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January/February 2021

Tales from the front line

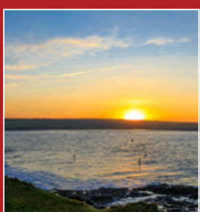
LIBOR's end: how ready are you?

The Corporate View

Nora Baker

VP Finance

Advantage Solutions



Lessons from 2020

Amidst the abundance of review articles Treasury Today offers a succinct set of lessons from the year that was.

Funding

Green with envy: the companies leading sustainable finance

Banking

What will it take for corporates to embrace open banking with greater enthusiasm?

Back to Basics

Diversity: new inclusion focus

Question Answered

Supply chain risk: China focus

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Volume 23/Issue 1
January/February 2021

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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.

All smooth transitions require early action

COVID and Brexit aside, our conversations with treasury teams over the last year have revealed an enduring preoccupation with two transitions. On one hand, treasury is having to navigate the transition from LIBOR to new risk-free rates. For corporates who have embarked on the journey, moving every type of bank loan, bond issuance, inter-company loan or derivative exposure to the new benchmarks, working out the cost of borrowing and setting up new treasury systems is proving no mean feat.

Elsewhere, corporates are increasingly focused on transitioning to a low carbon economy as the world weans itself off fossil fuels and gets down to the business of solving climate change. Although the transition to a low carbon economy doesn't come with a fixed date, like LIBOR's demise, regulatory pressure to mitigate climate change is growing and November's COP26 in Glasgow promises an eye opener on the urgency ahead.

Given that the key to any successful transition is planning and early action, this edition urges treasury teams to act now for smooth transitions in both cases. Recounting how the Italian energy giant has become a leader in sustainable financing in just a matter of years, ENEL's passionate head of finance and insurance Alessandro Canta assures all corporates they too can put sustainability centre stage. Most recently the company has worked with banks to develop a pioneering step-up feature in its bond issuance that attaches a value to sustainability.

As for LIBOR, corporate treasurers at BAT and Associated British Ports share their progress in transitioning to the new benchmarks and the challenges therein. It's a process that has some experts worried at the slow pace of change in the bank loan market, as well as the prospect of a spike in bank borrowing costs within the new risk-free rates for smaller businesses.

LIBOR reform and pushing sustainability frontiers shows the dynamic and challenging nature of treasury today. Characteristics of the profession Nora Baker, profiled in this month's Corporate View, has become expert at navigating. VP, Finance at Advantage Solutions, she shares a career path that began with a French major and a stint at the World Bank's IFC, to later roles at UTC and United Paper. Today her experience touches every part of corporate life from new business growth and managing cash and treasury, to building international teams and overseeing restructuring.

Lastly, we report on how inclusion is now the new battleground in the diversity challenge. The moral imperative and performance benefits of diversity are well known, and recruitment practices, new apprenticeship schemes and targets are helping turn the tide. But if diverse treasury professionals don't feel able to voice their opinions, miss out on networking opportunities and building their brand – much more difficult in COVID times – even the best diversity statistics won't change group think.

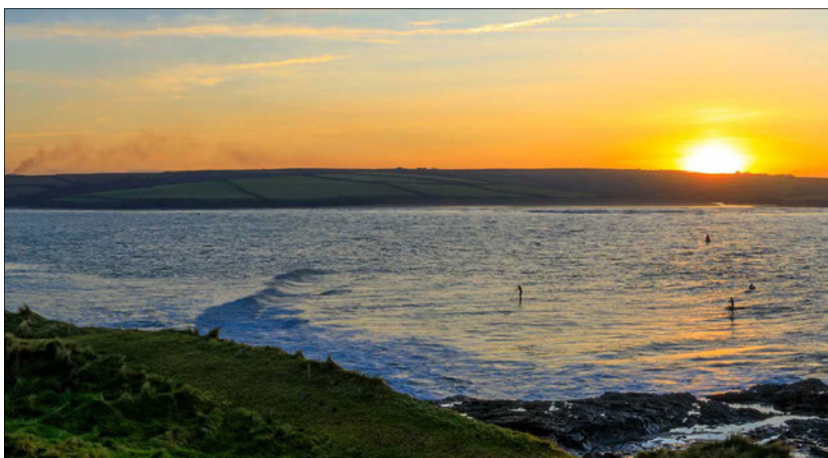
IN THIS ISSUE

INSIGHT & ANALYSIS 4

Libor transition: are you ready?

New risk-free rates promise a better benchmark for corporate borrowers but the transition from LIBOR is proving a logistical headache. Elsewhere, experts flag concerns that the new rates might spike the cost of bank borrowing for smaller businesses.

TREASURY TODAY 8



Lessons from 2020 – a year in review

A summary of the lessons learnt over the course of the last 12 months as we put our first tentative steps forward into 2021. Treasury Today Group presents a roadmap for the year to come.

FUNDING 11

Green with envy

Treasury teams contemplating green issuance can emulate innovation at companies like Enel and Novartis which have recently structured step-up bonds that pay investors more if the companies don't meet sustainability targets.

TREASURY DIALOGUES SERIES 7

Veem and Citi talk liquidity

We discuss with Pramod Iyengar, CFO at global payments and money transfer business Veem and Citi's Will Artingstall how companies can ensure they survive and thrive in the Covid world.

BACK TO BASICS 18

How to boost inclusion

Treasury teams report progress in recruitment and mentorship to boost diversity. Navigating the impact of COVID and fostering inclusion are now the big issues.

TREASURY ESSENTIALS

Question Answered 20

Market View 22

13 The Corporate View

Nora Baker

VP Finance

Nora Baker's treasury expertise touches every part of corporate life. Here she shares her expertise on new business growth, managing cash and treasury, building international teams and overseeing restructuring.

BANKING 16

Corporates opening up to APIs

A variety of factors have contributed to slow adoption of open banking services by corporates. Treasury Today looks at what banks and technology vendors are doing to boost uptake of APIs.

Tales from the front line: progress on LIBOR transition

The transition to new risk-free rates promises a better benchmark for corporate borrowers but is proving a logistical headache. Elsewhere, experts flag slow progress in the loans market and concerns that the new rates might spike the cost of bank borrowing for smaller businesses.

As LIBOR's 2021 demise in most currencies hurtles closer, corporate treasury teams have limited time to transition their LIBOR exposures to new risk-free rates like SONIA, SOFR and €STER. While treasury teams agree the new risk-free rates are a better instrument, the weighty task of switching every LIBOR exposure, woven into bonds to banks loans and contracts with suppliers, setting up new systems, and venturing into a market where best practice and standards are still evolving, is a source of some trepidation.

Most corporate treasury teams agree that the new risk-free rates are better than LIBOR. LIBOR reflects the cost of banks' lending to each other so when a crisis spikes like in 2008 or the early days of the pandemic, banks pass on the additional risk to companies that are already paying a margin to their lenders embedded in their cost of capital and funding. It exposes borrowers to rising interest payments just as economic conditions worsen, says Shaun Kennedy, Group Treasurer at Associated British Ports, ABP. "I can't believe we stuck with LIBOR for so long, it is a terrible benchmark for corporates. LIBOR was designed 50 years ago to pass risk onto companies because at the time banks couldn't manage that risk, but the world has moved on." Because the new rates are based on overnight lending markets, less risky than lending funds out unsecured for three or six months, they strip out most of the credit, liquidity and term risk premia common to LIBOR.

Finding LIBOR

Step one in the LIBOR transition involves companies finding their LIBOR exposures, woven like knotweed through bond issuance, bank loans, intercompany loans and derivative portfolios. Although much of ABP's LIBOR exposure is netting off against itself, Kennedy estimates the company is around 40% of the way through transitioning LIBOR-linked contracts lying in swaps, bonds, loans and US private placements with a notional value of around £4bn. The company made trail-blazing progress transitioning its predominantly sterling LIBOR exposure to SONIA when it moved around £65m worth of bonds to the new benchmark in 2019. A key challenge has been unpicking the different legal wording within contracts, says Kennedy. "There are details around how certain products might react to a permanent cessation of LIBOR which was not envisaged within contracts when they were entered into at the time."

At London-headquartered British American Tobacco (BAT) Group Treasurer Neil Wadey has mapped all the company's LIBOR exposures, which mostly lie in the bond portfolio, intercompany and derivatives. A particular focus is on tracking down LIBOR in internal floating inter-company loans, running down exposures and not creating new ones. "We are setting up a process to move all these to risk free rates going forward," he says.

Even for sophisticated treasury teams like BAT and ABP, familiar with complex regulations, finding and ticking off a dollar LIBOR bond swapped into sterling in one part of the portfolio or a series of LIBOR-linked bank loans in another, is a time-consuming and gruelling process. It leaves John Grout, a retired corporate treasurer and finance director, and an independent expert on the LIBOR Oversight Committee, particularly concerned about the ability of mid-size and smaller companies sitting outside the FTSE100 to successfully manage the process.

His overriding message to this treasury cohort is start now. Many companies will have LIBOR exposures woven into supply agreements, he warns, explaining that finding them will involve treasury working with purchasing and sales departments and dusting off old financial contracts. "Take a sales contract with a buyer on 30 days credit," he says. "If they pay late, they will pay interest at 'X' over LIBOR. Elsewhere a construction group will find changes to their contract pricing will have a LIBOR clause in the relative currencies. Companies may still be operating with a component supplier under a master contract based on LIBOR signed 20 years ago, but who has a copy of the contract?" Elsewhere, he advises companies to look at their pension fund arrangements where they often use swaps to switch investments between fixed and floating and short and long-term rates.

Bonds

Once a company has found its exposure, the transition begins. ABP's first-of-its kind transition of £65m worth of its bonds to SONIA in 2019 followed bilateral discussions with the company's end investors. When Kennedy approached the pension funds, asset managers and US life companies holding ABP's drawn LIBOR debt to say the company was interested in moving to SONIA earlier that year, many weren't ready. "Some were quite interested, and others said they wanted to see how the market develops," he recalls. Since that transition however, more of the company's investors have approached Kennedy ready to switch, he says. "It comes down to saying you are both willing parties and want to transition the product," he says.

