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July/August 2021

Infineon talks treasury strategy

European chip maker Infineon talks treasury strategy in a challenging and volatile market.

The Corporate View

Jan Beukes

Group Treasurer

MultiChoice

This much I know

Karen Jeffries

Director, Treasury Operations

Brighthouse Financial

Treasury Practice

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A year of progress but much more to do

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Cashing in on proactive liquidity management

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Challenges in a changing world

The message from G7 leaders recently gathered in Cornwall was clear. With many of the discussions, like talk of an international infrastructure drive to rival China's Belt and Road Initiative, centred on a determination to push back against China's growing global influence, expect a greater sense of western unity and a tougher stance on China ahead. Another standout message signalled root and branch ambitious reform of global corporation tax following a headline-grabbing commitment to introduce new taxing rights over companies and a new global minimum tax.

In this issue we pick up on both these themes. Alexander Foltin, Treasurer at German semiconductor manufacturer Infineon, talks about his treasury priorities against the backdrop of US China tensions in a strategic industry that depends on open and free trade. Elsewhere, tax and treasury experts flag corporation tax reform will have repercussions on company cashflows and payments, urging treasury to start preparing for tax liabilities in jurisdictions where they don't have a physical presence.

This edition's Corporate View comes from Jan Beukes, Group Treasurer at South African entertainment group MultiChoice. He shares his experience overseeing an ambitious digitisation overhaul across MultiChoice's treasury, a root and branch reform that caught the eye of our judges, with Beukes and his team scooping Overall Winner – Best in Class Treasury Solution in Africa in our Adam Smith Awards 2021, announced at our live ceremony in June.

Lastly, this edition explores progress in racial equity at companies one year on from George Floyd's murder and the Black Lives Matter protests. We find consumers, employees and shareholders are increasingly holding corporations to account, but new recruitment and retention practices and tying executive pay to diversity targets are more key than ever. "There is certainly lots of talk about what needs to be done, but in my experience, few have committed to and are doing the multi-year organisational development/cultural work that is required in an intentional way. I don't think it is always down to lack of will, it is often down to a lack of expertise around what is actually required," explains leadership expert India Gary-Martin.

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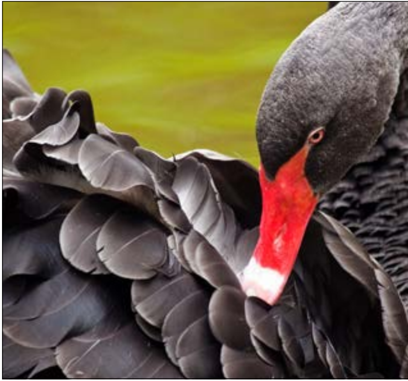

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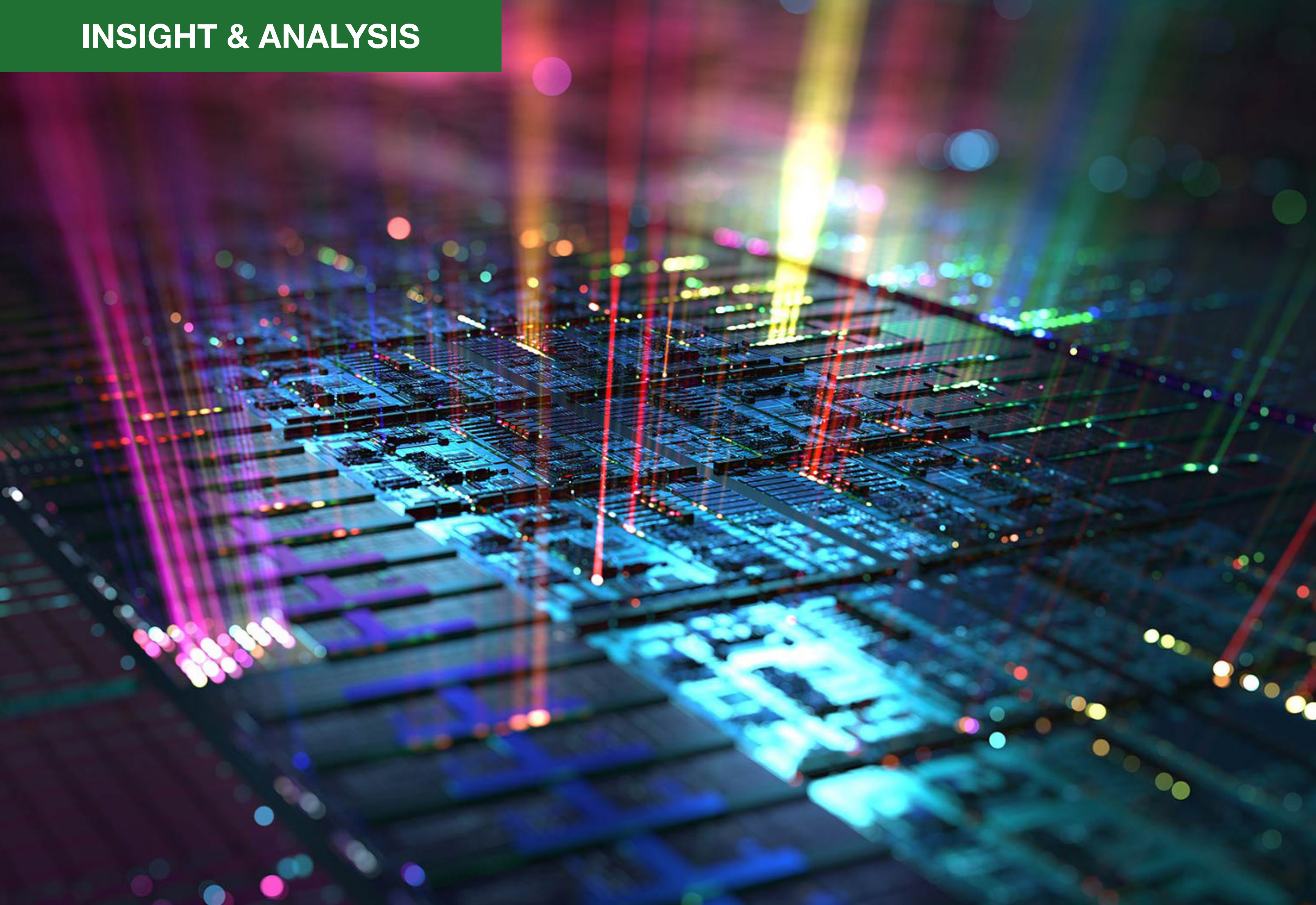

Chip maker Infineon talks treasury strategy

The semiconductor industry is more dependent than most on free trade and open markets. Alexander Foltin, Treasurer at European chip maker Infineon, talks about his treasury priorities and how the industry thrives on a mix of cooperation and competition.

Semiconductors, the brains of all modern electronics from cars and phones to new technology like the IofT and strategic 5G networks, have rarely seen such demand. Yet surging demand, accelerated by the pandemic's impact on digitisation trends, comes against the backdrop of the industry's vulnerability to geopolitical risk, also on the rise. US/China tension has led to the US restricting Chinese companies' ability to access foreign-built chips – when the US cracked down on Huawei in 2019, share prices in all the big chipmakers plunged. Elsewhere, the push to re-shore manufacturing in the US and Europe shows how geopolitics can muddy complex supply chains based around outsourced manufacturing capabilities to key factories or foundries in Taiwan and South Korea. When it comes to trade skirmishes, the industry that makes the tiny components essential to our digital lives and modern economies holds all the ingredients of a key battleground.

"Protectionism is the very opposite of what we at Infineon advocate," says Alexander Foltin, Group Treasurer and Head of Investor Relations of German chip manufacturer Infineon, where navigating tight supply from contract manufacturers like Taiwan's TSMC under its outsourced model alongside its own in-house manufacturing increasingly influences treasury strategy. "We favour a globalised industry with open markets, a level playing field of fair and free global trade."

Semiconductors are particularly vulnerable to protectionism, explains Foltin, who oversees a highly centralised treasury, created from scratch when Infineon was carved out of Siemens 21 years ago. A complex manufacturing chain of specialist clusters (plus chips' high value to weight ratio) mean chips are flown around the world with processes and value added on route before they wind up in an end device.

European manufacturers' strength lies in areas like power semiconductors, security and sensor technology but also in manufacturing high-end wafer equipment, while in Asia and the US key competences are in leading-edge processors, memory components and electronic design tools. Today's market thrives under co-opetition, the mix of cooperation and competition whereby companies share a common technology pool of opensource chip architecture, and standard and software agreements are interoperable for common benefit.

Liquidity

Keeping up with the competition and ensuring his treasury always has enough on hand to finance growth has put liquidity centre stage. "We have to be able to find the financial means of supporting our growth track," says Foltin. "We would never bring cash down to bare operating levels. We want to have the financial freedom, especially through cycles and down phases, to proactively invest." A reassuring nod to his belief that a certain portion of today's tight supply is cyclical. The industry only tipped from a scarcity of demand to today's scarcity of supply in less than 12 months, he says. "It was only a year ago that several semiconductor markets took a nose-dive."

Infineon is increasingly discussing ways to make supply more resilient by sharing risks with its customers in the automotive and other industries. In part, this mirrors a trend already visible amongst Infineon's own contract manufacturers, the first to ask for down payments from customers like Infineon. "There is an interest from foundries to share risk with their customers."

Now Infineon is asking customers to commit ahead rather than rely on just-in-time delivery strategies based on their own fluctuations in demand. "We have capacity reservation agreements that we offer our customers," he says, explaining that treasury is an integral part of these negotiations, brokering the deals, checking on the risk and most of all safeguarding the liquidity position. "If customers want to ensure against the risk of a lack of capacity, they can make capacity reservations and thus share the economic risks."

Conversations with customers "aren't easy," but he says concerns around certainty of supply makes them constructive. "Delivery capability certainly has a value," he explains. "If you are selling a US$40-50,000 car, to have a €4-5 component missing is frustrating. The most expensive chip is the one that halts your production." The long lead times in chip production also means companies can't make up the shortfall quickly. Production normally takes 12-14 weeks, but that becomes six-12 months if the firm needs to procure new machinery, assuming there is cleanroom space available. "Building new facilities is a multi-year endeavour," he says. "In this sense, there is a certain understanding that burden sharing needs to be done."

Credit rating

Against the backdrop of tight supply and uncertain geopolitics, his other treasury failsafe is easy access to the financial markets and a strong investment grade credit rating. Arranging the financing for the company's 2019 €9bn purchase of US rival Cypress Semiconductor proved its worth.

Financing came via a final mix of one third equity and two thirds debt spanning two straight capital raises, a hybrid bond placement, a jumbo euro bond and one US private placement in a strategy carefully choreographed to keep the rating agency (S&P Global) happy, despite the unprecedented size of the deal – half of Infineon's market cap. "We spent a lot of time with the rating agency upfront, presenting financing scenarios to ensure our target equity debt mix would safeguard the company as investment grade."

Although the rating slipped from BBB flat to BBB – when the deal closed, it was still investment grade. Since then, S&P has bestowed a positive outlook on the company, indicating a road to a potential return to BBB flat. This has ensured the door was always left open to the right kind of investors at the right price, he says. "If you are sub investment grade you run the risk of markets being closed or unavailable. We have funded ourselves up to 2033." It also meant the company could access the ECB's bond buying programme, set up to support investment grade companies with stable funding through the pandemic.

The process also marked another coming of age in today's volatile and challenging semiconductor market. Prior to the Cypress deal, Infineon didn't have an established set of core banks providing an RCF. In a quid pro quo, the group of banks advising on the deal committed funding lines in return for the M&A advisory mandate. "They had to chip in and put their money where their mouth was, guaranteeing to underwrite the initial transaction," he said.

