July/August 2022

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Corporates grapple with China’s regulations

China’s regulatory framework is complex, and the pace of change is becoming increasingly difficult for corporates to navigate.

The Corporate View

James Zhixin Zhang

Head of Treasury and Corporate Finance, Asia Pacific and China
Siemens Energy

Women in Treasury

Cecilia Li

Head of Global Treasury
BeiGene

Cash Management

Top liquidity management strategies in a climate of rising rates

Regional Focus

Japan-Korea trade relations look set to improve

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Strength; resilience and success

The latest issue of Treasury Today Asia comes in the wake of some large regional events, including the recent and very distressing assassination of former President Abe in Japan. The ripples of this will be felt in the country for some time to come. We explore Japan in this edition's Regional Focus piece, and the complex and at times challenging relationship that exists between Japan and South Korea when it comes to trade and to collaboration in general.

Our Adam Smith Awards Asia 2022 are open for nominations and we would like to invite all our corporate readers to look at this year's new and existing categories and see whether you might submit to be part of best practice in the industry. We will be back with a physical evening celebration in Singapore this November and look forward to greeting all this year's winners as we return to our regional calendar highlight.

We explore the career journeys and mindsets of two fantastic corporate professionals within our Corporate View and dedicated Women in Treasury This Much I Know feature. First up is James Zhixin Zhang, Head of Treasury & Corporate Finance, Asia Pacific & China at Siemens Energy and then Cecelia Li, Head of Global Treasury at BeiGene shares her story.

We explore sustainable treasury elsewhere in a feature which addresses natural capital and our Insight and Analysis feature looks at China's ever evolving regulatory landscape, taking into account the latest developments. All this alongside our Question Answered feature addressing issues of talent competition, a challenge facing all industries at the moment as the job market becomes heavily in favour of employees across the board.

As we look forward to hosting our APAC community at our upcoming Women in Treasury APAC Forum and Adam Smith Awards Asia 2022 celebration dinner, we are excited to celebrate and share with our corporate community in Asia Pacific and welcome your feedback, thoughts and concerns as we move into a new era for us all, for your companies and for the business world at large.

Until we meet again, we hope you enjoy this latest issue.

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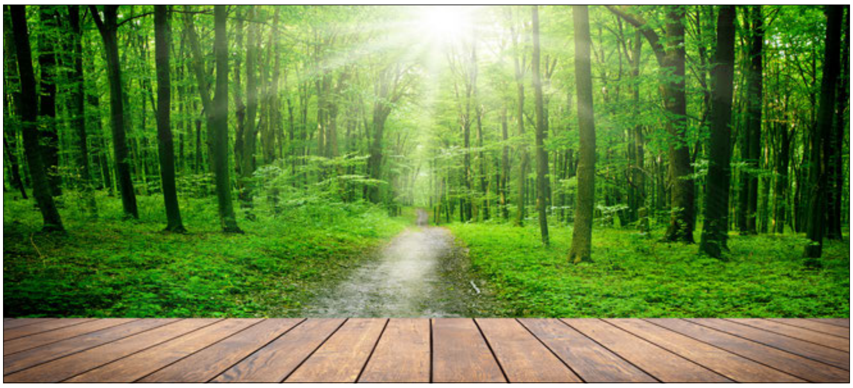

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Corporates grapple with China's regulatory complexity

China's regulatory framework is complex and the pace of change is challenging for corporates to navigate. Added to this, the Covid pandemic has made it more difficult for international companies to understand from a distance what is happening on the ground.

The world has become accustomed to virtual meetings, to the etiquette of Zoom, and conducting business from afar. Going digital and doing things virtually has worked for most, but some things have been lost from the working culture of corporates during the pandemic. And it's not just conversations by the watercooler, or while making tea in the staff kitchen that are now missed.

For international companies that need to stay on top of the latest regulatory developments in China, the pandemic has proved challenging, especially if they are trying to keep pace with the developments from afar. The lack of face-to-face, in-person meetings with the team in China means that it has been harder to keep abreast of the complexity, nuances and background information of the latest regulations.

Tony Wood, Partner, at Deloitte China comments that managing, and staying on top of, the latest regulations has become more challenging as a result of the pandemic. While this issue isn't unique to China, the lack of travel to the mainland has meant it has become more challenging for multinationals to understand the latest developments from afar. "The inability for foreign companies and management to travel to China has made things more challenging," comments Wood. "There has been a shift to the onshore management of regulations," he adds.

In the past, managers may have frequently travelled from Hong Kong, but now they have not been to China for over two years, he explains. This is having a knock-on effect on how such regulations are being approached. And for executives at multinationals who may have made an annual trip to China, the lack of face-to-face time with people on the ground means they have missed out on really understanding the intricacies and direction of the local regulation. "Firms are increasingly reliant on onshore management to reflect the consistent view of law and regulation," says Wood.

And even though there has been a global pandemic, there was no slowing in the pace of Chinese regulation. China is both seeking to relax regulations and liberalise its economy and at the same time it is seeking to restrict and control how that is done.

The regulatory environment is challenging for corporate treasurers. Xuelin Chen, Director of Group Treasury at Trip.com Group – based in Shanghai – comments on the challenges in staying on top of China's various regulations. "The pace of change is definitely a challenge," she tells Treasury Today Asia.

"The other big challenge is the interpretation of laws and regulations by different levels of authorities. The Chinese language is not a precise language and the laws are sometimes phrased in a way where there could be different interpretations. As a result local governments give different guidance to companies and sometimes the applications of rules can be very different. From time to time central government and regulators issue circulars attempting to clarify and align nationwide practices. However, those only correct a small part of the problem," Chen explains. Trip.com Group has a presence in a number of different regions in China and these are the kind of difficulties that she encounters on a daily basis, she adds.

This is the kind of complexity that has to be managed on a daily basis by treasury teams on the ground in China. And for managers that are based elsewhere, it is even more difficult for them to get a handle on what kinds of demands are being made on their treasuries.

International companies that have a presence in various countries find the regulation in China unique in many respects. China, unlike other countries, still has a relatively-short history when it comes to law-making, notes Wood at Deloitte, and it is possible for companies to get overwhelmed by the volume and the pace of regulation and keeping up with it. Wood comments that he thinks the larger companies have a better handle on getting clarity on the more complicated law and regulations.

Those large companies may have the resources to effectively invest the time and energy in understanding the complexities of Chinese regulation. But for those who are not based in China, they have had to increasingly rely on the teams on the ground. For those working onshore in China, there are so many regulatory issues that are a priority for them. If you ask different treasurers what regulations are top of mind at the moment, they are likely to give you different responses.

When asked what the big regulatory trends are in China right now, for example, Vivian Peng, Asia Pacific Treasurer at Flex, comments that the top three regulations that are often discussed and seem to be the top of the agenda are the regulations under capital account cross-border flow, such as cross-border lending and borrowing, and dividends. Also, the internationalisation of the renminbi (RMB) and the rules surrounding it are a big topic. And finally, the policy regarding the CNY exchange rate is also up there in the priority list, according to Peng.

Chen at Trip.com Group comments that if she were to pick the key regulations that are top of mind for corporate treasurers and chief financial officers in China, it would be around tax. She explains, "In my opinion the most important regulation is the tax law, especially corporate income tax and VAT [value-added tax]. There are frequent updates to existing tax rules and regulations, and conditions have to be satisfied by a company in order to receive favourable tax rates that vary from city to city. Within the same city, interpretation of tax laws by district tax bureaus can be different therefore companies may have to follow different guidance by their respective tax bureaus. The relationship with the district and city tax bureaus need to be maintained regularly so there is mutual understanding of the company's tax practices and compliance."

Amid these developments there are also broader trends at play that affect regulation in China, and elsewhere. Environmental, social and governance (ESG) topics are hot right now everywhere, and this also applies to those that need to stay on top of Chinese regulations. Peng at Flex comments that ESG is up there in the top lists for corporate treasurers. And this is also in line with a finding by professional services firm PwC in its 'Regulatory Hot Issues' report from August 2021. There, PwC states that in recent months, green and sustainable finance has found its way to the top of the to-do list for most financial institutions. And in turn, this also has implications for corporate treasury.

On the topic of ESG, which is much broader than treasury, Wood comments on China's ambitious targets: it has a target of 2060 for carbon neutrality and has also set a target of reaching peak emissions by 2030. "We anticipate there will be more regulation coming with ESG," says Wood, adding that interest in the subject has increased very quickly in recent months for his clients. "Looking forward, this regulation will enable the transition of Chinese companies and sectors to have lower carbon footprints. These are huge opportunities and companies will have to invest heavily in understanding these rules and regulations," says Wood.

This is just one of the major themes that are affecting the regulatory environment in China at the moment. Another major regulatory topic is related to data and privacy, which Peng flags as potentially having an impact for corporate treasurers.

Data concerns have featured in high-profile examples of technology companies that have fallen foul of regulations, which has impacted their overseas listings. This, and other regulation of the technology sector, has had massive implications for some companies – as Treasury Today Asia has previously reported.

The regulatory crackdown on the tech sector has also exposed the divisions in China between its 'hawks' and 'doves' who are divided over whether Chinese companies' expansion overseas should be encouraged – and opened up to foreign capital – or whether they should be reined in and restricted.

The issues with the tech sector show how just a single sector can be exposed to the regulation of a number of agencies, including the Cyberspace Administration of China (CAC) which is increasingly making headlines with its regulation of data and privacy. The issues also exposes the debate about whether the regulation is to be expected, given that the tech companies, particularly the platform companies, are handling vast troves of data – sometimes financial – and that needs to be tightly regulated. The Financial Times estimates that the regulatory crackdown has wiped approximately US$2trn off the market of listed technology companies in the last year.

Wood at Deloitte comments that with the data and privacy laws in China – it's not more of the same, but rather a continued development of those regulations and their application. Also, he adds, many corporates now have greater understanding on how these rules should be applied.

Chen at Trip.com Group notes that data is a hot topic, as well as anti-monopoly regulations, which she says are likely to be top of mind for corporate treasurers and CFOs. She tells Treasury Today Asia, "Anti-monopoly regulations and data privacy have become an important focus since last year, after a few historical fines to certain big internet companies over their market practices and data handling as 'example-setting' cases by the authority."

These are some of the issues that have been dominating headlines in recent months. And then another major, relatively new trend is that of cryptocurrencies and digital currencies. In China, much attention has been paid to the e-CNY project, China's central bank digital currency and how it is progressing. Treasury Today Asia has previously reported on the opportunities of the currency – which is viewed as a digital replacement for cash – and how treasurers need to be prepared.

And as far as cryptocurrencies – such as Bitcoin – are concerned, China has taken action to ensure that individuals and companies do not speculate on what is viewed as a highly-volatile asset. Wood notes that the Chinese authorities have been clear about not wanting third party or retail speculation in cryptocurrencies, which, in the context of the recent huge swings of volatility in cryptocurrency markets, has been seen as a positive for Chinese investors.

Besides, for many corporates, crypto and digital assets are still a bit futuristic, particularly for large, traditional firms. This is something that Peng agrees with and she comments crypto is still a long way off for traditional industries to start considering.

Crypto is one hot topic for regulators, and China is seeking to control the fallout that might occur if there is a dramatic drop in the value of crypto assets. On the one hand China is seeking to restrict and control, and then on the other it wants to liberalise and encourage new investment.

One such opportunity with investment in the Greater Bay Area – is a project that brings nine cities in mainland China and Hong Kong and Macau into an area where they are linked into a 'megalopolis'. Gordon Orr, an advisor for consultancy McKinsey, discusses the benefits of the project in a blog post and notes that the GBA region has been growing faster than the average across China. "It's been part of the continuing shift of the centre of gravity of China's economic activity. It's been moving south for 30 years, and you're really seeing it now. What you've got now is a cocktail of inputs that's really ready to bubble up."

