



In the eye of the storm

Carnival Corporation's lessons on accessing liquidity through 2020, plus a look at how companies with cash on hand plan to spend it.



The Corporate View

Adesola Orimalade

Head of Treasury
Kiwi.com



Women in Treasury

Alexandra Neely

Regional Treasurer
Nestlé North America

Treasury Practice

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Liquidity, sustainability and the rush to list

As the vaccines roll out and lockdowns begin to lift, the sectors hit hardest by the pandemic are finally preparing to open for business once again. In this edition, we speak to two corporate treasurers working in the travel and tourism sectors to reflect on the challenges of the last year. Darrell Campbell, Head of Treasury for the world's biggest cruise ship operator Carnival Corporation, recounts how Carnival raised over US\$22bn in emergency funding in a sweeping liquidity strategy. He explains how his first priority was simply keeping the company afloat, a white-knuckle ride that included tapping the high-yield market and articulating financial models to a new and unknown investor group.

Elsewhere, in our Corporate View, travel operator Kiwi.com's Adesola Orimalade talks about how he has prioritised cash and cost cutting while aircraft remain grounded, hotels shut and borders around the world largely closed. Orimalade also talks about the importance of treasury resilience during the pandemic, something he learnt in his native Nigeria and an early role at start-up telecoms provider Starcomms.

Neither Carnival Corporation nor Kiwi.com have much cash to spare, but other companies have tapped capital market largesse to build up substantial cash piles. This edition also explores the strategies open to treasury teams with cash on hand, like investment and paying down debt.

Strategic investment to counter the impact of climate change and meet accelerating structural trends is certainly one way to spend it. It's something Suzano, Brazil's pulp and paper giant with a celebrated reputation for sustainability is doing. Continuing with our insight into how treasury can guide and integrate sustainability, we talk to Suzano's Chief Financial Officer on how his team is overseeing investment in sustainability, linking finance to sustainability targets, and engaging with investors.

Finally, and against the backdrop of soaring equity markets, we explore the differences between IPOs, direct listings and SPACs. It's hardly surprising companies are rushing to list, but experts warn that the US SPAC craze, where companies wanting to list merge with a blank cheque company that has raised money through a public listing, holds real uncertainties. Spotify blazed a trail when it listed directly in 2018, but experts caution that ditching the support of big syndicate banks suits companies with strong brands best.

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Carnival's cash and liquidity crisis: in the eye of the storm

When the pandemic hit, cruise ship operator Carnival Corporation had to scramble to secure enough liquidity. Some companies are now reflecting on how best to spend their cash piles built up to cushion against falling revenues. Carnival's Darrell Campbell explains how he navigated the crisis and his priorities going forward.

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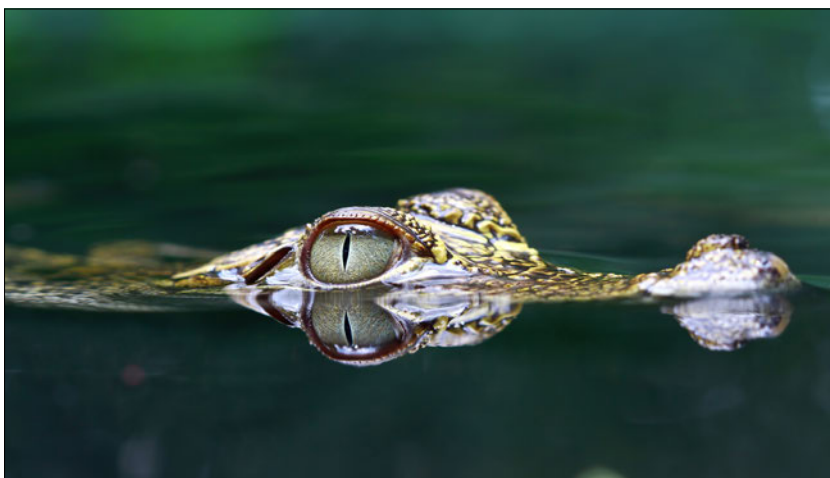
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Record equity sparks direct listing and SPACs, but what are the risks?

As the equity market hit record highs, we explore the pros and cons of a direct listing and the current craze in SPACs.



Carnival's cash and liquidity crisis: in the eye of the storm

When the pandemic hit, cruise ship operator Carnival Corporation had to scramble to secure enough liquidity to survive. Carnival's Darrell Campbell explains how he navigated the crisis, and his priorities going forward in a revealing insight into liquidity management. For other companies, cash on hand is an opportunity to shore up credit ratings and invest for the future.

The 2020 travails of cruise ship operator Carnival read like a case study in cash and liquidity management. Over the last year, the company has raised over US\$22bn in emergency funding to stay afloat in a sweeping liquidity strategy. At first it was just about survival, executing capital market transactions with the highest likelihood of success in a highly challenging environment which wouldn't handcuff the company in the years to come. Next, the priority was debt transactions that fitted

Carnival's maturity towers with the flexibility to pre-pay, followed by debt conversions as the economic environment began to improve. Most recently, and with dry land finally in sight as the vaccines roll out and the company has begun to sell cruises again, Carnival has stepped back into the unsecured market able to issue bonds not backed by its ships or other assets once again. "Stressful?" asks Darrell Campbell incredulously. "That is the understatement of the year."

One shot

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

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

The cost of shoring up liquidity was certainly eye watering. On one hand Carnival was locked into a higher rate of borrowing than normal on a secured basis – although the team set this at three years with the view that the company would then be able to refinance at a more favourable rate and without collateral. On the other, a necessary US\$600m equity offering in early April coincided with a historic low in the stock price. “Given the circumstances, this was our best course of action. We had to make sure we had the liquidity,” says Campbell.

Two months later and another swathe of transactions followed with Carnival approaching a new set of investors with US dollar and euro term loan B issuances for a combined US\$2.8bn last June. This time the debt was structured to give the company the flexibility to pre-pay with call options in anticipation of the recovery. Meanwhile, as Carnival’s outlook began to improve because of its stronger liquidity position, the next tranche of debt came at a better rate.

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

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

Cutting costs

Cutting costs is just as important in successful liquidity management. Carnival has sold 19 older and less efficient ships over the past year. Admittedly the vessels only represent 3% of the company’s operating income, but not paying servicing costs meaningfully impacts the company’s

cost structure. “The new ships coming in are larger and more efficient. This will help to further improve our cost structure as we return to service,” says Campbell. Elsewhere, while maintaining compliance, environmental protection and safety, the company significantly reduced its operating and general and administrative costs and deferred all unnecessary capital expenditure.

As for those new vessels already under construction, the team has put in place deferrals of some principle payments with Export Credit Agencies and banks. “It’s in the best interests of ECAs that we continue to operate successfully and build ships in their countries,” he says.

At the end of last November, Campbell says the company had around US\$9.5bn in liquidity. With an estimated Q121 cash burn of US\$600m a month, he is confident that even in the unlikely event Carnival’s revenues continue to languish through 2021, the current cash pile will be enough to get the company through the year. Crediting the strategy to his small treasury team working alongside a broader finance, Counsel and legal team within the company plus investment banking partners, he says he will continue to look at opportunistic transactions around refinancing higher coupon debt through the course of the year.

Carnival’s strategy is an extreme example of liquidity management for a company caught in the eye of a storm. But scratch beneath the surface, and corporates the world over have plotted a similar course, prioritising liquidity via debt issuance and refinancing costly debt wherever possible. Cheap borrowing costs and easy access to the capital markets meant companies, including banks, raised more than US\$6.37trn from investors last year, according to data provider Refinitiv. Elsewhere, Moody’s data reveals cash holdings of US companies has hit a record high due to higher borrowing to bolster liquidity and/or to pre-fund upcoming debt maturities. “In 2020, the top five cash holders remain Apple, Microsoft, Alphabet, Amazon and Facebook,” says Richard Lane, a Moody’s senior vice president.

Moreover, the pace of issuance shows no signs of slowing. With no signs that the Federal Reserve, European Central Bank or Bank of England will increase interest rates any time soon, companies are still using the opportunity to buy back shorter dated bonds and pay down term loans to re-finance with longer dated bonds. Giulio Baratta, Head of DCM Ccorporates at BNP Paribas, says his key focus remains helping companies support their backup liquidity facilities, and refinance in the debt capital markets. “The first priority is liquidity, then balance sheet strengthening,” he says. “We were expecting volumes to start to decrease in 2021, but we haven’t seen that trend yet.”

Nor is investor appetite to lend to companies starting to wane. In fact, many investors are comfortable going down the capital structure and buying subordinated, riskier debt, indicative from inflows into both investment grade and sub-investment grade funds, he says. “Investors were expecting less supply. So far this year they are still supporting transactions although we notice a little more scrutiny in terms of value. Companies will continue to spot opportunities for refinancing, maturity lengthening and locking in these very low rates. We are in a strong position in the debt capital markets and there is only a marginal cost to refinancing.”



The new ships coming in are larger and more efficient. This will help to further improve our cost structure as we return to service.

Darrell Campbell, Carnival Corporation

M&A

Although Carnival has allocated every drop of its liquidity to staying afloat, other companies have enough on hand to explore different strategies. Piles of corporate cash hoarded as a cushion against falling revenues could now spark a visible pick up in M&A activity, suggests Baratta, who says more enquires around acquisition finance are starting to filter through at the bank, and that a spike in M&A activity is a “core” 2021 expectation amongst the team. It could be either defensive, or M&A activity triggered by companies seeking growth via acquisitions, particularly amongst those struggling to boost revenues, he predicts. “M&A can be a good way of aggregating a business in certain sectors and companies might seek to build their footprint geographically.”

Others are more cautious however, citing ongoing uncertainty and companies perceiving “getting back to normal” as more of a priority than any corporate transformation. “M&A could be difficult to justify in quite a few sectors,” warns Paul Watters, Head of EMEA Credit Research at S&P Global Ratings. Campbell certainly doesn’t predict meaningful M&A activity in the cruise ship sector, although he qualifies this could be more a consequence of the fact the industry only has three big players as it is. All have secured liquidity runways, and with vaccines and recovery in sight, things will soon return to normal, he predicts. “Assuming we all successfully navigate this period – which is my strong expectation – I don’t imagine big players will do M&A. We make up most of the industry and I don’t expect a massive consolidation.”

Invest

Treasury teams could use their cash on hand to invest in the business. Climate change is certainly a pressing issue. The OECD estimates that US\$6.9trn a year is required up to 2030 to meet climate and development objectives. Companies that have drawn up future proof, strategic climate strategies including plans for investment to meet accelerating structural trends are emerging as industry leaders. “Anyone wanting to show leadership in their industry in an industrial sense also needs to show leadership in tackling climate change and in their ESG ambition,” says Baratta, who highlights investors increasing preference for best-in-class corporates and those with a solid ESG strategy.

Yet S&P’s Watters says signs of companies using cash to invest have yet to emerge. The latest analysis sees no broad corporate themes regarding capital investment or more particularly in mitigating climate change, he says. “Capital investment continues to be very weak in many sectors. There is still a lot of uncertainty as to when the recovery will become sustainable.”