The next step involves drawing up new legal documents that outline the additional spread ABP will add to the margin on the bond. Because SONIA doesn't have bank credit risk, the SONIA benchmark is generally lower, and Kennedy doesn't expect any increase in the cost of borrowing as a result of transition. "The process involves agreeing the market implied difference between the two (SONIA and LIBOR) and adding that on top of the instrument for the rest of the life of that particular piece of debt." As compounded SONIA strips out most of the risk premia common to LIBOR, the bond market has added a premium on top of the compounded SONIA rate based on the average difference between SONIA and LIBOR.

For ABP, which borrows most of its money from non-bank institutions, ditching a floating rate that contains bank credit risk is long overdue. Kennedy is already noticing the new risk-free rate gives a more stable borrowing cost from investors seeking a floating rate, free from the sudden spikes in costs around bank credit concerns. "LIBOR can move around and impact your borrowing costs quite significantly as a corporate," he says. "It's frustrating when it has nothing to do with you, more so when you are not borrowing from a bank in the first place."

Bank loans

Transition in the corporate loan market, were virtually all companies will have some kind of LIBOR loans with banks, has been slower. It is only in recent months that more banks have begun offering non-LIBOR alternatives and flagship corporate names in the sterling market like Tesco and GlaxoSmithKline have taken a lead, drawing up new loan agreements to run off risk free rates. Given the loan market is private, it's not possible to definitively say how many deals have switched, yet if the Loan Market Association's (LMA) latest figures are anything to go by activity is still muted and companies – and lenders – need to step up the pace.

Compelled by a lack of leadership, BAT was one of the first companies to structure loans that will switch to risk free rates ahead of the transition when it signed a £6bn multi-currency revolving credit facility with 21 banks in March 2020. "We wanted a transaction that would bridge the cessation of LIBOR beyond 2021, and we hadn't seen much leadership in the UK market," said Wadey. Inspired by Shell putting out a SOFR RCF facility, the company decided to structure a commercial transaction coordinated by Barclays and HSBC, banks Wadey names as two of the few leading the LIBOR transition.

The process offers a window into the challenge companies have faced working out their cost of borrowing. Under LIBOR, companies deal with forward looking interest rates, paying interest on the maturity date when they repay the capital, explains Grout. "A company which has drawn on a RCF will know the interest rate and the payment required with the principle six months or three months in advance." However, under new risk-free rates although companies know how much they have borrowed and are due to pay back, they will only know the interest rate at the end. "The payments process and risk management has to change because you have a retrospective rate," he explains.

Under the new rates, borrowers will look at the daily interest rates from the time the loan was outstanding and compound it. Alternatively, they could decide to make interest payments on the same day, says Grout. To ensure coupon holders are repaid on the date the coupon falls due, a lag may be introduced whereby companies calculate the compounded interest up to four to five days before maturity. "The market practice around these look back type of arrangements has yet to develop," says Grout. "If treasury teams decide to pay with a lag, they have to agree how many days they lag. A lot of corporates are saying they are going to wait for market practices to develop. I think by Q1 next year there will be sufficient standard in place."

For BAT, venturing into this complex and shifting world last March, pragmatism was key. Rather than opting for the lag, Wadey and the team chose for a slightly different 5-day observational shift in the agreement. "There are different approaches, but we decided with our bank group that was the one everyone understood." Since then, the market has moved towards favouring the lag and although Wadey says he doesn't like this mechanism as much, BAT is likely to switch to the lag when it renews the 1 year £3bn element of the RCF in March 2021. At which point he also aims to press the button on switching the facility to SONIA once the company's systems are ready to move to a risk-free rate and book transactions directly into the system. "At the end of the day I can live with an observational shift or lag as long as my system is set up. It's really an enabling question," he says, articulating that the

key learnings over the last nine months have been around procedure and mechanics, not commercial value.

Rather than these still shifting sands being a cause for concern, proponents say they show that risk free rates are starting to settle on standards and norms. The LMA has published working documents to help guide corporates and says the foundation for new risk-free rates are now in place. Elsewhere, Kennedy says ABP's treasury team, which has overseen two SONIA-linked deals with banking partners in its loan book this year, has grown comfortable compounding interest and putting a five-day lag into the compounding calculation to ensure a rate five days before the end of the period. "There is now more acceptance of standards compared to discussions earlier in 2020 and at the end of 2019. People talk about lags or an observational shift, but fundamentally you are still compounding a rate over the period and paying at the end."

Systems

Indeed, setting up new treasury management systems (TMS) that can compound interest and shift accounts from counterparties to new rules could be a bigger headache. BAT runs an integrated system that covers treasury, operations, and risk management. It books loans and derivatives into the system as well as auto-generating cashflows and accounting postings, all set up around LIBOR without any manual interventions. Changing the TMS has involved thrashing out details with suppliers and consultants for the last year, says Wadey. "We weren't in a great space on this a year ago."

As for BAT's derivative exposures, he is still undecided as to whether the company will sign up to the International Swaps and Derivatives Association (ISDA) protocol outlining how companies' LIBOR-linked interest rate swap exposures will convert to the new risk-free rates. BAT still needs to "get comfortable" with the accounting and tax consequences, he says. "We are looking favourably at the protocol but haven't signed up to it yet."

Readying systems has been a similar story at ABP which was reliant on spread sheets for its early SONIA-linked trades as it built and primed a new TMS. Although compounding is complicated, Kennedy reassures it is easily done. "We spent 12 months with our TMS provider going through the calculations. We also completely rebuilt the system, particularly around the accounting model to handle the new products."

That said, treasury executives are unanimous on the gruelling amounts of time and IT expertise involved in testing and upgrading systems. "It all costs, and it's not added-value in the main. It just has to be done," says Wadey whose sympathy goes out to small and mid-sized companies who may not have huge LIBOR exposures, but neither have the resources to put to it.

Reluctance to lend?

The transition poses another challenge for smaller companies that goes beyond the logistical and practical rigmarole. Grout's analysis of how the loan market will transition to new risk-free rates gives him cause for concern that smaller companies will struggle to tap bank finance. Although the risk of corporate lending hasn't changed for banks, the way banks recover the cost of the risk they incur in their own business will be different.

Compounded SONIA strips out most of the credit, liquidity and term risk premia common to LIBOR, reminds Grout. "At the moment that risk which is arising from the banks is paid for because it is embedded in the LIBOR. When you go to risk free overnight rate, none of those premia including bank credit risk are in there." Banks' enthusiasm to lend is muted at the best of times, he flags. Corporate lending is a tiny part of banks' overall balance sheets and for many banks it is simply a way to access more profitable business from companies.

Imagine a scenario where a bank's own creditworthiness has taken a hit after a crisis and a corporate is applying for another round of bank financing. The bank is likely to make the premium over the new benchmark higher, he argues. "Large treasury teams with strong relationships will be aware of this and are able to negotiate with the banks. It's the smaller companies who are at risk of being told we are going to charge you SOFR + 150bps instead of LIBOR +120bps and they will just have to accept it," says Grout. "The question is how many points do the banks add, and where they draw the line."

Moreover, he adds that banks are unlikely to negotiate levels with multiple, individual corporates but will arrange blanket pricing across a suite of clients. "Companies will have to do what they are told, and this will upset many companies," he predicts. "It won't be a significant cost, but it will impact marginal borrowers." Even though rating agencies and auditors have a keen eye on a smooth transition, he is convinced that smaller companies unable to rely on strong bank relationships with lending syndicates will find themselves in a vulnerable position.

The fact that intercompany lending is based on the new, risk-free rates adds another twist that has put revenue authorities on the alert. They are now wary of companies shifting profits between parent and subsidiary companies or seeking lower rates of tax as they transition their LIBOR exposures, says Grout. However, the overriding concern on the road ahead is the workload for small treasury teams with limited regulatory or financial expertise. Hunting down their LIBOR exposure, bilaterally negotiating the transition and producing the necessary working documents is a significant challenge, especially following Brexit and the impact of COVID. Meanwhile, the clock is ticking for banks to ready their systems and begin marketing risk free rate products to the real economy in earnest. ■

New risk-free rates:

Sterling LIBOR – Reformed SONIA (Sterling overnight index average)

US dollar LIBOR – SOFR (Secured overnight financing rate) US regulators have extended the transition until 2023

Yen LIBOR – TONAR (Tokyo overnight average rate)

Swiss Franc LIBOR – SARON (Swiss average overnight rate)

Euro LIBOR – €STER (Euro short-term rate)

Treasury in a time of turmoil

In the latest episode of Treasury Dialogues, we discuss with Pramod Iyengar, CFO at global payments and money transfer business Veem, and Citi's Will Artingstall how companies can ensure they survive and thrive in the Covid world.

Pramod Iyengar
CFO

Will Artingstall
Emerging Payments & Business Development Director

When the pandemic struck, a main concern for global payments and money transfer business Veem was the welfare of its core SME client base. Many of Veem's clients faced revenue streams grinding to a halt and difficult questions around staff retention, says Pramod Iyengar, CFO at Veem. Although government stimulus and support in the first months of the pandemic helped, it hasn't stopped the uncertainty for many businesses.

A key question for the treasury teams within Veem's customer base – as well as Veem's own treasury department – was access to working capital. "It was and continues to be very hard for a lot of SMEs," he recalls. Indeed, access to working capital is one of the most important learnings from the pandemic so far, he believes, urging treasury teams to look at how they invest and deploy credit, and to optimise their spend and access to funding to weather the blips – the assumption that access to capital and liquidity will always be straightforward has changed. "Get a pulse on your business," he says.

Access to working capital is certainly one factor separating COVID's corporate winners and losers. That said, analysis of companies that have done well through the pandemic and those that have struggled, reveals a surprising picture, explains Will Artingstall, Emerging Payments & Business Development Director at Citi. Just like Veem's client base, Citi found most companies faced disruption to their core business and had to pivot to some degree. Many were faced with resource constraints, particularly around their workforce, but technology companies have not been the straightforward winners.

The assumption that the tech sector has automatically fared better than, for example, an industrial giant, is simplistic. Artingstall explains that in many cases, organisations have responded with either "weather the storm" strategies or by focusing on growth. At the same time, tech companies have been challenged because they too still depend on physical supply chains that have been hit by the pandemic. Of course, reaching for growth in the middle of a pandemic is tricky. It involves addressing difficult questions like where to invest and what products to launch during an acute economic event, he says.