Since then, the company has syndicated out to 20 national and global institutions, initially providing committed financing across a short-term bridge facility as well as term loans out to 2024. Take-out transactions were all allocated competitively. "Normally you have initial underwriters who take the largest piece of cake, then financing is pre-allocated according to ticket sizes in the syndication," he explains. "Following the syndication, we had all our banks on an equal footing so that whenever a refinancing came up, they could compete equally." Although the process is more laborious for banks and treasury, it assures Infineon gets "the best service" from "highly motivated banks," giving them a chance to "prove their worth."

It's just the kind of competitive, level playing field that plays to banks' individual strengths that he wants in the global chip market. And one of the reasons he questions if investing billions in more manufacturing capabilities in Europe to reduce dependency on highly skilled Asian contract manufacturers would ultimately benefit. The EU has earmarked a portion of its €750bn COVID-19 recovery fund to strengthen Europe's semiconductor design and manufacturing capabilities. Elsewhere Bosch recently received €140m in European subsidies for its new €1bn semiconductor factory. In the US, leading the re-shoring drive, plans to beef up the domestic industry have been enshrined into a new bill "Creating Helpful Incentives to Produce Semiconductors for America Act," or CHIPS outlining plans to create a US$10bn federal grant, investment tax credits and a variety of research and development funds. Yet Foltin isn't convinced that getting into a spending race is viable, questioning if the EU can match government incentives elsewhere. "We welcome support for a road map for the European industry, but we need sensible,

> Although trade finance is low risk and short-term, profits are low making scale important – difficult against the backdrop of dimmed growth.
>
> Gianluca Romeo, Director, Banks, EMEA, Fitch Ratings

intermediate steps on route to getting there." In the meantime, it makes the arguments for free trade even more compelling.

Flip side

Semiconductors is one industry particularly vulnerable to souring US/China relations. But the flip side of a tougher US stance on China is better US/EU trade terms, an entente recently evident at the G7 gathering in Cornwall. For example, the US and EU have just announced a five-year truce on aircraft subsidies to Airbus and Boeing which has led to billions of tariffs on their respective exports over the last 17 years. The reason, says Robert Silverman, a partner at New York law firm GDLSK which specialises in international trade and customs, reflects the new administration's effort to work more closely with its key trading partners. It also reflects a united response to the emergence of China's Commercial Aircraft Corp (Comac), a competitor to the two plane makers.

Elsewhere, he notes a pause in the threat from European countries to impose digital taxes on US tech giants and less talk of reciprocal US threats of duties on European products. "The current administration wants to be on better trade terms with the EU," he says, adding that duties on steel products into the US from the EU imposed under Section 232 are also likely to be softened.

In contrast, Chinese companies importing into the US remain out in the cold, particularly vulnerable to anti-dumping duties. He estimates around two thirds of all products from China into the US are subject to 301 tariffs which are either 7.5% or 25% (depending on the commodity) and will stay in place for a while yet. "Democrats and Republicans have divergent views on many issues, but everyone wants to be tough on China," he says. All the while China is forming its own alliances through the BRI and, more recently, via the 2020 extended Regional Comprehensive Economic Partnership, widened to include an additional ten countries but not the US or EU. "This is a sign that points to the potential increase in tensions between the US and China," warns Gianluca Romeo, Director, Banks, EMEA at Fitch Ratings.

In a ripple effect, Silverman says he notices more companies shifting their supply chain from China to reduce the assessment of duties. "We are seeing some movement to some of the European countries where it is less expensive to manufacture products like Poland or Turkey. But it has to be done the right way to make sure you are not still subject to additional China duties," he says. "The pandemic hasn't dimmed the number of US custom audits and penalty cases, and potentially high duty rate items are at the top of the list."

In another trend, companies are looking more closely at their tariff classifications under harmonised tariff schedules. "Tariff provision 'A' might be subject to additional duties, or dumping duties, and tariff provision 'B' may not," he explains. "Companies are taking time to ensure that a product is being classified in the right way." US Customs is also on the lookout for items where duties have been avoided because of misclassification. He also notes about the possibility of valuation reductions. Most duties in the US are set at a percentage of dutiable value resulting in companies increasingly trying to lower their dutiable value. "If an importer buys from a trading company who then buys from a factory, the factory price is usually lower than the trading company price. In the US, if the transactions are set up the right way, dutiable value can be based on the factory price not the trading company price," he says, explaining that furniture imports from China are a good example of this process in action. Duty-free up until 2018, they are now subject to a 25% rate. "Furniture importers didn't care what the customs value was because there was no duty. Now they want to lower the dutiable value – 25% of a smaller number is less duty."

Mind the gap

Protectionism and its impact on global trade is also one of the culprits behind crimped availability of trade finance. In 2020 a raft of important trade finance banks including ING and Natixis exited or reduced their trade finance offering. And although other players are filling the gap created by their exit, Fitch's Romeo says demand still exceeds supply. "The free space resulting from banks exiting the market isn't being absorbed. The consequence is reduced access to trade finance especially for SMEs; large corporates remain a target for trade finance banks." Although trade finance is low risk and short-term, profits are low making scale important – difficult against the backdrop of dimmed growth, he says. "Protectionism is a major risk for banks with trade finance programmes. It is a main driver for banks deciding to expand their business – or disengage."

Labour

Of course, protectionism isn't just a consequence of souring US China relations. Witness how labour unions recently complained that Mexico breached USMCA (the free trade agreement between Canada, Mexico and the US that replaced NAFTA) over labour rights in its manufacturing processes. Protectionism also includes sanctions. Russia and Iran, which together account for a large slice of the global population, are both excluded from free trade agreements. Elsewhere, protectionism is a consequence of nationalism. Brexit jettisoned bilateral agreements and has led to new duties and costly customs paperwork for fraught UK companies exporting to Northern Ireland – within their own country. The global and freewheeling semiconductor industry is both particularly vulnerable to protectionism, and because of its strategic importance, in danger of feeling its wrath. Any change to the backdrop of free trade and open boarders that have allowed the industry to flourish would be detrimental. "When you reduce protectionism you have GDP gains, less corruption and improved competition," concludes Romeo. ■

Treasury teams are continuing to look closely at the importance of sustainability and environmental, social and governance (ESG) criteria. Indeed, Treasury Today's 2020 Global Sustainability Study found that 61% of respondents said sustainability was reflected in their organisations' core values, while 43% said their partners were engaging with them on sustainability topics.

One area in which ESG is playing an increasingly important role is that of trade finance – particularly as companies look more closely at the environmental and social costs of their own supply chains. According to McKinsey, "The typical consumer company's supply chain creates far greater social and environmental costs than its own operations, accounting for more than 80% of greenhouse-gas emissions and more than 90% of the impact on air, land, water, biodiversity, and geological resources."

As awareness of these issues continues to grow, companies are increasingly looking at ways to further sustainability within their supply chains, for example through the use of sustainability-linked supply chain finance solutions. In March, meanwhile, SWIFT announced that it is integrating the ICC's Sustainable Trade Finance Guidelines into its KYC Registry, thereby enabling financial institutions to identify ESG risks in their supply chains.

Rise of the 'S'

The significance of ESG in the world of trade finance was one of the themes arising from the recent virtual conference held by the Bankers Association for Finance and Trade (BAFT). "ESG was a huge theme throughout the conference – and one notable area of discussion was the rise of the 'S' in ESG," says Chris Jameson, head of Financial Institutions for GTS EMEA at Bank of America (BofA). "ESG has been very focused on the 'E' for many years, but the societal change and impact that we as an industry can have has really risen to the fore over the past 12 to 18 months."

From a trade perspective, the conference also highlighted the importance of trade finance in supporting ESG, adds Duncan Lodge, Global Head of Traditional Trade and EMEA Head of Trade and SCF Product at BofA. "That's because it has a number of inherent features that make it very useful in this regard – you get visibility over the underlying transactions, you know what you're financing, there are controls over how and when funds are dispersed, and often to whom."

He notes that the bank's initiatives in this area include seeking to broaden the definition of sustainable finance to support wider social goals. "For example, we as a bank issued a US$2bn equality progress sustainability bond last year – and one of the use of proceeds of that is to finance minority-owned business enterprises that we onboard onto our supply chain financing programmes as suppliers." Last week BofA also announced the launch of an ESG Strategic Council for EMEA. The Council's activities will work to minimise the bank's impact on the climate, assess and manage climate-related risks, support clients in their low-carbon transition, and help drive related public policy and advocacy activities.

Another theme arising from the BAFT conference was the importance of data in driving ESG, notes Lodge. "This includes the use of data to prove the provenance of the goods you're financing – where do they come from? Were they sustainably sourced? What about the vessels that were used to move the goods – what's the carbon impact associated with that?" According to Lodge, answering these questions is one way that technology platforms and distributed ledger technology "can really play a part in bringing together the ecosystem and the various different data sources."

Last but not least, Jameson notes that a further important theme is the rise in collaboration between banks, corporations and regulatory supervisory bodies where ESG is concerned. He adds: "There's a halo effect from these conferences that then stimulates other banks to try and replicate some of the things they hear from the industry, and help achieve a consensus towards some of those goals." ■

MultiChoice's treasury overhaul

Jan Beukes
Group Treasurer

Jan Beukes has transformed treasury at the African video entertainment group in a sweeping automation and digitisation strategy that has put treasury at the heart of the business.

MultiChoice is Africa's leading video entertainment provider. It creates local content and secures the rights to global content delivered via Direct to Home (DTH), Digital Terrestrial Television (DTT), and online video entertainment services. The company's entertainment platforms – DStv, GOtv, Showmax, and DStv via Streaming – have around 20.9 million customers across 50 countries. Through Dutch subsidiary Irdeto, it offers digital platform security for video entertainment, connected transport, and IoT-connected industries.

Jan Beukes, Group Treasurer at South African video entertainment group MultiChoice, shapes strategy around one guiding mantra: treasury must add value and pay for itself. Treasury should engage and get involved in the business in an expansive role that reaches far beyond just operational support. "For treasury to be a strategic business partner you have to add value. You can't just be a processing cost centre," he says, from where, given the

firm's Randburg offices remain closed, he recently accepted Treasury Today's coveted 2021 Adam Smith Awards Overall Winner – Best in Class Treasury Solution in Africa.

It is this belief that has shaped a busy couple of years of sweeping operational optimisation and automation, bringing new data and visibility to decision making and forecasting, particularly around hedging and cash management. A root and branch transformation he never envisaged when he took the job three years ago, leaving an 11-year post at South African agricultural group AFGRI, the last five of which were as group treasurer.

When Beukes joined MultiChoice, treasury was still run through its parent company, internet and tech giant Naspers. "About three months after I joined, I got called into the office and told we were unbundling from Naspers," he recalls. It sounded the gun on a "stressful and crazy" process that began with setting up MultiChoice's own independent treasury operation including new borrowing lines and FX hedging facilities and positions, as well as onboarding a raft of new banks.

Next came automation. Beukes set about implementing a new treasury management system (TMS) together with a bespoke cash forecasting tool in SAP BPC, transforming a complex two-day spreadsheet consolidation process to instant consolidation with far reaching analysis capabilities. Together with FIDES as the SWIFT partner, the treasury team has cash visibility across the groups 600 bank accounts with a daily upload onto the TMS.

Reflecting on the change, it's perhaps not surprising he is most enthusiastic about the benefits of building a bespoke cash forecasting model. The process spoke to his guiding treasury beliefs like putting his team centre stage, buy-in at a senior level, and real expertise and learning around the security element. "There is always a preference to have something already built, but there is lots of value in doing it yourself."

Elsewhere, 360T gives new FX visibility like an automated audit trail on bank performance for the first time. "We are finally drawing out the data and value. It's making conversations, especially with banks, much easier." The next wave of FX management reform will involve rolling out new hedging models in TMS to complete the process. "We execute in 360T, confirm via Finastra and it then flows into our TMS. This year we will be able to populate hedging documents and produce hedging entries that are then uploaded in SAP." Once these manual tasks are finally done away with, he estimates he will have freed up a significant amount of staff time. "We are getting another member of the team without employing anyone else."