Payouts to investors given the equity rally could make a comeback, suggests Baratta. “If current valuations come

under stress, there could be a rationale for supporting stock.” Not surprisingly, 2020 was the worst year for dividends since the financial crisis, as companies suspended or cut payouts to conserve cash. It remains to be seen whether treasury teams are confident enough of what lies ahead to start to reward investors again; besides, businesses that received state support during the crisis remain under pressure not to reward shareholders too quickly.

Credit rating

One of Carnival’s priorities is to strengthen its credit rating, restoring its investment grade rating by reducing its debt pile and repairing the balance sheet. Carnival’s rating has fallen to B (bonds rated double B plus and below are known as high-yield, or junk) and “as long as markets remain favourable,” Campbell says he wants to try and repair the damage. “Our goal is to rebuild our balance sheet and return to an investment grade credit rating over time. We have historically maintained a strong investment grade credit rating to absorb temporary shocks. As it was, having that balance sheet strength enabled us to absorb some of the COVID impacts.”

It’s a nod to the sharp difference in market access the company felt when it was forced to tap high-yield investors. A strong credit rating provides access to a far larger pool of investors and typically means lower borrowing costs. Most recently, it has also come with central bank support given central banks began buying investment-grade rated companies to support the bond market in the wake of the pandemic.

The best way to improve a credit rating and a company’s financial risk profile is to pay off debt, says Watters. He adds that credit ratings are based on many factors including the state of the industry, the company’s competitive position therein, and its profitability. The pandemic’s impact on growth and earnings has put credit metrics out of kilter and companies’ financial risk profiles under pressure – especially those with weaker ratings. “The obvious way to improve a financial risk profile given the disruption caused by the pandemic is to improve earnings and cash flow,” he advises. As to whether companies are using their piles of cash built up over the past year to cushion them against falls in income, he hasn’t noticed any particular trends yet. For now, key themes include some large companies starting to pay back government support that they may have received. But with little opportunity cost from raising debt and holding cash, most are simply choosing to stockpile liquidity until the business outlook becomes clearer, he says.

Conclusion

There is no doubt that businesses like Carnival and others in hard hit sectors have had it tough. But Watters concludes with a thought for speculative grade corporates and SMEs for whom the capital markets have not been a source of largesse. They have burnt through cash, raised finance through the government loan schemes, and are in a much more vulnerable position. “Many SMEs are seeing their top line under huge pressure and their earnings and cash flow affected. Many have taken on more debt, and so from a credit perspective, their overall credit quality has weakened.” Indeed, he sees a litany of business failures ahead. “A lot of SMEs may not have a strong enough business model to see them through the recovery. It’s not really a liquidity issue – it’s more about having a sustainable capital structure given their business model in a post pandemic world.” ■



With only a few months remaining before LIBOR's expected end date, how prepared are treasurers for the transition – and what should they be focusing on right now?

The transition away from LIBOR dates back to the aftermath of the financial crisis and the discovery of a widespread rate-rigging scandal that resulted in fines amounting to over US\$9bn. In 2017, the FCA subsequently announced its intention to stop compelling banks to submit to LIBOR after the end of 2021. As such, LIBOR is set to be replaced by several different risk-free rates: the Swiss average overnight rate (SARON), Euro short-term rate (€STER), the Sterling Overnight Index Average (SONIA) for GBP; Tokyo Overnight Average Rate (TONAR) and the Secured Overnight Financing Rate (SOFR) for USD.

While the end of 2021 is still expected to be the end date for most LIBOR rates, the ICE Benchmark Administration (IBA) published a consultation paper in December proposing that some USD LIBOR settings – namely overnight and one-, three-, six- and 12-month LIBOR – would continue to be published until 30th June 2023.

The outcome of the consultation has not yet been announced – but in the meantime, most LIBOR rates are still expected to cease publication at the end of this year. With only a few months to go, how much progress have treasurers made in preparing for the transition?

Wait and see

At this stage, many treasurers have opted for a 'wait and see' approach. Svenja Schumacher, Assistant Director, Treasury Advisory at Deloitte, explains that banks have been mandated to offer non-LIBOR products alongside LIBOR from Q420, "and as a result we have recently noticed an uptick in conversations about this topic, primarily with some companies raising new debt."

So far, says Schumacher, companies have generally preferred to opt for LIBOR products with the inclusion of suitable fallback provisions. "Only in the past few weeks have we started working with more corporates that are willing to take the plunge and raise new debt based on SONIA," she adds.

Indeed, a survey carried out by Deloitte during a virtual conference in November indicated that 67% of companies had had no contact with their relationship banks with regards to existing LIBOR-based products to discuss the upcoming LIBOR changes. In addition, 45% had not yet done any analysis on the fallback provisions included in their existing contracts.

"We know of larger organisations who did indeed start their preparation (or at least some review/planning) earlier, and some more of our larger corporate clients have started the active transition of existing products since our conference," Schumacher adds. "But I think it is fair to say that the majority of the market is probably not as advanced on the transition to SONIA as the FCA would like it to be at this stage."

For treasurers that still have some way to go, it's important to note that there may be some significant challenges to overcome – not least when it comes to the task of identifying existing references to LIBOR across the company.

"Many companies do not have a complete inventory of where LIBOR is currently referenced within their organisation, since references to LIBOR are not only included within contracts close to Treasury, such as debt, derivatives or cash and investments, but also elsewhere in the organisation, such as in commercial contracts or employee benefits," explains Schumacher. "It is therefore important to identify and brief all stakeholders, before treasurers even start with the time-consuming exercise of extracting the relevant information from contracts."

And as Schumacher points out, another challenge is the assessment of the potential consequences of the transition, from fully understanding the commercial differences between LIBOR and SONIA to assessing the impact on existing hedge accounting relationships and taxation.

"The consequences can be significant, including fallback to suboptimal arrangements and potential value transfer upon transition," she concludes. "To achieve a smooth and fair transition to SONIA, treasurers will require a multidisciplinary team with experts from other functions of the organisation." ■

This much I know

Alexandra Neely

Regional Treasurer



Tell us how you arrived at your current role.

Like many people I fell into treasury. After I earned my MBA in Finance, I joined a financial rotation programme at Constellation Energy where I served on their treasury and Financial Planning & Analysis teams.

My first rotation was in treasury, specifically capital markets. I loved it. And what I loved most about working in treasury was that every day was different. One day might be spent working on foreign exchange hedging; the next day reviewing capital structures – and the following day focusing on solving a cash management pooling structure problem.

After almost three years I had the opportunity to join Hilton. Although Hilton was a privately owned company, it was planning to go public, which meant there was the opportunity to really improve and transform the treasury function.

Then about 18 months ago I moved to Nestlé to be Regional Treasurer for North America.

How much opportunity is there for career progression in your role?

I am extremely fortunate to be able to work for a company like Nestlé – not just because it has such a global reach, but also because it believes that people are its most important assets. This shows in the coaching, training and empowering of each individual. Because Nestlé believes in investing in its employees, the opportunities could range from a global treasury role to a financial leader within one of the divisions. It really comes down to how you want to challenge yourself and grow your career.

What is the best piece of advice that you have been given?

There are two pieces of advice that I have received in my career that have been helpful to me. The first is that just because you might fail doesn't mean you should not try. And the second is to always ask 'why?'

What advice would you give to junior treasurers to advance their careers?

If you want to develop a career in treasury you must always be prepared to learn new things. Change is a constant and you will need to adapt.

Since the best way to learn is through hands-on experience, junior treasurers should seek out many different opportunities and experiences, thereby gaining a solid understanding of the fundamentals of treasury. And if you can't change positions, I would recommend volunteering to lead short-term projects. As you expand your experience you will begin to see how the different parts of treasury interrelate, and how treasury's activities impact the rest of the company.

“Because Nestlé believes in investing in its employees, the opportunities could range from a global treasury role to a financial leader within one of the divisions.”

ONLINE

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Catalyst for change

In order for treasurers to make their voices heard within their organisations, Alexandra believes that they need to show the ways in which treasury is a strategic partner to the business – not just by highlighting its focus on stewardship and continuous improvement, but also by driving solutions that add value.

“Treasury should always be focused on understanding a business’s strategy, developing solutions to support those priorities and finding new technologies that can be leveraged,” she says. “Our treasury team is focused on understanding key gaps or obstacles to overcome, applying our financial expertise to introduce new solutions to our businesses.” Alexandra believes that in these ways, treasury can be an effective catalyst for change and help to drive transformation: “It’s important to demonstrate the positive impact of solutions in a quantitative way, and communicate that to as wide an audience as possible.”

For women who wish to advance their careers in treasury, Alexandra believes that seizing all available opportunities, combined with a willingness to learn, is key. “Identify opportunities to start building skills such as managing or coaching, or leading cross-functional projects outside of treasury,” she advises. “Experience has taught me it is not about the title, or about how many people report to you. It is always about learning. If you are not learning anything in your current role, start looking for a new challenge. It’s also important to seek feedback on how you perform in these areas, so don’t be afraid of that.”

In addition, Alexandra believes that gaining a strong understanding of emerging technologies, such as artificial intelligence and robotic process automation, is becoming more central to day-to-day treasury management.

“ You don’t have the opportunity to have an impromptu chat, share a coffee or go out and celebrate as a team. You have to work harder to on-board new members, to develop a sense of camaraderie and team spirit.

Broader perspective

Although Alexandra focused on developing a deep understanding of treasury early on in her career, she says that she sometimes found herself saying yes to projects or initiatives that she was not sure that she could achieve. However, she has also come to understand that the most important thing is having confidence in her own abilities. “I loved my work in treasury and believed becoming a technical expert would make me a stronger treasurer in the future,” she says. “However, having had more experience, I have come to realise that you don’t need to have all of the answers to be a leader in treasury.”

In fact, she believes that having experience in other areas such as operations can help with gaining a greater understanding of the impact treasury can have on the rest of an organisation. Treasury should not exist in an ivory tower, but should maintain good communications and collaborate with stakeholders across the organisation.

“We can’t just assume that everyone understands what we do and why we do it, whether it’s hedging foreign exchange or handling intra-group loans in a certain way,” says Alexandra. “Treasury needs to explain the benefits of what it does and the reasons why, and how it brings a positive impact to the business. It also needs to understand why other departments do what they do. Because at the end of the day, it is the business that drives the value in the company.”

As a leader, Alexandra acknowledges the challenge of keeping the team fully engaged and motivated in a virtual environment. “You don’t have the opportunity to have an impromptu chat, share a coffee or go out and celebrate as a team. You have to work harder to on-board new members, to develop a sense of camaraderie and team spirit,” she explains.

However, for all the difficulties the past year has presented, Alexandra remains focused on helping the team stay motivated and engaged. “When I joined Nestlé, my team and I have developed a vision for the kind of treasury department that we want to be,” she says. “Last year we launched a number of initiatives and changes. It has taken a huge amount of effort and a lot of hard work, and now those labours are beginning to bear fruit. We are not there yet, but we are well on the way to becoming the strategic partner for the business that we envisioned from the beginning.” ■



Profile

Alexandra has over ten years’ experience in corporate finance and treasury positions across multinational corporations. She joined Nestlé as Regional Treasurer for North America in 2019. In this role she heads up the treasury operations for the region, with responsibilities for cash management, foreign exchange hedging, supply chain finance and merchant services. In addition to supporting capital markets activity and overseeing the capital structure for the US, she continually seeks out opportunities to leverage new technologies and solutions. Alexandra holds an MBA from The Wharton School, University of Pennsylvania and a BA in Economics from Wellesley College.



