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March/April 2022

Treasurers prepare for CBDCs

CBDCs are moving from concept to reality and treasurers who ignore their development risk missing out on the benefits they can bring.

The Corporate View
Angel Cheung
Assistant Treasurer
John Lewis Partnership

Women in Treasury
Meredith Vance
Senior Vice President, Treasurer
NTT DATA Services

Regulation
Auditors under the spotlight as reforms fall short

Risk Management
Inflating the importance of good treasury management

Sustainable Treasury
Treasury and ESG

Regional Focus
Singapore's fintech points to the future of treasury

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Strength in times of crisis

As this edition goes to press, Russia's invasion of Ukraine has raged for a second week. Alongside the tragic human consequences, the war has left companies scrambling to cope with the impact. Commodity prices have surged, impacting supply chains, and sanctions have forced companies to cut ties with Russia where doing business is neither morally, commercially nor politically viable. Some of our best-read stories include the impact of axing Russian banks from SWIFT, and whether this could accelerate China's rival payments system, CIPS.

Auditing and consultancy firms, which poured into Russia three decades ago to capitalise on the collapse of the Soviet Union, are the latest companies to ditch Russian clients and abandon their Russian operations. This edition looks at another enduring challenge facing the sector: trust. After years of missed red accounting flags and an ever-growing list of corporate collapses, we explore whether reform will strengthen the industry that society relies on to inspect and challenge company accounts, and if treasury is able to support more efficient audits.

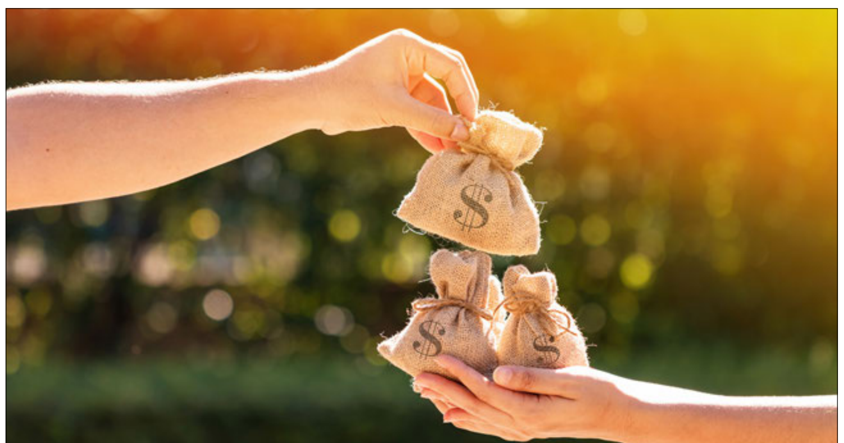
Elsewhere, we look at the trend of private equity investors buying listed companies, particularly in the UK where valuations are cheap. When private equity investors take the helm, treasury must buckle up. Prioritising value creators, balance sheet efficiency, and cash generation and return are the key focus, guided by a new mantra of "be quick, be good, be gone."

We look at how treasurers experiencing their first taste of high inflation can take solace from the fact basic treasury management principles still apply – even in the most testing circumstances. And we explore again treasury's progress in embedding sustainability. From green bonds and sustainable SCF to paperless processes and digital signatures, there's no shortage of opportunities for treasury to further the sustainability agenda.

We round up this edition's coverage with insights on how Singapore's fintech sector will impact corporate treasuries in the region and how they are run in the future. The Question Answered looks at cash pooling, renowned for supporting supply chain disruption and pressure on working capital and the key challenges companies face today.

IN THIS ISSUE

INSIGHT & ANALYSIS 4



Treasurers prepare for CBDCs

Central bank digital currencies (CBDCs) are quickly moving from a concept to a reality. Treasurers need to consider how to get ready – otherwise, they risk falling behind and missing out on the benefits that CBDCs can bring.

FUNDING & INVESTING 8

Be quick, be good, be gone

Private equity investors are snapping up listed companies at an unprecedented rate. It's putting treasury on a different footing with a heightened focus on working capital, restructuring international operations and rapid-fire re-financing.

REGULATION 14

Auditors under the spotlight as reforms fall short

Audit firms are under fire, and new reforms are in the offing. But critics say they don't go far enough and treasury's unique position to support the audit is stymied.

WOMEN IN TREASURY 16

Meredith Vance

Senior Vice President, Treasurer

NTT DATA

Find out how Meredith Vance, Senior Vice President, Treasurer at NTT DATA Services, built a global treasury organisation almost from the ground up.

RISK MANAGEMENT 19

Don't get carried away by rising prices

Treasurers experiencing their first taste of high inflation can take solace from the fact that basic treasury management principles apply even in the most testing circumstances.

ADAM SMITH AWARDS 24

Corporate Treasury Awards – showcase your achievements!

The highly acclaimed Adam Smith Awards programme is now in its 15th year.

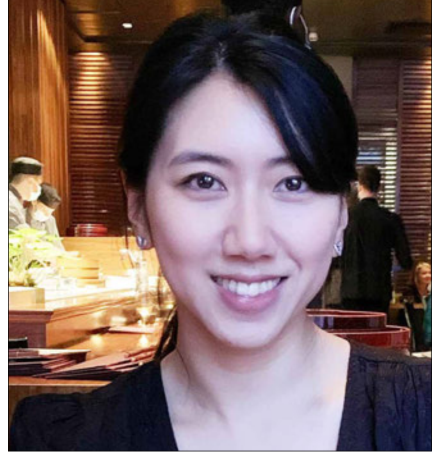
REGIONAL FOCUS 26

Singapore's powerhouse of innovation

The fintech innovation that is coming out of Singapore – as well as the ecosystem that is being built to support – is relevant to how corporate treasuries will be run in the future.