Orr continues: "This is the youngest region in China. It's the most educated, most talent rich region in China. It's enormously capital rich. It's got fantastic infrastructure, and it's got this unique thing with Hong Kong connected to it that creates a global capability and global connectivity to capital and professional services that's unique."

The PwC Hot Issues report notes that this area is an opportunity that requires strategic action on the part of financial institutions, especially since China's regulatory authorities have issued guidance on how the region will be opened up and developed. The most recently issued circulars, for example, cover issues such as economic development, facilitating trade and investment, and promoting the internationalisation of the RMB.

Wood anticipates there will be greater liberalisation with geographies such as the Greater Bay Area (GBA), and also with certain sectors, such as financial services. However, he notes, that liberalisation goes hand in hand with more regulation and rule-making "I feel the two things go hand in hand. We are not going to see a laissez-faire market opening," he comments. Such opening up, and increased regulation, will need to be understood and managed onshore in mainland China, which in turn will create a continued demand for talent.

Despite the challenges, China's prospects are buoyant, even though it has been badly affected by Covid and has undergone severe lockdowns. The prospects for China also include opportunities for Hong Kong as a financial centre. Or, in the words of Edmond Lau, Senior Executive Director of the Hong Kong Monetary Authority, "The message for the financial industry is clear: no long-term strategy is credible without China. And no China strategy is complete without Hong Kong."

More broadly, Deloitte's Wood puts the development of the laws and regulation in China in the context of its economic liberalisation and the opportunities that exist for multinationals. "China still presents significant growth and economic opportunities for many companies despite the challenges of the past few years," says Wood at Deloitte.

He adds that China is committed to market opening and liberalisation through its economic plan, and this also includes a commitment to Hong Kong as an international financial centre. "I remain highly optimistic that the economy of China will remain attractive for many companies," says Wood.

When discussing the challenges with navigating all of this, Peng at Flex comments that the regulations in China are being relaxed every year. "I think the key to understand the regulation is to understand the logic and rationale of the policy, which needs the treasurer's understanding of macro economy of China and the world," she says. ■

SPECTRE OF SOFR TRANSITION LOOMS LARGE

The transition away from the LIBOR [London Interbank Offered Rate] benchmark has picked up pace, but some are still clinging to USD LIBOR ahead of the final deadline next year. Now is the time to take action and finally move to its alternative, the Secured Overnight Financing Rate (SOFR).

It's not like people haven't had plenty of warning that things were going to change. The scandal-tainted LIBOR benchmark has slowly been phased out, but there are still remnants out there – particularly with the USD LIBOR. Those clinging to the old way of doing things – out of a fear of change, perhaps – could actually be creating more risk in the process. Many industry parties are now urging companies to move to SOFR – USD LIBOR's alternative – once and for all.

LIBOR was a benchmark for many currencies, and there have been different timelines for phasing out each of them. There were end dates for certain USD tenors, which passed in December 2021. And for the remainder of the USD LIBOR – for overnight, one, three, six and 12-month tenors – the final deadline is June 2023. The Financial Stability Board has made clear in a statement that firms should have already stopped the use of new USD LIBOR, and they must have plans in place to prepare for its final end.

Rather than being set by a panel of banks who report what they think the rate should be – as was the case with LIBOR, which led to manipulation and an ensuing scandal – the SOFR is calculated based on the actual prices of transactions in the overnight repo market as reported by the Federal Reserve Bank of New York.

Although LIBOR may seem familiar, easy and comfortable, the old way of doing things may actually have the opposite effect. This was the argument of Tal Reback, Director, Credit at KKR Capital Markets, who leads investment company KKR's LIBOR transition across private equity, credit, capital markets and real estate.

She argued in an opinion piece for the Financial Times last year that US companies should stop using LIBOR now, because the risks are rising for those who cling to its use. She writes that borrowing in LIBOR adds complexity and risk. And Silvia Devulder, Head Legal Romandie in Financial Services for EY, also notes that despite key milestones being reached, the transition isn't over and market participants need to prepare now for the end of USD LIBOR.

So far most of the focus on the transition has been on the derivatives market. And there the adoption has been progressing at a steady pace. EY notes that at the end of Q122 the adoption of SOFR was gaining momentum, with most of the use being in both the cash and the derivatives markets. According to data from the ISDA-Clarus RFR Adoption Indicator, in May 2022 more than half of USD derivatives were transacted in SOFR.

J.P. Morgan also notes how derivatives have led the LIBOR transition and that SOFR is the dominant benchmark for new transactions in trading and lending markets, with an accompanying shift in liquidity towards SOFR. Ben Kinney, Global Co-Head of Interest Rate Sales, noted in a piece for J.P. Morgan, "In early March, the notional of SOFR swaps traded in the market was higher than that of LIBOR swaps for the first time."

Also, corporate loans using SOFR are increasing. However, KKR's Reback notes that because most of the focus has been on the over-the-counter derivatives market, the more complex loan market has been left behind. She quotes figures from the S&P LCD database from October last year that showed only US$9.5bn out of US$154bn of loans have been in SOFR.

For smaller companies that don't have access to the capital markets, if they continue to use LIBOR there could be a risk as LIBOR liquidity in the coming months is looking less certain. And, also, if companies use contracts that automatically convert to SOFR there could be cash flow, accounting and reporting risks. J.P. Morgan likewise notes how USD LIBOR will continue to decline and states, "We urge market participants to assess their remaining USD LIBOR referencing portfolios and have a strategy in place for transition as soon as possible." In short, the message is that for anyone still clinging to the past, now is the time to change and move to SOFR once and for all. ■

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Adam Smith Awards ASIA 2022

Share your success

Nominations now open

The Adam Smith Awards Asia are now in their ninth year! If you believe you/your treasury team have delivered real success, this is your chance to put yourself forward. At this eventful time for us all, corporate treasury is rising to the many challenges – this is your opportunity to showcase what you have done as an individual, as a team, and as a critical business function.

The Adam Smith Awards Asia programme recognises best practice and innovation in corporate treasury, regardless of company size, budget or industry sector. Nominations close on September 5th and there are 18 award categories in total. Representing the full range of activities that corporate treasury teams undertake, these categories are sure to capture your achievements. If you believe your work has gone above and beyond the call of duty, now is the time to put yourself forward.

Corporate finance departments are a true strategic partner to the business and are constantly challenged to deliver better and more innovative solutions. The Adam Smith Awards Asia is the benchmark of that achievement. Our awards recognise the importance the treasury profession now occupies and showcases how treasury professionals are stepping up to support business growth.

Everything you need, including the nomination form, can be found on our website during the nomination period – it is a simple case of completing and submitting the short form online.

All winners will be invited to celebrate their success at our Adam Smith Awards Asia Celebration Dinner in Singapore this November.

3 easy steps to nominate

Step 1:

Visit **treasurytoday.com/adam-smith-awards-asia/nominations** to access the nominations form.

Step 2:

Provide a detailed account of the challenge you faced, the solution you implemented and the benefits this has provided.

Step 3:

Winners will be announced at our live winners' announcement on October 7th and their success stories will be showcased in a series of winner podcasts and in individual case studies which will be published on our website in early 2023.

2022 award categories

New Best Transaction Management Solution

New Best Cash Pooling Solution

New Best Treasury Transformation Project

Best Card/e-Cash Solution

Best Supply Chain Solution

Best Funding Solution

Best Sustainable Treasury Solution

Best Risk Management Solution

Harnessing the Power of Technology

New Best Digitisation Solution

New Best in Class In-Country Treasury Solution

New Best in Class Regional/Global Treasury Solution

Best Investing Solution

Best Foreign Exchange Solution

Individual categories

Treasury Today Asia's Top Treasury Team 2022

Treasury Today Asia Woman of the Year 2022

Corporate Treasurer of the Year 2022

A Rising Star 2022

Nominations close on Monday September 5th and winners will be announced at our live winners' announcement on Friday October 7th.

For full details on all categories, please visit **treasurytoday.com/adam-smith-awards-asia/categories**

Top tips

Please don't be dissuaded from submitting a nomination in the event that you feel your company may not qualify for whatever reason.

You do not need to be a major multinational to qualify. Focus on the problem that the **solution** you have implemented, or are in the process of implementing, addresses. Quantify the benefits, both qualitative as well as quantitative.

If you feel your submission qualifies for **more than one category** please tick the relevant categories on the submission form (maximum of three categories per submission).

Please submit any **relevant supporting documentation** if you think it will add to your submission.

Good luck with your submissions! Should you have any queries please do not hesitate to contact us at **awardsasia@treasurytoday.com** ■

All winning solutions are profiled in case studies which appear on our website and are promoted in our Treasury Insights newsletter and on social media. The case studies are based on the winning nominations and are written by our editorial team. The text is submitted to the winners for their approval prior to publication. By submitting a nomination in the Adam Smith Awards Asia you accept that if you win an award, a case study outlining the details of your winning solution will be published.

This much I know

Cecilia Li

Head of Global Treasury

BeiGene

Tell us about your current role and responsibilities.

I joined BeiGene almost two years ago as Global Treasury Director. My current role is to look after cash management, investment, FX hedging and financing for the group. While I have been here, I have been able to use my previous experiences to build a global treasury and a first-class team for the company.

What advice would you give to women in finance in terms of establishing and developing a career?

Firstly, if you want to have a rewarding and long-lasting career, you need to find a job or a role that really interests you. It's also important to know what you want to achieve – whether that's making improvements to operational efficiency, driving industry excellence, or by bringing a greater awareness of treasury to the management or the wider company.

I would also say it's important to continue your learning so that you are equipped with the right skills and knowledge to help you advance. And last – but not least – have a work coach who is senior to you who you can approach to seek advice and guidance.

Would you recommend having a defined career plan or being open and flexible?

I think there is no set answer for this. Either path can lead to success, as long as it works for you.

In the beginning, when I was starting out in my career, it was extremely flexible. I was open in terms of looking at areas even outside of finance, and I was also flexible in terms of location. Having this approach helped me in terms of gaining a wider experience of, and a greater exposure to, different things. Over time it has become clearer what my objectives should be and what I want to achieve, so that I can concentrate on more concrete goals, but this has happened slowly.

What can women do to make their voices heard within an organisation?

One thing that I have learned over the course of my career is the importance of being able to influence people. In order to do that, you need to have the right attitude and mindset, and you need to provide additional value – not only to your immediate team, but also the wider company. The company and senior management always welcome opinions from all different angles, provided that these are constructive, and you can demonstrate the value of particular projects or ideas.

What is your greatest inspiration?

I have had a lot of role models and coaches at different stages of my life. Their paths are the best guidance I could learn from and help me to find ways to reach the next stage.

> "You need to have the right attitude and mindset, and you need to provide additional value – not only to your immediate team, but also the wider company."

ONLINE

To read all the interviews in this series go to treasurytoday.com/women-in-treasury

The perfect combination

After gaining her degree in pharmacology, Cecilia went on to achieve a master's in banking and international finance. Following a placement year at GSK, she started her treasury career in the Noble Group, gaining experience of all aspects of the treasury function.

In 2012 she joined McKinsey & Company, the global management consulting firm, where she helped to set up its treasury in the Asia Pacific region, a role that she reprised at her next position at the biotech company Amgen. When Cecilia joined BeiGene in 2020 to head up its global treasury, its position as an innovative pharmaceutical company was a perfect match for her qualifications in both pharmacology and finance.