A Treasury Today poll found that few treasury teams are aware of New Payments Architecture that promises to transform interbank payments.

According to a Treasury Today poll, most treasury teams are unaware of New Payments Architecture (NPA) being developed for UK payments. Just over two thirds of our survey respondents said they were unaware of the technology and new rules that will transform interbank payments and the way payments are cleared and settled between banks.

From paying employee wages to suppliers, to how customers buy goods, interbank payments are a key part of everyday corporate life. The new system aims to future-proof UK payment services by providing a robust and sustainable infrastructure where innovation and competition can thrive. The NPA will comprise a core clearing and settlement layer which will enable money to move every time money changes hands and services are bought and sold, regardless of whether it's an online banking payment, direct debit or a cheque.

Faster payments, BACS and cheque payments have historically been processed using separate infrastructures using a mix of rules, standards and processes. NPA will bring all of these payment schemes together in a process that involves rebuilding the core clearing and settlement infrastructure from the bottom up. It also simplifies requirements for payment service providers (PSPs) through interoperability, catalysing innovation.

Given the lack of certainty around the scope and the expected 2023 delivery date of NPA, organisations might be tempted to sit and wait on the sidelines until the core infrastructure is delivered. But treasury teams need to begin considering how to transition from existing systems, and how best to prepare, capture the opportunity and mitigate the impact of NPA when the proposed architecture is still conceptual. This should include how to avoid costly throw-away integration before NPA is delivered. New, or challenging PSPs breaking into the sector also need to look at how best to connect to the UK Payment Infrastructure for the first time.

"The final design of the NPA is still under review by the industry and the UK regulator, but can almost certainly expect that the final state will be based around certain criteria," says Joss Wilbraham, Director of Customer Success at Form3, which offers advanced payment technology for financial institutions. He expects a 'layered model' with a faster, core clearing capable of processing a new Single Priority (and other types of Immediate Payments) and settlement without pre-funding for direct participants.

NPA will also include a set of common services such as account re-redirection, reference data and enrichment and an overlay services layer incorporating request-to-pay, confirmation of payee, bureau and other competitive market offerings. It will also include a richer industry data standard based around ISO 20022, instead of ISO 8583, he says.

Once implemented, treasury teams should expect key impacts around real-time services and enhanced intra-day liquidity, Wilbraham continues, listing:

- Wider availability to direct access and the full benefits of the enhanced, real-time service.
- A potential reduction in collateralisation due to the removal of settlement prefunding.
- Improved reconciliation through the adoption of ISO 20022 with potentially wider benefits arising from a richer data set and associated insights.
- Enhanced, intra-day liquidity management.
- New and improved overlay services as competitive offerings are developed.

"Treasury teams should be evaluating their customer journeys and assessing the likely impact from the introduction of a new payment type incorporating a richer data set and revised funding model," he concludes. ■

Making it hard for miscreants

From leveraging artificial intelligence and streamlining processes to monitoring employee activity and being more discreet on social media, treasurers have many options for detecting and preventing specific types of fraud.

The upsurge in financial crime during the early stages of the pandemic illustrates the point that criminals thrive in chaos. At individual company level, such conditions can be created by a cumbersome and disparate ERP and banking landscape where there are no uniform processes to track cash outflows, treasury accounts that are not subject to the same controls as other corporate accounts, and a preponderance of manual processes.

It is widely accepted that eliminating manual handling of payment data removes many opportunities for misuse.

“Automating invoice handling and payment processing is one of the best means of increasing security as it adds to the transparency, quality and speed of payments,” observes Anna-Lisa Natchev, Vice-President of Sales at Nomentia. “The process also needs a clear owner, responsible for both functionality and security.”

There is also a strong case to be made for the view that treasurers with decentralised operating structures and fragmented or outdated technologies are at the highest risk from fraudulent activity.

“Treasurers should apply checks and validations on payment transactions and it is crucial that this is automated as part of the payment process,” says FIS treasury solutions enterprise strategist, Steve Wiley.

He suggests that digital payment hub solutions can flag suspicious payments and define a workflow process to deal with them, including involving the right teams – such as accounts payable and the compliance department.

Many corporates have more than one payment hub because of disparate ERPs, purchase to pay, human resources and other systems that drive the generation of a payment.

“This makes the detection of fraudulent activity much more complex because of the multiple points of exit for payments, so the first recommendation would be to move towards the centralisation of payment execution through a single payment hub,” says Kyriba’s Chief Product Officer, Thierry Truche.

At individual transaction level, treasurers should be alert to requests for payments made urgently, late or close to the end of the day, at the end of the week (Friday night) or even during the weekend. An indicator of internal fraud is sending a payment for approval a second time, where the first genuine request is followed by a second request for the same payment but with a different (fraudulent) account number.

Corporate treasurers may have multiple bank relationships and hundreds of bank accounts worldwide, each with their

own system access, so treasury needs to consolidate these accounts and be more in control of its destiny.

That is the view of Omri Kletter, Global VP Product & Strategy at Bottomline, which works with treasury teams to implement defence systems to catch fraud earlier and prevent an over-reliance on banks to spot suspicious activity.

“Given the emergence of new tools such as confirmation of payee and pay management software, treasury teams need to review their payer and beneficiary processes,” he continues. “Considering the growing, global threat of authorised push payment fraud, it has become increasingly difficult for banks to deal with this type of fraud if the treasurer has authorised the transaction. Banks are appealing to treasurers to up their game in adopting comprehensive fraud prevention technologies and processes.”

For payments tracked in a spend management system or in the company’s ERP system, treasurers need to understand and be able to rely on the process within those systems that create a payment batch observes Martin Bellin, Senior Vice President of Operations EMEA at Coupa (formerly Bellin).

“Internal fraud happens typically on two levels – one time high volume; or regularly with smaller payment volumes,” he says. “If treasurers know the usual process they can determine if something is out of the ordinary.”

For external fraud prevention, allow lists and block lists help identify account details provided for a known supplier that do not match previous records. Past executed payments are also useful for comparing settlement instructions, currencies, size of amount, or payment terms.

“If usually only small amounts have been paid and now a large payment is being requested to a different account, this should be recognised as a suspicious payment,” says Bellin.

“Likewise, treasurers should be wary of unusual payments for a particular legal entity – for example, a subsidiary being asked to transfer a large amount for an acquisition.”

Other potential signs of bank account fraud or false invoicing are when the approval process has deviated from the norm or the payment is going to an account in a sanctioned country when the recipient claims to be from a ‘regular’ country. Requests for urgent payment or reluctance to disclose information should also arouse suspicion, as should requests for payment directed at people who would usually not approve such payments.

Treasurers should take advantage of threshold and limit monitoring features within their applications that establish

limits around the number of trades that can be executed by a user or the magnitude of payments they can approve, says Peter Pippan, Product Owner, ION Group.

“Alerts should be enabled to send reports when thresholds have been exceeded,” he says. “Audit trails track all activity, including who performed an action and when. Every version of data saved should be available for examination so that history can be reviewed and logs produced by the system should not contain any sensitive information that can be used by hackers to gather intelligence. Finally, workflow-oriented tools help users to better manage operations as opposed to sharing spreadsheets via emails.”

Passwords should expire after a number of failed login attempts and users should be forced to reset their passwords periodically. Sensitive data stored in the database should be encrypted and data in motion should be encrypted by secure channels like SFTP, so that it cannot be ‘sniffed’ or intercepted on the network.

“Treasurers should stick with tried and trusted practices,” says Pippan. “For example, automated reconciliation of bank statements against internal systems will spot fraudulent behaviours. To do this, treasurers should have their treasury management system linked to that of their bank so they can receive prior day and intra-day updates without delay. The introduction of open banking APIs makes it possible for treasurers to have a near real time view of their cash position.”

Corporates have accelerated their move to the cloud and by continuing this migration can leverage the huge sums spent by cloud vendors on security. They should also encourage their banks to leverage cloud computing and artificial intelligence to monitor the activities of bad actors by adding apps such as NetGuardians to their core offerings.

“Having systems and processes running on the cloud allows additional security measures to be taken that are very difficult to implement or are not available for deployment on site,” says Finastra’s Global Head of Capital Markets, Pedro Porfirio. “Two and three factor identification, single sign-on, and using artificial intelligence to check on uncommon behaviour are fundamental to keeping organisation and clients safe.”

Another potentially useful application is AIO’s financial identity verification technology, which enables customers to establish and own their verified financial identity and share it securely with financial institutions.

“Cloud-leading vendors offer solution uptimes above ninety nine per cent, have rapid disaster recovery services packaged with standard cloud services, and have dedicated processes, staff and technology which can mitigate fraud,” says Wiley. “Treasurers who were exposed by the pandemic will need to upgrade their technology to the cloud to give themselves the best possible chance of detecting fraudulent activity.”

Fraudsters often use social or business media to identify senior financial staff and determine when they are out of the office in order to perpetrate identity fraud. To minimise this threat, treasury consultant Craig Jeffery advocates implementing guidelines for private and public posting; providing training on when staff should or shouldn’t post travel or holiday information; and encouraging staff to reveal only the general area they work in rather than their specific title.

Employees should not use their company email address to register on any social media website for personal use and any social media posting by an employee should be consistent with company policies and reviewed through a central function.

Staff should make their social media profiles private and not public and specific training for certain job functions in a treasury department is also essential. “Fraudsters typically use fear and urgency to push fraud attempts,” says Wiley. “Employees in the treasury department must be aware of this and should not have an issue questioning anything.”

Some companies ask their employees not to use social media or restrict their usage, but relying on individuals to exercise discretion is risky. As Truche points out, it is pretty much impossible to prevent the teenage child of a senior staff member from posting a video on TikTok during their holidays, for example.

It may help if senior financial staff didn’t post pictures on social media from their vacation, or send greetings from holiday on those public platforms, says Bellin. However, he adds that it is often the autoresponder of a mailbox or a simple call to the assistant excusing the absence of such a senior manager which enables fraudulent attempts.

The payments industry has a job to do in waking people up as to how fast the business of fraud is evolving, concludes Kletter. “Treasurers cannot rely on an approach laid out a year ago to suffice for the future. While coronavirus accelerated digital transformation, it also accelerated new vectors in fraud and increases in insider fraud.” ■

Watching the workers

The merits of using employee monitoring software have been widely debated since the start of large scale working from home. While the main role of these systems is to ensure that people are working when they should be, the technology can also be used to detect suspicious activity.

For example, Teramind’s solution combines user activity monitoring, data loss prevention and optical character recognition forensics to allow companies to create policies that will flag certain events and specify what actions are to be taken. Possible actions include blocking the action from being executed in real time, or even locking out the user from their endpoint.

The optical character recognition technology scans text or regular expressions (such as sequences of numbers like credit card or account numbers), explains the company’s VP of Global Operations, Eli Sutton. “We provide session recording functionality so the company can fully review flagged sessions to get a detailed view of all the preceding events,” he says. “Session recording can be turned on at all times or only when the user is in violation of a predefined policy.”