Looking back on the challenge of managing a transformation in a new role, he says teamwork was the most essential ingredient. "Give yourself enough time to get to know the company and how the team works. Only then can you collectively work on the gaps and opportunities ahead. Don't come into an organisation with an 'I am going to change everything' attitude."

Never a dull moment

New levels of automation and visibility are invaluable for companies operating in Africa's challenging markets, which have a knack for keeping Beukes' treasury "humble" and "on its toes." Like South Africa's frequent electricity outages, or managing dollar rand volatility, an exchange rate he describes as one of the "most volatile in the world" but where detailed models and analyses will now inform hedging decisions. Multiple exchange control regimes across the continent, the risk of trapped cash and scarcity of dollar liquidity is another moving pain point which can impact overall cash flow processes within the group.

"Two years ago, there was limited dollar liquidity in Angola; now it's Nigeria," he says, adding it's possible to mitigate the risk to a limited extent via certain investment products. Most of all however, it involves working closely with banking partners in-country who know the company's needs and can provide market updates. "It's so important to stay close to the markets you operate in and keep an eye out for any red flags that may result in future liquidity pressures. There is never a dull moment in Africa."

Bank relationships

Beukes divides the company's 11 banking partners between those providing services in South Africa only; those providing wider support across the continent and those in support of MultiChoice's European-based entity Irdeto. The relationships are defined by clear communication and banking partners' understanding of the business. "We always schedule formal one-on-one meetings with all the banks after our half-year and full-year results calls, and we have performance feedback and focus areas sessions at least once per year."

He also encourages a member of each bank's credit team to attend the results calls. "It's important for me that the credit teams understand our business. It makes it a lot easier if you have to raise additional facilities or get other approvals," he says, with a nod to last autumn's ZAR 1.5bn working capital liquidity raise.

He also expects the company's banking partners to bring new ideas to the business, often born from simple conversations and just asking the "right" questions. For example, a new structure to get more out of Irdeto's cash balances across nine different markets was the recent fruit of one such conversation. "It is these types of conversation that lead to rolling out new structures. Sometimes the opportunities are in front of you and don't require any new technology." Although his team is not directly involved with the investor base, treasury provide support whenever needed.

Revamped structure

Beukes has also transformed the internal workings of his seven-strong team. When he joined, MultiChoice had a traditional front, middle and back office treasury structure with staff focusing on different regions and countries. He has since rolled out a new structure with only two operating focus areas: cash and liquidity management and financial risk management. "We now have one team focusing on a specific operational area for the entire group. When someone from the business needs to reach out on a cash or FX matter, they know which team members to contact."

He has established more management exposure for members of treasury, encouraging his team to present treasury topics to senior executives at the company. He has also introduced a rotational element that allows all team members to work in

every element of treasury. "Our two senior treasury analysts rotate between cash and FX every year. They each have two junior analysts that support them, but they only rotate every second year. Over time the team gets exposure to both cash and FX while also getting to work with different team members." It is part of a wider, help-out-when-required culture whereby although his staff have been appointed to specific positions, he encourages them to participate in projects outside their specialist area in a strategy very much informed by his own career progression.

Treasury's call

Like many treasurers, Beukes never started out in treasury. He arrived by default – and never looked back. Following degrees in accounting and finance from South Africa's North-West University, he began his working life in internal audit as a chartered accountant for South African agricultural services group AFGRI. Two years in, he leapt when opportunity knocked to join the mergers and acquisition team in AFGRI's corporate finance department. A role he recalls involved "reaching out" and doing much more than "what was in front of me," bringing in new and exciting opportunities. Like when the M&A deal he was working on required funding, providing his first taste of working alongside banks. "We were in a meeting with banking partners, and they asked for a copy of our covenant register. I had no idea what they were talking about!"

It wasn't long before another, bigger opportunity arose. When his boss was made AFGRI's new CFO, he asked Beukes to head up a rejuvenated treasury department. "I said to my boss that if he needed any help with treasury, I'd be more than happy to help." Leading a new department without any formal handover or guidance left a "fairly young" Beukes teaching himself much of the job and relying on his own initiative and pro-action. It is that thrill of being slightly out of his depth that he now equates with opportunity, a sixth sense that tells him when to seize career chances. "If it doesn't scare me, I'm probably not going to do it."

It was at this point he also realised treasury was his forte: running multiple projects simultaneously, dealing with economic curve balls, anticipating risk and working with different personalities all came naturally. "Every day was different, and I realised running a treasury really energised me."

Leadership

Today, Beukes' leadership style is centred around communication, candour and the collective. His priority is to provide clarity to his seven-strong team; make sure they understand his expectations, nurture trust and ensure their own professional growth. His pet hate is micromanagement which he says suffocates and squashes all initiative. "I don't like to be micromanaged and I don't like to micromanage. There is a big difference between providing guidance when required and constructive criticism – and micromanagement."

Of course, nurturing his team in lockdown is more challenging. But he schedules regular check-ins, has introduced a contributor of the month award to recognise and celebrate those going above and beyond, and is adamant that career development won't slip. "If you are not willing to invest in your team, they won't invest in you. I am in charge of a team and have people who look up to me; I take that responsibility seriously."

It's a management style that reaps rewards, none more so than the "hard but honest" discussions that are only possible with candour and trust. It is these conversations, rooted in diversity of thought and ideas, that always render the best outcome and have laid the foundations of MultiChoice's treasury overhaul. "I want to create an environment where everyone is willing and comfortable to share their views and opinions on all matters," he enthuses. "Whenever someone apologises for asking a question with the precursor that it is 'stupid,' I will be the first to tell them the only stupid thing would be not to ask. There are no superstars in treasury: treasury works because the team as a collective works."

Indeed, candidates' ability to fit in with the team guides his approach to hiring and comes before standout skills or treasury experience. "You can always teach skills but if someone's character doesn't fit, it's much more difficult to deal with. There is always going to be something you have to learn."

No more traditional resumes

It leads the conversation to his enduring bugbear: the traditional CV. Rather than a typical list of roles and qualifications – or as he puts it "what you have done and what you haven't done" – he urges candidates to detail how they added-value to a business. When he did, it reaped dividends. Looking to move on from AFGRI, he approached a US recruiter who urged him to rewrite his resume and LinkedIn profile, detailing how he added-value front and centre.

Looking at his own achievements through this lens landed him the role at Multichoice. "I was contacted by a Multichoice recruiter the day after I made my new profile life," he says. "It changed the way I think about my job."

Upbringing

Beukes attributes his can-do, proactive approach and belief that hard work and team spirit can unravel even the knottiest of problems to his upbringing – a learned confidence he will surely pass onto his five-year old twin daughters. "We grew up not having a lot, but my parents always did the best they could and provided for us," he says. "They taught me that there will never be a replacement for hard work. If you put in the effort, you will always see the results. This is how you get noticed and create opportunities in life." Alongside his parents, he cites a handful of other influential mentors and supporters of his treasury career. Like AFGRI's former CFO Johan Geel who he worked with for seven years, plus three "close, senior" friends in CEO and business owner roles.

The conversation closes with Beukes final reflections on the need for treasury to add value, even more important given the backdrop of ever-increasing amounts of technology and the promise of new efficiencies and visibility. "It is up to treasury to invest time in making sure it keeps an eye on all these changes," he concludes. "But make sure whatever you implement is good value for treasury and for the business. You must be able to show the benefits after implementation. There has to be a value behind the cost you pay at end of the day." ■

Optimising treasury systems and processes

For many treasury teams, the pandemic has highlighted the shortcomings of existing systems and processes. So where are the most significant opportunities for optimisation, and what should treasurers bear in mind when embarking on an optimisation initiative?

Ensuring that the optimal treasury systems and processes are in place is an exercise that requires continuous effort. Even if a treasury's processes are efficient to start with, complexity and fragmentation can arise over time as a result of M&A activity or organic growth, leading to a collection of manual and inconsistent processes. Likewise, technology infrastructures that evolve over a number of years can result in a collection of disparate systems that may not integrate well with each other.

Outdated processes can make it difficult to move forward with other initiatives to improve treasury. The EACT's 2020 Treasury Insights survey, which gauged the views of 200 treasury professionals across Europe, identified difficulties in standardising processes/controls as the top challenge when it comes to treasury centralisation, cited by 43% of respondents. And as well as being inefficient, suboptimal processes and systems can also leave treasury teams vulnerable to the risk of fraud and human error.

Added to this, the COVID-19 pandemic and the switch to working from home arrangements have prompted many treasurers to look critically at the systems and processes currently in place, and to ask whether these are robust enough to support treasury activities during this period of significant change.

Optimisation in a COVID-19 environment

Keeping on top of existing systems and processes requires time and effort from the treasurer – but as the pandemic continues, treasurers have been focusing squarely on the need for processes that are not only effective, but also flexible enough to serve them in a working from home environment. At the same time, recent developments in technology are bringing new opportunities for optimisation that may not have been available a couple of years ago.

Among the many implications of the COVID-19 crisis on treasury teams, the widespread adoption of home working has curtailed opportunities for in-person collaboration. As Paul Bramwell, Principal & Founder at Treasury Tech Advisory, explains: "One of the aspects of business life that was immediately impacted by Covid was the ability to scrum a problem in the office where a team could easily just jump into a meeting room and troubleshoot a problem." He adds that while there are "some great tools" available, none is as effective as being able to collaborate in person – "and this has led to a greater reliance on systems to simply get it right first time."

Likewise, says Bramwell, old paper-based workflows have "become somewhat obsolete and difficult to maintain" when treasury staff can't readily step into someone else's office to go through a report or analyse data quickly. "To cope with the fact everyone has been remote, and the Business Continuity Plan (BCP) became permanent, there has been a significant focus on improving systems, workflow and, just as important, controls," he comments.

Carl Sharman, Head of Treasury Technology Advisory at Deloitte, likewise notes the impact of the crisis on treasurers' optimisation efforts. When it comes to finding ways to reduce costs or save time, he says, "It's now less about what a business can gain operationally, and more about protecting what a business cannot afford to lose." Where specific examples are concerned, Sharman cites the inability to get fast, accurate and reliable decision-making data on cash positions, as well as the risk of unsecure processes – "especially regarding payments, as more and more staff work outside the office and on portable devices." As such, he says, the decision is not only about the potential costs involved in optimising systems and processes, but also "whether you can afford not to invest."

The goals of optimisation

When setting out to optimise processes, it's important to have a clear understanding of what those processes are intended to achieve in the first place. "The goal of creating and documenting processes within the treasury function is to make sure data flow for decision making is consistent and holistic," says Bramwell. "Processes are also a means of ensuring efficiency and adequacy of controls to prevent error and fraud."

In the past, processes have tended to be paper-based with a heavy reliance on physical sign-offs – but as Bramwell notes, this is much more difficult to achieve in a working from home environment, which has pushed companies to "rely far more on their technology to manage the processes within treasury. As processes have been revisited in the new Covid environment, the technology underpinning them has needed to be agile to accommodate any changes," he adds. "This is where a lot of companies have realised that what they have is sub-optimal."

Optimisation in action

So what does optimisation look like in practice? Sharman argues that in the past, companies often focused on achieving a 'world class' approach – but today, the emphasis is more on

Optimising cash flow management at Wolters Kluwer

"It was a balancing act, but the global team's agile response to the pandemic helped us deliver important financial, strategic, and ESG results last year," states George Dessing, Executive Vice President, Treasury & Risk at professional information, software solutions and services company Wolters Kluwer. "While the pandemic diverted us from our original financial plan, especially in terms of organic growth, it has fully reinforced many elements of our strategy."

In particular, says Dessing, the company is "more committed than ever to evolve towards digital and expert solutions" – the latter being the term the team uses for the company's products that combine "our deep domain knowledge with advanced technology". In addition, he notes that the pandemic has reinforced the trend towards cloud-based software platforms, as well as making clear the importance of strong internal systems and infrastructure.

