group; Jack Spitzer, Senior Vice President of Finance, Plexus Worldwide; Sigurd Dahrendorf; George Dessing, Executive Vice President, Treasury & Risk, Wolters Kluwer; Robert Stefanovich, SVP, CFO and Treasurer, Cryoport; Tony Hughes, CEO, Huthwaite.



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Live winners announcement

8th June | 3:30pm BST | 10:30am EDT | 4:30pm CEST

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