The technology comes with a ‘stealth agent’ option that is hidden to the user. This cannot be enabled or disabled like the revealed agent and is designed for companies who are monitoring with security in mind.

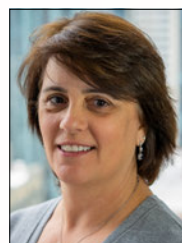


CashPro Assistant rollout continues with a reimagined authority management service

Identifying and maintaining authorised resolution and account signers is a common challenge for treasurers – but Bank of America’s new CashPro Assistant skill for authority management turns the traditional approach on its head. Jennifer Boussuge, Global Head of Treasury Fulfilment Service Operations within Global Technology & Operations, and Linda Haddad, Global Product Head for CashPro Assistant, explain why the tool is needed, how it works, and how the rollout is progressing.



Jennifer Boussuge
Global Head of Treasury Fulfilment
Service Operations within Global
Technology & Operations



Linda Haddad
Global Product Head for
CashPro Assistant





Traditional signer maintenance is time-consuming and entails a myriad of extensive, manual processes for clients and banks alike. We're changing that.

Jennifer Boussuge, Global Head of Treasury Fulfilment Service Operations within Global Technology & Operations

Managing who has access and authority for maintaining bank relationship, accounts, services and in general to conduct business on behalf of their company has long been a challenge for corporate treasurers. From initially adding these authorised individuals, and then maintaining the list over the life of their bank relationship, authority management is a complex, monotonous paper-based process that has an incredible opportunity to evolve with the digital age. At times the process may even involve sourcing replacement documentation when the authority list gets out of synch over time.

To compound the challenge, when corporate treasurers are prompted by their own auditors or policy to provide evidence of the authorities related to their bank relationship, they will need to work with the bank to recreate a view that at times may be many years old, using a paper-based process.

Other shortcomings of traditional approaches to authority management include repetitive data collection, signature sample capture, and jurisdictional requirements for individual Know Your Customer (KYC), which may include personal identifying information (PII).

Given these challenges, there is plenty of room for improvement. Over the last couple of years, Bank of America has, in consultation with clients, devised a new way of approaching this topic. The resulting authority management skill added to CashPro Assistant has been successfully released in EMEA and is now being rolled out in North America.

Today's authority management: the challenges

"Traditional signer maintenance is time-consuming and entails a myriad of extensive, manual processes for clients and banks alike," says Jennifer Boussuge, Global Head of Treasury Fulfilment Service Operations within Global Technology & Operations at Bank of America. "We've challenged the status quo by creating streamlined, digital efficiencies clients will benefit from tremendously."

When companies open an account, they must inform banks who their authorised signers are for actions such as signing documents and cheques. Typically this is done using a paper signature card which is passed to the bank. The bank then scans it and adds it as an image onto a repository or database that can be accessed internally.

"Many clients have multiple accounts with us, with the same set of signers for every account," Boussuge explains. "So if you have 100 accounts, a bank can request the same signature card, with the same signature samples, 100 times."

Keeping authority profile records for accounts up to date is a similarly inefficient process for both banks and organisations. "Many of our clients do not have a centralised location for accessing this information," explains Linda Haddad, the bank's Global Product Head for CashPro Assistant. "It's difficult for clients to determine their total bank account population, let alone who has which authorisation on those accounts."

Compounding the challenge, treasury teams don't always remember to keep their banks informed about changes to their authorised signers – as Boussuge points out, "the question of who is authorised is very much a part of a client's own process and policies. Inevitably the bank can become a second thought, which means we get out of sync very quickly."

With no means of automatic records synchronisation by the bank and by the company, challenges can arise when companies need to request signer details from the bank, for example when an audit is required. Traditionally, accessing this information from a bank can take days or even weeks – and when banks do provide signer information, it will often be inaccurate. In today's global economy, the complexity can be all the greater when reviews encompass different regions.

Rethinking the process

To tackle these issues, Bank of America engaged a pool of clients to help design a new approach. The result: CashPro Assistant authority management, a new skill that will ultimately be available to all CashPro clients.

"We had been hearing feedback from clients and operations about the manual, paper-based aspect of signer management, and we decided to do something about it," says Haddad. "We formed a cross-business team that included some of our key clients, with the objective of simplifying the tracking, modifying and reporting of signatory authorisations. CashPro Assistant authority management is that re-imagined solution."

Crucially, the new approach involves organising authority management not by account, but by signer. “Rather than having one signature card with a list of signers for each account, we thought, ‘What if we create one signer profile per person, and then add and remove accounts that are assigned to that person?’” says Boussuge. “Instead of one person providing their signature specimen ten times for ten different accounts, we can now give that individual an authority profile card and then add or remove the ten accounts. The beauty of this solution is the signer only provides their required information and signature specimen once.”

As well as being more efficient than traditional methods, a signer-based approach also addresses privacy issues that can arise when using standard signature cards. “If you pass a signature card within your company to collect signer information and signature specimens, everyone who is on that signature card will see each other’s potentially private information,” says Boussuge.

When authority profiles are organised by signer and stored in an accessible database, individual signers can give the bank their details without sharing them across multiple channels and people.

Digitising the process

Replacing an account-based process with a signer-based process is one part of the new approach. Another piece of the puzzle involves digitising the signature card process and storing signer profile cards not as PDF images, but as data.

“The authority profile card then becomes a data collection device synced through CashPro,” says Boussuge. “The data is stored on a centralised, secure database, which allows us to grant access to necessary teams within the bank, enabling access to a single set of data.”

For example, this means that when a signature needs to be verified, a bank employee can pull the specific information from the database – and the bank can control the details users are entitled to view, protecting potentially sensitive information, such as a driving license.

“The next step is to make the data visible to our clients,” says Haddad. “Through CashPro Assistant, a client can now view their authority profiles we have on file, allowing them to essentially pull a report on all their signers with the click of a button, saving everyone days or possibly weeks.” She adds that when clients want to make a change, they are able to submit simple, digital requests to make changes to their data.

Looking further ahead, Bank of America plans to extend the concept beyond the parameters of signature cards to include other types of authority – such as the authority to submit phone wires, or the named contacts for failed payment files. Finally, the project will see clients being given full control over their data, with the ability to manage their own authority information in real-time and without the need for paper signature card documents to effect changes.

Building connections

As Haddad explains, the ability to connect the client-facing and back-end applications is key to the development and success of the solution. “Often, bank portals aren’t connected to the back-end operation,” she says. “The portal may be great for the client to interact with, but it stops there – and at the back-end, the bank is still operating in the traditional way using paper.”

Bank of America’s approach, conversely, involves directly linking the back-end and client-facing applications, while digitising both of these components. “This means that when the client sends a request to add an authority profile, it is auto-cased and completed often without delay,” says Haddad. “The client can see it in CashPro Assistant at the same time.” She explains that this integrated approach makes the solution scalable for the future, as well as reducing both the need for manual processes and the risk of error.

CashPro Assistant authority management: the low-down

The new skill includes the following features:

- **Full authority profile.** The inclusion of product contacts, payment approvers and access entitlement roles will expand the view of an authority profile, making it inclusive of the full view of authorities an individual holds at the bank.
- **Signer at the centre.** CashPro Assistant authority management includes signer profiles for individuals, with accounts added or removed from scope as required.
- **Digitised records.** Whereas account signature cards have been stored as PDF images, the new process will record signer information as data that is stored on a secure single database – meaning bank users can access single fields as needed, instead of viewing the whole signature card. This removes the potential of oversharing sensitive data.
- **Client access.** Providing clients with access to the data and the ability to edit it directly will make it much easier for them to run reports, submit change requests and self-manage their authorised signer data.

Progress so far

The new authority management approach is also about overcoming historical silos. “This is a unique partnership between the front-end client-facing experience, and the bank’s fulfilment operations,” says Boussuge. “The treasury world has historically been very transaction focused – but this moves us to the next frontier, by melding a process that is so painful for clients.”

The development of the solution has been shaped by the bank’s CashPro client advisory board and roundtables, with clients providing feedback on how the experience should be designed. “We had a vision, but the design and evolution of how we actually created this new tool is directly tied to client feedback and interactions over the past three years. They were part of every design decision,” says Haddad.

Rolling out the solution

Bank of America first released CashPro Assistant authority management in March 2020. The first stage of launch was purposefully focused on EMEA, where signer management tends to be more complex than in the US. The launch encompassed both the internal and external applications, with a subset of clients, varying in company size and scope, included in the first instance.

The launch came at a time when the COVID-19 crisis was gaining momentum. If anything, the crisis has accelerated the need for the solution. “We are in a very unique time, when companies are looking for opportunities to digitise anything and everything they can, to best enable their remote workforce,” Boussuge notes. “So in a way it was an opportune time to help clients focus on business continuity and digitising data.”

The EMEA rollout was completed last year and the bank’s focus is now on North America. “We’ve already started the phased rollout for clients and teammates, generating interest and excitement across the board,” says Boussuge.

All clients in the US and Canada are set to be added by the end of 2021. As such, in the coming months Bank of America will focus on launching the changes and the new skill. Looking further ahead, Latin America and Asia Pacific clients will benefit as well.

As outlined in a previous Treasury Today article, authority management is only the most recent of a series of skills being released in CashPro Assistant. Service dashboard, the skill that provides actionable request monitoring, and document centre, for sharing and eSigning documents, were released in CashPro Assistant previously.

Client experience

As authority management rollout continues, treasurers are seeing benefits of the new tool. Clients who use the tool are reporting satisfaction due to being able to produce reports in minutes instead of weeks, and submitting requests online in-tool. The client experience is also optimised in the process. “The game changer,” says Boussuge, “is that clients now have the time-saving option to submit requests very quickly online instead of picking up the phone or typing an email.”

“The benefit of this new digital, online option is that any required documentation can be exchanged via the online portal, which is a secure authenticated channel,” she adds.

With the rollout in EMEA now complete, Boussuge says that feedback from clients has been very positive. “They love the entire concept and digital focus,” she says. “They love the idea of having control, transparency and being able to overcome the challenges of antiquated, manual signer management. We have a continuous stream of clients already requesting the service.”

Haddad agrees, citing the example of a large retail chain that has high staff turnover, and consequently makes frequent updates. “They were very excited about the idea of no longer needing to complete signature cards manually, that they can do so in a digital way through CashPro Assistant and with eSigning,” she says. “Seeing and hearing how our services solve real-world problems is valuable feedback. It’s the reward we get when we use innovation to help our clients.”

Summary

Managing and accessing authorised signer information is a well-known challenge for treasury teams – and in today’s landscape, treasurers are placing more value than ever on solutions that reimagine outdated processes, increase efficiency and digitise data. With the rollout now under way in North America, CashPro Assistant authority management offers treasurers a new way of managing signers and authorisations. ■

Anatomy of a digitisation initiative

Bank of America’s initiative to digitise the signature card process will include the following five stages:

1. Gain control of signatory data and entering it into a database.
2. Make data visible to clients.
3. Give clients the ability to request changes to the data.
4. Expand the database to include other types of authority.
5. Provide clients with full control over the data on the database.

Record equity sparks direct listing and SPACs, but what are the risks?