"It was like finding my true home," she enthuses. "I have been able to leverage all my previous experiences to build a world class treasury and a first-rate team for the company. We have a global team of ten people covering North America, EMEA and APAC to match our company's footprint. The team is mainly based in Beijing, Shanghai, Hong Kong, Basel and New Jersey, which allows us to cover all regions seamlessly."

Adapting to adversity

While she fully acknowledges the difficulties of the past two years, Cecilia is quick to point out the successes as well. "Of course there were times that the offices could not be accessed, and the team had to work remotely," she recalls. "But we are in a much better position compared to other industries." For one thing, being able to implement contingency procedures meant that the team knew how to seek assistance and information if required. "Leadership guidance is an important factor, ensuring that all resources are utilised so that we can achieve the same goals," Cecilia adds.

Since the treasury team is based at various locations around the globe, work that needs to be done is not confined to the standard working day. "Collaboration and communication are key. When the team based in the Asia Pacific region finishes for the day, the team in the United States can continue the work during their daytime," she says. "We can keep things moving by following the sun around the world."

During the recent challenging times the company has not only been able to continue sales and delivery of its products, but has continued to move ahead at full speed. At the end of 2021 BeiGene completed its IPO on the Science and Technology Innovation Board (STAR Market) of the Shanghai Stock Exchange. The STAR Offering, one of the largest of the year, raised over RMB20bn (US$3.4bn) for the company. "In the latest quarter, our revenue is up 146% compared to the prior year," notes Cecilia, "which is tremendous given the challenging environment."

Meanwhile, the treasury team has had a number of other projects to work on. "We have set up two cash pools in China and opened over 70 bank accounts worldwide," she reflects. "And that's in addition to rolling out SAP host-to-host connectivity in all regions last year."

Valuing diversity

On another note, Cecilia believes that BeiGene's commitment to diversity, equity and inclusion (DEI) is second to none. "Our company has been doing extremely well in this area," she says. "In April this year the company refreshed its comprehensive environmental, social and governance (ESG) strategy." As part of the ESG strategy and framework, Change is the Cure, BeiGene has identified 'Empowering Our People: Diversity, Equity, & Inclusion and Colleague Engagement & Well-Being' as one of five strategic priorities.

Noting that Julia Wang was appointed as the company's global CFO last year, Cecilia says the business environment has never been friendlier towards women: "So many companies now offer coaching and career development programmes for women. I know of many women's groups which meet regularly – these are all good opportunities for us to explore our career goals and get advice." ■

Profile

Cecilia Xinyan Li
Head of Global Treasury at BeiGene

After gaining her Bachelor of Science in Pharmacology from the University College London, Cecilia went on to acquire a Master's in Banking and International Finance. Following her placement with GSK as a research analyst, she joined the Noble Group as a management trainee. Since then she has gained a wide experience of all aspects of treasury, including credit, cash and capital management, market risk and foreign exchange.

In September 2020, Cecilia joined BeiGene, a biotech pharmaceutical company specialising in the discovery and development of innovative and affordable medicines for the treatment of cancer. As Head of Global Treasury, she heads a team of ten across China, Hong Kong, Switzerland and the United States. She was the Overall Winner of the Adam Smith Awards Asia 2021 in the Best Cash Management Solution category.

STOCK VALUE

A UK-based fintech is offering to help companies unlock working capital based on the value of their inventory – without incurring debt.

As financial technology evolves it continues to throw up new trade finance models and platforms. The latest example is Supply@Me, an inventory monetisation provider that has just signed up the first funder for a service designed to enable companies with warehoused inventory to free up the value of this stock.

As we have previously reported, many corporates have raised inventory levels as the conflict in Ukraine and lockdowns in China added to the supply chain issues created following the outbreak of Covid.

Increasing stock levels may act as a buffer against future supply chain disruption, but holding more stock comes at a cost. Supply@Me hopes to tap into this through an off-balance sheet solution, which allows firms to recognise inventory monetisation funds as a legal true sale.

The company has secured a commitment of US$10m from the VeChain Foundation for inventory monetisation transactions across two phases, explains Nicola Bonini, Group Head of Origination.

"In phase one we aim to execute a transaction by the end of July for inventory worth up to US$1.5m for a client company we have already selected from our Italian portfolio," says Bonini. "But the alliance with VeChain is just one route for prospective clients and funders to access the platform as we continue to progress our own traditional funding routes."

Supply@Me says it is building a sustainable pipeline of warehoused goods in various sectors, with differing inventory monetisation day one purchase amounts and in various locations across Europe and MENA.

Monetisation transactions can be facilitated for a wide range of inventory types – from vehicle parts to clothing and footwear – providing the goods are stored in a warehouse and are not categorised as 'slow-moving' or 'non-moving'.

"Inventory can be either raw materials or finished goods or a mix of both," adds Bonini. "We generally do not monetise stock which is perishable, unless it has a very long shelf life (canned goods or concentrates, for example) and we do not monetise goods under any licensing agreements."

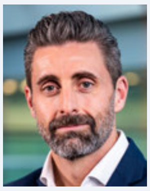
The transaction level will depend on the appetite of the funder of the transaction and the needs of the company with goods to be monetised. Supply@Me encourages businesses to consider inventory monetisation if they have been trading for more than three years and have an annual turnover of at least £10m and warehoused inventory worth more than £5m. The overall cost to use the platform comprises fixed and variable costs including: an upfront fee for due diligence; a charge for the arrangement of the commercial agreements; an annual service agreement; a fixed margin when a company buys its goods back, which will only be payable when sales are made.

The offering involves a three-year contract where for the first two years, once the client has sold the stock to its end customers, the platform can buy new inventory through a rolling mechanism. Companies do not have any conditional or unconditional obligations to buy back the stock, which is under the control of the platform (which can also sell the related goods to third parties). In year three, instead of refilling with warehoused stock, the facility winds down as the inventory is sold on. This means that companies do not carry the risk for any inventory not sold during the contract period. Stock is refreshed at least twice a year and Supply@Me does not purchase slow-moving stock which takes more than 12 months to be sold, or non-moving and/or obsolete stock.

Bonini says the company is in conversation with a selection of prospective funders, including commercial banks, debt and hedge funds, and asset-based lenders. ■

Evolving business models in a fast paced, digital environment: Citi ushers in a new, super global era

Steve Elms, Global Corporate, Commercial and Public Sector Sales, Head, Treasury and Trade Solutions [TTS], and Saurabh R Gupta, Global Sales Head, Healthcare, Consumer and Wellness Group, TTS, outline the evolution of the industry growth segments.



Steve Elms

Global Corporate, Commercial and Public Sector Sales, Head, Treasury and Trade Solutions [TTS]

citi

Saurabh R Gupta

Global Sales Head, Healthcare, Consumer and Wellness Group, Treasury and Trade Solutions [TTS]

citi

Elms, shares, “Our clients’ business models are evolving at pace, and as such continue to see more and more interconnectedness across industries. New consumers, new supply chains, new entrants are opening up and transforming the ecosystems in which our clients operate. As a truly global bank, Citi has a unique ability to advance the connectivity across these networks through end-to-end solutions across the value chains.” The ecosystems that are witnessing these transforming business models and digital disruption are behind our focus. Healthcare, Consumer & Wellness is one such high growth client ecosystem or supergroup.

In his new global role taking on responsibility for one of Citi’s new ‘supergroup’ sector combinations, Gupta shines a spotlight on the evolution of the healthcare, consumer and wellness [HCW] segments. Gupta is leading one new global super group sector for TTS that Citi has been integrated into their business model.

We hear about Gupta’s new HCW priorities, the bank’s work with their clients and their attention to new business models in our new, fast-paced, increasingly digital world.

There is a blurring of lines between industries within the technology, healthcare and consumer spaces. Gupta illustrates this, “For example, if you look at the consumer space, more and more consumer products are being sold online, from Nike shoes all the way to Nespresso, proving that digital commerce in consumer businesses is a game changer. There is a convergence of technology platforms and a huge convergence within healthcare and tech, as whichever part of the world you are in, you can access healthcare virtually. Doctors are the same, the medicines and the treatments are probably evolving but are still the same and yet the interaction is happening on a technology platform now, even within the healthcare space and the focus of tech in healthcare is a key mission.”

From healthcare, to consumer, we moved on to the third pillar of Gupta’s new supergroup which is wellness. So, what do we mean when we speak about wellness? This catch-all industry title encompasses an enormous amount of economic activity. Gupta outlines Citi’s approach to this industry sector, “Firstly, people are looking for protein alternatives, people are looking to have less of a carbon footprint, so this area of food and wellness falls closer to the Environmental, Social and Governance (ESG) space. Secondly, this space is really about healthy living, about our well-being, about how conscious you are in your own body and self.”

“This convergence and connectivity is really informing us that we need to run these segments collectively rather than independently. Think pre-pandemic, people were looking at cure and prevention separately. So, if someone has a disease and wants to access a cure, somebody who is more health conscious will look for prevention. At Citi, we are focusing on growth segments which are global and are intrinsically inter-connected, with global supply chains attached to that convergence of prevention and cure.”

Evolving business models

In practice Gupta explains, “Clients are organising themselves as one platform. So the platform is the same, the client is actually offering a wellness product which is an organic, plant-based protein. This is also helping the consumer arm, because then you eat healthier. That then branches into healthcare, which could be about tracking if a person is eating less meat-based protein, more plant-based, what is their diabetic sugar level, what is their glucose level, what is the electrocardiogram (ECG) reading giving rise to new ecosystems? Now a question for us is, ‘was this ecosystem there five or ten years ago?’ I think the answer is, it was always there. This has indeed evolved and the pace of disruption has accelerated with lines being blurred that made it seem there was never any interaction between them.”

Another big trend in our industry is the pace of metaverse adoption. The metaverse in the future of retail is anticipated to drive digital commerce and increase the flow of consumer goods. One is consumer brands selling non-fungible tokens (NFT) and the other is healthcare, where you will have your digital twin (a digital version of yourself) and for example, while you are on a flight it would track what’s happening to your metabolism, your skin texture and your posture. That data can determine what cosmetics are being offered and sold by the large cosmetic companies of this world, so I know I’m talking a little futuristically, but the future is very much here and now to a large extent. We see this as the future of retail.”

Impact of the pandemic

As Gupta sees it, the main evolution is from niche businesses to sustainable large-scale businesses. “Let’s take the advent of Athleisure, which is a new business line of clothes, where people can mix work and play. It was very niche and it was not something which would become a critical mass in five to ten years.” Essentially, the pandemic created the perfect environment for this sector to grow, both in the moment when people were working from home and needing apparel to take them on that hybrid journey, and into the future where business attire and leisure attire have merged, with no trace of separation.

Gupta continues with another example, “The other side of the story, which we probably should consider is, will some of this acceleration slow down, given everybody is now travelling? In my view, there will be a consolidation in the market, that’s how progress happens. Clearly the pandemic has been the catalyst to get to that scale superfast, it would have never happened otherwise and would have taken another decade or so.”

Future focused

As he takes up the mantle of this newly created global position, Gupta shares his ambitions for Citi’s clients, “Our ambition is simple yet may seem very bold. What I want to do in this role is to put our clients’ transformation at the centre of our own transformation.” Citi’s differentiator in the market has focused on its mutual evolution alongside its clients. As clients moved their treasuries to build shared service centres which became global or started procurement efficiencies, they have in turn, evolved. They will continue in this vein says Gupta, “Over the next few years, we want to be in line with the commercial organisations. In order to do this, we have to build our armoury of solutions and within the next year, we will be investing around one billion dollars in our technology budget[1]. Secondly, we aim to transform with the clients’ commercial organisation because that’s where most changes are happening.”