Dialogue demand

Both Iyengar and Artingstall note a sharp spike in demand for strategic dialogue between treasury teams and their banking partners. Companies want support in understanding how their products are working, and help planning (as much as possible) for the year ahead, says Artingstall. "We've seen a lot of engagement in strategic dialogue driven by COVID," he says, noting that uncertainty is compounding the problem. "Nobody knows how long COVID will last or the right speed at which to execute strategies."

It is these kinds of challenges that are also making strategic treasury important. Companies that have placed treasury at the heart of their business in a central, advisory role have weathered the pandemic best, says Iyengar. "We have learnt that rigidity doesn't help," he says. "It's a team effort; especially at SME level." Examples of how treasury can become a strategic partner to the business and integrate operations could include evolving online commerce capabilities or integrating global hedging strategies, he suggests. It is this kind of role that builds a healthy treasury; the back-end is important, but treasury needs to evolve and become a strategic player, he says.

The pandemic hasn't altered Citi's core advice to corporate clients, although the bank has strengthened its key messages around areas like cyber risk and digitisation backed by the next generation of financial infrastructure. Indeed, Iyengar notes that fraud risk and the need for tight internal controls has become a key treasury focus since March. "The importance of building up internal processes has been a learning curve for a lot of companies," he says.

Perhaps one of the most important learnings from the pandemic so far has been the affirmation that Veem and Citi are people businesses. At Citi, the crisis has highlighted the need to support clients holistically, including ensuring they have the right governance in place or the technology to allow corporate treasury teams to work from home and get away from paper. Now the "dust has settled," the emphasis has shifted to continuity and partnering for the long term, as well as keeping clients focused on the future. ■

2020: The year that was – learning to expect the unexpected

You are all no doubt inundated with lists focusing on 2020 and the year that was. You will also, undoubtedly, be surrounded with other articles, lists and notes about 2021, encouraging you to focus on your resolutions and plans.

Treasury Today Group pride ourselves on our editorial voice and objective insight. We would rather take time to digest events, assess their relevance and look ahead to the ramifications for you, our community. What we seek to do within this article, therefore, is to offer insight into the most topical pieces of 2020 and what the learning points for practitioners can be as we launch into the first quarter of this year.

Anybody who made predictions at the start of 2020 with any confidence would have spent the majority of the remainder of the year feeling most bewildered indeed. Aside from the events of 2020, much of the last decade has taught us that our ability to predict global events from the political to the financial has been greatly reduced. Black swan events have moved to become the norm in a time where the only certainty is a lack of certainty.

What we can master therefore is resilience and resolve and focus on our purpose and mission within our professions. Many things fall out of our control but a commitment to quality and to progress can remain unshaken.

So – what do we know of 2020 for corporate treasurers?

The global pandemic began at the end of 2019, already spelling trouble for our community across Asia-Pacific. Whilst the world largely assumed that the impact would be limited to China and its SARs, Hong Kong and Taiwan, within the corporate community the previous events around the SARS outbreak in Asia left the APAC community aware of the challenges and trials that a pandemic brings. The year saw the spread of the pandemic across the world as headlines in the US shifted from the Democratic nomination to gaining control of a rapidly accelerating virus.

We want to look at some of the key areas which affected corporate treasurers in 2020 and use these thematics to summarise the year for our industry and keep progress and collaboration on the agenda in 2021. Some of the CSR related topics that were front of mind as we entered 2020 have been affected by the events of last year and there were fears that issues such as sustainability and inclusion agendas would slip

down the priority list amidst very sobering concerns around balancing budget sheets and cashflow forecasting.

Sustainability

As companies across the world repositioned their priorities amidst the business challenges posed by the pandemic, there were concerns that sustainability was not the priority that it needs to be in order for the various commitments that the UN and other organisations require of the world's largest corporations.

Treasury Today Group's Global Sustainability Study was launched in 2020 as we are firmly committed to documenting our industry's path to a more sustainable future. Our work around female representation with our annual Women in Treasury Global Study has shown the power of data in fuelling our conversations and we wanted to bring this information to our conversations around sustainability.

The data set from our inaugural study was eye opening but also went some way to showcasing the need for education and engagement with the topic of sustainability amongst our corporate readership. There are varying levels of comprehension and within treasury it remained unclear for many of our community what their precise role should be within treasury and what tools they could implement to promote a sustainability agenda within treasury itself.

We hosted digital roundtables around sustainability with a number of leading voices in the field. Highlights from these conversations can provide some measure of clarity as we focus on 2021. We will also be rolling out our 2021 Global Sustainability Study and mapping the evolution of the issues.

Within our universe the study exposed a number of individuals from a wide range of different corporations who have adopted activities which are making a difference. Through their engagement with their stakeholders – banks, vendors and internal teams – they are amplifying the conversation and encouraging their network to pay attention. However, for many of their peers, regardless of whether their organisation may support a sustainability initiative, there are still frustrations around finding the time to incorporate more sustainability focused activities within their day to day duties and around the lack of conversation and awareness building that their partners have engaged them upon. 2020's study showed us that the appetite to learn and to adapt is there amongst our community and that if we collectively continue with these conversations fruits will be borne.

Areas for consideration:

- **Broader CSR policy – this affects every individual in an organisation and every decision.**
- **Green bonds and green financing.**
- **Supply chain finance.**
- **Industry collaboration.**

Diversity, equity and inclusion

Launched in March 2020 and closing in August, the annual Women in Treasury Global Study supported by State Street Global Advisors, couldnt have been timed to have been more disrupted by the pandemic. The commitment of our community to this topic amidst the most challenging professional year many of us have ever experienced was not lost on us and we are so grateful to the support of all genders who gave their time, energy and experiences to the Women in Treasury initiative in 2020.

The impact of the pandemic in both literal and figurative ways is not equally distributed across populations. The most vulnerable amongst us have felt and are still feeling the heaviest burden of the pandemic and women have been more impacted.

There are grave concerns raised by studies released by the World Health Organisation and the UN amongst others of the disproportionate impact of the pandemic upon women and fears as to the long-term impact on some of the key areas for female progress which have been at the centre of equality campaigns for the last decade. Whilst it may take us some time to see what the real impact of the pandemic has been upon women, and particularly women with intersectional identity, the knowledge of this additional challenge can permit us a renewed focus and increased vigour around our work on inclusion.

Racial equity was also massively impacted by the events of 2020, as black communities across the US and much of the Western world faced the most risk from the pandemic at the same time as broader inequalities were highlighted around the George Floyd murder in May 2020. This shone a light on a huge systemic problem in the US and across much of the world. The events of last summer have positioned racial equity and equality in a way none of us could have predicted, as most large corporations and financial institutions responded with pledges and promises to tackle systemic problems within the whole professional ecosystem that we exist in.

For our corporate community what this meant was the following:

- **Listen and learn – we should be constantly and consistently reaching out to colleagues and co-workers to understand and hear their individual issues and priorities.**
- **Advocacy and engagement – get involved in Employee Resource Groups (ERGs), get involved in advocacy for groups within your organisation. Have a voice and make a difference.**
- **Data and progress – we need better data on systemic issues in organisations.**
- **Transparency and accountability.**

Wellbeing

2020 was a trial and tribulation for everyone's physical and mental wellbeing. Remote working and managing working from home whilst many juggled children that needed home schooling or battled the loneliness that came from a lack of physical interaction with friends, co-workers, family and loved ones. People coped with grief and illness all without the usual professional and personal interactions and relationships which humans so desperately need in order to thrive.

What emerged from our conversations with our partners and readers during 2020 around the subject of personal and employee wellbeing were the following:

- **The power of vulnerability: being open with our co-workers and professional contacts was the mantra of 2020. It is no longer shameful to admit that we are struggling as our personal and professional stressors overlapped in location and time.**

- **Honesty, flexibility and adaptability: there is no right way to manage your wellbeing, being flexible and changing things when something isn't working is critical in all aspects of our lives.**
- **Balance, balance, balance: making time for yourself, stepping back and saying no. All of these are a must in an era of multiple burn out points.**

Leading and managing teams (remotely during a crisis)

Much of the work that we conducted in 2020 with roundtables and discussion groups focused at least in part on the very particular challenges to leadership that the year created. Keeping teams engaged and galvanised and moving everyone to working from home for an uncertain and potentially endless amount of time was a source of great challenge for the majority of our community.

The advent of technology as the oil behind the wheels of remote working saw great changes to how we work. There were also some constants as the human side of teamwork was felt in its absence. Many of our audience shared their insights on using Zoom to connect their employees through games or classes, with walks in the park being conducted during more sociable calls, all designed to replicate the bonding and problem solving nature of the tea-break and water cooler moments that the office provides.

The unifiers were there for all the leaders that we engaged with and the lessons were as follows:

- **Stay connected personally as well as professionally.**
- **Give people space to share how they are really feeling.**
- **Trust those who work for you.**
- **Be vulnerable and share your own experiences and challenges.**
- **Stay learning with reverse mentoring, actively reaching out to junior staff.**
- **Take the opportunity to find your own mentors and attend seminars and leadership events.**
- **Develop skillsets outside of the ordinary – you never know what they may show you.**

Awards

The 2020 Adam Smith Awards and Adam Smith Awards Asia moved to digital delivery across the board. Our usual luncheon events were replaced with a livestream announcement which took place in June for the Adam Smith Awards and in October for the Adam Smith Awards Asia.

The pandemic and its impact on the working priorities of treasurers was evident throughout all the nominations but we felt deserved special recognition with our new category, Best Crisis Management Solution. Alongside our case studies and Yearbook as normal we are telling the stories of our 2020 award winners in our podcast series which began last year and will roll out throughout the first half of 2021, showcasing the resilience, resolve, collaboration and determination to achieve best practice that typified our community in the last year.

- **Collaboration.**
- **Teamwork.**
- **Future focus.**

Community

Starting in March 2020 we launched our COVID-19 Community which focused on leading voices from our industry and beyond sharing their pain points and lessons learnt as we all worked tirelessly to stay connected and communicative amidst challenges of working from home and managing teams at a distance.

This project evolved to later be named Community Voices, as our practitioners shared more than just their advice on surviving the pandemic and our coverage of the impact of COVID moved from reporting on the pandemic to reporting on the day to day dealings of corporate finance leaders across the world.

The project was jointly conceived with the Association of Corporate Treasurers in Singapore (ACTS), long-term partners and collaborators of Treasury Today Group's and the strongest community resource that exists for the APAC community. The articles were created in response to our conversations with the ACTS and with corporates across the world as our role evolved and we sought to understand the challenges that you were facing and ensure we could share best practice and tips on any and all of the day to day issues arising.