Roaring equity markets have created a surge in IPOs. New trends are also emerging like direct listing and SPACs are back. Treasury teams weighing the best option need to consider the benefit of banks drumming up investor interest and the strength of their own brand to go it alone. As for SPACs, finance officers need to understand how much of the company they are actually giving up.

“We will definitely go the IPO route in the next five years,” says Kane Harrison, Founder and CEO of Wombat, an investment platform for retail investors that has just secured £2m seed funding. “Once we reach 2.5-3 million customers we want to list, allowing our customers to invest in our brand.” Of course, 35-year old Harrison’s listing ambitions for the platform he set up in 2017 to simplify the investment process for young people and encourage saving, will be subject to market conditions. In five year’s time the stock market, currently at record highs, may not be doing as well and today’s investor enthusiasm to buy shares in the digital companies rushing to list is particular to the pandemic and lockdown fast-tracking the shift online.

Yet Harrison’s enthusiasm underscores the boom in a type of corporate funding that has spent the last ten years in the doldrums. According to data provider Refinitiv, companies raised more money through stock market listings in 2020 than in any year besides 2007. For sure, Chinese tech companies face an uncertain regulatory environment following authorities halting the US\$37bn Hong Kong and Shanghai IPO of payments firm Ant Group, but businesses have still raised almost US\$300bn through flotations globally in 2020, including a record US\$159bn in the US. Moreover, important new trends are emerging from the boom. A traditional IPO used to be the only game in town. Now SPACs (Special Purpose Acquisition Companies) are back in fashion and more companies say they want to list directly rather than go through a traditional IPO process.

Going direct

The current trend in listing directly began when Spotify went direct in 2018. Back then, executives at the streaming music provider made much of how the company was “re-imagining” the traditional IPO process by ditching the services of big syndicate banks to go it alone on the NYSE. Since then, a small but growing group of companies including Slack, the workplace messaging application, and software companies Palantir and Asana, have also avoided costly investment banking fees to offer shares to institutions and retail investors on an equal basis, allowing them to buy as much as they want

and not be held back by allocations. Most recently, Roblox, the video game company, says it too plans to list directly rather than via a conventional IPO.

A direct listing has a few specific characteristics. Companies listing directly aren’t raising more capital – Spotify was only listing its outstanding shares (such as those held by employees and early-stage investors), with no plans for either a primary or secondary underwritten offering. Hence there is no need for the services of big syndicate banks responsible for selling shares and drumming up investor interest. This in turn means none of the traditional IPO characteristics like a limited float and preferential treatment for some investors, lock ups and price stabilisation – or the traditional share price “pop.”

Crucially, listing directly on an exchange means the opening share price is established by straight market forces, explains Greg Rodgers, a partner in the New York office of global law firm Latham & Watkins who represented Spotify and the financial advisors in the Asana and Slack direct listings. “Direct listing candidates really value setting the initial trading price at the most efficient price possible. In a traditional IPO, the sale to the public is agreed upon between the company and its underwriters and the market only speaks when the listing on the exchange occurs. Even then, it is somewhat artificial in that the only supply is from the company and the rest is locked up for a traditional 180 days.” In a direct listing, all the available shares for sale and all potential buyers participate in a two-sided price and volume-dependent market, he says. “It is like a normal trading day for a mature public company.”

Money on the table

Going direct also prevents money being left on the table, a bugbear in the IPO process amongst treasury teams whereby underpricing costs companies dear. In a traditional IPO, underwriters typically set an offer price below where the market price is going to open or expected to “pop,” passing along profits to investors. If the company had raised cash at the share price after the “pop” it could have either got more bang for its buck, or sold fewer shares, explains Jay Ritter, an expert on IPOs at the University of Florida. “Money left on the table is

money that is not cash on the balance sheet of the company and an opportunity cost,” he says. “The average money left on the table, plus underwriting commissions, worked out at US\$200m per IPO last year. IPOs are very expensive.”

Moreover, regulation could boost the number of direct listings. The Securities and Exchange Commission recently approved rules that allow companies to sell shares in the opening auction when they list directly on NYSE. It gives the green light to raise capital in a direct listing and opens that method of going public to companies needing to raise capital. “As with the direct listings we’ve seen to-date, the price for the company shares will be set by pure market forces and the primary sale will make the process more attractive to companies wanting to raise capital,” explains Rodgers, who cautions that details like disclosure and the correct role of the company’s financial advisors in the process still need to be worked out before a “pioneering company” takes the plunge.

The hitch

And there are risks. Despite the benefits, listing direct is only right for companies with strong brands, an easily understood business and investor awareness. “IPOs are sold and not bought,” cautions Jeff Harte, Managing Director, Equity Research at Piper Sandler in Chicago in a reminder of the vital role of banks in selling companies and building muscle behind an IPO. “At the end of the day IPOs are sold and pulling them off without roadshows and sales support of Wall Street is difficult.” For Ritter, this will ultimately confine listing directly to a niche. “Most mid-sized and smaller companies are not going direct,” he says.

Elsewhere, experts flag the process can leave shares thinly followed and without lock-ups, which restrict sales in the early months, vulnerable to falls. An IPO, unlike direct listings, also allow a company to find the sticky public investors at the right price through pre-listing allocations. The Council of Institutional Investors has also cautioned that allowing primary direct floor listing could allow companies to sidestep the typical vetting that comes with a traditional IPO, raising investor risk. “As you can see from Spotify, Slack and Asana, listing directly works best for companies that are fairly large, already have a cross section of investors in their private company investor group, and are going to be well followed by Wall Street analysts and picked up in research coverage,” says Rodgers.

SPACs are back

The traditional IPO is also getting a run for its money from SPACs. One of the hottest trends in US investment circles (UK regulation currently discourages SPAC listings) involves so-called blank check companies with an experienced management team and investment focus, but with no assets, floating on the stock market and raising money from investors. The team then hunt and merge with private companies looking to come to market, allowing companies in the SPAC to obtain a stock market listing and have their shares publicly traded for the first time.

Recent corporate names to take the SPAC route include tourism company Virgin Galactic, the US sports betting firm DraftKings and the electric truck maker Nikola. Luminar Technologies, a driverless vehicle technology supplier which came to market via a SPAC in December, made its 25-year old founder a billionaire in the process. According to the website

SPACInsider, some 248 SPACs came to market last year raising US\$83bn, while 127 SPACs have raised US\$37bn so far this year.

SPACs offer treasury teams a quicker route to market and less regulatory bind. Stock market flotations can be drawn out, involving months of presentations to would-be investors, distracting management from the day-to-day running of their company. SPACs can also be an attractive option for a company struggling to show profits. SPAC disclosures put more emphasis on future revenues in contrast to IPOs which require audited past financial statements, making it a route for loss making or young companies. It can also be easier for companies to negotiate a price or valuation with a SPAC sponsor or management team than it is via the traditional haggle between investment banks and fund managers too. “There aren’t as many regulatory hurdles or filings, and managers can typically do deeper due diligence with a SPAC – investors like this,” adds Harte.

The risks

But treasury teams navigating the SPAC route face a number of challenges. SPACs can be hit by muted investor enthusiasm, making it harder to raise money. Investors (those buying the shares in the shell company – not the asset management team behind the SPAC) don’t always get the best deal because the asset management team take 20% of the equity. “It’s pretty much a straight dilution away from investors buying the shares – getting investors interested is a hurdle,” says Harte.

Moreover, underlying companies face giving up a large chunk of equity to the SPAC sponsors. “There is no such thing as a free lunch,” says Rodgers. “Anytime you see people making money, you have to figure out where it’s coming from. SPAC sponsors end up owning a large percentage of a public company for a relatively modest investment, and that comes from the ownership of the SPAC’s target company. Whether that makes sense has to be balanced with the offer on the table.”

Another key risk for treasury teams to weigh is the amount of money the SPAC will deliver to the company. “The process involves quite a lot of uncertainty,” warns Ritter. “From an operating company’s point of view, the company will need to understand the terms of the deal and what percentage of the company is being given up. Moreover, after the deal has been negotiated, the SPAC shareholders still have to approve it and there is some uncertainty for the company as to whether they will. This is the risk.”

There is no doubt it’s the perfect time to IPO. Equity markets are roaring in a sure sign that the bull market is coming to an end. Treasury teams mulling the best route to market should talk to their investment bankers and lawyers, explore the likely valuations through an IPO and factor the risks of each process, the price on offer and the consequences of dilution.

As for Harrison, he is unsure what route he will take. For now, his focus is on ensuring the metrics are in place to attract another round of seed funding come the autumn. “It’s all about traction,” he concludes. “Investors want to see how many customers we are onboarding a week, how our customers are investing, how long they are staying on the platform, and how their use of the platform has changed since they first signed up.” ■



Resilience, leadership and inspiration

Adesola Orimalade
Head of Treasury



Adesola Orimalade's early treasury experience at a Nigerian telecoms group has given him a resilience and experience that is proving essential in his current role at travel group Kiwi.com. With aircraft grounded, hotels shut and borders largely closed, he talks about how he is navigating the current challenges and his sources of inspiration.

Kiwi.com (previously known as skypicker.com) is a Czech online tech travel group founded by Oliver Dlouhý and Jozef Képesi in 2012. The award-winning company provides a fare aggregator and booking capability for airline tickets and ground transportation. It aspires to build the world's first 'Virtual Global Supercarrier' that combines air and ground transport, ride-hailing and micro-mobility. In 2019 and before the pandemic grounded the travel industry, Kiwi had a turnover of US\$1.3bn, employed over 2,500 crew members and sold on average 40,000 seats a day. The company has branches in nine countries.

Never has Adesola Orimalade's core treasury belief that cash is king been quite so relevant. Since joining Czech online travel company Kiwi.com as Head of Treasury last June, he has played a pivotal role in helping the company navigate some of the most challenging months on record. Having sufficient funds to enable Kiwi.com to both meet its financial commitments and navigate the risk of keeping those commitments, has been his guiding mantra. "For many organisations in the travel industry, it has come down to just trying to keep the business alive and that means meeting crucial commitments," he says in a nod to the scale of a crisis where at the time of writing aircraft remain grounded, hotels shut and borders around the world largely closed.

Overseeing all incoming and outgoing cash flows has placed his three strong team at the very heart of the company. This ability to really add value throughout the organisation is one of the few silver linings to arise from the challenges his team has faced, he says. "We are in constant touch with all parts of the business from sales to risk, and we really appreciate this." For now, he says the business is "in a good position" and he says he draws a bitter-sweet comfort from the knowledge that the pandemic has grounded the whole industry, and that the benefits of opening up will be similarly widespread.

As the vaccines' roll out gathers steam, his priority is to position the business for the recovery and for what he is convinced remains our innate desire to travel, unextinguished by the pandemic. "People are waiting for the opportunity to travel and we are lucky enough to be in an industry where the recovery will come. Flights will get booked up again, it is just difficult to predict exactly when." That said, he doubts that air travel will come back overnight in the same way it disappeared. Logistical hurdles along the way to open skies could include COVID passports and flight corridors dampening demand and impacting travel for a while a yet.