"An example of an improved internal process is our cash flow management, which is a complex process – and increasingly so within the dynamic and continuously changing international environment that we deal with at Wolters Kluwer," he comments. As such, Dessing explains that adopting one of the company's products, CCH Tagetik, "will help us to receive information from our business in a more structured, transparent and efficient way, with automated updates and a central repository showing the impact of business changes on the company's cash flow plans."

adopting systems and processes that are 'fit for purpose', or the best fit for the organisation. "Treasurers want to sleep at night knowing that the assets of the business are secure, and threats are minimised," he adds.

Where specific opportunities for improvement are concerned, Sharman cites back office-type operations which may previously have been outsourced to reduce costs – "either internally (shared service centres) or externally (outsourced)." He adds, "The opportunities for automated matching, reconciliation and posting are growing – therefore giving treasury departments the opportunity to improve and harmonise data and processes, and re-integrate ownership back to the centre."

Bramwell points out that policies and procedures are typically signed off by a governance group, and audited for efficiency on a regular basis. "Whilst Covid has been incredibly disruptive, the underlying principle behind most firms' processes has remained sound, whereas the technology supporting them has found to be lacking," he says. "Technology, therefore, yields the greatest opportunity to optimise workflow, reporting and controls."

He notes that most vendors, system integrators and advisory firms offer services to rationalise and improve the technology within a treasury function – "very often even managing to generate a positive ROI, while simultaneously improving the technology landscape, process adaptation and controls."

Obstacles to optimisation

However, treasurers may have to overcome certain obstacles before optimisation can be pursued. According to Bramwell, the most common of these is budget: "There are external and internal costs associated with reviewing the existing landscape and putting into place any recommended solutions and actions."

That said, one silver lining of the Covid work environment is that treasurers and CFOs have "a heightened awareness of the power of technology and, most importantly, the need to have the right solution, properly implemented and managed." This, says Bramwell, "has released budget constraint."

Deloitte's Sharman adds that resistance to embracing change and new technology can also hinder companies' optimisation efforts – and that leading the way by adopting the latest technology in an innovative way is rarely smooth. In addition, he says, "a simple 'fear of the unknown' of new innovations such as machine learning and Robotic Process Automation (RPA) leads to layered approval processes, and decision makers not willing or confident enough to release budget. This can limit treasury investment in innovation, or even as a 'fast follower'."

For George Dessing, Executive Vice President, Treasury & Risk at Wolters Kluwer, most of the challenges that arise in changes to systems or processes "can be explained by the people who use them being unwilling to change their behaviours." He adds, "Some people fear optimisation, but we in Wolters Kluwer welcome it, and we embrace change. There is a great culture towards continuous improvement and innovation within Wolters Kluwer, which is more than half of the battle."

The path to optimisation

When it comes to embarking on an optimisation initiative, Bramwell says his advice would be to take external counsel. "This external counsel can be obtained through peer groups, local treasury associations, and more specifically the many advisory and consulting firms that exist in the treasury space."

The world of technology is continually changing due to new entrants to the market, developments to existing vendor solutions, and the wider acceptance of digital technologies such as BI, RPA and APIs – and as Bramwell points out, this makes it very difficult to stay on top of all the changes in the market. As such, he says, "there is significant value in taking counsel to think outside the box, evaluate options that you weren't aware of, and even challenging existing processes and technology assumptions."

Sharman, meanwhile, notes that it is "vital" at each stage of a project to analyse what is and isn't working, and what can be learned for the future. He adds that any investment a treasury team makes should be viewed not as a one-off expenditure, but as the beginning of a rolling programme.

Above all, process and system optimisation needs to be approached with a clear goal in mind from the outset. As Dessing concludes, "I believe that every system or process change needs to enhance the collaboration between treasury and the rest of the business to help the entire company be safer, more streamlined and more efficient, as well as identifying opportunities that drive operational and financial agility." ■

Kraft Heinz and NatWest on getting digitisation right

In our latest webinar, Kraft Heinz' Yang Xu and NatWest's Andrew Blincoe share their thoughts on the key pillars to a successful digitisation programme. Stakeholder buy-in and a clear sense of what the company is trying to achieve are essential.

Yang Xu
Senior Vice President, Global Treasurer & Corporate Development
KraftHeinz

Andrew Blincoe
Head of Corporates & Institutions
NatWest

The most important element of any digitisation strategy is a "crystal clear" view of what the organisation is trying to achieve. Speaking during a recent Treasury Today webinar on digitisation, liquidity and leverage in the post pandemic era, Andrew Blincoe, Head of Corporates & Institutions at NatWest Group explained a second pillar to success comprises ensuring all stakeholders within the organisation are on board with the strategy.

A third is investment appetite: digitisation is a costly, multi-year commitment, he warned corporate treasury teams. "You need to avoid implementing obsolete processes; always think how the programme will be delivered too. Partnerships are prevalent and investing time in partners at the outset pays off many times over."

A multi-year digitisation strategy at food group Kraft Heinz has been developed and structured along a timeline that takes into account the company's strategic direction. It is also tailored to the external environment and direction of the wider industry, like changes in buying behaviour for goods since the pandemic, explained Yang Xu, Senior Vice President, Global Treasurer & Corporate Development, Kraft Heinz. She also highlighted the importance of identifying key disruptions and where the biggest impacts will fall. "Break down the project into critical milestones."

Finally, Xu advised treasury teams to always look for a return on investment on activities, whether low hanging fruit or longer-term indicatives, and stressed the importance of a popular mandate. A board level mandate from the top cascades through the organisation, she said, listing the resources Kraft Heinz has put into its transformation, including a project management team, dedicated risk resources, and specialist talent.

Liquidity lessons from the pandemic

Xu said that the pandemic had shone a spotlight on liquidity. The key priority in the food industry at the time was safeguarding supply chains and production. The company already had careful plans for tightening liquidity and was able to draw on its playbook, including known pockets of liquidity, external funding and revolvers. She said that clear dialogue and preparation had ensured treasury and executives didn't have to scramble "at the 11th hour."

Blincoe added that the pandemic has also highlighted the importance of contingency planning and thinking ahead. It demonstrated the importance of having different pools of liquidity on hand, and of key bank relationships. It also demonstrated the value for treasury teams of being able to secure trusted advice at short notice, he said.

"Strategic banking relationships are one of the superpowers of treasury function," agreed Xu.

Looking to the future, Blincoe said treasury teams would continue to draw support from supportive central bank policy and low interest rates. Corporates should also plan to return to their long-term target capital structure and take advantage of available sources of liquidity today to put themselves in the best position possible for the future.

Xu said prudence was her most important learning from the pandemic. For example, measures put in place ahead of the pandemic stood the company in good stead during the crisis, including a tender refinancing to reshape near term debt maturities, and holistic liability management beyond debt, such as proactively and consistently funding the pension scheme, which ensured the company didn't have any unexpected large outflows of cash. Treasury was able to tap into the market when it was "friendly", but if market conditions deteriorated, had options of liquidity to draw on, she said.

Blincoe concluded with an eye to the future, highlighting the opportunities that treasury teams will increasingly have to incorporate artificial intelligence (AI) into modelling and decision-making. The technology will allow teams to tailor responses and ideas, allowing real-time decisions based on AI projections. "The speed and opportunity is exciting, and one we can see coming," he said.

Xu concluded with another word of advice on the importance of a prudent, proactive approach. She said liquidity was the "front line" and it was treasury's duty to safeguard it.

"But ultimately, we are also only ever as good as our team," she concluded the importance is to have a strong treasury team.

If you missed the webinar and would like to hear the full recording, this is available at ***treasurytoday.com/webinars***

A year of progress but much more to do

A year on from the Black Lives Matter (BLM) protests of 2020 following the murder of George Floyd we look at the pledges, promises and progress on racial equity in corporations.

In a CNBC interview last year, Kenneth Frazier, then Chief Executive of pharmacetical group Merck, called for concrete action over and above the corporate outpourings in response to the murder of George Floyd. Beneath the financial pledges to the black community and organisations advocating racial equity, signed letters and statements of intent Frazier, whose recent retirement from Merck after 30 years at the company leaves only three Black CEOs at Fortune 500 companies, passionately urged corporates to "step up" to close the opportunity gap between white and black people with training and education schemes. "People put out statements, they put out platitudes, they say this is terrible. Business has to go beyond what is required and beyond just statements; businesses have to use every instrument at their disposal to reduce the barriers that exist." One year on from Floyd's murder, his death has catalysed corporate diversity, equality and inclusion efforts but on several key measures, much more needs to be done.

"The breadth and growth of these types of efforts have been remarkable, especially if you compare it to where we were five years ago," says William Michael Cunningham, Founder and CEO of consultancy Creative Investment Research. "A lot of well-intentioned activities and statements have been made, but certain organisations are doing better than others."

His key focus is on whether companies have delivered on their financial pledges like promises of donations to civil rights organisations, targeted investments in communities of colour and costly overhauls of internal recruitment and retention programmes. Of the US$67bn pledged so far, only US$652m has been committed, says Cunningham, citing data drawn from the Creative Investment Research Black Lives Matter (BLM) Donation Tracker, put together to analyse and assess the progress of pledges. "It is more than a pledge – companies need to show how they are going to effectuate that pledge," he says. "They don't need to give all the money right away, but they do need to put time and thought into it."

In a quest for more transparency, he has submitted a petition to the Securities and Exchange Commission requesting a rule requiring companies to disclose their activity surrounding BLM pledges. Without any legal recourse to push companies to follow through on their promises, transparency is the only way, he argues. "We would like to see a process that holds all of these corporate IOUs. It would give us the ability to ping these corporations and ask them about the specifics concerning their activities in this area."

Brand pressure

Amongst the organisations making the biggest strides, consumer facing industries and brands are leading the pack, pushed on by young, diverse and high spending consumers who have changed their buying patterns based on a company's response to racial equity. According to a survey by PR agency Edelman, 60% of Americans said they would avoid or boycott a brand based on its response to Floyd's killing. "Two-thirds of consumers globally now self-identify as belief-driven buyers. They are exercising brand democracy, supporting those products that stand with them on important issues," wrote Richard Edelman, Chief Executive of the company in a post on Edelman's website last year. Alongside consumers, employees, especially millennials, are also forcing corporate change, says Cunningham. "People are saying they won't work for companies without a diversity mandate. They are saying if you don't support these efforts, we won't work here."

The importance of aligning a brand to reflect the values of customers, employees and other stakeholders including shareholders is driving strategy at telecoms company T-Mobile. In the last year, the company has launched a new Equity In Action (EIA) programme outlining how to improve racial equity. "EIA offers a roadmap that inspires us to lead by example, put people first and ensure diversity, equity and inclusion (DE&I) remains at the centre of everything we do," explains Holli

Martinez, Vice President of Diversity, Equity & Inclusion at T-Mobile. "When I say everything, I mean everything. The values we live by, the investments we make in our employees, the products and services we offer, the suppliers we do business with and the communities we advocate for."

In a first step, T-Mobile hired an external diversity and inclusion consultant to conduct 13 focus groups with employees from different races, cultural backgrounds, skillsets and levels of work experience, drawing together feedback to highlight where the company needed to focus. "The process took time, but we knew that no one understands our business, pain points and strengths better than our own employees," she says.

Now a five-year EIA plan includes multi-faceted DE&I efforts across three focus areas spanning brand, talent (with a promise to increase diversity in leadership at every level) and culture, where the focus is on "providing the tools to build inclusive habits and behaviours as part of employees' day to day lives."

Authenticity

Successful corporate change depends on integrity and authenticity, says Cunningham. Reflecting on the rush of statements made last year, he says genuine and credible corporate behaviour whereby companies speak out on the values they hold rather than virtue signalling is the first rule of thumb. "Make it authentic," he advises. "It is ok to say you don't know the way ahead. What is important is to say that you are going to learn, and that you can't go back to the old ways." A second step is to put money behind it, and for companies to dig into their own pockets. He also counsels on the importance of companies focusing on black equity rather than equality issues amongst a broad cohort of minorities. "It is okay to say that in addition to efforts to address anti-black discrimination you are going to look at discrimination across the board, but the real issue is discrimination against black people and for authenticity, companies should focus here."