Amongst the phenomenal voices who shared their insights and experiences with us were Claire Babineaux-Fontenot, CEO of Feeding America. Feeding America is the largest hunger relief organisation in the US and through its network of 200 foodbanks and 60,000 food pantries and meal programmes it provides meals to over 46 million people a year. It also champions food waste prevention programmes and aims to improve food security through education and advocacy. Claire comes from our corporate community and has made the graceful leap from working for corporations to leading a fundamentally important organisation like Feeding America. Before starting at Feeding America, Claire held positions at Walmart leading up to her last role as Executive VP of Finance and Treasurer. In between featuring on Trevor Noah's show and being listed in TIME 100 most influential people of 2020, Claire shared her thoughts with our global readership on her journey, the impact of the pandemic on Feeding America and her advice on best practice in leadership.

Moving forward: together

So that's what we saw and hopefully what we have learnt together. At the Treasury Today Group we realised the unique position we occupy with a platform that brings together the various powers in our industry. We have a renewed focus to bring you spaces to collaborate and communicate, whether that be physically or virtually. We have a responsibility to listen to your challenges and take the time to come back to you with solutions and connections, using data and dialogue to promote best practice in corporate finance.

If there is anything more that you feel we should be delivering in 2021 please do not hesitate to reach out to editorial@treasurytoday.com with format or topic ideas. We want our digital platforms to be community spaces that evolve according to the needs of you, our readers, so please stay engaged and help us to keep you better informed. Our new Masterclasses and roundtables join our regular roster of activities and we will be further adding to our digital family with our Women in Treasury Within hub in 2021. ■

Leading companies chart their green bond progress

Treasury teams contemplating green issuance can emulate innovation at companies like Enel and Novartis which have recently structured step-up bonds that pay investors more if the companies don't meet sustainability targets. Elsewhere, Daimler recounts its first step into the market.

Corporate treasury teams can no longer ignore the pressure to issue green debt and use the proceeds for sustainable endeavour. The green bond market is still only a fraction of the total debt capital market but has grown from almost nothing a decade ago to roughly €660bn today and is forecast to hit €2trn by the end of 2023, according to research by NN Investment Partners.

Issuing green debt allows treasury teams to tap a growing pool of investor demand as pension funds and asset managers increasingly seek to integrate ESG across their portfolios and position for economies turning carbon neutral and aligning with the Paris goals. The latest innovation around pricing in the evolving market is allowing treasury teams to tap diversified and sticky investors and cheapen their cost of borrowing, while green issuance is also a powerful communication tool, boosting corporate brands amongst key stakeholders. It is more time-consuming than traditional corporate issuance and involves collaboration across the company as well as long conversations with banking partners that go beyond simple distribution. But the rewards, in every sense, are worth it.

The sustainable debt market took a significant leap forward in 2019 when Italian energy giant Enel, already a renowned issuer of green debt, put together the first ever Sustainable Development Goal (SDG) linked step-up bond. In the innovative structure the cost of borrowing rises if the company fails to meet key KPIs around the UN's Sustainable Development Goals. The concept is a leap for treasury teams contemplating green issuance for the first time, but Alessandro Canta, Enel's Head of Finance and Insurance at Enel, passionately believes others can follow.

Governance

Enel's journey only began in earnest in 2016. It started with key commitments like a board-level pledge for the company to become a benchmark in the green bond market. A Green Bond Framework, where the company outlined how it would use green proceeds in line with the 2018 Capital Markets Association Green Bond Principles followed. Elsewhere, Enel set up a new Green Bond Committee to internally track the use of proceeds and impact from its green debt issuance. "We wanted to get the governance, framework and procedures to attract investors right," recalls Canta, who says raising money was never the priority of the process.

These early steps became bolder following the company's pledge to help achieve the United Nations SDGs like combating climate change, building sustainable cities and fostering inclusive economic growth. Linking the company's financing strategy to these overarching goals and seeking investment to finance this broad SDG strategy rather than a subset of projects linked to traditional green bond issuance, was an obvious evolution. "We started to ask ourselves if there was another thing other than green bonds that would fit with this objective," says Canta.

Developing the concept and product internally took months. "There is a certain amount of reputational risk with creating a new instrument; we had to check the validity of the idea," he says. Once the board was comfortable with the concept internally, the team started to consult its banks and corporate peers in the UN Global Compact, the voluntary corporate sustainability initiative. Roadshows with US investors ahead of the company's inaugural SDG-linked five-year US$1.5bn bond followed. "We chose US investors over European counterparts for our first SDG-linked bond because they have a reputation for being more receptive to new ideas. The traditional green bond market is more established in Europe – there is more of a legacy, and this was a new idea." It wasn't long until a euro-denominated issue for European investors followed, however.

KPIs

KPIs and a so-called step-up lie at the heart of the bond structure. KPIs decree Enel achieve at least 55% of its total electricity capacity from renewable sources by the end of 2021 compared to 46% as of 30th June 2019. Enel's auditor will gauge performance during its annual audit and if the company misses the target, its annual interest payment will step up by 25 basis points offering a reward to investors.

Daniel Weiss, Deputy Group Treasurer at pharmaceutical giant Novartis, which became the second corporate to follow Enel's lead when it issued a sustainable bond with a coupon step-up in September 2020, agrees that robust KPIs were crucial in attracting investor interest to its €1.85bn issue. Interest payments rise if the company fails to expand access to medicines and programmes to combat malaria, leprosy, sickle cell disease and chagas in a number of developing countries in a KPI structure that took six months to shape and drew on ICMA guidelines on sustainable bond principles.

The value of sustainability

Success doesn't only depend on ensuring a robust KPI. Enel, selling the concept for the first time back in 2019, had to convince market participants that the company deserved a lower cost of funding if it meets its KPI because sustainability has a value. "Meeting our KPI makes the company more resilient, profitable and less risky in the long term. If you can prove all these things, then we deserve a lower cost of debt. If we don't respect the KPI we are less sustainable, riskier and investors deserve a premium."

Weiss, however, remains cautious of the ability of sustainable companies to attract cheaper funding, given that highly rated companies in leading industries can already price bonds at very attractive levels. "Incremental pricing improvements are hard at these levels and the pricing was probably more or less the same, but this wasn't our primary goal."

Indeed, a key aim for all corporates venturing into the green debt market is attracting a wider investor base. Ambitious sustainable issuance allows companies to tap the fast-growing cohort of ESG investors. "Our investor base in this bond is slightly different from the investors we usually see in our bond issues," confirms Wiess, who counsels others that his team relied more than usual on banking partner J.P. Morgan to help shape key elements of the bond to meet investor appetite. "The market is not established, and we relied on the bank more than we do for our other issues."

These sentiments are echoed by German car maker Daimler's Head of Treasury Kurt Schäfer, whose team (working with Swedish bank SEB) sold the company's first €1bn traditional green bond in September in anticipation of a sharp pick up in investor appetite for green debt. "We expect increasing interest in green financing in Europe backed by the EU Green Deal, the changing regulatory landscape and the recent issuance of a green bond by the German government. We expect green financing to become mainstream and indispensable mid- to long term."

For Enel, marketing the step-up concept for the first time, convincing rounds of investor panels, conferences and bank syndicate desks of its merits was a longer haul, particularly given the debt market still lags the equity market's appreciation and engagement on sustainability. However, Canta argues, the process is testimony to how the green bond market is evolving to combat the dangers of corporate greenwashing and that investors are increasingly driving the conversation.

During capital rounds treasury teams and their advisers are asking for cash. It forces corporates to listen to investor feedback, adapt their strategies and make green promises. "We had in-depth conversations with banks' sustainability teams to explain the company's commitment to the SDGs and the story around the KPI. We needed them on board," says Canta, adding that European debt investors are a particularly tough nut to crack. "We had one gruelling investor meeting with a very skilled sustainable team. It lasted over an hour and a half with challenging questions about our numbers and approach. They did invest."

Investor demand

Breakthroughs came when Enel convinced banks that its SDG-linked bond wasn't a one-off, tailor- made issue but represented a new asset class to help sustainability go mainstream. The fact that green bonds still only account for 2-3% of the global capital markets underscores the urgent need to funnel more money into sustainable endeavour, says Canta who stresses that SDG-linked bonds and new step-up coupons complement the existing green bond market and should not be viewed as a competing instrument. "We were always convinced this instrument had the possibility to become an asset class. Now other companies have followed us, the ICMA has issued principles and the European Central Bank has finally recognised this instrument universally as an asset class," he says.

Canta also notes that investor enthusiasm for the structure spiked when they saw the issue in the context of Enel's wider sustainable strategy. It's a point Samantha Sutcliffe, Head of Green and Sustainable Finance at UBS echoes, pointing to the growing investor enthusiasm for corporate transition stories. "Investors are keen to support companies that are not necessarily 100% green today but have a decarbonisation strategy beyond business as usual in place."

Advice

As for advice to others considering more complex green structures, treasury experts counsel on the importance of setting up a high-level corporate-wide team to knit the process together. At Novartis, alignment between the internal and external legal teams to ensure the language was clear in the bond prospectus around how the coupon step is tied to the KPI was a priority. "We had to align the whole organisation to stand behind those KPIs. It's substantially different from the usual bond and takes time to put in place," says Weiss.

Similarly, Sutcliff highlights the new and often hidden benefits of corporate treasury teams working much more closely with their sister sustainability departments. "Green bonds are a vehicle to enhance internal discussions," she says. "Such cross-department discussions can lead to strategies being revised and targets changed or met quicker than initially set out." She also reassures rooky green issuers that most of the information they need to write a Green Bond Framework, that first document on the road to green issuance, will be found within the corporate organisation. "Often Sustainability departments will have the data and methodologies required to define green activities and support the governance of the green bond framework. It could be that such information is not always publicly available but tends nevertheless to be within the company."