The banking industry goes through a process of changes around every three to five years as Gupta sees it and he is excited to face this transformational challenge. Digital transformation continues to sweep across the banking and payments industry. Innovative thought leadership partnerships complemented with our global network have enabled a sustained digital client engagement providing clients with new, fresh insights and to accompany them on their global growth journeys. Solution differentiators include Citi global instant payments that is available in over 60 countries, allowing clients to access the solution via a single API; cross-border payments into digital wallets which offers clients in over 100 countries near-instant delivery of funds and the Sustainable Trade and Working Capital Loans solution available to clients in 80 countries.

As he puts it, when it comes to industry changes, “Rather than be disrupted, we disrupt together with it.” With this transformation comes an evolution in the kind of talent that Citi is hiring into these new supergroups both internally and externally, says Gupta, “We need catalysts internally and externally. I’m a perfect example in that I’ve been hired to do this job internally, but we also added to our bench strength from across our Institutional Clients Group (ICG) franchise with colleagues experienced in covering healthcare, consumer, and wellness groups, from senior MDs to directors, across all levels. These people have just come on board and our activity levels are increasing in pace.”

Challenging the status quo

As Citi challenges its norms across the board, one of the things they are focusing on within the healthcare, consumer and wellness supergroup is to work with fintechs who are operating within these spaces. As this collaborative energy combines with a new wave of talent and of mindsets coming together, it is something of a landmark moment for the global bank. As Gupta says, “I feel confident that together we are on the right track, and we have to stay laser focused on our execution for the foreseeable future.”

A new era

There is an enormous amount of energy around this new era for Citi. As Gupta describes it, “It’s like a relay race. A commercial banker onboards new names at a nascent stage of the evolution of a client and the TTS journey starts here. They mature and go to the corporate banker. In TTS, we’re organising ourselves horizontally, covering commercial banking and corporate banking. The biggest change today is that we are focused on taking care of a healthcare technology client as they evolve from a commercial to a large corporate client of ours. As they grow as a corporate, the TTS platform that we offer remains the same, so the client doesn’t feel that there are changes, it is just that their scale is growing. This evolution is what I call the ‘horizontal part’ of TTS. This cuts across both commercial and corporate and is the business evolution journey. I believe the continuity of that client relationship has a lot of value because that builds confidence and the long-lasting relationships.” ■

Liquidity management strategies amid rising rates

Liquidity and working capital management is treasury's unsung hero. It is also front of mind as interest rates grind higher. Treasury Today speaks to US corporates Newell Brands and Fluor Corporation, and Japanese car giant Nissan, to get the lowdown on liquidity in a time of rising rates.

At Newell Brands, the US manufacturer and distributor of household brands spanning home appliances to office supplies, liquidity calls come in clear cycles. The company requires most liquidity in the beginning of the year when it is building up its inventory but come the end of the second quarter, that inventory starts to ship, shortly followed by invoicing, and realising cash.

It's an approach that balances cash-on-hand with the rate of received cash, inventory – but not too much lest it tie up too much liquidity – and timely and nimble access to the capital markets, explains Robert Westreich, Senior VP Treasurer and Chief Tax Officer at Newell Brands, speaking to Treasury Today from the company's Atlanta office, just back from a whistlestop tour to Newell's Dublin office. "Liquidity is the lifeblood of the organisation. You must have immediate, short and long-term plans to manage it."

Westreich shapes a proactive strategy around tiers. The company runs a global notional cash pool that effectively deploys cash and minimises the amount of cash on hand; a receivables factoring programme provides cash more quickly than standard traditional collection activity, and the cash conversion cycle effectively manages days payable outstanding and days inventory outstanding.

Elsewhere, liquidity is ensured via a low-cost commercial paper facility providing immediate funding if needed, and a longer-term debt programme managed across maturities and not stacked up in one particular year. Under the cash conversion cycle, Westreich targets a long-term 50-day conversion rate, currently around 70 days but reduced from a high of 120 days. "The lower the cash conversion cycle, the more cash you produce and the greater your liquidity," he says. He also targets a 100% ratio of free cash flow to net income. "If you can convert all your net income to cash, you're doing a great job," he says.

In Asia, liquidity at Japanese car giant Nissan is also front of mind for Rakesh Kochhar, Senior Vice President Global Treasury and Sales Finance, in the car company's Tokyo head office. The working capital requirements of the company rose during the pandemic on a combination of lower sales and higher inventory. Now the ongoing semiconductor shortage, coupled with longer shipping times as global ports remain clogged, has compounded the need to have high inventory levels, lest manufacturing plants are left short of vital components when semiconductors are in stock. "Our working capital requirements have increased, and we have secured high levels of liquidity to fund it," says Kochhar.

Rising rates

Anecdotes from global treasurers reflect the challenges of liquidity management in the current environment. From supply chain issues leading corporates to maintain high inventory levels to demand unknowns coming out of the pandemic, liquidity is front of mind. But perhaps the most pressing and critical component of liquidity and working capital management is the impact of rising interest rates on the cost of servicing and refinancing debt added to corporate balance sheets when money was free. "A recession impacts all businesses differently, some that are long in the short part of the curve with size will be caught in an uncomfortable situation without the notional or yields needed to offset these higher borrowing costs. I'd expect their net interest expense to move unfavourably which is fairly easy to spot by investors," predicts Todd Yodder who heads up global corporate treasury at Fluor Corporation, the Texas-based engineering and construction firm.

Companies with negative cash flows using debt to invest in the business will particularly struggle. But stable companies financing debt at maturity will also feel the pinch. "In the last couple of weeks, a company that was paying 1% on US$5bn is now paying 3% which accounts to some US$150m of additional interest. It's not insignificant," says Kochhar. "Companies are sitting pretty that raised money two to three years ago but when it comes to refinancing it will be much more expensive."

Newell Brands locked in low rates back in 2016 when it issued around US$12bn debt of which around US$1bn notes are due in 2023. Mindful that only the current swathe of rate rises are priced in, Westreich is keenly watching central bank nuance and signs to time refinancing. The company has a split rating with the credit agencies meaning its bonds are a combination of investment grade and high-yield – where the cost of borrowing has risen sharply. As the price of these bonds moves in the opposite direction to their yield it is triggering a different strategy. "Yields are moving dramatically so for our longer-dated bonds the cost of buying them back is actually cheaper because the yields have risen so much."

ESG-linked issuance also offers a route to cheaper borrowing. Nissan raised US$11bn in 2020 in three, five, seven and ten-year tranches and Kochhar doesn't expect to have to return to the market to meet new funding needs, hopeful that supply bottlenecks and inflation will ease. "Our hope is that the supply chain improves, and we will have lower working capital and liquidity needs. I don't anticipate our working capital and funding needs going up," he says. However, he is contemplating ESG issuance pegged to the company's ongoing transition to electric vehicles enabling a tap of more favourably priced debt should interest rates grind higher. "You can raise money at attractive rates if it is linked to ESG and we may do something in the next couple of years. Not because we need the money, but because we want to tap this market and it is good brand equity – it conveys the fact we are a responsible company."

Nissan also has another strategy in place to counter the impact of rising interest rates on vehicle demand. A so-called captive finance offering, where the company acts like a bank and lends to its customers to finance car purchases, is helping it manage profitability in a rising interest rate environment. Nissan borrows from its banks or the capital markets and lends to customers on a fixed rate. Although there is typically a few months lag between interest rates going up and Nissan charging more to customers, the business offers an important hedge. Even when interest rates were declining it proved profitable since the cost of borrowing for customers reduced with a time lag after Nissan's own costs came down. "It's a very attractive part of the business," explains Kochhar. "Our captive finance business contributes a significant proportion of our total profits."

Borrowing ahead

Some treasurers Treasury Today spoke to regret not having locked in across the curve during the rock bottom borrowing costs of the pandemic and now fear the kind of interest rates not experienced for a decade. Others are adamant the cure cannot be worse than the disease; rates will have to settle down following aggressive hikes by central banks. Indeed, it feels like treasury has fallen into two distinct camps: those that have been anticipating and waiting for rates to go up for years, and those that might have left it too late. "One group, anticipating for years, is finally looking right however we know that being right and early is many times as costly as being wrong," reflects Yoder. "The other group is looking to get long fixed but may be caught late without adequate market appetite. Time always tells who was right. I have always been a believer in balancing rate, duration, and repricing risk on both sides to minimise impacts to net interest income."

Moreover, corporate liquidity needs will be different for different companies in different regions. Some sectors like transport, particularly shipping, are generating huge stockpiles of liquidity, says Frankfurt-based Marion Reuter, Standard Chartered's Regional Head of Transaction Banking Sales UK/Europe. Elsewhere, companies with large exposure to China, still in the grip of lockdown, are burning through their liquidity to keep operations running but generating few sales or revenue. "Companies with large exposures to China are most worried about their liquidity. Few companies operating in China are making any revenue because everyone is sitting at home. It's having a massive impact on liquidity."

New trends

Reuter also notices important new strategies emerging. Before, corporates tended to put cash into structured products with fixed tenors, hunting for the best possible yield. Now, more are putting money into their current accounts in a deliberately short-term approach, not committing on tenor but expecting maximum yield and banks to pass on the benefits of higher interest rates on deposits. It's a challenge for banks, she says. "We are seeing lots of competitive bidding for money to sit in current accounts. From a cash management perspective, we are not traders, and this is not the way we are used to working with clients. What clients are leaving on account is very much linked to yield."

It is feeding into another trend: a swathe of RFPs. Corporates are actively consolidating and paring back on their global and local bank relationships in an approach designed to both shore up liquidity and leverage the most favourable deposit rates. "If a company has liquidity in 20 different bank pockets it's not efficient or visible," says Reuter. "Corporates are reviewing their bank partnerships to better manage their cash and liquidity."

RFP and tender activity are proving an opportunity for Standard Chartered to win new relationships in its core regions Asia, Africa, and the Middle East that don't typically benefit from a high churn of mandate activity. "Our key markets are not typically tendered first because the different currencies mean they are not easily centralised but now we see many tenders across our markets. We are pleased with this development so there is still a lot to win and gain in our markets."

Value creation

Liquidity considerations have also made value creation more important. Share buy backs to take advantage of cheap equities; deleveraging and dividend increases are all on the cards as corporates seek to return value to shareholders and shore up share prices in the volatile equity markets.

Newell has put in place strategies to cut debt since that 2016 issuance, reducing the cost of funding by deleveraging by over 50%. Elsewhere the company has shored up the share price via buybacks, throwing off the proceeds from a recent divestment. The company has a payout ratio of above 50% on its dividend and a dividend yield of 5%. Buoyed by less debt and a healthy share price, when it comes to refinancing, his priority is to remain nimble. Rather than lock in long-term borrowing with no opportunity to call the bond he is considering short-term, variable adjusted rates and exploring cross currency swaps. "There are tools in the box treasury teams can put in place," he says.

Yoder also sees potential for some companies to grow their share price. "If we continue to see risk-off, those companies able to deploy excess capital with favourable return on capital employed (ROCE) and free cash flow (FCF) will have an advantage maintaining, and growing, their share price," he says. "It is the challenge of every treasury to establish and maintain a ROC [return of capital] plan that investors' want to see if you are not going to de-lever or invest in the business, you are going to need the optimal mix of repurchase and dividends."

Nissan has just restarted paying dividends and Kochhar says it is up to the Nissan Board to consider buybacks at the appropriate time. Still, he notes many companies are looking at buying back their stocks in the current environment. "This is a good time to start buybacks because stocks are so attractively priced," he says, pointing to most buyback activity amongst Chinese corporates.