A point echoed by India Gary-Martin a leadership expert and DEI strategist and Founder and CEO at Leadership for Executives who says amid the progress of the last year she is less encouraged by the reticence of some leaders to call racism what it is. "It is important to acknowledge the root so that we know what we are solving for. It isn't a personal indictment. We live in a society that we didn't create but that requires all of us to fix. It's about reimagining business to be reflective of modern society."

Recruitment practices

Cunningham is encouraged by many of America's largest companies setting hiring and promotion targets. But he also warns that recruiting more black employees isn't necessarily the panacea. "One of the things we've seen is many new black people, especially women, get hired and promoted. It's a good first step, but these are just jobs and if they are given out, they can also be taken away. What we need to see is more innovation with respect to capital allocation and money."

Elsewhere, companies are starting to report detailed demographic data with more companies prepared to publicly share detailed workforce data by race and gender. Known as EEO-1, it is private unless voluntarily disclosed; recent examples include Goldman Sachs revealing that just 49 of its 1,548 executives, senior officials and managers in the US are black.

Collating data on a company's ethnic makeup has been a strong driver of change in the media industry, says Femi Otitoju, Managing Director of London-based Challenge Consultancy which advises companies on improving diversity and who observes a spike in the number of people appointed within companies dedicated to improve racial equity and develop talent. However, she says companies mustn't stop here. "The data has to go further back," she urges. "Companies should explore the number of black people they've attracted to the business; how many made the short list, how long they stayed, how many were promoted and if they left, why and where they went. Only then can they see the patterns and take action."

Equally concerning for her is the fact few boards are yet tying any of their executives' pay to diversity targets. "Leaders and managers should be held to account," she says. "Cultural competency and inclusive leadership are skills that you can acquire just like anything else and should be rewarded."

Shareholders speak up

Shareholder pressure is one area of notable change over the last year. There has been a sharp rise in the number of diversity proposals at US company annual meetings from shareholder groups like Service Employees International Union and CtW Investment Group. For example, nine out of ten investors backed a recent call for IBM to produce an annual diversity report. BlackRock is conducting a deep dive into its business to see how it may have contributed to racial inequities in the financial system following a request from a shareholder. Progress for sure, but Otitoju says many other companies still resist diversity proposals fearful of what it reveals. "If the leadership team is white and just a few black people are languishing in lower levels they won't want to publish."

Meanwhile Gary-Martin urges companies to publish demographic data no matter how woeful the underrepresentation – alongside the promise of change. "Publish demographic data alongside a well thought out strategy for inclusion with specific goals. Denying that there is underrepresentation (denial is not only verbal) reinforces stereotypes that leaders are not in touch with the needs or wants of teams and clients."

Along with shareholder pressure, financial infrastructure like exchanges and rating agencies are also beginning to get on board. The Nasdaq said in December that companies on its exchange should have at least one woman and one member of an under-represented minority on their boards. Goldman Sachs said that it would not take companies public from this year without at least two diverse board members. Last year Moody's said UK banking group Lloyds' programme to promote more black employees to senior roles was "credit positive," for the first time linking a company's stability to ethnic diversity measures. As for progress in meeting Frazier's impassioned call for more corporate action on racial equity, campaigners say it's slow, but the genie is out of the bottle. "We are having conversations that we've never been able to have before. Change is happening and while it may seem that it is happening at a snail's pace, we've taken a quantum leap over that last year. Conversations about race are not going to fall off the table," concludes Gary-Martin. ■

EMEA's emerging markets embrace digital transformation

EMEA's emerging markets present considerable challenges, both for companies entering those markets, and for those headquartered there. But as three Citi experts point out, many of these countries are also leading the way with the adoption of digital solutions and innovation.

Marek Potoma

Treasury and Trade Solutions (TTS) Head for Turkey, Russia, Ukraine and Kazakhstan (TRUK)

Dave Aldred

Treasury and Trade Solutions (TTS) Head for Middle East and North Africa (MENA)

Esther Chibesa

Treasury and Trade Solutions (TTS) Head for Sub-Saharan Africa (SSA)

Europe, Middle East and Africa's (EMEA) emerging markets include a diverse range of countries, from Russia to Turkey and from Pakistan to Nigeria. From a treasury perspective, these countries present numerous challenges, both for companies that are expanding into those countries, and for countries that are headquartered there. But at the same time, the adoption of digitisation and innovation is particularly high in these markets, with many companies 'leapfrogging' their peers in more developed markets by adoption new technologies at pace.

So how is digital adoption likely to progress in the coming years – and how is Citi's EMEA emerging markets strategy enabling the bank to support clients in these markets more effectively?

Challenges in emerging markets

EMEA's emerging markets are characterised by a number of challenges, some of which are common, and some of which are country specific. "Clients that come to these markets often face some significant challenges around the macroeconomic and geopolitical situation, including trade wars and sanctions environments," says Marek Potoma, Treasury and Trade Solutions (TTS) Head for Turkey, Russia, Ukraine and Kazakhtsna (TRUK) at Citi. "Currencies tend to fluctuate more in emerging markets than in developed markets. And interest rates are often high, which may make it more difficult for companies to access financing."

In addition, Potoma notes that regulations in some emerging markets can limit the activities that companies can do in those markets. "In Russia, for example, there are foreign currency restrictions, and measures to limit the repatriation of profits and capital," he says. "These issues might be common to other emerging markets – but each country has a different way of doing things."

As well as economic and regulatory challenges, companies may also face industry-specific challenges in some markets, including issues around access to raw materials, capital markets and labour markets.

Treasury challenges

For treasurers operating in these markets, there are many matters that need to be addressed. For one thing, diverse regulatory environments can make it difficult for treasury teams to achieve a uniform policy across different countries, comments David Aldred, TTS Head for Middle East and North Africa (MENA) at Citi.

"If you look at the MENA region, you have the Gulf Cooperation Council (GCC), which is fairly liberal in terms of allowing sweeping and pooling structures – and you also have markets like North Africa and Pakistan, that are much more restrictive," he notes. "So you can't treat it like a fungible region where it's easy to get liquidity centralised, or adapt a common trade solution across the market."

Over the last year, the COVID-19 pandemic has presented further obstacles. "One thing that is impacting our clients is debt levels and fiscal gaps," says Esther Chibesa, Citi's TTS Head for Sub-Saharan Africa (SSA). "As countries try to deal with COVID-19, governments are under pressure. And for some of the

> At Citi, our biggest differentiator is our global network.
>
> Marek Potoma, TTS Head for TRUK

poorest countries, this is going to lead to the prospect of things like higher corporation tax rates, as well as new forms of taxation." In particular, she cites the growing interest in the taxation of digital goods and services, which is likely to affect companies that have recently recalibrated their own ways of doing business.

Citi's approach

Citi covers 26 emerging markets in EMEA, divided into three sub-regions: Middle East and North Africa (MENA), Sub-Saharan Africa (SSA) and Turkey, Russia, Ukraine and Kazakhstan (TRUK). The bank also has 33 non-presence countries, in which activities are conducted from neighbouring markets. This structure was introduced in September 2019 in order to address common challenges and opportunities across the relevant countries, and identify synergies between them.

"At Citi, our biggest differentiator is our global network. This enables us to help emerging markets businesses go global, and to provide our global clients with connectivity to, and local knowledge of, emerging markets. In this way, our clients can deal with one bank across multiple geographies," says Potoma.

He adds that Citi's five-year investment strategy across EMEA's emerging markets includes a centralised approach to investing in the region. "Even though we already have robust local capabilities in these markets, we are investing in further expanding not only our presence, but also our product capabilities, service and client experience in this market," Potoma notes.

Chibesa comments that one of the best things about the bank's strategy is that it creates an opportunity to share best practices and invest in new skillsets across the region. "It also helps us to attract great talent, because people are drawn to the complexity of having some really diverse markets to solve for," she says.

Digitisation and innovation

Digitisation is an important topic across EMEA's emerging markets, many of which demonstrate strong adoption of solutions such as virtual accounts and instant cross-currency payments. "This particular area is very exciting, because there are a lot of markets that have leapfrogged ahead of developed economies in things like instant payments and digital wallets," says Chibesa. Adoption of these solutions is being enabled by the rise of new faster payment schemes in markets including Bahrain, Jordan, Morocco, Nigeria, Pakistan, Russia and the UAE.

While this trend was already under way before the pandemic began, there's no doubt that COVID-19 has helped to sharpen the focus on digitisation over the last year. "The pandemic is accelerating this shift, which will enable companies to benefit from more efficiency in terms of getting paid quicker, more securely and more efficiently," says Aldred. He notes that as companies adjust their business models in response to the crisis – for example, by moving from distributor to direct-to-consumer models – key enablers include not only faster payment schemes, but also by the ability to digitise trade finance flows.

Co-creation and collaboration

Chibesa agrees that many companies are rethinking what is valuable about their propositions, including a greater focus on the ESG agenda. In addition, she says she is seeing some interesting conversations around the topic of skills. "When we work on a project with a client, such as an API solution, our project manager is working with a project manager on the client's side – so there is a lot of cross-fertilisation. It's no longer just about getting the project done, but also about transferring skills and ideas." The more that companies embrace digitisation, the more willing they are to engage in co-creation, she reflects.

Citi is continuing to enhance the process of collaborating with fintechs – not least through the bank's global venture capital fund Citi Ventures, which engages with fintechs on a global scale. In addition, the bank's fintech challenge programme has led to the development of solutions specific to particular emerging markets, including an instant payments solution in Kenya and a digital receivables solution in Turkey.

"Yes, fintechs are competitors – but they're also our partners and our clients," observes Aldred. "I think that our willingness to work with a select group of fintechs helps us to deploy local relevant solutions very quickly for our clients, improving our overall agility." He adds that clients are not only looking to overcome current market challenges, but are actively focusing on expansion and growth, and the ability to tap into new client segments. "So how can we bring quicker, relevant solutions to them? Fintechs are a way of doing that."

Future developments

Looking forward, Citi's EMEA emerging market experts predict that digital transformation will continue to be accelerated by the repercussions of the COVID-19 pandemic.

"We have seen a lot of progress in TRUK, for example, in the adoption of digital signatures and digital onboarding," says Potoma, adding that this has been facilitated by the use of mobile connectivity tools that allow the bank to be more flexible and allow clients to access the system through API technology. "I don't think this will disappear – it's now about commercialising the things that have been created either as a COVID-19 accelerator, or as business-as-usual work with clients on digital transformation."

Also significant is the continuing shift to real-time payments across emerging markets – a shift that is likely to continue in the coming years, and which offers further opportunities for product development. In addition, says Aldred, companies that have struggled during the pandemic will continue to focus on diversification as they work to return to growth. "They're going to look at the markets they have," he predicts. "Across emerging markets, they have a very savvy client base that is digital and mobile driven, so they will look to leverage that." At the same time, he predicts that the adoption of ecommerce models will continue to accelerate in the coming months. ■

Swimming with swans in the new risk landscape

The Covid pandemic and an increased focus on corporate social responsibility have posed risk management challenges for treasurers. While the risks may remain the same, the focus is shifting and treasurers are alert to how rapidly the landscape can change.

As a 'black swan' event (although the jury is out on whether it can be defined as such) the COVID-19 pandemic posed significant risk management challenges for treasurers. Add to that an increased focus on climate change, the impact of Brexit on UK treasurers and even the Suez Canal obstruction in March, and treasurers and CFOs face a new risk landscape.

In the initial phases of the pandemic, treasury teams had to rapidly assess their firms' overall liquidity positions and ensure they could access liquidity when they needed it. Keeping a company going, both operationally and financially, was a key concern. In addition, treasury teams had to transition to remote working environments.