Experts flag key challenges to scaling up the market on the road ahead. Market participants are unanimous in their call to rating agencies to integrate quantitative metrics with sustainability so investors can see a companies' green trajectory. While Enel's Canta urges banks to charge less to lend to sustainable companies to fuel the market beyond just bond issuance. "If it is valid for the bond market, as we have shown, it has to be valid for the banking system too," he says, adding that Enel has also changed its commercial paper programme to attract more sustainable investors. As for Weiss, he is convinced that ambitious KPIs lying at the heart of new step-up structures will both propel corporate sustainability and attract investors in a win-win, virtuous circle. "Companies should push the boundaries of what they define as green or social," he concludes. ■

Strategic treasury in action

Nora Baker
VP Finance

Nora Baker's treasury expertise touches every part of corporate life. She shares her expertise on new business growth, managing cash and treasury, building international teams and overseeing restructuring.

Advantage Solutions is a leading provider of business solutions to many of the world's largest consumer goods manufacturers and retailers. Advantage's technology-enabled sales and marketing solutions help manufacturers and retailers across channels drive consumer demand, increase sales and achieve operating efficiencies. Headquartered in Irvine, California, Advantage operates from more than 140 offices throughout the US and Canada and maintains a platform in markets throughout Africa, Asia, Australia and Europe. Advantage acquired Daymon Worldwide in 2017.

Nora Baker's treasury and finance experience seems to touch every part of corporate life. In the last five years, she has led an international expansion and grown increasingly knowledgeable on doing business in China. Elsewhere, she has helped support her finance department through two corporate sales and most recently, a SPAC transaction. Speaking from her Connecticut home where she has been working remotely since March, she describes a sweeping career marked by opportunities, challenges and constant learning that is still rooted in the key treasury principles of analysis, research and execution learnt in her first role in the early 90s.

Since Baker joined brand building group Daymon Worldwide six and a half years ago, the company has changed ownership twice. It was most recently acquired by Advantage Solutions, the California-based provider of marketing solutions to global consumer goods manufacturers and retailers. Despite a series of wide-ranging corporate changes, she has remained a constant figure in the finance team where her current role involves restructuring international operations, selling businesses, and serving as the finance lead for Asia.

China expertise

International finance is one of her many areas of expertise. When Baker first joined Daymon she was tasked with overseeing the company's new business development process and expanding international operations into new markets. Today it is her knowledge of China in a role that spans new business development and strategic advisory, treasury and tax management and team building, that particularly stands out.

Building the Chinese business has appealed to her energy and problem-solving ability. None more so than ensuring customer payment and getting money both in and out of the country, especially in the early days. "Having a cash strategy is essential to ensure successful business operations. You can't just quickly wire money in and out of China," she says, noting similarities in South Africa, Brazil and Russia.

Indeed, her experience in the 90s in Russia with United Technologies' Carrier Corporation, a heating and refrigeration company, formed much of how she analyses investments today. Those early lessons now shape how she decides to operate more efficiently to support the core business.

Early treasury travails in Russia also marked her first real test of applying creativity and innovation to solve near insurmountable problems – in this case not being able to trade the currency. "The ruble was a closed currency and we had to find a way to conduct business in a country where you can't trade the currency. You can't run a business without cash, so we set up a barter exchange programme."

As for any business operation, her overarching advice is scrupulous cash flow management and analysis. It involves a deep knowledge of a company's customer base, drawn from asking probing questions, she says. "You need to understand who your customers are, and structure your contracts so you're not exposed. Strategies could include working out if you are best positioned to have large or small customers or ensuring cash on delivery and upfront payments before delivering the service."

She also counsels on the benefits of insourcing treasury in challenging new markets. "When we were outsourced, I couldn't even get a receivable ageing report from our accounting firm. I used to have this quite exhausting weekly call with our accounting firm before I had staff on the ground."

Today, however, doing business in China is getting much easier compared to those early, hairy days. "The banking, treasury, and liquidity situation in China has evolved over my career, and I have noticed that the rate of change has increased," she says.

It leads her to reflect on an aspect of her job she has always loved most: the rewards of supporting a business operation in challenging environments when markets and countries are rapidly changing or in a state of flux. "It's really fun working in China and globally because markets change so quickly. I think one of the things companies have struggled to understand is that element of negotiation within a structure, coupled with relationships and trust."

Closer to home

Baker thrives in the rough and tumble of doing business in new and challenging markets, but her expertise is just as sought-after closer to home. Here her experience has helped reshape businesses for acquisition, growth or sale at Praxair, International Paper, and PepsiCo, and Daymon, which was a global ESOP, or privately employee-owned company before it was sold. Much of the work, which she describes as "super hands on" involved preparing and then presenting key information regarding the international side of the respective business to the buyers. "Essentially, I have had to ensure that businesses can be sold," she says. "It involves explaining the business to the buyer, shoring up compliance, tax and treasury strategy, putting in place new processes for the sale. For acquisitions, achieving a satisfactory valuation, zeroing in on strategic fit and thinking ahead to post-acquisition integration increase the likelihood of success."

As director of corporate development at International Paper she played a lead role in the company's corporate transformation, overseeing numerous M&A transactions and processes that included liaising with deal teams including

bankers, tax advisers, accounting firms, and legal counsel. "During the sale process things can go wrong if something is overstated or understated," she warns. "If you don't know what you are selling, or don't do the proper due diligence, concluding a win-win deal for the buyer and the seller becomes challenging and can ultimately cause a deal to fail."

Leadership

Whether advising senior leaders on the nitty-gritty of a deal or thrashing out wider strategy and growth, she has learnt to make tough calls – and deal with hard knocks. Looking back, she says it is the defining moments of taking a stance or making a mistake, speaking up and receiving candid feedback, that have built out her career. One lesson that still resonates today was advice from one of her "great" leaders that she treat corporate financials as if they were her own. "We were evaluating a multi-million-dollar investment where there was the potential for a US$1 million variance. I was reminded that a million dollars is a lot of money and encouraged to adopt a sense of ownership when creating business plans," she says.

Today, her main advice for treasury and finance teams working across M&A deals is advanced planning and strong communication. She believes that success depends on transparency, open dialogue and creating an environment which enables the business to proceed but is also considerate to the stress of change and transition. Post-deal, she flags the importance of collaboration to facilitate new leadership. "This is critical to ensuring success in a positive, constructive work environment," she says, adding that her early career experience in eliminating silos within a company still drives how she goes about enabling communication and decision-making. "The company I was working for at the time needed to perform better and operate more efficiently, and there was a critical need to break down barriers between areas like marketing, manufacturing, finance and support."

Baker, who normally spends half her time travelling, is eager to get back out to the field once COVID-19 restrictions lift. She says not travelling this past year has made building new relationships forged over dinner conversations and personal contact tough. That said, silver linings include seeing much more of her children, both in their 20s, and she has found more time out of her "crazy schedule" to catch up with friends and practice the beach yoga and hiking in nearby hills that she loves. It has also given her time out to run and swim.

She sees competitive sport, where previous accolades include competing in track and field events at university and playing tennis for her club at the US national tennis championships, as an important contributor to her professional life. "I am definitely not someone who wins and am now more likely to be the person who comes in toward the end. But I enjoy the camaradarie, the training and the personal challenge and will continue to push myself. I truly believe sport and teamsmanship help in problem solving, gaining resilience, and also collaboration which is so important in achieving success." Her belief in mentorship and giving back to her community is just as strongly rooted. Baker has served as treasurer of a local organisation and is currently on the Investment Committee of Impact, which provides grants to local women-led not-for-profits. She actively volunteers for her alma mater including mentoring students, chairing Class Reunion Fundraising and serving on the Development Fund Committee.

As she casts back over the years, she is struck by how her first role in treasury at UTC, fresh from a year working for the World Bank's IFC and armed with an MBA from Yale and a French literature major from Barnard College, became her gateway to such a rich and varied career. Given treasury is so closely intertwined with business success, her core skills have remained front and centre despite her career travelling in new and different directions.

For Baker, treasury is both execution-orientated and highly strategic; it involves solving complex problems, managing risk and constantly learning. "Core treasury skills include analysis, the ability to understanding trends, and being able to see ahead to plan in the shorter term. Treasury needs a certain attention to detail and perseverance, especially operating in a changing environment. It involves generating sufficient cash, understanding risk factors, and ultimately providing a return on that capital." ■

Career highlights

Daymon, a subsidiary of Advantage Solutions Inc., Irvine, California — **2014-Present**
Vice President, *Finance*

Reporting to the CFO and International President, Nora was an International Executive Leadership Team member, a corporate officer, the international finance leader, and part of the leadership team that sold the company to Bain Capital and Yonghui and then to Advantage. Currently, her role is to restructure international operations, sell businesses, and serve as the finance lead for Asia.

GE Capital Retail Bank (Synchrony Financial), Stamford, Connecticut — **2011-2014**
Growth Finance Manager, *Financial Planning & Analysis*

Finance leader for the CMO and the US$500m, 400+ person marketing organisation, which impacted growth for the company with over US$14bn in revenue.

International Paper Company, Stamford, Connecticut — **2001-2006**
Director, *Corporate Development*

Global M&A leader for a US$25bn paper and packaging company. Nora was a member of the Corporate Strategy Council that implemented the corporate transformation and moved the headquarters to Memphis.

Corporates opening up to APIs

While limited business-focused applications and aversion to change have held back adoption of open banking by corporates, there are tentative signs that treasurers are increasingly coming around to the potential of APIs.

The potential of open banking services is undeniable. A November 2020 report published by Allied Market Research suggested the market would be worth more than US$43bn by 2026, a CAGR of almost 25% from 2019. More immediately, research commissioned by Finastra in August 2020 showed that 72% of banks across the Americas, APAC, Europe and MEA had seen an increase in the integration of corporate banking APIs since the outbreak of coronavirus.

In excess of two thirds (68%) of the banks surveyed had started work on moving to corporate banking open APIs as part of their payments strategy. Only half said open APIs were a priority in their strategy for working capital finance, cash management or lending, although 36% said they planned to start moving to open APIs for cash management within the next two years.

These are encouraging numbers, but why has it taken a global pandemic to inject some urgency into the corporate open banking market?

According to Jack Wilson, Head of Policy and Regulatory Affairs at TrueLayer, the complexity of corporate accounts and the existence of legacy systems for managing these accounts are two factors that could account for slower take-up among corporates.

Francois Masquelier, former Senior Vice President & Head of Treasury and Enterprise Risk Management at Luxembourg-based international media company RTL Group and CEO of Simply Treasury says a cautious approach to working with newer service providers is a significant reason why corporate-focused open banking solutions have been slow to develop. "The way forward lies in solutions that are developed jointly by fintechs, established banks and corporates," he adds.