From supply chain priorities and getting inventory levels right, the need for cash on-hand given enduring pandemic unknowns, especially in China, all the while navigating the prospect of higher borrowing and business costs leaves liquidity as much a priority as ever. Treasury's cash operation is an unsung hero. Few people know about it – or want to know about it – but if it breaks down, its impact is profound. ■

Japan-Korea relations show signs of thawing

Japan and South Korea have had a long history of soured relations – particularly related to the reparations related to Japan's colonial past – which have impacted trade between the two countries. Things are looking more positive, however, with a new President in South Korea and a friendlier diplomatic tone.

It's like a chronic condition that flares up every now and again, sometimes with different symptoms. It's been there for years – the root causes are known – and sometimes it seems there is no cure.

That's one way to think about the relations between Japan and South Korea, two countries that have a difficult relationship because of deep-seated issues related to Japan's colonisation of Korea between 1910 and 1945. And it's not just a diplomatic issue, the flare-ups have impacted trade, both economies, and the companies that do business there.

Things are looking up, however, now that South Korea has a new administration, led by President Yoon Suk-yeol. Taku Tamaki, Lecturer in International Relations at the UK's Loughborough University, comments that under the previous administration, of Moon Jae-in, "things were pretty bad". He points to a recent incident that is symptomatic of the wider issues: in early 2022 Japan made a bid for its gold and silver mines on Sado Island to be included in the UNESCO list of World Heritage Sites. This was met with uproar in South Korea, as it was deemed insensitive because the site was used for forced Korean labour.

As with the ongoing dispute, that pattern is the same. The Korean side feels aggrieved because Japan has not acknowledged any wrongdoing. Meanwhile Japan feels that the issue has been dealt with – they have made reparations – and Korea is unfairly painting Japan as the bad guy.

Now it seems the situation may be improving, and the frosty relations thawing. Eunil Cho, Associate Research Fellow at the Korea Institute for Defense Analyses and Lecturer in International Relations at Yonsei University in Seoul, says that both sides have the same purpose of improving relations. In recent years, she explains, South Korea-Japan relations "stalled in every aspect" and the Covid pandemic accelerated the impasse. "Because business, students, and others were unable to come and go due to COVID-19, a politically, economically and historically strained relationship was easily continued. But things are changing right now. And both political elites as well as both societies are ready to get back on track," says Cho.

The spat between South Korea and Japan has a long history, and is rooted in Japan's colonialisation period, in which it used forced Korean labour and 'comfort women' – Koreans who were forced into sexual slavery for the Japanese army. In 1965 an agreement was reached in which Japan paid millions in loans and grants. Whether this was compensation for wrongdoing or not is a major bone of contention. Korea argues that the 1965 agreement was signed under a dictatorship – without the consensus of the Korean victims – and the funds were for economic development, rather than compensation.

Lauren Richardson, Lecturer in the Department of International Relations and Director of the ANU Japan Institute at Australian National University, explains that the issue gained more prominence as South Korea democratised in the late 1980s. That was when various victims started to mobilise and seek redress. "In 1965 they had no voice and were not recognised," says Richardson. "It's been a long process," she adds, explaining that they have been pursuing litigation for years now. And some of this has focused on challenging the basis of the 1965 agreement.

There have been various court cases. For example, in 1997 two forced labour victims took legal action against Nippon Steel Corporation, which went through various courts. The Japanese courts found that the company did not have liability for the old company that existed during the colonial era. Also, the South Korean lower courts threw out the claim. However, the higher courts in South Korea took a different view. In 2012 it was ruled that Japan's colonisation was illegal and the 1965 agreement was to settle debt and establish economic ties between two countries – it did not cover reparations for Japan's wrongdoing. In 2018, South Korea's Supreme Court upheld this view, which triggered another flare-up in relations between the two countries.

Usually, a court ruling about your country in another country can be ignored, notes Richardson. But the litigation impacted Japanese companies that are doing business in South Korea because the courts made it possible to seize the assets of affected Japanese companies to compensate the victims. This prompted a "downward spiral" that effectively threw out the 1965 treaty, says Richardson.

Japan retaliated. It removed Korea from its list of top trading partners and put restrictions on chemicals, which would affect Korea's production of chips and displays. Korea hit back and removed Japan from its favourite list of trading partners.

As it stands, there have been reports – for example, in the Asia Times – that the export of chemicals by Japan was not actually halted, and Korea's chip production was not impacted.

Also, the assets of Japanese companies in Korea were not liquidated. However, they came pretty close to pressing that button, says Richardson. "[President] Moon was very close to toying with that idea – that would have been the point of no return." As yet, Korea hasn't taken that dramatic step. Throughout this period, both countries were preparing for the economic shock and were anticipating a hit to their economy as a result of the trade spat.

These days, however, the situation is looking rosier. Yoon took office in South Korea in May, and in the lead up to the new era, he had signalled that he wanted stronger bilateral relations with Japan.

Cho at Yonsei University comments that things are changing with the transition from the Moon to the Yoon administration and expects to see relations improve. "When President Yoon was the candidate for the presidency, one of his pledges in foreign policies was the normalisation of South Korea-Japan relations and paving the ground for developing future-oriented relationship," she says. "Japan seems to recognise that the Yoon administration will try to improve Korea-Japan relations. This can be an opportunity to resolve the mismatch of perceptions of each other," says Cho.

This is in line with Tamaki's view of the new administration. He notes that Japan was paying close attention to the candidates in the run-up to the presidential election, and the conservative candidate – Yoon – had a softer stance towards Japan. "I think the Japanese government is happy the conservative President is in power," says Tamaki. As for the state of diplomatic relations, he says, "I think there is scope for improvement," adding that both sides have signalled they are willing to explore better ties.

There have been reports of friendlier relations, with envoys being dispatched to smooth things over. Ahead of Yoon's inauguration there were reports that the Korean delegation wanted to "fasten the button of a new Korea-Japan relationship", a reference to a saying that if the top button is done correctly, the others will fall in line.

Also, US President Joe Biden's influence has been felt. He visited South Korea and Japan in May and has been keen to build alliances in the region. And the Asia Times reported that there were baby steps taken by Japan and Korea towards talks on the sidelines of the NATO summit at the end of June.

Richardson argues that the role of the United States is limited in this issue and its only leverage is as a security guarantor – in theory it could threaten to withdraw troops. However, "These disputes have nothing to do with security," says Richardson. "This dispute means so much to the South Korean and the Japanese governments, and they will put this before security concerns," says Richardson.

In 2019 when tensions escalated, and South Korea had been downgraded on the list of Japan's trading partners, Richardson says that Korea was close to tearing up the military intelligence sharing agreement that it has with Japan. This didn't happen, but Moon – the President at the time – was close to the brink.

Trade relations between the two countries now look better, however. Cho comments, "The current move to improve Korea-Japan relations from a broader perspective is certainly expected to catalyse bilateral trade relations." In terms of trade relations, she explains, the two sides share the same concerns. "It is a trade dependence issue," she explains. "As protectionism began and economic coercion took place, the countries began to think that excessive trade dependence on a country could increase vulnerability."

Considering this, both countries have a need to diversify their trade and both countries have been participating in discussions in the US-led Indo-Pacific Economic Framework (IPEF). "I think there is room for improvement in South Korea-Japan trade relations in the process of forming new supply chains in the Asia Pacific region," she says.

And all of this has an impact on the companies that do business in Korea and Japan. Cho says, "What has been painful for the companies that do business in either Korea or Japan is that a two-track approach of separating politics and the economy has not been followed in recent years. The bilaterally strained relations have been a critical factor in the deterioration of trade relations, but the Trump administrations' American-first rhetoric and the US-China trade war also had an impact on destabilising trade in the Asia-Pacific region. Therefore, if the two governments are willing to pursue an improved relationship, it will be possible to reduce the burden on companies that want to stably develop their businesses there."

At the moment, it is difficult to say what the outlook will be for companies, says Tamaki at Loughborough University. He notes that as the new administration begins, the prospects are quite positive. "There are good indications that the relationship will improve. It all depends on how the Japanese conservatives and ultra-conservatives behave over the next several months," he notes. "Businesses are quite pragmatic," says Tamaki. He comments that South Korean businesses and Japanese investors know what kind of things trigger public opinion and they feel optimistic about the current state of affairs. "Historically speaking, conservative Presidents do quite well – I think the Japanese side welcomes this change in administration," Tamaki adds.

Looking to the future, Cho notes that it will be difficult for the relationship to be completely improved and the issues resolved. "What can be said at this point is that the Yoon government wants to improve Korea-Japan relations, and there is enough consensus with Japan's Kishida government on that. It is expected that these political consultations will positively affect the improvement of the economic environment for the companies and businesses," says Cho.

And while the relationship has been difficult, Richardson at ANU comments that this is something that had to happen. "The 1965 agreement was a very superficial level reconciliation – it did not set them up for the long term." This treaty she says was like a "time bomb". "It had to go off. It is messy, but the relationship will be better for it," she comments, adding that the victims need to get their reckoning.

Although the relationship has been in an unhealthy condition, with occasional – yet serious flareups – the prognosis is more positive and there are hopes that the issues will eventually go into remission. ■

Photo by Standard Chartered Bank China

An adventurous life in treasury

James Zhixin Zhang
Head of Treasury and Corporate Finance, Asia Pacific and China

SIEMENS energy

James Zhixin Zhang, Head of Treasury and Corporate Finance, Asia Pacific and China at Siemens Energy, has embraced opportunities and challenges throughout his career – travelling the globe and honing his treasury skills in the process – and has learned a number of lessons along the way, which led to a career highlight of establishing and leading Siemens Energy's regional treasury in Asia Pacific and China.

Siemens Energy is one of the world's leading energy technology companies. The company works with its customers and partners on energy systems for the future, thus supporting the transition to a more sustainable world. With its portfolio of products, solutions and services, Siemens Energy covers almost the entire energy value chain – from power generation and transmission to storage. The portfolio includes conventional and renewable energy technology, such as gas and steam turbines, hybrid power plants operated with hydrogen, and power generators and transformers. More than 50% of the portfolio has already been decarbonised.

Zhang, Head of Treasury and Corporate Finance, Asia Pacific and China, Siemens Energy, has had an adventurous life in treasury that has seen him take up new challenges all around the world.

After graduating from university, Zhang began his career as a consultant at Capgemini. His first client was ABB, a fortuitous encounter that ended up shaping his career in many ways. His career moved into its second phase when he began to work for ABB in 2012. Working for the Swiss and Swedish multinational industrial company opened up a new world and shaped the career in treasury for him.

He started out with ABB China, as a treasury manager and team leader, and from there he had numerous international assignments. After three years in this role, he got his first international assignment, at the ABB headquarters in Zurich, Switzerland. "This gave me a holistic view of the whole of global treasury management, including capital markets."

This assignment, however, was cut short when he had to return to China for a new opportunity. He didn't hesitate to take on the new challenge and became the ad-interim country treasurer for China and Hong Kong. Here he got to take on new responsibilities in leading the treasury function.

When that temporary role came to an end, he was soon packing his bags and leaving on a plane for a different far-flung destination. This time it was an exciting opportunity in Dubai, UAE. For six months he was the treasury manager for the Asia, Middle East and Africa region and got to experience the various cultures in the diverse region and work with colleagues from numerous countries.

While in the UAE, Zhang's responsibility was on the strategic side of treasury to restructure the treasury functions in 18 countries into six centres of excellence (CoE) in the region. This experience exposed him to the intricacies and complexities of working in a region that is diverse, with each of the markets with their unique set of rules and regulations. He continued his work in China after the completion of the assignment in UAE and had the opportunity to briefly work in South Korea for one month.

He eventually relocated back to UAE as the cluster treasurer for the Middle East. During this time at ABB it appears he was yo-yoing between China and the international assignments. It sounds like an exciting time, but was this the kind of life he chose, or was he told to go on these assignments?