This took place against a background of volatile financial markets and uncertainty about current and future revenues and cash flow. Many businesses focused on preserving cash, including retrenching staff or signing up to the various furlough schemes offered by governments and temporarily shutting down operations. They did this while seeking out potential lines of credit and other ways to maintain liquidity.

According to professional services firm Marsh McLennan, the adverse effects and uncertainty for businesses that arose from the pandemic will likely persist for some time, "with the worst possibly still to come". This underscores how important cash preservation is for businesses, it says. "In addition to any actions they may have taken so far, businesses will likely need to explore other solutions, such as claims and collateral cost reduction strategies, credit insurance products, premium financing, and the use of captive insurers – all of which can help them stay liquid," the firm says in an April 2020 briefing on liquidity.

Sarah Boyce, Associate Director – Policy and Technical at the Association of Corporate Treasurers, says liquidity risk and business continuity were "front and centre" for all treasurers at the onset of the COVID-19 pandemic.

Boyce says while new risks are not emerging, the focus given to certain risks has changed. "Treasurers are expanding their remit and rather than focusing on the biggest risks, they are looking at all risks, given the number of black swan events that have emerged," she says. "Treasurers and CFOs realise it could be the least obvious corners of the organisation that could throw out the next challenge."

This is a point also made by Damian Glendinning, Singapore-based Chairman of the Advisory Board at CompleXCountries, a global peer group network for senior corporate treasury professionals. "It is difficult to say what impact Covid has had on risk *per se*: what it has clearly done is to show that risks can emerge in ways none of us could easily envisage."

Leonardo Orlando, an executive in Accenture's Finance and Risk Practice, says the impact of the COVID-19 pandemic on treasurers very much depends on the type of industry, the markets in which a company operates and its financial situation. "However, common to all treasurers was the fact that Covid was a unique, global event that affected all companies in all countries," he says.

The initial reaction was generally one of minimisation – treasurers tried to reduce their risk exposure in order to prevent the situation worsening. After that, he says, corporate treasurers looked to put in place new scenario modelling to ensure they understood the problem and could capture similar events in different ways and understand the business impact.

Royston Da Costa, Assistant Group Treasurer at plumbing and heating products distributor Ferguson plc, has a similar view. He says while risk always has been a key treasury responsibility the assumptions had been based on "known risks". The pandemic, he says, is "the first time the whole planet was affected by a crisis that did not just impact a few economies but also promoted the position of treasury technology to the forefront of a treasurer's priorities". Cash flow forecasting solutions have gained a boost from the pandemic as corporates recognise the importance of liquidity and forecasting of their cash positions.

Like Glendinning and Boyce, Da Costa says the emphasis on risk is changing, with the risk of cyber fraud gaining more importance as employees work from home and phishing and other attacks increase. The pandemic has caused banks to focus on shrinking the margins between assets and liabilities, with a stronger focus on off-balance sheet funding solutions, says Andreas Bohn, Partner at McKinsey & Co in Frankfurt. "Corporate infrastructure and project financing is moving away from bank balance sheets and towards private equity funds and direct lending platforms. The impact for a treasurer is that they have more options and need to adapt."

Another issue bubbling away for many corporate treasurers is climate change, and the wider environmental, social and governance (ESG) agenda, once referred to as corporate social responsibility. Under the Paris Agreement, a legally binding international treaty on climate change which came into force in November 2016, countries have committed to limit greenhouse gas emissions as soon as possible to achieve a climate neutral world by 2050.

According to the United Nations, zero-carbon solutions are becoming competitive across economic sectors representing 25% of greenhouse gas emissions. The trend is most noticeable in the power and transport sectors and has created many new business opportunities for early movers. By 2030, zero-carbon solutions could be competitive in sectors representing over 70% of global emissions, says the UN.

"Whilst the Covid pandemic has had a profound impact on credit and liquidity risk, the bigger challenge will be incorporating decarbonisation into credit models and looking at the systematic risk this poses for some industries," says Philip Freeborn, Group CIO, COO and Head of Pricing & Risk at consultancy firm Delta Capita. "ESG reporting is not transparent enough and relies too much on self-reporting rather than on objective third-party assessment of companies and their supply chains."

This is also an issue highlighted by Boyce. "Integrating ESG into treasury operations is an added complexity, mainly because there is a lack of consistent methodology about how activities will be treated by investors and ratings agencies," she says. Consistent metrics and data are difficult to find and there is nervousness around claims of 'greenwashing' – misleading information about how environmentally sound a company's products are. "For treasurers, the challenge is to pick the right banking partners. As greater clarity emerges around methodologies and disclosure requirements, there will be more activity in the green finance space," she says.

A challenge for treasurers in ESG is the assumption that an organisation can instantly become green, adds Boyce. "That can't happen and has to be an evolution. There are fears that some organisations in 'brown' industries may become unbanked or unattractive to banks. Transition to net zero carbon emissions is a big challenge for treasurers in those organisations."

Moody's Investor Services has reported soaring levels of green, social and sustainability bond issues. In Q121, sustainable bond volumes more than tripled year-on-year to reach a record total of US$231bn, a 19% increase over the previous quarter. Moody's attributes the growth to a heightened level of government policy focus on climate change and sustainable development and strong, sustained interest among debt issuers and investors.

Glendinning notes that ESG issues have been growing in importance for companies, and therefore treasurers, for some time. "From a risk point of view, everyone is aware of the potentially significant impact on a company's reputation of a highly publicised incident involving pollution, labour force abuses or corruption scandals," he says. "However, treasurers in some industries, such as oil or tobacco, are finding some banks will refuse to work with them, and ESG-conscious investors are placing increasing demands as a condition for equity and bond funding."

Many treasurers are complaining that this activism, while not a problem in itself, is causing issues due to the lack of generally accepted, clear, and consistent ESG measurement processes, adds Glendinning. "The concern is that one rating methodology may give a good score, while another gives a bad one."

Da Costa does not believe treasurers have "fully embraced" ESG. While banks and fund managers appear to be advanced in providing an array of ESG products that corporates could use, he says he is uncertain as to whether corporates have kept pace with these developments.

Adrian Sargeant, CEO of advisory company ESG Treasury, says ESG will release more black swans into the market for which treasurers must be ready. "There is likely to be some fundamental change and whether you are a corporate or an individual that borrows money, you have to ask whether you are involved in a sector that has long-term prospects. Will a bank lend to a company in the oil sector, for example, to fund the cost of their transition to net zero?" he asks. Whole sectors, such as the energy sector, will have to transition to renewables.

Treasurers in some industries will face new challenges in regulatory risk as the response by governments to the pandemic demonstrated how quickly regulations can change. This is likely to happen with regard to climate change obligations as we move closer to the net zero emissions deadline of 2050, says Sargeant. "There could be a cliff edge moment where people who have been working on responses to climate change for decades have been doing too little, too late – the effort to fix things will be too great. This will affect a treasury's ability to raise funding, with some loans coming off bank balance sheets in the future."

One of the biggest changes in the risk landscape, says Boyce, is the increased engagement with business risks. "Supply chain risks are becoming a big thing. They make cash management more complex and the cash cycle may be longer as a consequence of the changes we are seeing due to the pandemic, Brexit and even the Suez tanker episode," she says.

The Suez event, when the tanker Ever Given was grounded, was a good example of the fact that even during 'normal' times a relatively local event like a tanker being stuck in the Suez Canal can have global repercussions because of the nature of the globalised supply chain, says Boyce.

Technology is likely to play a greater role in risk management going forward. "Not surprisingly, more treasurers are investing in technology," says Da Costa. Thorough reviews of processes and treasury infrastructures are also being undertaken.

Boyce says there is greater use of artificial intelligence and data analytics in treasury operations, but there is nothing particularly different about the risk framework, "it is still a matter of identifying, assessing, managing and reporting on risk. What has changed is how treasuries undertake these activities."

Digitisation of the treasury was a disruptor before the pandemic, but has been accelerated since, says Accenture's Orlando. "Some corporates have fast-tracked the onboarding of new technologies, analytics and techniques for risk management. These will enable the treasurer to better monitor liquidity on an end of day basis, and potentially in real time across the world."

Glendinning is sceptical about treasury technology, observing that new products are constantly emerging, "but they are often old approaches wrapped up in new instruments. There is undoubted promise in technologies, such as artificial intelligence and data mining, to help identify new and emerging risks – but we are not yet seeing much practical adoption."

Given the scale of the pandemic crisis, the fact that businesses continued to operate has reflected well on treasurers and their risk techniques, demonstrating they are good at what they do, says Boyce. "Treasuries are well-positioned to respond relatively smoothly to these events – they know what they have to do and get on with it."

This much I know

Karen Jeffries

Director, Treasury Operations, Brighthouse Financial

How did your treasury career begin?

As someone who loves numbers and math, treasury is very much second nature to me. When I went to college, I had no idea that treasury departments existed, so I never considered it as a career option.

After graduating from college, I went to work for a credit union, and from there I went on to work in the treasury department of an automotive supplier. I was hired to update signature cards, but on my first day the person responsible for cash quit. My manager asked me if I would be interested in learning their job. I thought 'why not?' And that is how my career in cash management and treasury began.

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

It's easy to think of progression in treasury as being very linear, but in fact there are tremendous opportunities available. Treasury is not a single discipline. Within treasury and finance, it is possible to learn about a wide variety of subjects and processes. And not only the ones that presently exist, but also the ones on the horizon like cryptocurrencies or blockchain, etc. In addition, the acquisition of specialised knowledge gives the opportunity to carve a niche for yourself in treasury.

What are the biggest challenges at the moment?

Throughout the COVID-19 crisis, many companies, including Brighthouse, have shifted to a remote-work environment to keep employees safe and healthy. Of course, that has impacted face-to-face interactions, which help build relationships. As a result, one key challenge that companies have faced is finding ways to assist employees in maintaining strong relationships with one other as they work remotely. Fortunately, Brighthouse has provided, and continues to provide, resources and opportunities to help employees stay connected with one another.

Another big, ongoing challenge for companies is ensuring that they are utilising the many opportunities that new technology presents in terms of making their operations as efficient as possible.

If there is one thing you could have done differently in your career path, what would that be?

Looking back, I would have sought out opportunities that would have enhanced my skillset and benefited me professionally, even if they were outside of my comfort zone. It's easy to stay in positions where you have become comfortable. But after four or five years of doing the same thing, the opportunities for growth may be greatly diminished. I would encourage anyone in that position to become more assertive in pursuing their professional career and consider moving on.

What is your motto in life?

Don't just survive but thrive.

"In addition, the acquisition of specialised knowledge gives the opportunity to carve a niche for yourself in treasury."

ONLIINE

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

Moving forward

During her career, Karen has gained experience in every aspect of treasury, from foreign exchange and hedge accounting to cash management and short-term investing. Moving to director level has given her a broader and more strategic role in addition to an operational one. "I like having an impact on how the department is shaped and how the team does things," she comments.

For those in junior positions wishing to advance their careers in treasury, Karen encourages them to look beyond their immediate organisations. As someone who has been on the board of the local treasury management association, she understands the importance of such forums in terms of gaining access to treasury professionals who may be involved across many disciplines. "You have the chance to network and to gain an understanding of how other individuals work," she says. "You see what they are doing and how they handle different processes, as well as hearing about all the opportunities that exist."

In addition, Karen is keen to stress that many treasury management associations are open to college students. "When I was at college, I knew nothing about treasury departments," she reflects. "Since the subject wasn't covered, I didn't know that a career in treasury was an option."

For treasury professionals seeking to make their voices heard within their own organisations, Karen believes it is vital to build cross-functional relationships with peers. "Sometimes treasury can be a forgotten function within a company, or just an extension of accounting," she says. "So it's important to build relationships that will allow you to have a seat at the table and ensure that treasury has a voice within the organisation. If you are vocal as a treasurer, other areas of the business will always remember you."