Nigeria

The roots of Orimalade's resilience and calm become clear when the conversation turns to experience garnered in his native Nigeria, where corporate upheaval and fast-changing environments are more commonplace. Orimalade joined the ambitious, venture capital-backed telecoms start-up Starcomms in 2005, one of the new mobile companies disrupting a market long-dominated by Nigeria's state-owned and faltering fixed copper line network. Within three weeks of joining Starcomms as a deputy in the treasury department, Orimalade was catapulted into the top job as Treasury

Manager. His task was to both build the balance sheet and nurture an investor friendly corporate culture ahead of the company's IPO. "I'd never done corporate treasury before and it was interesting sitting on the other side of the fence," he recalls. "A lot of things needed to be put in place to demonstrate compliance as we moved towards listing."

His experience at the company also installed an early importance for cash. Starcomms required up-front finance to fund its nationwide roll out and brand building, buy masts and other heavy equipment as well as government licences. "It was very expensive, and we were paying out a lot ahead," he says. "I believe it really did teach me a resilience that I can apply to any circumstance."

Next steps

In a bold career step driven by his driving quest for change, despite it requiring "starting all over again", Orimalade decided to move to the UK in 2006. He stepped back into banking with roles at ABN AMRO and RBS. For the latter, he managed and reviewed a £1bn annual budget for intercompany treasury products and banking transactions, and supported regional corporate treasuries in the Asia Pacific, EMEA and US. A three-year stint at Bank of America managing the bank's EMEA trade finance client servicing team followed.

In 2008 Orimalade stepped back into corporate treasury in his first foray in the travel sector, joining Hogg Robinson, the corporate travel group bought by American Express in 2018. Here his role included overseeing a multi-currency treasury operation where he counts establishing controls to improve cash planning data and variance analyses from accounts payable, accounts receivable and commercial support as key roles. He also managed and audited the group's global banking relationships leading to rationalisation of underutilised or dormant accounts and an ensuring 15% cut in costs.

Diversity and inclusion

Most recently, Orimalade's passion for treasury has manifested in a new initiative to teach and share his expertise with students, especially those from ethnic minorities, many of whom he believes don't think about a career in treasury and are often unsure what it involves. "Treasury is not a career that many people know about," he says. "They know about accounting and finance, but they've never heard of treasury."



You can't wait for a crisis to show leadership. If you haven't built that relationship with colleagues, it comes much harder. It is about treating everyone as a human being from the start – people will see through it if it's just rolled out in a time of crisis.

Early last year he began offering treasury programmes at universities for business school students, holding his first seminar on the eve of lockdown for 30 post graduate students at Nottingham. His focus was on transactional finance, bringing the topic to life with exercises and by sharing real life experiences. "Once you start talking about transactional finance, how to manage credit operations, payments and accounts payable people get it. Unless students begin to understand treasury, they will always gravitate to other careers in finance like investment banking and asset management," he says, adding that practical exercises shaped around everyday treasury challenges from FX to dealing with a banking partners over a late payment, lit up the room.

The initiative is also rooted in his ambition to try and help solve the diversity problem in finance, where he highlights a notable and enduring absence of people of colour in both corporate treasury and mid and front office roles particularly. "Treasury is not as diverse as it should be – it's a challenge that should be a concern for everyone." It is only by talking about difficult and uncomfortable subjects like unconscious bias and white privilege that things will change, he argues. "We have to be open and honest about these things."

Leadership

Orimalade's call to teach and show others from ethnic minorities that a career in treasury is infinitely possible mirrors another key tenet of his treasury philosophy – the importance of leading by example. A characteristic shared by his own leadership heroes and which was first learnt from a senior manager early in his career but still resonates today. "He showed me how to lead with empathy and by example. I learnt that it's not just what you say – you have to put it into practice."

It leads him to reflect that crisis and unexpected events have a tendency to reveal the best (and worst) types of leader, exposing their ability to react and engage with employees and goals to "get the job done." For him, Arne Sorensen, the celebrated President and Chief Executive Officer of Marriott International and renowned advocate for sustainability, human rights, diversity and inclusion, is a standout corporate leader. "Sorensen appears to have such an ability to empathise with employees and never uses management speak," says Orimalade. "You can't wait for a crisis to show leadership. If you haven't built that relationship with colleagues, it comes much harder. It is about treating everyone as a human being from the start – people will see through it if it's just rolled out in a time of crisis." He also counsels how good leadership also requires calm decisiveness. "It's great to walk with passion and emotion, but people look to leaders to be calm and decisive and allow that calm to float through."

Good communication is another leadership essential. He endeavors to nurture and build it by talking to colleagues and team members about their everyday life or, as he puts it, by "walking around the office and getting to know people, rather than just interrogating them in the meeting room." Of course, working from home makes this much harder, calling even more on emotional intelligence and an awareness of "what to say, and when to say it."

Indeed, today's digital communication is going to become even more prevalent as hiring patterns change because of the pandemic, he predicts. Although it means the office and that type of easy communication will become more of a rarity, it also holds opportunities. "Companies looking to hire will now always ask if they need that person to actually be in the office," he forecasts.

Giving back

It leads him to reflect how remote working could open the door for a career in treasury for a new generation of people who might never have considered it – just like himself. Orimalade's first qualifications from the University of Nigeria, Nsukka, were in town and country planning and real estate. Back then he wanted to work with Shelter Afrique, the pan-African finance organisation that supports housing development, where his ambition was to help re-design Lagos's sprawling slums. As it was, a series of unexpected "opportunities" that he quickly seized led him first into corporate banking and then corporate treasury.

Today, Orimalade still harbours that early 20's ambition to work in the area and says he wouldn't rule out an opportunity to use his treasury skills in the charity housing sector. "It would be appealing to work for an organisation where you can track how you are helping others," he says. He is already dedicating much of his spare time to helping others, dividing his time between board roles for two charities, and mentoring immigrant children in the London area. He is also a published author – most recently of a colouring book for children which was published late last year, and before that a comedy reflecting on his experience as an African growing up in Nigeria and the broken political system. The book explores the subject of why political leaders find it difficult to give up power. "It addresses the immense pressure some of these politicians can be under, to do the right thing. Pressure from family and friends who want to maintain the status quo," he says. "I want to give back," he adds, highlighting his own fortunes. That said, he doesn't believe this will take him back to Nigeria just yet. "It's a beautiful country and I have been offered things, but I don't have plans to go back. There is still so much of the world I want to see." ■

The benefits of sustainability

Recent research finds many CEOs feel business isn't doing enough to integrate sustainability. Treasury teams have a crucial role, explains Marcelo Bacci, Chief Financial Officer at Brazil's pulp and paper giant Suzano, where sustainability adds value on every level.

Up until now Marcelo Bacci, Chief Financial Officer at the Brazilian pulp and paper company Suzano, wouldn't have thought of attending a UN Climate Change Conference. But in a sign of how much time he now spends on sustainability, the scrutiny his department receives from the company's creditors and investors and his need for fluency in key sustainability concepts, he plans to attend COP26 this November. "It is becoming more important for the company to have access and be exposed to cutting edge global sustainability concepts. We need to bring them into our work," says Bacci, who oversees a treasury team of 20 (the wider finance department is around 400) at the Salvador-based company that uses sustainably grown wood from eucalyptus plantations to feed global demand for products like toilet tissue, nappies and paper.

For treasury teams navigating the growing importance of sustainability and mindful of increasing pressure from influential investors concerned about the impact of climate change on their portfolios, Bacci's expertise on the importance of targets, investment, nurturing an ESG investor base and the growing link between sustainability and the cost of capital, offers valuable insight.

Targets first

Integrating sustainability begins with targets. Suzano went public with a raft of far-reaching sustainability targets last year following three years of discussions that included harmonising goals with Fibria, a domestic forestry rival it bought in 2018. Targets include a commitment to remove an additional 40 million tons of net carbon by 2030, hard reductions on water use and nurturing local development, where the company has pledged to lift 200,000 people over the poverty threshold in its areas of influence by 2030. Elsewhere, it has set targets for diversity and inclusion and is developing renewable products, with some pledges linked to management compensation.

"For example, when we say we want to reduce water consumption, we make sure our plant managers are incentivised to effectively reduce water consumption," says Bacci, who adds that choosing and setting targets was made easier by the fact sustainability lies at the heart of the business and is already central to how the group differentiates itself from competitors. "Our clients value the fact that we have a traceable supply chain and we only work with planted trees. The fact we only produce pulp from planted trees has a value in the pulp market, it is something very much linked to our business and differentiates the company from competitors."

His most important piece of advice is to set targets in line with broad corporate strategy. Don't link them to one off or

particular financial transactions like, for example, a green bond, he warns. "All our sustainability targets have a business orientation and haven't been developed to support a financial transaction. This link ensures first that our targets are genuine, and secondly that they make sense for the business."

Sustainability targets are the vital first step in raising corporate ambition, adds Sanda Ojiambo, CEO and Executive Director of the UN Global Compact, the voluntary organisation that cajoles and encourages businesses to integrate sustainability and which created a CFO Taskforce to help companies integrate the UN's 17 sustainable development goals into their operations in 2019. Targets, reporting and accountability are the organisation's guiding mantra. "We simply cannot reach the SDGs without businesses being on board," she says. The challenge is certainly daunting. According to UN Global Compact research, only 21% of CEOs feel business is currently playing a critical role in contributing towards the SDGs and only 39% of companies in a recent survey believed they had sufficiently ambitious sustainability targets.

Investors

Once targets are set, treasury and finance departments play a central role communicating them to investors, says Bacci. "We have to explain to investors and creditors how we are going to reach our targets. It's not just a number; we have to detail what we are going to do to get there." Most importantly, it is a chance to differentiate Suzano from the pack.

And as more equity and fixed income investors pile into ESG and competition for assets grows, Bacci is convinced Suzano's sustainability record will give the company an advantage. "We like this trend. We follow high standards and believe that the more attention the financial community pays to sustainable issues the better it is for Suzano – and for the world." Around 65% of the company's equity float is international investors of which he says a significant proportion are ESG-savvy European institutions, with whom sustainability is already an important seam of conversation. In the last year he says ESG-minded US and Brazilian investors are increasingly cropping up at investor meetings too.

Suzano's ability to articulate its sustainability story to investors is particularly important, given the company's need to distinguish itself from sustainability laggards in Brazil's wider agribusiness sector. Last year Nordea Asset Management delisted Brazilian meat producer JBS over transparency failings in its supply chain related to deforestation and the sharp rise in Amazon fires. Corporate destruction of the Amazon is an example of how some companies can create a reputational issue for others, or worse still in Bacci's words,

“the whole country.” It shadows the impact of Suzano’s important environmental policies that include setting aside a vast area of Brazil’s natural forest for permanent conservation, and reforesting thousands of hectares more with WWF Brazil.

But rather than calling for more regulation, he calls for better application of Brazil’s existing laws, and more standardisation. “Environmental legislation is good in Brazil. [The problem is] when the government is not clear about its ability to enforce the law. Companies that don’t follow the rules should be punished.” Moreover, he believes change is coming via influential investors allocating capital to best-in-class companies, and the steady evolution of sustainable finance linked to broad corporate targets. “Self-imposed, market forces are working,” he says.