This was an active choice, he explains. "I saw it as an opportunity, it was an enriching experience; when you are presented with opportunities like this it is up to you to choose," he says. And he certainly chose the adventurous and interesting life during his time at ABB.

So far in his career, Zhang has consciously taken up new challenges and developed his professional skills at the same time. "In my career I have enjoyed travelling and going to different countries – it has shaped how I think and behave. I think I became more direct and outspoken as a result of these international assignments – not like when I first joined treasury. This experience has really shaped me as a person," he says.

Zhang remembers his time at ABB fondly and says, "I really grew up there, and really transformed into a seasoned regional treasury head over those six years," he says.

From there, he returned to China – in 2018 and took a job with Siemens, the German multinational industrial conglomerate. As the Head of Global Markets for Siemens Financial Services Ltd., a treasury entity and licensed non-bank financial institution in China, Zhang oversaw front office departments including Bank Relations, Business Development and Financial Markets. The uniqueness of Siemens' treasury set-up is that the Financial Markets department can pool the liquidity and foreign exchange (FX) risks from dozens of Siemens companies and manage these risks in the interbank markets under treasury entity's umbrella.

He explains how Siemens has a different treasury set-up to other companies and has a regional in-house bank. "Other companies do not tend to have an in-house bank in the region," explains Zhang. "This makes a difference with how you manage cash and liquidity – it is more centralised," he explains.

It was an interesting time to join the company, as it was going through some major changes that presented Zhang with a new set of challenges and opportunities. Siemens was undergoing a restructuring under its Vision 2020+ strategy, which gave individual businesses under the Siemens umbrella more entrepreneurial freedom in order for them to sharpen their focus on their respective markets. As part of this plan, in May 2019, Siemens announced that it would be creating a new player in the energy market with the combination of its majority stake in Siemens Gamesa Renewable Energy and the spinoff of Siemens' Gas and Power, which comprised the company's oil and gas, conventional power generation, power transmission and related services businesses.

This new company was named Siemens Energy and the spinoff was approved by Siemens shareholders in July 2020. Siemens Energy AG officially became an independent entity when it listed on the Frankfurt Stock Exchange on 28th September 2020. This marked the beginning of a new chapter, and the company was able to become a leader in energy technology and a Fortune Global 500 company in its own right. According to the company, approximately one-sixth of the electricity generated worldwide is based on technologies from Siemens Energy. And in the fiscal year 2021, Siemens Energy had generated revenue of €28.5bn, and had approximately 91,000 employees worldwide in more than 90 countries.

The spinoff was not without its challenges for those in the treasury team, however. The restructuring meant that the treasury infrastructure and team for Siemens Energy was being built almost from scratch, and this involved also building the regional treasury team, which Zhang has led.

Creating a standalone treasury set-up for a company of Siemens Energy's scale is like complex surgery, says Zhang. There were many inter-dependencies and uncertainties. And the timeline of Siemens Energy spinoff and listing was tight. Many of the activities had to be completed between late 2019 and early 2020 to hit milestones toward the successful listing of the company. During this time, most countries were impacted by COVID-19 and were in different stages of lockdown, which made everything more difficult, explains Zhang.

Steering through all these complexities and uncertainties in such a short time required swift decision-making, a strong acumen of treasury management and close collaboration with

> In my career I have enjoyed travelling and going to different countries – it has shaped how I think and behave.

many stakeholders around the world, Zhang explains. Extraordinary teamwork, together with his international experience, played an important role in successfully achieving the treasury function readiness during the spinoff.

Since the spinoff he has created the entire treasury and corporate finance team for China and the Asia Pacific region. This was quite a unique position to be in: he had a blank canvas to create things how he wanted, but there were also the traditions of Siemens to consider and how things had previously been run. "On the one hand we came from the Siemens legacy where there is an inherent best practice with highly-motivated and experienced people – something that we are proud of. At the same time, Siemens Energy is a young company that is relatively new in the capital markets. There are a lot of things to think about strategically and how we want to set up in the future," he explains.

Also, there are unique aspects of being in China and Asia Pacific, which is a diverse and dynamic region. In the region, Siemens Energy has business operations in at least 15 countries. All these countries have their own regulations and some of them, such as China and India, have relatively more complex regulatory environment.

In setting up the regional treasury, Zhang explains, he has had to find the best balance between being centralised and decentralised, between hardwiring the processes into the system and maintaining the flexibility, and balancing out where there might be a conflict in objectives between the two. There needs to be a balance between being focused on the local needs and having the flexibility to adapt to them, but also the economies of scale that come with operating at a regional level. The latter is needed because people are needed centrally, for example, to manage the cash pool and execute high volume FX and guarantee transactions in the region. However, local specialities, such as guarantees in Korean or Thai language, must be managed locally.

In Siemens Energy, the entire Asia Pacific and China regional treasury is managed by one centralised team located in two countries to run end-to-end processes, plus two satellite countries whose treasury is managed locally. This set-up is tailored to consider both the business needs and the synergy through centralisation.

How to structure the regional treasury also requires a long-term mindset, Zhang says, and the treasury leadership need to keep an eye on what is happening in the world and what might happen in the future. In all of this, Zhang explains, there is a conflict that needs to be balanced – between whether to centralise or decentralise.

This is his latest challenge in what has been an exciting and fulfilling career so far. Does he like his current role? "I really like it!" he says, explaining that it has been enjoyable to start building an entire team from scratch and create the treasury infrastructure for the new spinoff company like an architect.

Another factor that is unique in working for a company like Siemens Energy is that the treasury function has a wide range of mandates that encompass not only the core cash management, funding and FX risk management, but also topics such as trade finance, working capital management and customer finance. Being a regional treasurer allows one to take a generalist approach, which contracts to the more specialised set-up in the headquarters treasury function.

The company has a really diverse business model with a mixture of product, project and service businesses, explains Zhang, and some of the service contracts can be for 20 to 30 years, which creates unique considerations for FX risk as hedging of this long duration isn't generally available. This usually requires the expertise to structure the solution based on the understanding of business model and knowledge of the local regulations and financial markets.

Zhang also explains how he has enjoyed and gained deep satisfaction from seeing how his team has developed, and how they have developed their knowledge and understanding of treasury. "In the beginning the team in China did not know much about Asia Pacific, and it has been great to see how they have grown," he says. Also there have been specialists in trade finance, for example, who have expanded their skillset to know more about treasury, and also about the complexities of operating in the region beyond their home market.

The team needs to develop a broad range of skills to cover the various aspects of treasury management. Zhang explains: "With FX you need to be sensitive to numbers and change, whereas on the trade finance side you are dealing with a lot of text. In the documents for bank guarantees, for example, there is a lot of writing and various terms and conditions. You need to be sensitive to text – the way I look at it is that one is dealing with natural science and the other is social science. In my function you have to manage both."

Through his career, Zhang has noticed a number of trends. He has witnessed and experienced the trend of treasury having to adapt to the merger and acquisitions of the major parent companies, as well as spinoffs. This is where treasury attracts high attention from the C-suite and has a key role to play, not just in the financing side but in building the basics of managing the cash and market risk and securing credit facilities. This has to be done at the same time as keeping the company running, like building the engine while the car is running.

Many companies have been undergoing a similar corporate restructuring, and Zhang says that in this environment you need to consider how to set up your lean function, and how to be efficient. "The best practice is to follow the strategy of the company. If the strategy of the company is moving to be centralised, then you have to be centralised. If the company wants flexibility – then you have to do that too in treasury. It really depends on the strategy of the company," he says. Zhang adds, "When you look at treasury, you should not look at it in isolation – you need to look at the broader strategy, and the entire environment."

And looking to the future, Zhang comments on the trend of automation and digitisation and efficiencies with gaining better visibility. "These trends will continue into the future," he says, "but at the same time I think it is important for treasury to be more strategic, to think ahead, to think more broadly and not be reactive." ■

FOCUS ON BITCOIN'S TRUST, NOT ITS VOLATILITY

Trust in financial services – and other aspects of the digital world we now live in – is crucial. And although bitcoin has had a bad rap for its volatility, one author argues that more people should be focusing on the role it has in bringing trust and transparency to markets.

If the pandemic has accelerated the digitalisation of our daily lives, does this mean that we could be heading for a dystopian future where everything we do – shopping, communicating, dating etc – is ultimately controlled by a handful of platform companies? Could our lives be changed in an instant, by an algorithm, or a few clicks, by people and companies that we really shouldn't be putting our trust in?

The role of trust has always been important in financial services, and in the digital world it now has a critical role to play. And this goes beyond Elon Musk arguing with Twitter about how many of its users are real or fake, but extends to every interaction and transaction we have in the digital world.

This is the focus of a recently-released book, 'Rearchitecting Trust: The Curse of History and the Crypto Cure for Money, Markets, and Platforms,' Omid Malekan. He has also written 'The Story of Blockchain,' and describes himself as an 'Explainer in Chief' of crypto. He is also an adjunct Professor at Columbia Business School and was previously a subject matter expert in crypto at Citi Ventures.

His book opens with painting a dark picture of what our future digital world could look like, a world where nobody trusts anyone or anything. And this is where bitcoin comes in. This, and other cryptocurrencies, have been maligned in the press because of the volatility and the investors who have lost millions (as has been previously reported by Treasury Today).

However, Malekan argues that we should be focusing on the trust mechanism and crypto's transparency instead. He points to the original intention of bitcoin which was outlined in the paper by its pseudonymous creator Satoshi Nakamoto. At the time, in 2008, the world was already digitising and there was a need for trust. Malekan quotes the paper, "Commerce on the internet has come to rely almost exclusively on financial institutions serving as trusted third parties to process electronic payments. While the system works well enough for transactions, it still suffers from the inherent weaknesses of the trust-based model."

It is this trust that Malekan focuses on. Although the commentary on bitcoin has focused on the volatility, Malekan argues this is part of its strength. That volatility instead should be reframed as a transparent way of valuing markets that previously wouldn't have been valued.

Start-up investments have typically been illiquid, and impossible to get a current value on. With crypto, and the issuing of tokens that can be traded immediately, that changes. In a recent article for Harvard Business Review, Malekan writes that crypto gives liquidity and price discovery from the outset. "This unique attribute – enabled by the novelty of the underlying infrastructure – leads to a more benign explanation of the volatility," he writes.

And he also notes a feature of the volatility that often gets missed, "If your cousin's new restaurant had tradable shares, they'd probably be as volatile as crypto." And then he draws on more famous examples, of WeWork being able to raise money with a valuation of US$47bn before it crashed. Malekan argues that this is just as volatile as crypto, it's just that it wasn't visible.

Because crypto is so transparent, the volatility makes it look worse than it is, he argues. And as for crypto failures, Malekan argues, "Crypto is unique in that even the scams are transparent, and in the long run, transparency is a powerful tool for countering shady behaviour, in any industry." ■

Understanding natural capital

While climate change has become an increasingly high-profile topic, less attention has so far been paid to natural capital – in other words, the world's supply of natural resources. So why is natural capital important, how are companies addressing this topic, and what does it mean for treasury?

The focus on ESG and sustainability has never been higher. But while the issue of climate change has gained significant awareness in recent years, less attention has so far been paid to another pressing environmental topic: natural capital.

So what is natural capital? In a nutshell, it describes the world's supply of natural resources, including rivers, forests, geology, air and ecosystems. People derive value from natural capital via ecosystem services, which include the provision of food and water, the flood control service provided by forests, the role played by insects in pollinating crops – and even non-essential cultural services that arise from physical settings, such as recreation, tourism and relaxation.