For women in treasury wishing to establish and develop a career, Karen's advice is to be aware of the bias that might exist in their workplace, unintentional or otherwise, and to consider how best to respond to it. "When people say things that you might be angered or upset by – or just don't agree with – it is important to be aware of your tone of voice," she cautions. Reminded of a female mentor's advice on the subject, she adds "your tone should never be any different than if you were at a dinner party and you were asking someone to pass the butter."

Since the subject wasn't covered, I didn't know that a career in treasury was an option.

Pressing reset

When the COVID-19 crisis began, companies' moves to remote working was expected to be a temporary measure. Having judged it to be a success, Brighthouse intends to keep the advantages of this way of working, and transition to a hybrid work environment when it reopens its offices, a process that the company is currently expecting to begin later in the year.

Karen says that alongside benefits to the company, the new arrangements will have immeasurable personal benefits, including reduced travel time and expense, more time with family and increased focus on self-care.

But for Karen, the biggest challenge ahead lies in finding ways to utilise technology in order to create more efficient ways of working. "There is so much in the way of new technology on the treasury horizon – and things like APIs and treasury management systems certainly make our jobs easier," she concludes. "Broadly speaking, treasury departments in general are often tasked with doing more while using less. It's constantly about finding ways to work smarter and not harder!" ■

Profile

Karen Jeffries is Director, Treasury Operations at Brighthouse Financial. Based in Charlotte, North Carolina in the United States, it is one of the largest providers of annuities and life insurance in the US with over US$200bn in total assets.

After nearly two decades' experience across all aspects of the treasury operation, Karen joined Brighthouse in 2017 as Director Cash Management, progressing to her current position as Director Treasury Operations in 2020. With a commitment to building the most efficient and effective treasury operation possible, she sees her role as one that combines the responsibility for the day-to-day running of the operations of the treasury with its longer-term strategy. Karen holds a Bachelor of Science degree in Finance and Business Management from the University of North Carolina-Charlotte.

Methodical approach still king when it comes to cash

Low interest rates and uncertainty around inflation may present a challenging operating environment for corporate treasurers, but this doesn't mean they need to get funky when it comes to liquidity management.

Earlier this year, State Street Global Advisors published the results of an international survey of senior executives with cash management responsibilities. Most of the report's findings were fairly predictable, such as the fact that the majority of corporates had increased their overall allocations to cash. However, the authors also suggested that corporates would adopt a more active approach to liquidity management in 2021.

Francois Masquelier, former Senior Vice President & Head of Treasury and Enterprise Risk Management at RTL Group and CEO of Simply Treasury, agrees that the value destruction caused by persistent low or even negative interest rates requires consideration of options with longer tenors and potentially higher return expectations, but also the prospect of increased volatility.

"However, treasurers need to strike a balance between products with and without qualification as 'cash and cash equivalent' to make sure they offset the gross debt on a consolidated basis," he explains. "They also need to understand the characteristics and inherent risks of emerging products."

Masquelier warns that this might prove to be a lot of work for a few basis points of additional return and observes that

What are the main challenges faced by treasurers looking to integrate ESG principles into their cash investments?

Treasurers need to take into account not only the risk/return profile, but also the qualitative aspects of the ESG strategies and projects of corporates they are investing in according to Alexandra Wentzinger, Product Manager Deposits at BNP Paribas Cash Management.

"Integrating extra-financial analysis (defined as systematic assessment of corporate governance, environmental and social responsibility) into the valuation process is important but challenging given the variety of inputs and large range of activities and objectives set by the UN's sustainable development goals, for example," she says.

However, issuers have gradually adapted their internal procedures and processes to fulfil ESG requirements while providing regular feedback and reports to investors.

In October 2020, Citi launched green deposits. Stephen Randall, the bank's Global Head of Liquidity Management Services, says this and other initiatives reflect the fact that sustainable investing is entering the mainstream.

"Sustainability is becoming the responsibility of the entire organisation – including treasury – which is impacting treasury investment strategies," he says, adding that treasurers are uniquely positioned to link corporates' liquidity requirements to sustainability goals.

They first need to do due diligence on the various cash investment options in the market and align them with the firm's broader ESG goals. "Then they need to look at the liquidity characteristics of these options – some products may have the right characteristics from an ESG perspective, but treasurers need to know how easy it is to access the liquidity as and when required and how the products fit into their investment policies," says Randall.

Nicolas Cailly, Head of Marketing for Payments & Cash Management, Global Transaction Banking at Societe Generale, refers to a strong link between ESG, external perceptions of the corporate, and fundamental treasury responsibilities.

"On the cash investments side, there are plenty of solutions that incorporate an ESG dimension," he says. "The challenge for treasurers is to understand and classify the existing ESG offer and to find investment products that also meet the corporate's liquidity and return constraints. Integration of ESG investments into treasurers' allocation choices will take time and they will need more support from their banking partners."

treasurers are not incentivised on the returns they generate on excess liquidity placements.

"Why should they take unconsidered or unreasonable risks if it does not pay off in terms of bonuses?" he continues. "Treasurers should determine the corporate's risk appetite and tolerance and adopt products to achieve the objectives in terms of return within the agreed parameters."

Of course, the focus for treasury should always be on optimising the available cash for working capital and strategic purposes – especially when the company needs access to cash on a regular basis to fund expansion, as is the case at NewCold Advanced Cold Logistics in the Netherlands.

"The treasury mandate set out by the board sets the boundaries and this can be more aggressive, but not so much that it endangers business continuity," says Richard Blokland, NewCold's Corporate Treasurer. "When we have surplus cash available to invest externally, our favoured products include money market funds and bonds."

According to Ole Matthiessen, Head of Cash Management at Deutsche Bank, treasury policy should operate independently of the interest rate environment.

"Nevertheless, the onset of inflation could result in treasurers exploring options such as considering a floating rate strategy or a strategy that increases tenor, but keeps the interest rate reset period to a short tenor," he says. "Beyond this (and in particular when anticipating a potential change in rates) treasurers should consider the possibility to match the investment interest period against the borrowing interest period."

In cases where treasurers struggle with the accuracy of their data within cash flow modelling and forecasting, it is prudent to ensure a credit facility is in place on an overnight or short term basis to ensure spikes or unexpected cash requirements can be managed without disrupting the overall liquidity strategy.

Implementing transformational practices such as in-house banks is another option for treasurers looking to ensure optimal levels of liquidity for day-to-day needs while thinking strategically about appropriate avenues for surpluses.

Established products like physical cash concentration and notional pooling introduce automation of cash movement where, when and in the currency needed, explains Lori Schwartz, Global Head of Liquidity Solutions, Account Services and Escrow at J.P. Morgan.

"Combined with digital-first solutions such as virtual accounts, treasuries can create efficiency in their inter-company models and optimise use of working capital," she says. "When treasuries centralise it is possible to materially reduce cash on deposit accounts and consider alternate uses such as investing it in the business."

Since the outbreak of the pandemic we have seen the emergence of ultra-short fixed income funds in the institutional space as part of the quest for yield. Corporate treasurers are

also putting money into products including ETFs that invest in very short-dated debt such as treasury bills.

“Money market funds are still a hugely important element in the overnight funding toolkit for corporate treasurers, but it is safe to say that they are now being complemented with a range of other investment options that are giving treasurers a little more discretion and control over their cash management,” says George Maganas, Head of Liquidity & Segregation at BNY Mellon.

Lauren Oakes, Global Co-head of the liquidity solutions client business within Goldman Sachs Asset Management, agrees that treasurers do not (and should not) change their risk appetite for liquidity due to macro factors in isolation.

One area in which she has seen renewed interest from treasurers in light of the prolonged low/negative rate environment is balance sheet cash segmentation. Once the operational (or ‘primary’) cash requirements are accounted for in accessible deposits and short term money market funds, treasurers are exploring options for investing their strategic cash.

“The ultimate liquidity solution can include a range of strategies from ultra-short duration on the more conservative end to multi-asset class/longer duration strategies on the higher risk end of spectrum,” adds Oakes.

UniCredit advises clients to cluster company liquidity into three different levels: operational liquidity, buffer liquidity, and structural liquidity. It sees sight deposits (a bank deposit that can be withdrawn immediately without notice or penalty) as remaining the optimal solution for operational liquidity, which has a time horizon of only a few days.

Capital protection, positive yields and an acceptable issuer quality are now possible only with tenors which are longer than maturities consistent with the strategic and commercial plan of most corporates.

For this reason, UniCredit advises clients to manage their liquidity through either assets under management or assets under custody instruments observes Sergio Ravich Calafell, the bank’s Global Head of Corporate Treasury Sales.

“The former is a portfolio of mutual funds chosen to fit the client's requirements in terms of time horizon, mark-to-market volatility, asset allocation, issuers rating and target yield,” he explains. “The latter is a portfolio of securities bought on primary and secondary markets with short tenor and a yield that is linked to the performance of a specific underlying or a basket of underlyings.”

Treasurers focused on return ‘of’ capital rather than return ‘on’ capital should focus on optimising existing structures according to Karen Ly, head of global liquidity specialists at Bank of America global transaction services.

“The strategies treasures could contemplate in this environment include using deposits to minimise bank fees and reducing operating risks and interest expense associated with overdrafts,” she says. “We recommend that treasurers centralise their liquidity positions on a daily basis where permitted by local regulations to minimise idle cash and allow them to pay down external debt to reduce interest charges.”

Ly also recommends defining sweep parameters that fund local operations and extracting surplus cash on a ‘just-in-time’ basis across entities, countries and currencies. “Dollar functional businesses should regularly review their repatriation strategies to capitalise on global reinvestment or redeployment opportunities,” she adds. ■

CASE STUDY

Li Auto is a market leader in the design, development, manufacturing and sale of premium electric vehicles in China. It recorded revenues of US$546m in the first quarter of this year and forecasts revenues of US$609-652m for Q221.

“The most important elements of our liquidity management strategy are efficiency, accessibility and optimisation and we have implemented domestic and cross border cash pooling to achieve these goals,” explains the company’s Treasury Director, Hugh Hu, who says he is sanguine about low interest rates and predictions of higher inflation.

“As an advanced technology company, we need to invest a lot in development so low interest rates are beneficial as we can leverage investment funding at a low cost,” he says. “However, uncertainty around global inflation has increased pressure on treasury due to rising costs. A liquidity management solution that can provide certainty of funding access whenever required is the most important tool we can rely on to mitigate the related liquidity risks.”

At the beginning of the pandemic, Li Auto leveraged RMB cross-border pooling to get offshore funding to support the challenging operating environment in China.

The RMB cross-border cash pooling structure – provided by Citi – is the main artery for processing inter-company flows between the China domestic business and the offshore business.

“This has saved us significant financing costs on an annual basis,” says Hu. “Based on the initial development of this liquidity management programme, Citi helped us get approval from our regulator to add the variable interest entities of the group into this arrangement.”

How to prepare for global corporation tax reform

> *What are the possible implications of changes to global corporation tax? How might it impact corporate locations and supply chains, and who will be the corporate winners and losers?*

Matthew Rose

Director of Tax, Treasury and Investor Relations
De La Rue

Matthew Rose, Director of Tax, Treasury and Investor Relations at De La Rue. He writes here in a personal capacity and the views expressed are his own.

The impact of the potential reform might not be that significant for UK companies. A UK parent company with a subsidiary outside the UK is already subject to Controlled Foreign Company rules whereby if the subsidiary hasn't paid a certain level of tax – which the UK defines as three quarters of the UK tax rate and which is already around the 15% suggested by the G7 – the UK parent company may already have to effectively top up that tax in the UK.

From the UK perspective, it might not be that big a change, although whether the existing "gateways" and exemptions or even long-standing international tax treaties may survive unscathed is yet to be seen. After the next G20 meeting we expect some indications of how this may develop. There will undoubtedly be political choices for countries to make.