ABN AMRO has launched five new commercial APIs this year and upgraded its developer portal. "Our first commercial API went live in November 2019 and we have learned a lot since then," says Pelin Dumans, Product Owner at the Dutch-headquartered bank. "Corporates vary widely in their ability to implement APIs – in some cases we are explaining what an API is and its benefits, in other cases we are having in-depth discussions on coding and content."

Corporate services developing

According to Sander de Vries, Senior Manager at treasury consultancy Zanders, there has been more focus on products catering to consumers than corporates but he adds that since the second payment services directive went live banks have started to offer more open banking-enabled products and services for corporates. He also observes that slow take-up by corporates probably relates to lack of internal innovation and aversion to change, along with the lack of API standardisation.

Apart from increased interest in the use of APIs by corporates and some vendors for bank connectivity and to accelerate real time visibility and payment processing – and more collaborative/strategic investments between the major banks and some fintechs to bring new functionality to market faster – for the most part activity around open banking under PSD2 has been taking place in the consumer banking space.

"The entry of new banks and payment service providers isn't really going to be of much interest to corporates since their bank relationships are predicated on credit provision/balance sheet support – especially at the moment," says de Vries. "From a corporate governance perspective, services provided need to be robust, proven, dependable, stable and appropriate to the scale of flows involved."

The uneven pace of open banking innovation across the globe was highlighted in a May 2020 Finastra survey, which found that financial institutions in the US and UK were much more likely to leverage open APIs than their counterparts in France or Germany.

"The major US banks are well aware of the strategic importance of open banking and are developing API-based offerings in partnership with fintechs to attract new customers and maintain or gain competitive advantage," adds de Vries.

Other factors in why some banks have moved at a slower pace in adopting open banking for the corporate market are that it is considered more of a relationship-based service and that it isn't accompanied by the same regulatory pressure as PSD2. But corporates are looking for a slick user interface and a smooth and seamless experience across the various touchpoints with their bank, plus the ability to bank whenever they want through multiple channels – all of which is enabled through the use of open APIs.

Banks pushing APIs

"Increasingly, banks are rethinking their business model and embarking on digitisation projects where they free up functionality via open APIs and modernise their systems through partnership with third parties," says Finastra's Senior Vice President and General Manager Corporate Banking, Torsten Pull.

It is true that so far interest has been concentrated in retail banking rather than the corporate side, acknowledges Mario Benedict, Executive Director in Wholesale Payments at J. P. Morgan. "We see massive potential in the latter area and are focusing on how open banking and APIs will help to address some of the pain points for our corporate, multinational and financial institution clients," he says.

As a result of the economic turmoil caused by coronavirus, corporates have understandably been focused on having real time visibility of their bank data. APIs should enable them to address some of the challenges in treasury operations and speed up innovation.

"There is also the benefit of intelligent automation, where manual processes of payment status tracking and reconciliation can be reduced, shrinking the room for manual error and increasing operational efficiency," adds Benedict. Masquelier refers to trade finance as an area where open banking has particular potential to reduce costs for corporates, particularly in relation to facilitating access to historical financial data. In addition, he says the emergence of payment service providers has led to increased transparency around bank fees.

"We are already seeing cost benefits in regard to standard payment services," agrees SAP's head of solution management, treasury and working capital, Christian Mnich. "Given the widespread availability of cloud technologies this trend will only become stronger in future, but most importantly the API technology that comes along with open banking will lead to more choice for corporates." Open banking solutions also give corporates the opportunity to move in the direction of a more plug-and-play environment for their treasury infrastructure.

Change of attitude required

One potential product is rich data for automatic reconciliation purposes related to both ERP systems and cash flow analysis within a treasury management system, suggests Richard Blokland, Corporate Treasurer at NewCold Advanced Cold Logistics in the Netherlands. "Banks are afraid of opening up so this will require a change of attitude as well," he says. Blokland also hopes that corporate open banking solutions will introduce greater efficiency and flexibility into the global economic system, particularly in relation to increasing KYC demands. "Hopefully financial regulators will participate in the sense that it will help them optimise their demands from banks and corporates and still receive the desired but reasonable information they need in line with current and future legislation," he continues.

Rune Mai, CEO & Co-Founder of API developer Nordic API Gateway in Denmark says his firm is now focused on business account access and payments. "We have more than a dozen accounting systems consuming our API, providing huge automation and cost reduction benefits," he says. "More importantly, we are also powering cash management and FX solutions for both large corporates and treasury teams within large banks. We started out as a consumer-focused personal finance management service before moving into open banking API aggregation but once we did we knew that open banking for business has a much stronger use case in terms of cost reduction and business process optimisation."

When asked whether all markets will eventually reach the same level of maturity, Masquelier suggests that the approach of banks and cultural factors on the part of customers will influence the extent to which corporates in different countries embrace open banking. "Global banks with a strong cash management business may be motivated to provide more detailed and better quality information, although they may not develop solutions in every market," he says.

All corporates are interested in reducing their banking costs, but this is not the major motivation behind the adoption of open banking services according to Masquelier. "The trend towards treasury-on-demand or real time treasury services will drive demand for better quality information that can enrich reporting and dashboarding at corporate level," he says.

The coronavirus pandemic will inevitably have affected the pace of roll-out and adoption of open banking solutions worldwide this year. Lockdowns, combined with uncertainty in the business environment have served as yet another reminder that it is critical for businesses to have real time visibility of their cash position across multiple bank accounts and to have better control over their treasury, as well as their payables and receivables.

Alternatives remain appealing

But while this environment should create opportunities for developers of corporate open banking solutions, it must also be recognised that there are proven mechanisms (such as SWIFT, the Electronic Banking Internet Communication Standard (EBICS) and Host2Host connections) that enable corporates to connect with their banks securely and access data to manage their payments and cash efficiently suggests Marcus Hughes, Head of Strategic Business Development at Bottomline. "The availability of APIs for corporates is still too fragmented and not yet sufficiently global to provide that capability to large corporates," he says. "At some stage in the future we may see wider adoption of APIs for corporate treasury and cash management, but we are not there yet."

Hughes reckons that for large organisations such as multinational corporations with a requirement for global payments and cash management, using a SWIFT service bureau to access their multiple banks will remain the optimum choice for the foreseeable future. However, he does accept that the corporate open banking corporate market is maturing.

Differentiation between service providers is already shifting from pure connectivity with multiple banks to capture account data or initiate a payment, to a new phase where value-add applications do something beneficial for the user, solving a pain point and delivering value.

"This value might relate to artificial intelligence-driven cash flow forecasting solutions using data from accounting ledgers and real time bank statements, or invoice finance using machine learning and predictive analytics to assess the likelihood of sales invoices being paid on time, late or never," says Hughes. "So instead of mere cash visibility and payment initiation, a solution provider's next generation of open banking solutions will need to do more to help customers manage their business better in areas such as optimised working capital management and getting paid faster with automated cash allocation," he concludes.

The kind of solutions traditionally demanded by large corporates – such as automated sweeping of accounts to maximise investment income and minimise borrowing costs – may also become an expectation for small and medium-sized businesses. ■

Companies focus on inclusion as COVID-19 threatens progress

Diversity remains a challenge across the finance industry, but everyone understands the scale of the problem and in some quarters the tide is starting to turn. Treasury teams report real progress in recruitment and mentorship and argue that inclusion is now the big issue.

The moral imperative for greater diversity and inclusion in treasury along with its direct link to corporate performance may be well known but it has still been a mixed year regarding progress in the area. On one hand, remote working en-masse has ushered in a new raft of challenges around nurturing inclusion including helping treasury professionals build their brand and network through the wider company. A report by Lean In and McKinsey & Co that finds one in four women are considering downshifting their careers or leaving the workforce due to the impact of COVID-19 is another cause for alarm.

Elsewhere, the death of George Floyd in May pushed social injustice centre stage and grabbed attention inside the workplace but also exposed a lack of diversity within many companies' own ranks, caught in statistics like the Fortune 500 still only having three black CEOs. Add in recent criticism from the UK's Financial Reporting Council, lambasting listed companies for failing to live up to their diversity promises, plus the UK government launching a new task force to increase the number of people from poorer backgrounds in senior positions in financial and professional services, and it is clear diversity remains a challenge. That said, growing investor pressure on companies, more diverse role models and new recruitment practices show there is more cause for hope than despair.

Role models

One source of celebration is the growing number of leaders and role models within treasury, serving up proof to others that women and people of colour can reach leadership roles. "I never imagined that I would do this," said Rosanna Summerville, Manager Global Transaction Banking & Processes at Unilever, speaking during Treasury Today's Inclusion in Action event last November. It is diverse leaders like Summerville who play a crucial role in showing and encouraging others that a career in finance is possible.

Simone Coultress, Treasury Manager at global science and chemicals group Johnson Matthey, credits the black female CFO in her first job in finance for imbuing her with a conviction that she could also succeed. "It made me feel that if I worked hard enough and I was good enough, it was possible," said Coultress, who keen to encourage others herself, contributes to Johnson Matthey's employee research group, an initiative focused on recruitment and development of black employees. Similarly, Alison Livesey, Managing Director, Wholesale Payments, EMEA at J.P. Morgan, has been inspired to push on diversity and inclusion after often finding herself the "only woman in the room," and struggling to find role models herself. "Sponsorship has been key to my career progression, and I want to give back."

Corporate change

Other encouraging signs of progress include treasury testimonies of corporate change. Summerville says that when she joined Unilever 25 years ago, diversity and inclusion weren't even on the radar. "There was no awareness of this topic," she said, recalling how men dominated the stage, particularly in bank meetings. Today, diversity is enshrined as a strategic objective and Unilever has achieved gender parity in all management posts, most recently turning the focus on closing the gap at senior executive level.

Elsewhere, Aviva, Microsoft, Deloitte and Linklaters are among the companies to sign up to a new campaign spearheaded by employers' group CBI calling on businesses to set and publish clear targets for greater racial and ethnic diversity at board, executive committee and senior management levels.