Leverage

Next, treasury teams play leverage off targets and link meeting them to benefits in terms of cost of capital. This happened at Suzano when it became the first emerging market corporate to issue a step-up bond last September, selling a US\$750m bond linked to the company’s ability to limit carbon emissions. The issue, which attracted bids of more than US\$6bn, is tied to the company cutting its greenhouse gas emissions by 15% over ten years. Should the firm fail to reach the target by 2026, it will have to pay an additional 25 basis points on its coupon.

The finance team had to explain to investors how the bond gave the company skin in the game, says Bacci. “It took a long time to explain the strategy and structure,” he says. “Having a sustainability target linked to a financial transaction in a structure where your cost of capital goes up if you don’t reach the target is a good way to say to the world that you are serious about sustainability – to say that you are willing to pay the price financially and reputationally if you don’t achieve the targets. It’s very efficient, and treasury is closely linked to this process.”

The bond issue has also broadened the company’s investor base. “We had a significant number of ESG dedicated investors looking to buy this security in addition to our normal investor base.” That said, although ESG investors were notably present during roadshows, he does note that it is difficult to distinguish the pockets of ESG investors from mainstream investors at the big investment houses like BlackRock.

In a bid to sharpen stakeholder communication, Suzano has created an internal task force comprising the company’s communications and marketing departments with investor relations and treasury. “In the past we didn’t need to consolidate these efforts. But different parts of the company communicate with different stakeholders, and we need to make sure the strategic message is the same.” Other corporates are doing the same. Daniel Weiss, Deputy Group Treasurer at Novartis, says issuing the drug group’s first sustainable bond with a coupon step-up last year required a different kind of communication. A high-level, corporate-wide team helped smooth the process, particularly between the internal and external legal teams regarding language in the bond prospectus around how the coupon step was tied to Novartis’ KPIs around disease prevention. “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.

Investment

Meeting targets involves investment, once again placing treasury at the heart of a company’s ESG integration. “Our finance department is intimately linked because in order to achieve some of our sustainability targets, we need to make investments,” explains Bacci.

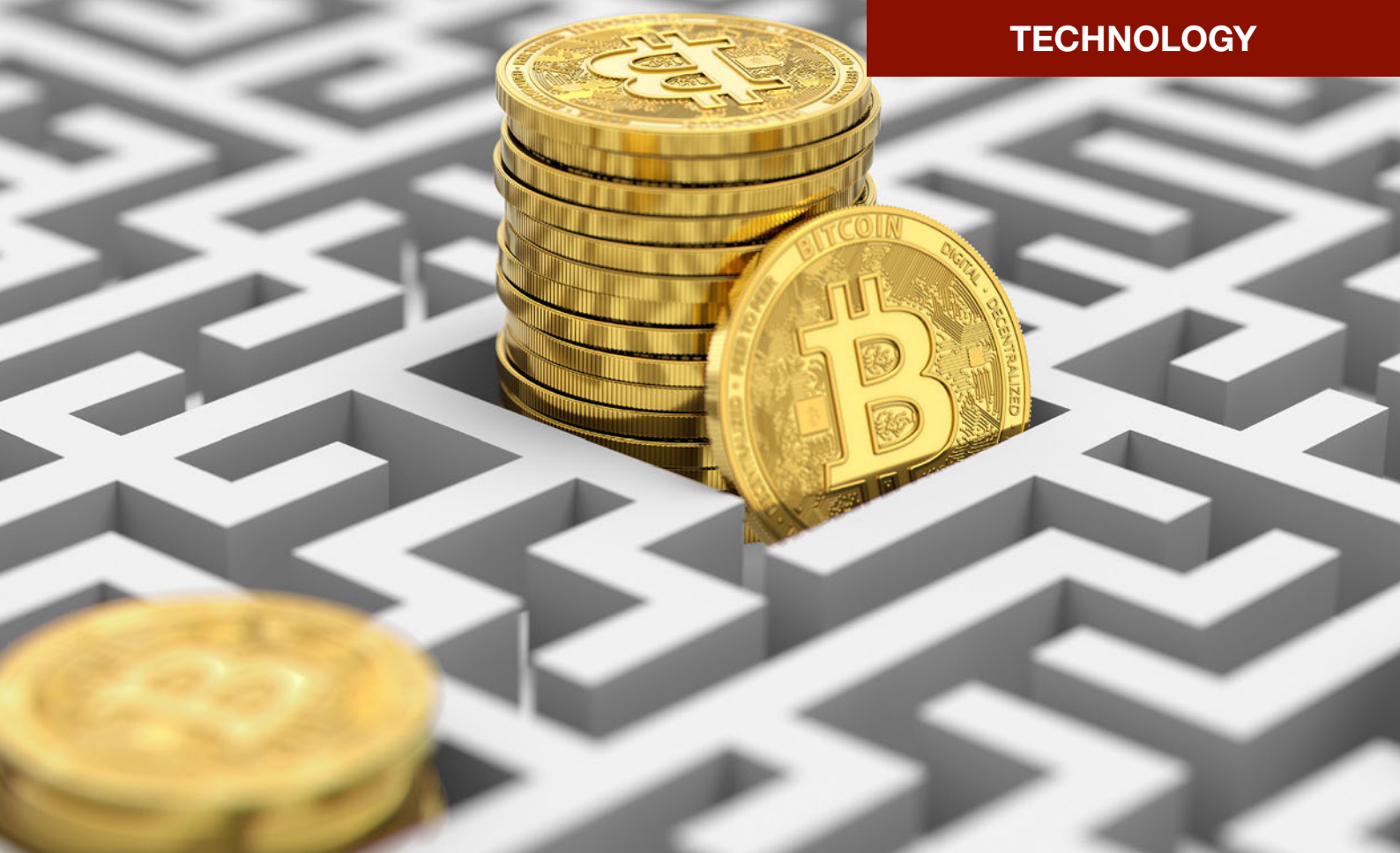
Suzano invests around 1% of its annual revenue (equivalent to around US\$50-60m) in sustainability under the umbrella of a bio-strategy focused on business development and R&D. It spans investment in new technologies around planting and harvesting, as well as developing cutting-edge products designed from pulp. For example, the company has created a lignin-based product line (a material found in wood that is responsible for supporting and protecting trees) that can also serve the resin, rubber and plastic markets.

Elsewhere, Suzano has entered the textile industry with an equity stake in Spinnova, a Finnish company that develops environmentally sustainable technologies for the production of fabrics using wood fibres. “Given the renewable nature of our product, we believe that pulp can be used to produce other things and will be able to substitute plastic and fossil fuels as we bring sustainability as well as product functionality to market. In our case this link is very clear.”

Nestle, the largest food and beverage company in the world, is also investing in sustainability to create value. Speaking at a recent CAGNY virtual conference, François-Xavier Roger, Executive Vice President and Chief Financial Officer, says the company plans to invest around CHF3.2bn (£2.5bn) over the next five years including spending CHF1.2bn (£0.95bn) on regenerative agriculture. Investment won’t come out of shareholders pockets, insists Roger. “We do not expect our shareholders to pay for increased investment in sustainability,” he told attendees. “Sustainability investments are expected to be earnings neutral through structural efficiencies and growth leverage.”

One such efficiency will come via cutting packaging costs. Nestle plans to reduce packaging by around 30,000 tons, cutting costs by CHF100m (£78m) in a strategy that holds benefits for everyone in the supply chain – apart from packaging suppliers where the company expects 40% fewer on the roster by 2023. Elsewhere, Nestle plans to invest CHF1.5bn in the sustainable packaging market, with plans for a food-grade recycled plastic market alongside investment in paper and compostable packaging materials. In other initiatives, Roger outlined CHF250m investment in a venture fund focused on start-up companies experimenting in packaging innovation, and says the company is also pouring investment into research into plant-based products on the back of striking consumer preferences, and growth. “Sustainability is now a core part of consumer expectations, we increasingly see consumers responding to sustainable brands and products,” he says.

For Ojiambo, the need for business to invest more in sustainability is overwhelming. “CFOs collectively manage US\$14trn in global corporate investment annually, including US\$7.5trn in emerging markets,” she concludes, calling on finance teams to work with boards to spend on sustainability throughout a company. “Finance teams can turn ambitious commitments and well-articulated sustainability strategies into investments. They can also help to improve the credibility of SDG finance through outcome-based impact measurement and corporate-wide accountability.” ■



Bitcoin (not) for dummies

When sitting down to assess what bitcoin means for corporate treasurers, one of the first hurdles was finding voices willing to offer clear advice and guidance on any certainties for corporate treasurers to deduce around the existence of bitcoin. At Treasury Today Group we feel it is our duty to nurture your intellectual curiosity and cut through the hubbub of mainstream financial coverage and that is why we wanted to present our thoughts and insights on bitcoin right now and explore what the noise around this cryptocurrency means for treasurers today.

So let's start with the basics of how we can categorise bitcoin vis a vis other digital currencies. When it comes to digital currencies there are broadly speaking two camps which currencies can sit within – centralised and decentralised. Centralised digital currencies are those where there is a central point of control over the money supply, ie a central bank. Decentralised digital currencies or peer to peer money enables investors to create their own ecosystem where they deal directly with one another without a centralised exchange. Cryptocurrencies such as bitcoin operate on this principal. Bitcoin transactions are recorded in a distributed ledger called a blockchain and are open to market fluctuations without centralisation, as we have seen recently.

Something of the bad boy of the digital currency landscape, bitcoin's origins and utilisation are infamous and much discussed <https://www.wired.com/story/guide-bitcoin/> and, after languishing at the outskirts of the mainstream conscious, it is having something of a moment, to put it mildly. So, what

does its advent mean for treasurers, what are the opportunities and the risks of bitcoin for corporates and why should treasurers be staying on top of the latest developments surrounding bitcoin?

Bitcoin's evolution in public opinion as a cryptocurrency is explained as follows by Seng Ti Goh, Director at Focal Partners Private Ltd and President of the ACTS, "Bitcoin's genesis should be attributed to the white paper titled 'Bitcoin: A Peer-to-Peer Electronic Cash System' by Satoshi Nakamoto in 2008, and only garnered much attention in recent years, much to the chagrin of the central bankers, traditional Wall Street and main street folks. Ironically, the volatility and attention can be arguably linked to the loose monetary policies and the general sense of distrust in the banking system. The idea of a cryptographic, DLT, and de-fi based system appealed to many. It is only of late that some of the biggest names on Wall Street and at hedge funds have been so vocal and now even Elon Musk is tweeting about #BTC!"

Although the volatility and risk associated with bitcoin should serve as severe warning for all those whose role it is to protect and preserve their company's liquidity, cryptocurrencies like bitcoin are becoming an ever increasing power on the global financial stage and it is wise for treasurers to intellectually explore this space. As Seng Ti expanded, "What is bitcoin to traditional corporate treasurers and CFOs? What about the others like Ethers and even Central Bank Digital Currencies (CBDCs) which are centralised digital currencies issued by a central bank)? CFOs and Corporate Treasurers' primary and rightful roles are to support the fundamental businesses on all things finance and treasury; while safeguarding and protecting the organisation's financial health. Bitcoin should not be used as a profit generator, nor a meaningful hedge (under current volatilities). However, CFOs and treasurers should understand its mechanics and understand the implications to their organisation; and look for proxy hedges if their underlying businesses ever need to accept payments in cryptos or CBDCs."