"Quite simply, natural capital is a way to frame the value of nature in economic terms," explains Marcelo Bacci, Chief Financial and Investor Relations Officer at Brazilian pulp and paper company Suzano. He notes that this includes a variety of renewable and non-renewable resources, such as trees and fish, minerals and fossil fuels. "It also includes ecosystem services, such as the hydrological cycle providing fresh water, renewable energy sources, insects pollinating crops, or fungi and bacteria breaking down organic waste."

Safeguarding natural capital

Bacci explains that natural capital can be spent or managed wisely – or alternatively, it can be squandered and deployed on harmful and unproductive projects. "There is a finite supply, and we need to ensure we think carefully about how we safeguard and use it," he adds.

More broadly, natural capital can be viewed as part of a broader view of society called the 'capitals approach', explains Dr Beccy Wilebore, Chief of Science at Natural Capital Research, a science-based data company which produces a tool for mapping natural capital in the UK. "So we think about natural capital underpinning everything that we have in society, and upon that we can build our social capital, our human capital, our built capital and our financial capital," she says.

In the UK, a notable development was the 25 Year Environment Plan (25YEP) published in 2018, which put natural capital at its core. The report argued that the value of natural capital "is routinely understated", adding that "when we use a natural capital approach, we are more likely to take better and more efficient decisions that can support environmental enhancement and help deliver benefits such as reduced long-term flood risk, increases in wildlife, and a boost to long-term prosperity." This, in turn, has been reflected in the Environment Act 2021 and the 2020 Agriculture Bill.

In 2021, meanwhile, the United Nations (UN) adopted a new framework to ensure that natural capital is recognised in economic reporting. The new framework, the System of Environmental-Economic Accounting – Ecosystem Accounting (SEEA EA), recognises the importance of ecosystems in delivering services that generate benefits for people.

What are companies doing?

The concept of natural capital is already affecting businesses in a number of different ways. In England, for example, the Environment Act will require all new developments to show a 10% net gain in biodiversity from 2023 – a shift that Wilebore says is driving a biodiversity offset market, especially on degraded agricultural land. At the same time, agricultural subsidies are changing towards public money for public goods – "and we're very much seeing carbon markets and the race to net zero as a driver for lots of companies at the moment."

For companies starting to look at this topic, Wilebore recommends companies that own or manage real assets – in other words, land of any kind – should start with a baseline: "Understand what you have now, what condition it's in, and then look at the opportunities you have to enhance that even further. Once you know what those opportunities are, you can align them with available revenue streams such as offset markets for biodiversity, carbon or nutrients."

Natural capital is also increasingly relevant for investors. Eoin Fahy, Head of Responsible Investing, Chief Economist at KBI Global Investors, notes that a concept such as natural capital "is an excellent framework for investors to use when looking at the impact that their portfolios are having on the environment, whether from a climate point of view, or in terms of pollution, biodiversity and a range of related issues."

He adds that companies are approaching the issue of natural capital in myriad ways – "and in our view many companies are taking natural capital into account even if they never use the term at all!" For example, explains Fahy, a company that considers the biodiversity impact of its operations is considering the impact of its operations on natural capital, whether it realises this or not – "as is a company which takes measures to reduce its carbon footprint, or to measure the benefits to the environment of (for example) deforested land with fresh native forest plantations."

Likewise, he says, companies that report to CDP (formerly the Carbon Disclosure Project) "are taking very significant steps towards properly considering natural capital issues, while again they may not necessarily think in those terms at all."

Impact on treasury

So what does natural carbon mean for treasurers? Suzano's Bacci points out that treasurers need to think carefully about risk management and regulation, and that companies are not turning their attention to natural capital solely due to pressure from stakeholders. "There is a growing acknowledgement that in order to secure the long-term financial health of a business, it must make the connection between natural capital and financial capital and actively implement changes to address this in their strategies and business models," he says. "Governments and regulators around the world are already acting to ensure that these links are enshrined in law."

"For Suzano, taking care of natural resources is not only the right thing to do, but is also critical to the future value of the company," Bacci explains. "Our forest plantations rely on the availability of water and healthy soil and we need to maintain this, from one seven-year planting cycle to the next. If we deplete groundwater levels or strip soil of its nutrients, we will be left with degraded land and diminished future value creation opportunities." Conversely, he says, "the company can increase the stock of natural capital by restoring degraded pastureland, and turning it into productive plantation forests that are comparatively better for biodiversity."

Tesco is one retailer that has been proactive in addressing sustainability, with notable initiatives including the company's sustainability-linked supply chain finance scheme. Alex Ashby, Head of Treasury – Markets, argues that in the last few years, natural capital has come to the forefront of economic and business sentiment with more prominence. He says this follows the growing realisation that the use of fossil fuels needs to decline aggressively – "but also the realisation that our planet's resources really are finite in many more areas than just this, such as marine, soil quality and erosion and British hedgerows – not just carbon emissions and nickel for electric vehicles!"

Ashby notes that treasury is always at the heart of the risk management associated with movements in finite resources, and advising the Board on what these impacts mean to the business, now and in the future. "The ongoing growth of sustainability-linked finance is using financial capital and incentives to encourage the preservation of our planet's natural capital," he adds. "Different companies and industries are rightly focusing on their own natural priorities, but with a strong overhanging banner of climate change and awareness."

Moving forward together

It's clear that there is much to be gained by focusing on natural capital – but what are the risks of failing to address this topic? "Companies that do not take natural capital into account risk being seen as 'laggards' when it comes to this and other ESG issues," comments Fahy. "For listed companies, this could significantly reduce their attractiveness to investors. But it may also raise regulatory issues, as there is no doubt that regulations such as the EU Sustainable Economy, the Corporate Sustainability Reporting Directive and others in the pipeline will increasingly require companies to report on these issues in the not-too-distant future."

Wilebore, likewise, highlights the risk of missing out: "Getting in there early, and getting your assessments done early, will put you in the best position to engage with these markets when they come to fruition." She notes that reputational risk is also a concern for companies that do not engage fully with this topic, citing the negative publicity that can arise for companies that are accused of greenwashing. "So it's important to engage with this – but it's also important to get it right, and to do so in a way that is scientifically robust and verifiable."

Crucially, this is not a topic that companies can address in isolation. As Bacci points out, "Ultimately, business has an important role to play in protecting our natural habitats, but this must be done jointly with governments and society. We must collectively look to promote nature-based solutions to protect, restore and better manage ecosystems." ■

suzano

Case Study

Managing natural resources

Marcelo Bacci, Chief Financial and Investor Relations Officer, Suzano

"Suzano is one of Brazil's largest private landowners. We are responsible for millions of hectares of both farmland, which we use to grow our eucalyptus crops, and native forests, which we permanently set aside for conservation. So, it's our responsibility to ensure that we preserve and protect this capital for future generations.

"As a business, we constantly review all stages of our operations to ensure that long-term responsible management of natural resources is our first priority. We are not tempted to pursue short-term financial profits and higher yields at the expense of our natural environment. For instance, we have adopted advanced planting and harvesting technologies, use an integrated pest management approach and optimise the application of fertilizers, all to ensure the long-term health of the soils we harvest.

"Alongside this, we are focused on protecting bodies of water located in our land. Our production model is based on integrating eucalyptus-planted areas with native vegetation in the landscape, to form mosaics which are beneficial for the long-term conservation of soil, water and biodiversity. These mosaics are made up of conservation areas and eucalyptus forests, allowing for the formation of ecological corridors so that fauna and flora can move freely between habitats in harmonious coexistence with the landscape. All of this is beneficial both for biodiversity and for the productivity of the land, demonstrating how business and nature can work hand in hand.

"As well as employing responsible forest management techniques, we see ourselves as active stewards of the native forests surrounding our plantations and we carefully monitor every hectare of the land we own, whether used for farming or reserved for conservation. We closely monitor for biodiversity, maintaining records of over 2,700 records of plant, bird and mammal species, including new and endangered species."

Pilot projects demonstrate appetite for trade finance digitisation

Recognising that standing still means falling behind, nothing is off the table for governments, financial institutions, fintechs and corporates looking to technology to improve trade finance processes.

Much of the potential for digitisation to boost access to trade finance remains untapped. In June, the World Economic Forum observed that lack of digitisation and automation means access to trade finance as an asset class by institutional investors remains prohibitively expensive. However, the infrastructure is already in place to enable end-to-end straight through processing of hundreds of thousands of instruments in a low cost way, giving asset managers direct access to trade finance assets and enabling alternative investors to channel more capital into the market.

Last September, XDC Network and Tradeteq launched what they described as the world's first trade finance-based non-fungible token (NFT) transaction with invoice finance company Accelerated Payments as the asset originator.

The transaction used XDC Network's blockchain technology to transform trade finance assets into non-fungible tokens. Institutional investors can buy and sell these tokens – which represent the value of an off-chain asset – giving them legal entitlement to an asset or package of assets.

Ian Duffy, CEO of Accelerated Payments describes token-based fungible and non-fungible blockchain funding options as the future of trade finance. "A token-based, non-fungible financial instrument focuses on ownership and contract specifics," he explains. "It evolves paper based (or electronic) contracts typically held by relevant investors incorporating expensive legal frameworks or compartments with no version control and/or dubious signature pages into cloud-based digital blockchain format that is verifiable, tamper proof, shareable and cost effective."

According to Duffy there is strong demand from both institutional and retail investors for an asset class that is relatively low risk and pays a decent yield which includes receivable books. "The effect of non-fungible and fungible tokens will be to widen the access to such investment instruments as well as lowering the cost considerably with improved audit trail and transparency, similar to what has happened with quoted stocks and shares," he adds.

When asked how many transactions have been performed to date and who has bought these NFTs, Nils Behling, Co-Founder and CFO at Tradeteq says the initial issuances have been placed with a limited number of sophisticated investors on a proof-of-concept basis.

"However, we are very active in the space and the case for real asset-backed crypto remains strong," he adds.

The challenges of gaining traction in trade finance were underlined in June when digital trade platform we.trade closed its operations. But this hasn't deterred other fintechs from exploring the potential of new trade and supply chain finance marketplaces.

In June 2021, the International Chamber of Commerce (ICC) and Finastra commenced a pilot for a trade funding marketplace to provide small businesses in Ecuador with short-term liquidity for their trade operations by allowing bank and non-bank financers to finance their invoices. Iain MacLennan, Head of Trade and Supply Chain Finance at Finastra explains that the ICC TRADECOMM pilot is still running and that the company has been working with a number of partners to expand the proposed marketplace offering from the original proof of concept.

"We plan to announce these partnerships in the near future once we have concluded contractual discussions," he says. "These partners will also offer these additional services outside of the pilot market. We are in commercial negotiation with a number of financiers to provide liquidity to the marketplace."

According to MacLennan, Finastra has already identified the next two markets where it plans to deploy the platform, both of which are in Latin America with the second marketplace expected to launch in the middle of next year.

"In addition to these markets, we have been approached directly in regards to other markets in South East Asia, Africa and the Middle East, which we will investigate," he adds.

The ICC is also behind the UK Centre for Digital Trade and Innovation launched in April, described as the first neutral forum for co-ordinating the efforts of governments and trade sectors to adopt legal and standards frameworks. With the Electronic Trade Documents Bill (expected to enter law later this year or early 2023) putting electronic trade documents on the same legal footing as their paper equivalents in the UK – and the extensive use of English law in bills of lading – the ICC reckons there is an opportunity to tackle bureaucracy on a global level.

Chris Southworth, Secretary-General of the ICC United Kingdom expects Germany to have similar legislation in place by next year and the rest of the G7 to have followed suit within five years. "We can now begin the process of connecting platforms and systems," he says.