Targets have become an increasingly important tool for change. Amongst asset managers, focus committees, initiatives and goals with hard targets driven by rigorous data collection, alongside developing junior talent and providing coaching, are becoming the norm. Moreover, asset managers are increasingly demanding the same kind of diversity efforts from their investee companies, said Kim Hochfeld, Senior Managing Director, Global Head of Cash at State Street Global Advisors, who offers fresh insight on SSGA's recruitment practices. "We insist on having a diverse slate of candidates when we are hiring for a new role. It's not happening naturally, and prospective candidates can't just all be white male," she said, stressing the importance of employers to focus on prospective candidates' ability to adapt their skills into the role rather than be a perfect match on experience or a conventional stereotype.

In another encouraging sign of the shift in recruitment practices, banks like Citi and J.P. Morgan have launched apprenticeship schemes for young people who haven't gone to university. Tech firms have been offering apprenticeship schemes for a while, and Dino Zannetos, COO Treasury and Trade Solutions, EMEA at Citi, explained that a dual aim of the bank's recent initiative alongside boosting diversity is to tap the talent needed to drive the digital transformation. "The generation we are recruiting through the scheme was born in the digital era. We are hoping they will bring a different way of looking at things to the table as we promote digitalisation across the bank. Junior talent brings a lot of energy and is hungry to learn," he said.

> It made me feel that if I worked hard enough and I was good enough, it was possible.
>
> Simone Coultress, Treasury Manager, Johnson Matthey

Inclusion

But diversity is no good unless it comes alongside inclusion, the new battleground for progress. "I am Chinese and female, but this won't really tell you how I think or what my values are," said Geraldine Yip, Regional Head, Asia Pacific, Sales Practice and Content Management, Global Liquidity and Cash Management, HSBC, in a reminder that employees need to feel comfortable sharing their views and speaking up to truly counter group think. It involves tackling unconscious bias and nurturing psychological safety whereby people feel safe to share their views.

One area this could manifest is a thoughtful reappraisal of the conventional corporate gathering or networking forum. Deepa Palamuttam, Director of Global Tax and Treasury Technology and Controls at Intel Corporation, still recalls early career pressure to attend happy hours and drinking sessions that conflicted with her culture and home life – the embodiment of the diversity companies seek. "I made it clear I didn't enjoy these sessions and I have empathy with people who don't want to network this way: while travelling and at conferences things can be different, at home it's a different situation." That said, she noted that the environment has changed today compared to the late 90's and early 2000's due to an increased focus on diversity and inclusion. Inclusion also involves consideration for those for whom English isn't a first language, reminded Yip.

Measuring progress and ensuring accountability around inclusion has become a key focus at J.P. Morgan. The bank is currently exploring different ways to best assess and measure inclusive leadership that includes making managers accountable for reaching inclusion targets and tying those targets to regular managerial performance appraisals. "Inclusion is difficult to measure but we must think about what inclusive leadership looks like, find a rigour to assessing it and build accountability for inclusion. We used to talk about diversity; now we talk about diversity and inclusion," said Livesey.

There is no doubt that the pandemic has also set inclusion back. It is more difficult for juniors to develop their brand, get in front of senior managers and progress their careers when everyone is working from home. Career progression depends on taking on tasks, presenting in front of senior management and meaningfully contributing, said Christine Dirringer, Head of Energy and Asset Based Structured Debt at BNP Paribas. "It is not easy to get to the top. You must differentiate yourself, build your brand and demonstrate leadership which is difficult in a COVID-distanced world," she said.

Comments echoed by seasoned treasury executive Hochfeld who started a new role at State Street Global Advisors on the eve of the pandemic. "I had eight days in the office and then we were all sent home," she said, describing the experience as not for the faint hearted. With frequent travel between London and the majority of her team in Boston on hold because of the pandemic, she has had to build relationships digitally, bereft of casual office interactions or the creativity of in-person meetings. Treasury experts cite the challenges of managing teams and reading emotional cues on Zoom, as well as the difficulty of motivating colleagues who are not self-starters as well as imbuing a diverse and inclusive corporate culture digitally.

Solutions to preserve inclusion include managers ensuring staff have equitable exposure to senior management. They in turn should reach out to different people and ensure it is not always the usual faces who get an opportunity to shine within treasury and the wider business. "We must ensure that juniors can get visibility with senior managers, and this sometimes requires forcing situations. For example, asking a senior leader to talk to one of the juniors on a call – it's not an organic situation," says BNP Paribas's Dirringer.

Mentorship

Treasury experts also note how internal mentoring and sponsorship programmes offering encouragement, support and confidence building can help boost inclusion. Important given the reality of the cut and thrust of corporate life often involves breaking cultural taboos and speaking up over tricky issues like salary levels. "Career success has involved breaking free from the way I was raised," explains Johnson Matthey's Coultress. "It was only after a number of years I realised you have to be loud and confident to be seen as able to lead."

Intel's Palamuttam broke social taboos by studying engineering in the late 80's, unusual for women in India at the time. Next, she had to learn to voice her opinion in the workplace. "It took some time to get used to speaking up," she said, recalling how in many meetings she didn't think it was her place to speak up. "Now I am told I am too direct," she joked. Similarly, she has only grown comfortable networking since she began viewing it like building her own social circle. "I tell this to the people I mentor, and I hope it becomes a tool to help," she says.

Treasury is more multicultural than other finance professions and attracts more women than other sectors of the industry like the trading floor. As the diversity gap gradually closes with recruitment schemes, mentorship and real corporate change, the focus has switched to inclusion. It's all very well hitting the diversity stats, but it is meaningless if diverse employees don't feel part of the team. ■

Supply chain risk in China

To what extent is COVID-19 and the strained US-China relationship is causing companies to rethink their supply chains?

Ker Gibbs
President
The American Chamber of Commerce in Shanghai

Some companies are thinking about moving their supply chains out of China, but it is not dramatic. According to our recent survey, only a small number (15%) of US businesses are considering moving some of their production outside of China. Everyone is paying attention to geopolitics, but any shift in supply chains should be seen in the context of rising labour costs and the fact that China is no longer a low-cost producer, rather than rising US China tensions.

For those companies that are moving their supply chain, the top destinations are SE Asia, India and Mexico – the US is way down the list.

However, the issue that jumped out when we asked companies to name their biggest challenge is US China tensions. This tension is particularly hurting companies' ability to hire and retain staff at their Chinese operations. This is disturbing given that they regularly cite not having the right people to run their businesses on the ground in China as a key challenge.

US companies are more optimistic about doing business in China with a Biden presidency. Under Biden they believe there will be more consistency on policy, and hope that a new administration will be less combative. But people are not naive about the reality of the US China relationship and understand that the underlying issues have not gone away.

There will be a certain amount of decoupling in key areas like the semiconductor sector and dual use military technology as a direct result of policy. It will be increasingly difficult to navigate export controls in key areas wherever technology is concerned. But I believe these areas will remain isolated.

Our members have located in China to serve the Chinese market. They are in China, for China, in a clear distinction from the old model where companies made things in China for export to the world. Today's supply chains are more complex, and many companies do their final assembly in China using inputs sourced from elsewhere.

We believe our members will continue to invest in their Chinese supply chains. China is the only major market fully open for business – COVID has been controlled and business is quite good. US businesses located in China are feeling more optimistic and are increasing their capacity to take advantage of the consumer market.

One new issue on the agenda is the dual circulation economy. Beijing's new economic strategy lays out the idea that the country will continue to expand domestic production for exports while also shifting the economy towards a greater relative emphasis on production for domestic consumption. Our members are concerned how Chinese polices could shape the idea of dual circulation, and the role of foreign investment in dual circulation.

Jack O'Sullivan
Founder
Modmo.io

I tried to develop my company from Ireland, but found it was challenging managing the supply chain and production from home. I travelled to Shenzhen in China to meet some factories and suppliers, hoping to make real progress. However, as a small company at the time, we weren't able to get the meetings with the big factories.

I ended up going to Vietnam to see a motorbike factory. I was so impressed I skipped my flight home and have stayed ever since. It has been three years now. I am currently engrossed in product development and manufacturing in an industrial hub outside Ho Chi Min. I've built a fairly big team and we are doing well from Europe's E-bike boom. Vietnam is less developed, so we are not competing as much to get into the factories. We also got in early. If you are a new company entering Vietnam today, you could struggle to get into the high-tech, high quality factories with a small brand.

Most of our sales are into Germany, Switzerland, the Netherlands and Austria. We employ 16 people in Vietnam today and have produced 1,000 frames so far; we began shipping in December 2020 and aim to produce 1,000 bikes a month from next year.

Around 60% of our parts are sourced from Vietnam, the rest comes from China and Taiwan. We aim to increase this to 100% in the first half of 2021. The majority of the inputs from Vietnam come from within 50km of our factory, and not having to go to China saves us huge amounts of time. The bike's final assembly and manual processes all take place in a factory in Ho Chi Min that we rent with other manufacturers. We are looking to open our own factory in Q1 next year.

The growth in E-bikes has led to key suppliers of bike parts like rims, saddles and breaks in China and Taiwan stopping taking orders for 2021. Some factories are even saying if you place your order now, you won't receive it until September 2022. It's lucky we are in Vietnam. There isn't as much of a

bike industry in Vietnam and so local factories haven't had the same problems. People are also working hard to convert old factories used in the auto sector to produce bike parts.

Tariffs are another reason for choosing to manufacture in Vietnam. With the European Free Trade Association (EFTA) trade agreement, 99% of tariffs will go to zero over the next six years. That is attractive because there are high tariffs for E-bikes into Europe made in China.

In some ways it's easier to build a supply chain in China because you can find suppliers through Alibaba – it is a huge marketplace and there is nothing like this in Vietnam. Big companies in Vietnam don't even have websites. It means finding suppliers involves building your network and attending industry trade shows. Finding high quality factories up to IOS standards is also difficult; finding factories that can produce large quantities of a product is another challenge. Nor do many factories in Vietnam have that much money to invest in their equipment.

Laws are also unclear in Vietnam which makes things challenging. But there is a large and available workforce. Labour costs are also lower than in China, though higher than in Cambodia.

More companies are arriving in Vietnam. The main frame factory we use is doing around four times more business now compared to just six months ago. And Vietnam hasn't locked down with COVID, so factories have been running the entire time. This has bought a lot of business from China – along with EFTA. The more companies that come here, the easier it will be to do business.

Anne Petterd
Partner
Baker & McKenzie

We have not seen many businesses move their supply chains out of China, but we are seeing businesses increasingly react and 'sit up' regarding trade tensions. Assessing the impact of higher tariffs due to trade tensions on inputs to production then becomes a catalyst to review supply chain disruption risks more holistically for the business.