We spoke with Kieran Smith of Qredo, <https://www.qredo.com/product>, a cross-chain liquidity protocol that provides secure decentralised custody and a layer-2 peer-to-peer trading network. Smith explained, "Tesla, MicroStrategy and Square are setting a new trend by adding bitcoin to their balance sheets. This marks an inflection point in the gradual institutional acceptance of cryptocurrency." Smith sees this as being spurred by several trends which he outlined as follows:

- **Macroeconomic tailwinds are blowing bitcoin higher.** Inflation fears have become widespread amid ballooning public debt and massive amounts of money printing, putting the limited supply of bitcoin in stark relief. As a result, the idea of bitcoin as 'digital gold' has hit prime time. At the same time, corporations are holding record amounts of cash with ultra-low interest rates. This makes opportunities to earn yield in decentralised finance too lucrative to ignore. While 3-5% is reason to get excited in traditional finance, lending stablecoins and crypto assets in DeFi can offer yields of more than 10%, with relatively higher risk.
- **Market infrastructure is rapidly maturing.** It is no longer just crypto-native tech start-ups offering digital asset services, but big banks like BNY Mellon building out offerings. On the payments side, the global payment processors including Visa, Mastercard and PayPal are now building out crypto support.
- **Regulatory approval now seems inevitable.** The top US bank regulator (OCC) published letters late last year saying that banks can store crypto and participate in blockchain networks, and Biden has appointed what is expected to be a largely balanced and proactive set of regulators at the head of the SEC and CFTC.

Many are dubious about the opportunities that bitcoin can realistically offer to corporate teams, but ultimately treasury must support the direction of their board and organisation. For those considering what the journey may look like, here is some further insight from Smith and Qredo, "As a cryptographic asset controlled by a string of code, bitcoin doesn't neatly slot into traditional treasury management systems: It cannot easily be managed in the same way as you might cash, stock, or bonds in corporate treasury systems.

"Much of the existing infrastructure for digital asset custody was designed for individuals securing personal funds. These solutions are not necessarily suited to institutional needs of safeguarding, compliance, reporting, and access control."

So what are the practical implications for treasurers who may need to manage bitcoin as a result of a corporate decision at board level, as in the case of Tesla? As Smith explains, "A typical institutional setup would involve keeping the majority of funds in cold storage, which keep private keys offline where they are secure but difficult to access. Day-to-day working capital is then kept in more accessible hot wallets which carry significant operational risks."

Smith further expands on the challenges and risk implications of such a strategy, "Moving funds on-chain between wallets, or between multiple custodians or corporate departments, can be subject to high network fees and delays from limitations of the underlying blockchains. This makes simple tasks like managing treasuries and rebalancing portfolios expensive and inefficient. At the same time, there is a lack of dedicated infrastructure for providing transaction records, meaning a lot of crypto treasury is run through spreadsheets which also carry a lot of operational risks."

"There is also no way to track transactions for compliance and governance needs, easily retrieve an audit log, or get live reliable data on transactions to perform EOD reconciliations. This creates heavy burdens of manual reporting. Similarly, there are no automated workflows for tasks like reconciliation, and no way to get full visibility across different holdings, making it tricky to manage capital and risk."

At the moment this 'one to watch' space is just that it seems. For the moment there are not elaborate enough frameworks or hardy enough tools and products for treasurers to securely navigate the landscape. David Blair of Acarate Consulting confirms that position, explaining, "Like gold, another popular inflation hedge, bitcoin has no intrinsic use and does not generate any yield. The latter may seem moot in a time of zero interest rates, and even attractive compared to negative interest rates. But corporates need to report results in fiat currency, and bitcoin's volatility will cause mark to market variances that will need explaining to shareholders. Buying bitcoin and then hedging it into fiat currency obviates the point of the investment. Basically buying bitcoin is buying balance sheet volatility. Most treasurers goal is to reduce risk, not to increase it."

As Blair states, there really is not much of a use case for corporates to adopt bitcoin as a medium of exchange. He expands, "As an inflation hedge, bitcoin has higher volatility and transaction costs and operational risks than gold. One also needs to question the need for corporates to hedge inflation – for most corporates, inflation will affect both inputs and outputs and have roughly neutral effect over time. Of course, this last is not true for corporates with large net cash positions."

Blair sums up his assessment with this flourishing finale, "We owe a great debt to Satoshi Nakamoto for his pioneering work in bringing together different technologies into a robust working blockchain – bitcoin. There will doubtless be many interesting use cases for digital ledger technology (DLT aka blockchain), especially across supply chains with smart contracts and the like. Alternative mediums of exchange and store of value are unlikely to be the most interesting DLT use case for corporates." ■



From four to six Horsemen of the Apocalypse

At the beginning of last year, UN Secretary-General António Guterres spoke about the four major risks for the world: geopolitical tensions, growing mutual distrust, climate change, and the dangers of modern technology. He referred to this quartet as the Four Horsemen of the Apocalypse.

More than a year later, two more riders have joined Guterres' foursome: the corona pandemic and massive economic headwinds. The six riders are galloping together at a very rapid pace, sometimes one restraining the other – an example being the pandemic triggering the collapse of economic activity, with greenhouse gas emissions declining correspondingly.

Unfortunately, the riders stir each other up in most cases. Geopolitical tensions and mistrust reinforce one another. In addition, modern technology provides international players with tools to thwart others, and it makes countries feel more vulnerable.

The corona crisis is having a massive economic impact, with a decline in activity that is unprecedented in peacetime. The immediate economic pain is still relatively limited in many places because governments have stepped in en masse to boost employee incomes (especially in the US) and keep companies afloat (especially in Europe). At the moment of writing, governments worldwide have allocated US\$14,000bn to cope with the pandemic and economic fallout. This amount for support measures will increase to far higher levels this year. This also means that public debt will rise rapidly in two ways: on the one hand, the government will borrow far more to be able to pay for all the support measures, while revenues will decline at the same time because fewer taxes

are received as a result of lagging economic growth. This therefore also means that debt/GDP ratios will rise rapidly.

In the opinion of most economists, these rapidly increasing and soaring debts – incidentally, debts of private individuals and companies have also risen considerably in recent years – do not necessarily need to be a problem. This is due to the fact that interest rates are very low, and because it is assumed that the support measures will keep the earning capacity of countries at current levels.

Some analysts even believe that we are on the eve of a second Roaring Twenties. Following the First World War and the Spanish Flu pandemic, the world – and the West in particular – experienced an enormous growth spurt due to postponed expenditure, reconstruction and the large-scale roll-out of electricity and the internal combustion engine, for example. It would not be odd to anticipate this again: savings in many countries have risen rapidly, people will want to go on holiday and visit restaurants en masse – for instance – when the worst of the pandemic is over. Also, the amazingly fast development of vaccines with often entirely new methods are proof that all the negativity about the lack of technological breakthroughs was and is perhaps a little premature.

This optimism is offset by the fact that aspects that shaped the economic boom of the 1920s (and booms in later

decades) are far less relevant to Western countries now: a century ago, the size of the workforce increased very rapidly, and huge strides forward were taken in terms of education for the masses. At this point, the increase in the workforce is stagnating (or even declining) in many industrialised countries, and a large part of the population is already (highly) educated – to the extent where more giant leaps in this area are unlikely.

It therefore seems realistic perhaps not to expect a Roaring Twenties after the corona crisis, but maybe a Modestly Swinging Twenties. In addition, the springboard that has been created and which will be in place for a modest boom – large-scale monetary and fiscal stimulus – will, at the same time, be a potential pitfall if the accelerator is fully depressed now, without pondering the question of how to responsibly find an exit in the future for the splashing out of money which is deemed necessary at this point.

Economic orthodoxy has shifted out of the picture, and the Chicago and Austrian school of economics – with figureheads such as Friedman and Hayek – has been muted in favour of economists who are dismissing traditional, responsible budgetary policies.

So the current and coming fiscal and monetary support measures are embedded with lots of risks and they could even result in economic headwinds turning into a storm if interest rates start rising. Economic pain will then remain one of the aforementioned Six Riders together with abuse of modern technology, mistrust, climate change, the pandemic, and geopolitical animosity.

That latter issue is one of the biggest long-term risks to the global risks; to be more precise: the growing divide in the world between two camps, one led by the US and the other led by China.

The corona crisis has accelerated the process in which China could enter the fray as a serious challenger to the US. Up to now, China has weathered the corona crisis far better than the vast majority of Western economies. As a result, China is likely to overtake the US as the world's largest economy even faster than previously believed.

What is more, Beijing is trying to reinforce its position on the geopolitical chessboard via corona diplomacy – ie supplying

Chinese vaccines to countries that are friendly to Beijing. And this position had already been strengthened in recent years by the reliance of many countries – including Western ones – on Chinese tech companies. The last year in particular has seen far more opposition to this in the West.

America is fairly clear about its stance towards China: the new Foreign Minister Antony Blinken has already mentioned that he will largely maintain the predominantly hard line of the previous government towards Beijing. For the time being, the import tariffs introduced by Trump will not be reversed. A very critical attitude towards human rights has been added to this policy.

Europe, on the other hand, does not seem to be making a clear choice. On the one hand, European capitals largely voice the same sentiments as Washington where China is concerned but, at the same time, Europe recently concluded an investment agreement with Beijing, where China was let off lightly on many sensitive issues. Europe seems to want to steer a course in which it prefers to stay close friends with America, without offending China too much. This policy does not seem to be sustainable in the longer term.

Nobody can fail to notice that more and more countries are becoming unnerved by China. China has grown more assertive on the world stage, especially since Xi Jinping took the lead. The US is no longer all-dominant, there is a new pretender to the throne. And the past shows that these are risky periods; times in which a ruling and rising power are facing each other.

The interplay of the Six Riders infuses the system with a great deal of political uncertainty. Biden's presidency and large-scale fiscal stimulus programmes provide some stability. However, the world remains in a state of significant political risks that reinforce each other and slow down the economic revival which we anticipate in the second half of this year: the struggle between America and China for global dominance, tensions in and with other major countries (eg the protests in Russia), mistrust of the tech giants, growing dissatisfaction within societies (eg the violent protests in the Netherlands and the storming of the Capitol in the US) and the corona pandemic which will still wreak havoc for some time to come. ■

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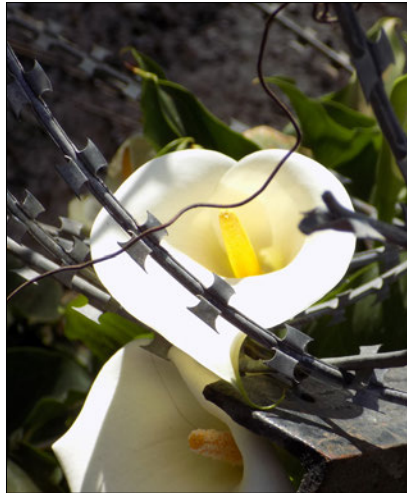




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Beyond borders

We gather a range of opinions on trade and tariffs in a post-Brexit world at a time when the EU is pursuing legal action over the UK's move to unilaterally extend grace periods on Irish Sea border checks. Biden's US\$1.9trn economic rescue plan signals his arrival in the White House as he rebuilds international relations and countries around the globe strive to work in collaboration to fight the COVID-19 pandemic.



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

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