Under existing OECD proposals known as "Pillar Two" rules, any extra corporate or withholding taxes might only apply to companies with a worldwide turnover of €750m or above. It might be that groups under this threshold may also not be subject to the full force of the future reform. Companies need to stay alert to see if the reform applies to subsidiaries of all sizes and if it does, as per indications from the G7, how it relates to the margins that each subsidiary makes. For example, you can have subsidiaries with low revenue but large margins or with large revenues making low margins. It may be that not all the rules bite, so treasury and finance need to work closely with tax teams.

Companies should look at the entire flow or chain of their profits and taxes too. For example, some territories may have low taxes on profits but then they have high taxes when it comes to trying to extract profits out of the country. Under the new rules if introduced, some countries may choose to increase their headline tax rate because they won't want another country to obtain any amount above their headline rate up to the 15% or whatever level is finally selected.

Companies also need to understand the existing but expanding rules around country-by-country reporting. Many companies with a turnover of €750m or above may already have to send a detailed breakdown of each of their subsidiaries' results by country to their parent company's tax authority – like in the UK. Under the new rules, this may become a requirement for many more companies.

Treasury teams should prepare for the likelihood that companies will pay more tax but be aware that not every country will bring in the same rules at the same time. Whilst some initial responsibility will fall to tax teams because treasury and tax are usually sister departments and have direct reporting lines to the CFO, the impact will spread to treasury, especially if there is more pressure on company cash flows and payments, or if there are different ways required to satisfy tax authorities with any bonds or guarantees. More proactive treasury teams should already be thinking about what additional cash headroom they may need in the future.

Fergal O'Brien

Director of Lobbying & Influence, Irish Business and Employers Confederation (IBEC)

There has been a history of inward investment into Ireland since the 1950s and tax has always been an element driving that investment. However, in recent years the model has shifted to Ireland drawing investment, particularly around research and development, because of our sophisticated skills and innovation base. Tax is still an element, but much less so than what it was in the past. We offer high quality skills; we are a gateway to the European labour market, and we have developed specialisations and sectors of excellence.

If Ireland's 12.5% tax rate is increased, the non-tax elements of our offering will become even more important. This means our physical infrastructure, particularly our digital and housing infrastructure, will be key to drawing investment as well as our skills and talent base. We have real ambition on our non-tax offering and a determination to deliver the best ecosystem we can, ensuring Ireland is a great place for firms to locate.

There is still a lot of technical work to be done to determine what the new global minimum rate would be, including recognition for research and development incentives and other potential carve outs of the model. There is a direction

and consensus building around a 15% rate and 15% is not materially different from our current regime of 12.5%.

We view the change as an opportunity. We are no longer the upstart we were previously. We have the substance and scale to attract businesses and if there is a level playing field that prevents other jurisdictions from competing on an aggressive tax base it could be to our advantage. Moreover, Ireland will continue to offer a stable tax offering. Tax certainty will matter, and Ireland will bring that in spades.

There are also challenges in the changes, however. The Pillar One reform, designed to re-allocate some taxing rights to market jurisdictions will impact Ireland. The reallocation of tax bases to be more consumption based is not good for small, open economies with a large export market and a small domestic market. If the reforms do lead to re-allocating more of the tax base to other jurisdictions, that will cost our Exchequer. I think there should be a recognition of the business models of small exporting countries.

Most companies in Ireland are already factoring in some increase in effective tax rates and the reform will have an impact on how companies structure themselves. The framework needs certainty and full agreement at OECD levels and IBEC is following these developments closely. Although it's too early to make significant long-term decisions and anticipate what the implications are for Ireland's tax regime, the trend is clear: there is a momentum behind global tax coordination and minimum corporation tax rates.

Dean Rolfe

Partner and Head of International Tax
KPMG Asia Pacific

Curtis Ottley

Partner, US Tax Desk
KPMG Singapore

From a treasury's perspective, the biggest impact will be cash flow management. When a tax liability arises, companies must comply and make payment within statutory deadlines that can't be delayed. Therefore, treasury must have cash on hand. This means compliance issues could arise where multinational companies have tax liabilities in jurisdictions where they currently don't have a physical presence or pay taxes.

Historically, companies have based their investment decisions on a range of factors including taxation matters. With increased tax costs, this consideration has become more important. The rules will also be complex: even calculating if a company is above or below the proposed minimum rate will be complicated. The challenge lies at the tax administration level and there may be a struggle in dealing with this piece of new global legislation.

As of 1st July 2021, 130 countries have backed global tax rules that will affect the largest multinational corporations in the world, on top of a 15% global minimum corporate tax. These updates, expected to take effect by 2023, will mean sweeping changes across the global taxation landscape.

View from the US

President Biden's Green Book (the administration's fiscal year 2022 revenue proposals released in May), included a proposal to tax the largest 120 companies at 15% of their book income. The approximately 120 companies subjected to the minimum tax are those with net income over US$2bn. It is unclear how this provision will work or how it will be implemented if the OECD agrees to a compromise to eliminate digital service taxes imposed on US multinationals. The US is against unilateral digital services taxes imposed by other countries and continues to support tariffs in response to digital taxes.

The Green Book also included provisions that are affected by switching to the OECD global minimum tax if approved. It suggests an increase to the Global Intangible Low Tax Income (GILTI) rate to 21% and proposes a new provision known as SHIELD (Stopping Harmful Inversions and Ending Low-tax Developments). Both penalise entities within a related party structure that have an income tax rate below 21%.

The US wants a global minimum tax to avoid higher taxes on US parented multinationals. Biden's proposal includes a 28% federal US corporation tax rate. The added state income taxes and the combined effective US tax rate sums up to 30%, while the OECD suggests a global tax of 15%. This means that US companies can still cut their taxes in half if they move earnings outside the US.

We expect the proposed tax changes to encourage more mergers and acquisitions for companies to align their structures with the benefits of having earnings outside of the US. We may also see the largest 120 multinational enterprises spin off parts of their business to fall below the US$2bn net income threshold. ■

Next question:

"As employers prepare for post-pandemic employment, what are the key benefits and challenges of remote working and what are the implications for treasury around the new phenomena of working while physically apart?"

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

Balancing act: economic growth, inflation and productivity growth

Following decades of downward pressure on inflation (due to ageing populations, productivity growth and globalisation), central banks have had to step up monetary stimulus to an ever-greater extent. Growth has become increasingly dependent on high asset prices, while the latter have become increasingly reliant on low interest rates and money creation by central banks. This means that a considerable decline in asset prices would substantially slow down growth, raise concerns about high debt and increase deflation risks. This is why the priority of central banks is to keep asset prices high.

Another priority of the Fed is to guarantee the stability of the financial system. This is increasingly under threat due to exceedingly high valuations of many assets, speculative behaviour in cryptocurrency markets, so-called meme stocks and SPACs and a considerable increase in the use of leverage. These developments historically point to market bubbles. This is particularly risky now, as authorities have few remaining resources to stimulate the economy. Also, other drawbacks – like increased inequality – of ultra-loose monetary policies are becoming more evident.

For now, central banks opt to accept the risks of market bubbles and mainly focus on achieving higher inflation. It remains to be seen what will happen if they succeed and consumer price inflation (expectations) start(s) rising. We believe that the latter will happen in the longer-term, as result of deglobalisation, more credit supply to households and companies, persistent high public deficits and continuing ultra-loose monetary policies.

In this scenario, central banks cannot keep up their ultra-loose monetary policies, as inflation (expectations) would rise to even higher levels, and long-term interest rates would ultimately rise rapidly, which could trigger market chaos.

The most favourable scenario for financial markets is one in which inflation stays low. This would allow central banks to keep boosting asset prices. However, increasing inequality and market bubbles would become even more problematic. These drawbacks do not necessarily have to occur (or they would be minor) if productivity growth is accelerated.

The most unfavourable scenario is one in which inflation (expectations) and long-term interest rates rise, while growth stagnates at the same time.

This is why it is currently crucial for the financial markets to know whether and how fast inflation will rise, and how central banks will react to this.

But it will be difficult to get a good sense of the underlying economic strength and inflationary pressures. Data over the past and coming months have been and will be strongly influenced by base effects and start-up problems as many economies are being reopened. As for the longer-term, we can say the following about economic growth, inflation and productivity growth.

Growth

Many economists think most economies will recover quickly from the corona crisis, partly because governments and central banks have implemented massive economic stimulus. It is therefore quite likely that consumers will largely go back to normal before long. In addition, economic growth in the quarters ahead is set to benefit considerably from consumer dissavings and increased corporate investment. Companies will want to invest more because demand is likely to pick up, because they will catch up on investment plans that were paused in the last year, and to reinforce supply chains. Government support and public deficits will decline considerably in this case, which is negative for growth. However, this will be offset by higher job growth. After 2022, economic growth will end up at far lower levels due to fading catch-up demand and fewer catch-up investments, as a result of which growth will tend towards potential.

At this point, potential growth is under downward pressure in many countries due to ageing populations and less immigration. The level of potential growth will ultimately depend on productivity growth.

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Productivity

US productivity has been rising for a number of years, and there are a number of developments that point to more upward pressure on productivity growth, not just in the US, but elsewhere too:

- Companies are investing more in technology and intellectual property; these are elements that experts say are necessary to boost productivity in the service sector.
- Technological changes have accelerated in recent years. The corona crisis could be the shock that drives large-scale adoption of technological breakthroughs.
- Companies should anticipate higher wage costs and lower availability of personnel due to ageing populations, the commitment of governments to increase employee wages in real terms and the risk of deglobalisation. This increases pressure to invest more in labour-saving measures and/or to boost efficiency.

However, another potential scenario is one in which productivity growth does not end up at structurally higher levels:

- Deglobalisation comes down to less foreign competition, which removes the pressure to step up efficiency.
- Governments want to make up an ever-larger part of the economy. There is a risk that they use the additional expenditure for elements that do not or barely increase productivity (but which are socially desirable, for example). Another risk is that the government raises corporate taxes, as a result of which companies want to, or have to, reduce the amount they spend on investment.
- The number of zombie companies has increased. This impedes the process of creative destruction which ensures that more efficient companies remain.
- Many people with low-paid jobs have been laid off in the corona crisis. This has boosted productivity. Productivity growth will slow down as the economy is being unlocked and many low-wage jobs are reinstated.

On balance, the most likely scenario is one in which US productivity growth temporarily declines, after which it will pick up. However, it is unlikely to return to current levels. Productivity in Europe could increase somewhat, but Europe will lag behind the US. This is because Europe has many zombie companies and its economy is generally less dynamic than the US economy.

Inflation

Inflation is evident now, but this mainly concerns asset inflation. Structurally higher inflation based on the consumer price index (CPI) requires more surplus money to flow to the real economy, as opposed to it staying in the financial sector. This is likely to happen in the coming years:

- Far more emphasis on the pursuit of loose fiscal policies in order to boost economic growth. Combined with more credit supply to households and companies.
- A process of deglobalisation and increased protectionism, which will reduce deflationary pressures.
- Historically very high valuations for equities and bonds, which will make it increasingly difficult for asset prices to rise. In addition, they will become more vulnerable to negative surprises. As a result of which asset markets will attract less money.
- Inflation also has a major psychological component. The current sentiment among investors is that (almost) all assets are better than holding cash. This is why (almost) all asset prices are rising or have risen considerably. This sentiment seems to gradually spill over to consumers.

We still expect inflation to decline in the shorter term, mainly due to fewer major base effects and the gradual disappearance of bottlenecks. However, in the ensuing period, upward pressure on consumer price inflation is likely to prevail, and the psychological component will become more important. We believe inflation will rise gradually, because productivity growth will increase slightly at the same time, which will resolve bottlenecks and, in turn, will boost supply.

Central banks will then increasingly face a dilemma. On the one hand, they are under pressure to slow down inflation, while, on the other hand, they are concerned that a tighter monetary policy will have too much negative impact on asset prices and economic growth. ■

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