Unsurprisingly, the increased focus on supply chain disruption means that we are seeing more companies making supply chain disruption a board level issue. Other key trends are increased use of data and digital transformation to really understand the risk areas for supply chains and transform supply chains.

It is important to remember supply chain risk doesn't just include higher tariffs resulting from trade tensions or the impact of the pandemic on procurement. For example, depending on what companies make, the complexity of their supply chains and where they manufacture, their supply chains could have modern slavery risks or face increased regulation around sustainability. The supply chain issues of focus also vary between industries. A particular point of focus for consumer goods businesses in recent times has been both investors and informed consumers demanding to know more about the entire supply chain used to produce a product.

The viability of moving supply chains needs to be assessed, especially if a business has its own manufacturing operations. If a business uses an outsourced manufacturing model, this might give the business more flexibility, but even this can be challenging because there may be significant practical and cost limitations in finding alternate manufacturers.

Many businesses remain heavily dependent on China as a key part of their supply chain. The size and scale of manufacturing in China and related established transportation routes can make finding alternative locations and transportation routes challenging. For businesses seeking to relocate part of their supply chain, often what they do in the current place of manufacturer, they can't entirely do in another jurisdiction. For example, another jurisdiction might lack the necessary skilled labour or critical inputs.

Achieving the objectives for a supply chain move need to be carefully thought-through. A business might want to move manufacturing or assembly to a new location so as to qualify the goods as 'made in' the new jurisdiction under relevant rules of origin. If the inputs to a product are not wholly sourced from a single jurisdiction, the business might need to navigate more complex rules of origin that look at the level of sourcing and effort that can be attributed to that jurisdiction.

Looking longer-term, a critical catalyst to businesses in deciding to move or change their supply chains will be factors like the business' ability and readiness to utilise robotics and undergo digital transformation as labour comes out of supply chains and more robotics and digitisation goes in. Connected with this, many governments are focused on how they can attract more advanced manufacturing to assist to build up critical mass for new industries.

The past few years have made for a wild ride in trade and supply chains. The many sources of supply chain disruption have introduced a level of uncertainty that businesses have to manage. Supply chain management in the past was often siloed to a particular area within a business. Now it is a whole of business as well as a critical business issue. Recognising this, more businesses are setting up their own supply chain task forces with responsibilities to look at supply chain management risks and strategies across the business. ■

Next question:

"With bitcoin reaching increased heights, what should treasurers be aware of and doing?"

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

Clear 2021 consensus

The economists and analysts who see share prices declining in 2021 are few and far between. The same optimism prevails with regard to economic growth in 2021 and 2022. Furthermore, there is a fairly firm conviction that inflation – and therefore interest rates – will remain very low almost everywhere for the time being.

Finally, many experts see the dollar weakening in 2021. First of all, against the Asian currencies, but generally also against the currencies of the industrialised countries. Experience shows that something else usually happens in the event of major consensus expectations.

Positivism with regard to shares is mainly determined by two factors. First of all, by the expectation that the economy will pick up considerably once large-scale vaccinations take place, and secondly by the prospect that the central banks will open the money tap even wider as soon as something goes pear-shaped. This gives buyers the firm belief that they can never lose much. This is without even considering the additional fiscal stimulus that is in the offing.

This phenomenon is also evident for credit spreads. At this point, there is barely any difference in interest rates on low-risk and high-risk bonds, not only because central banks are also buying far riskier bonds, but also because the risks are not considered to be high.

It is not the case that the markets always do something different to what is expected in the event of broad consensus. But this does often happen. This is why we will discuss how the consensus could be off the mark this time.

The corona crisis and inflation

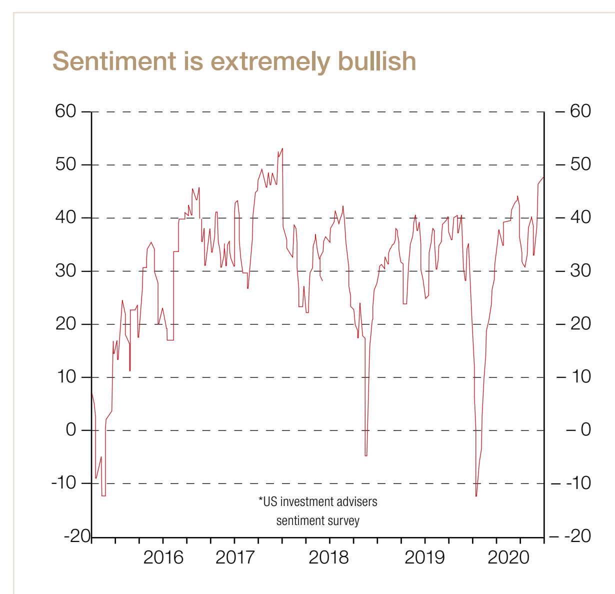
Historically, economists generally tend to extrapolate the past to the future. As a result, they often failed to foresee major changes. This could play a role again this time – but it is nowhere near certain. That is, central banks have had great difficulty avoiding deflation in the last decade, and this is why most economists believe this is unlikely to change for the time being. Certainly, now the scenario has been compounded by the corona crisis, which has triggered a significant decline in economic activity and inflation. The soaring debts will probably also ensure moderate economic growth for a long time to come, which is another reason not be concerned about inflation. In this climate, central banks can afford to pursue a very loose monetary policy for years to come without creating too much inflation. This accounts for the optimism about the performance of shares and credit spreads over the next couple of years.

We have our reservations about this line of reasoning. A remarkable aspect of the corona crisis is that it has blasted a hole in the demand side of the economy as well as in the supply side. A great many companies in all manner of sectors are basically bankrupt. This mainly includes restaurants, cinemas, theatres, concert organisers, artists and so on. Strangely enough, however, the number of bankruptcies in the US and Europe is currently lower than before the corona crisis. This is the result of the massive support packages which have been introduced by governments. However, nowhere near all of the support has been provided as a gift. A considerable proportion has been offered in the form of loans. Add to this the shock that many entrepreneurs have had to sustain, and it is quite likely that many companies will not expand/invest for the time being; even though they have shrunk considerably in order to cope with the corona crisis.

The demand side of the economy has also declined greatly. However, the financial position of most people has not deteriorated significantly. It is true that the unemployment rate has risen substantially, but the government has injected more money into the economy compared to the decline in incomes. However, consumers have saved up a far bigger proportion of the additional funds – partly to accumulate a buffer in these financially uncertain times, but also because they cannot spend money on eating out, going to the cinema and so on.

The positive story

However, this scenario could be turned upside down once a considerable proportion of the population has been vaccinated. We assume that the majority of healthcare workers, elderly and vulnerable people will have been vaccinated by the summer.



Source: Refinitiv Datastream/ECR Research

ecr research

This is why corona will lose its grip fairly quickly on the economy from the summer onwards (the demand side is likely to benefit more than the supply side).

In addition, central banks as well as governments do not want to take any risks. This is why massive fiscal stimulus programmes will be kept up for the time.

This positive picture will also be reflected in commodity prices. These have risen considerably due to an improving global economy and the expectation that the recovery will persist next year. All the more so because the Chinese economy is doing well again.

Our conclusion is therefore that it is quite likely the demand side of the economy will increase more than the supply side in the years ahead. This may well create higher inflation than generally anticipated at this point.

Back to the seventies?

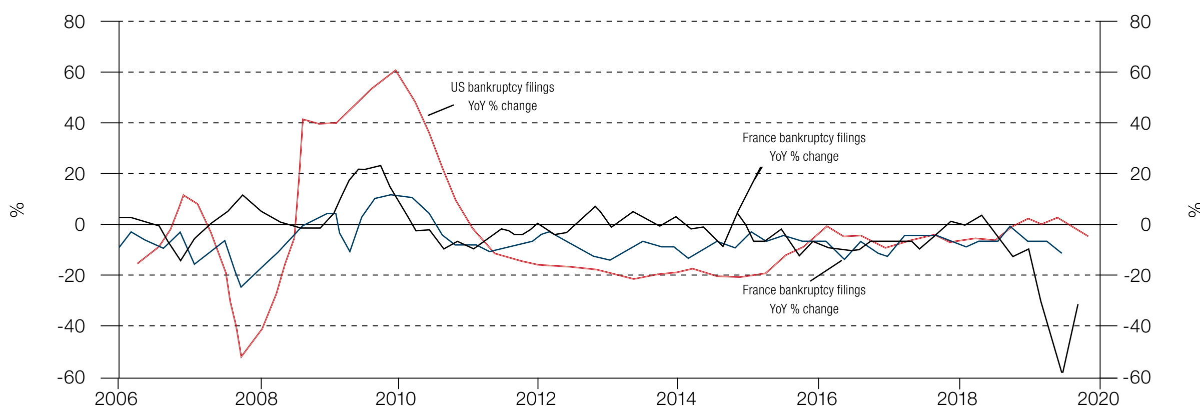
If inflation in the West indeed rises sooner and more than expected, none of today's positive predictions are on the mark. In this scenario, rising inflation expectations will lead to higher long-term interest rates than are currently priced. This will have a significant impact on the price-earnings ratios of shares, risk premiums and exchange rates. In this case, real interest rates could also rise.

In other words, this would come down to a return to the situation that was evident in the 1970s. At the time, the authorities were generally reluctant to crack down on inflation, as this would trigger a recession. Nowadays, the authorities are wary of countering inflation for fear of a collapse of the debt pile. However, it is generally argued that the central banks could still find a solution by setting caps for long-term interest rates. Once interest rates threaten to exceed these caps, the central bank will buy massive amounts of bonds – until interest rates fall back again (this is yield curve control).

As long as deflation is a major risk, this is certainly a viable option. However, it would only add fuel to the fire in the event of distinctly increasing inflation expectations, which would then rise even more rapidly. This would result in a massive supply of bonds at some point – to the extent where chaos erupts. This policy can therefore not be kept up for long.

In conclusion, it still cannot be ruled out that, next year, inflation and long-term interest rates will rise more than currently anticipated. This would have immediate negative consequences for shares, credit spreads and possibly also for gold for a while – especially in view of the major debt burden. ■

There hasn't been an explosion in bankruptcies, this is due to extreme stimulus and credit support



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