The centre is running live technology agnostic pilot testing of end-to-end supply chain transactions, starting with electronic bills of lading, and similar facilities are expected to emerge in Germany, France, Belgium, and the Netherlands as well as Singapore and Thailand. Two other UK-based fintechs have been developing solutions that they say can help businesses release capital tied up in stock and payroll.

Hi promotes pay asset finance as a way to release working capital by externally financing a company's payroll without adding debt to its balance sheet. The employer is charged a flat fee per employee per month to defer its payroll commitments and repays the amount financed after the two month deferral period plus the fee.

The fee depends on the size of the business, but according to Hi is 'normally very competitive based on their current cost of capital'.

Supply@Me hopes to tap into the trend for companies to hold higher levels of stock that has emerged since the supply chain issues caused by the pandemic started to affect the freight and logistics sectors.

Its service is designed to enable companies with warehoused inventory to free up the value of this stock through an off-balance sheet solution, which allows firms to recognise inventory monetisation funds as a legal true sale.

Monetisation transactions can be facilitated for a wide range of inventory types providing the goods are stored in a warehouse and are not categorised as 'slow moving' or 'non-moving'.

The banks are also keen to get in on the act. In March, Citi announced that it had started working with Stenn, a global platform providing SME funding, as part of the expansion of its global trade payables finance product offering to include deep-tier supplier financing – helping to provide access to funding across global supply chains.

Historically, deep-tier suppliers have had less access to credit as they are typically SMEs. Financing options available in the market have been limited or may come at a high cost.

"We hear first-hand from clients about the challenges their businesses are facing to extend support to manufacturers and second tier suppliers, whilst also having to shift their supply chains due to the current environment to retain continuity in procurement flows," says Parvaiz Dalal, Global Head of Supply Chain Finance at Citi.

"Disruptions at any stage of the supply chain can have a knock-on effect to the upstream parties. Our aim is to reduce these disruptions by improving access to attractive financing at all levels of the supply chain, regardless of whether the supplier sells directly or indirectly to our client."

The benefits include faster access to financing for downstream suppliers, often at a reduced cost compared to other options according to Dalal.

"Stenn's digital onboarding experience helps support and address the working capital needs of both buyers and suppliers," he adds. "As Citi maintains a trade relationship with the anchor buyer, all downstream participants can potentially benefit from this relationship and receive improved pricing."

Other interesting recent developments include the acquisition of digital trade finance platform developer Bolero by logistics software firm WiseTech Global, and embedded business finance platform Liberis entering into a partnership with Barclaycard to offer their small business customers access to personalised revenue-based finance. Also in June, Dutch fintech Factris secured €10m of funding through asset manager NN Investment Partners. The company now offers factoring services in five EU countries after launching in Poland and Belgium in the first quarter of this year and will use the new funding to enter other European markets.

One of the most interesting – and potentially contentious – recent examples of innovation in trade finance is the evolution of buy-now-pay-later (BNPL) into a refined version of invoice factoring. B2B BNPL companies embed themselves in the supplier's sale process and offer quasi-instant net terms to end customers. Suppliers get paid 100% of the invoice up front – minus the fee – with the BNPL company managing credit decisioning, bearing default risk, and managing collections. The platform providers use algorithms and credit checks to onboard customers.

The target audience for the service includes companies that lack assets such as real estate or inventory to put forward as security against loans. German B2B online workshop equipment marketplace Contorion started using Billie's B2B BNPL service in 2018 when it encountered challenges around credit limits, risk identification and prevention.

The company's credit limits were very low and while it paid for all the individual checks and everything was done to the best of its knowledge, technology or even data science was never part of the process explains Andreas Lehmann, SVP Operations.

"Also, customers had to wait for our manual order approval which was an issue for logistics cut-off times," he says. "We realised we needed real time decisions and higher credit limits and were looking to outsource these processes – including managing the risk of customers not paying – as we also managed the dunning and encashment process in-house."

With B2B BNPL, most of the orders Contorion receives are checked in real time. Customers therefore get an immediate decision and the order is ready to be processed immediately (although in rare cases Billie will put the order on hold to perform another check or see if the existing credit limit can be exceeded). Credit limits start at €7,500 but can be extended and customers have 30 days to pay their invoice from the date of shipment.

"Over the last four years our conversion rate has increased by more than half," says Lehmann. "Almost two-thirds of all our customers use the invoice product provided by Billie at the checkout and the acceptance rate is 91%. The average order value for customers using BNPL is 28% higher than the average order value of those who use other payment methods."

Brian Blank, Senior Manager at BNPL business services provider Splitit reckons there is considerable scope for the use of BNPL in B2B, especially among small companies.

"While getting it into mid-market and enterprise business may take a bit longer, there is a faster path in smaller businesses and sectors such as professional services," he says. "Our services can be easily integrated into platforms through an API that can be turned on or off depending on the needs of their customers." ■

Recruiting and retaining talent

> *How is the competition for talent affecting treasury and what are the best strategies for recruiting and retaining talent?*

Kemi Bolarin
Head of Treasury – Europe
GXO

There is a great deal of talk about the Great Resignation which was triggered by the COVID-19 pandemic. It is more the great re-think or the great re-awakening! The lockdown was an opportunity for most to rethink and re-prioritise work-life balance. I was part of the Great Resignation, changing roles twice last year, including leaving a role I had for only a few weeks before moving to GXO. It was then and still is an employee-centred job market.

My first task at GXO was to set up a new treasury team based in Europe. I have filled most of the open positions and have two open roles left. One of the two open roles was filled last year, and the individual has since decided to move on. Testimony to a very active job market. While we speak to the impacts of the lockdown and the Great Resignation, treasury is fast evolving as a profession, and role requirements are changing.

As the treasury profession disentangles from pure operational treasury and transforms to a centre of excellence, we are looking beyond technical abilities in FX and cash management and expanding skills requirements to include data analysis and data science. I am looking for individuals that can think outside the box and help us use technology to elevate our treasury to world class. Individuals that are passionate about the application of AI, machine learning and robotics. To compound the recruitment challenges, fintechs are also in the same job market seeking these 'tech-savvy' talents.

So, the question is: how can we be attractive to the talents out there and retain them when hired?

Pre-pandemic recruitment process needs to be tweaked to attract the highly sought after 'new wave talents'.

Organisations need to think creatively about pay packages that combine good market base rate and benefits, career growth opportunities and flexible working arrangements. ESG performance and reporting is also a recurring topic with applicants.

How do we achieve getting talents through the door? A close working partnership with good quality recruitment agencies that offer bespoke services is vital. This is no longer a one-size-fits-all-DIY-job advert job market. It is important to work together with reputable recruitment agencies in developing relevant job descriptions that will appeal to the modern-day applicants out there in the job market.

Talent secured, tick.

What next? Retain hired talent.

There is a list of considerations here – organisations need to adopt the human approach; it is foremost about people, mental health and wellbeing. Review work culture, train managers in how to maintain high team engagement and be aware of staff burnout; improve and promote a healthy work-life balance.

The lockdown has shown us that remote working is possible, and it is top of the list of applicants' requests. At GXO, I recently interviewed a brilliant lady who demanded that full-time remote working be written into her contract. While we offer flexible working arrangements, I couldn't commit the company to such a contract because circumstances change. Though the elements of the role appealed to the lady, and she was keen to join the team, 100% remote working was her top priority, so she gave up the offer. The lady accepted another role the next day at another organisation that offered her 100% remote working.

Managing a remote team comes with its challenges especially given the importance of retaining and keeping staff engaged. It is now more important than ever to ensure that managers are trained and equipped with the right tools to successfully manage remote teams.

At GXO, career development is very important to our executives; our Group Treasurer takes a keen interest in team members' individual development plans. Once people know their employer is appreciative of enhanced knowledge, there is a high chance that they will stay motivated and engaged.

Recruitment is made more complicated with wage inflation, pay is all over the place. It's challenging to benchmark talent and near impossible to assess upfront if the successful applicant has the right skills. Recruitment is expensive in fees and time, hence the importance of engaging good quality and experienced recruitment agencies in the field.

In my opinion, pay levels will eventually adjust but remote working is here to stay, and leaders need to embrace it.

Mike Richards
CEO and Founder
The Treasury Recruitment Company

We are a global treasury recruitment firm recruiting at all levels from Treasury Analyst to Global Treasurer for large multinational corporates and consultancies.

Initially at the start of the pandemic you might have 100 people applying for a job. Then it dropped down to 50 and then it was ten and now it's two. And it might be a perfect role and everything else, but the fact is people don't need to move now. And that's the thing employers must realise, they need to present an irresistible proposition if they want to attract the best talent.

I was talking to a client from a large global automotive company, famous brand, and everything else. He was saying to me that he was trying to recruit, and he showed me two or three different adverts that they were placing. And they were just a copy and paste of job descriptions and duties. And that's the difference.

The most successful employers will get in the heads of a candidate and the ones that are able to sell themselves and present themselves in a way where people want to join them.

It's a fact that you don't need to work five days a week in the office now. No one does. The pandemic has proved that. It's about working out how many days you think is your preference/needed and then reaching an agreement between the employee/employer to suit everyone.

I know that there's a couple of my clients in the US who have found it quite difficult. They have found it hard because some of the older members of the team, for instance, the CFO who lives near the office, wants everyone in the team back in the office 100% of the time.

That's starting to cause a problem for others who have long commutes and feel the pressure to return to the office. Employers need to work out their future policy and what's going to happen in the world of work and flexibility, because if you're not flexible you may lose out on top talent. Being able to be flexible in this area is where you are going to gain a competitive advantage or disadvantage in the market. The minute you can get past that is when you gain a competitive advantage.

And it's not about you anymore. Now, candidates will vote with their feet, they won't necessarily decide they want to come back for your second interview. And in terms of your current staff, if people don't enjoy working with you and you don't give them the flexibility and you can't work together in partnership, then they will simply leave.

A client asked me the other day why would we use you?

I explained, because I'm not talking to candidates who are actively seeking new roles, I spend my time talking to candidates who aren't seeking new roles. Ninety five percent of the people we speak to are passive candidates.

Wei Kher Wong

Manger
Michael Page, Singapore

I have been with Michael Page in Singapore for four years where my clients largely comprise banks and MAS-licensed companies based in Singapore. We are a team of nine specialist recruiters working in the financial services industry to fill all positions from mid to senior levels, including treasury.

In contrast to other regions, the treasury employment market in Singapore is relatively flat at the moment. Mostly because the supply of professionals in front and back office treasury jobs is slow and movement is limited. Because there is a limited pool of treasury roles in Singapore, it makes for an element of musical chairs. This situation contrasts with sectors such as accountancy where we are seeing an abundance of new positions.

Movement and churn are also slow because most corporate treasury functions in Singapore are already lean. Treasury teams in Singapore are typically part of bigger APAC offices for example Hong Kong. However, when Hong Kong treasury teams struggle to recruit, we have noticed a shift to move those positions into Singapore. Although the treasury roles are relatively less here, the employment market has been very busy. As evident in our annual salary survey report, average salary increment has increased over the past two years.

During COVID we observed a churn in traditional banking and financial services roles. Virtual interviews led to a trend of candidates being offered two or three jobs, driving up competition and salaries. It was also not uncommon to see treasury candidates using these offers from different companies to drive their salaries higher and ask for increments.

It's interesting to see the different ways companies are trying to retain staff. At Michael Page we have adopted a methodology that we share with our clients to help reduce attrition rates which have evolved around the work from home culture. WFH reduces human interaction and increases stress; we advise wellness days and that companies review their benefit packages. Candidates don't just look at their salary anymore; they look at corporate culture and how well companies treat their staff. This also includes levels of inclusivity and how involved they are within the company. Pay is no longer the only factor. ■

Next question:

"As the threat of recession becomes increasingly real, what should treasury prioritise?"

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

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