TREASURY ESSENTIALS

Treasury Insights	7 & 13
Question Answered	28
Market View	30



10 The Corporate View

Angel Cheung
Assistant Treasurer

John Lewis's Angel Cheung articulates her treasury focus; the importance of banks as partners and how treasury is driving sustainability at the retailer.

SUSTAINABLE TREASURY 21

Driving sustainability in treasury

ESG and sustainability rising in importance, with 76% of respondents to Treasury Today's Global Sustainability Study 2021 stating that sustainability is a board-level issue. So how can treasurers embed sustainability into their activities and processes?

Treasurers risk losing out on CBDCs

Central bank digital currencies (CBDCs) are quickly moving from a concept to a reality as dozens of countries around the world are exploring and trialling them. Treasurers need to consider how to get ready – otherwise, they risk falling behind and missing out on the benefits that CBDCs can bring.

Central bank digital currencies (CBDCs) are now being explored – in some form or other – in more than 100 countries, and treasurers will need to be prepared for their eventual rollout.

"We have moved beyond conceptual discussions of CBDCs and we are now in the phase of experimentation. Central banks are rolling up their sleeves and familiarising themselves with the bits and bytes of digital money," Kristalina Georgieva, IMF Managing Director, said in a recent speech in Washington.

"These are still early days for CBDCs and we don't quite know how far and how fast they will go. What we know is that central banks are building capacity to harness new technologies – to be ready for what may lie ahead."

In the same vein, treasurers also need to get ready for the journey ahead. Urszula McCormack, a partner at law firm King & Wood Mallesons (KWM) and specialist in the digital economy and emerging technologies, describes CBDCs as lying on a spectrum. At one end are the broad projects – such as China – where the digital currency seeks to renew the existing currency and potentially even replace cash. At the other end of the spectrum are projects that are very specific in their use case. One example is Australia's Project Atom, which has trialled a wholesale application of a CBDC specifically for syndicated lending. "And then there is everything in between," adds McCormack.

CBDCs are part of a wider story of renovating money, says McCormack. This includes real-time payments, more efficient

cross-border payments and generally reducing friction, cost and time from transactions.

"As custodians of their institution's wallet, treasurers need to know that the whole payments infrastructure is changing all around the world," says McCormack. She uses an analogy to describe how various jurisdictions are approaching CBDCs: "Some are knocking down the house and rebuilding it. Others are adding a new room, while some are just giving the house a lick of paint," says McCormack.

In China, for the companies that haven't already been affected by the e-CNY trial, they need to start making plans. Linghao Bao, Analyst at Trivium China, explains that when it is legal tender, businesses will be obliged to accept it, if their customers want to use it.

"There's time for businesses to get ready. And the central bank will ask big retail companies to test this first," Bao adds. This is already happening and a number of large corporations have been involved in the pilots in various cities, including McDonald's, ride-hailing app DiDi Chuxing, and the e-commerce company JD.com reportedly used e-CNY to pay its employees.

Aziz Parvez, head of Asia Pacific Corporate Treasury Sales, Global Transaction Services, Bank of America, comments that some corporates have been trialling e-CNY for utility and tax payments. And when the project is rolled out further, corporates stand to benefit from the efficiencies the digital currency can bring. "A broader adoption of e-CNY would provide comprehensive benefits to treasurers, given e-CNY is legal tender and a digital version of the fiat currency issued by People's Bank of China (PBoC)," he comments.

Retailers and e-commerce companies are a natural place for the e-CNY to be tested. For consumers, the e-CNY will seem like another payment option – alongside Alipay or WeChat Pay, for example – that is being offered by the retailer at the checkout. It may seem simple for the company to offer this additional option, but there are a number of considerations for treasurers as they understand how this new infrastructure operates behind the scenes. These include how their bank connects to the e-CNY systems, and how the e-CNY is converted into other currencies and held in accounts.

To use the currency, consumers will need to have an e-CNY digital wallet – typically an app on their smartphone – with funds loaded from their regular bank account that have been converted into e-CNY. Banks could offer this as part of their usual mobile banking service, but the e-CNY funds are different from the regular deposit accounts. Technically, e-CNY has the same quality as cash or, in economics parlance, M0 – the money that is in circulation and a liability of the central bank. This is distinct from M1 money that is deposited in bank accounts and is a liability of a commercial bank, and for this reason e-CNY has to be kept separate from regular bank deposits.

It is expected that the e-CNY issuance will occur in layers, with the People's Bank of China (PBoC) – the central bank – at the top, issuing the currency to commercial banks, who will in turn make it available to their customers. Banks will make it available to both individual consumers and also companies. Also, non-bank financial institutions and other providers will be able to offer e-CNY wallets.

Parvez comments on the features of the digital currency and what it means for corporates and their treasurers: "With e-CNY, the only necessary intermediary would be the central bank. e-CNY would provide the benefits of shortened collection periods, because payments could be completed – finality – at the moment e-CNY is delivered as legal tender. It would additionally ease the process of account reconciliation through the end-to-end electronic solution. As such, the implementation would help treasuries achieve cost efficiencies and better cash flows management," says Parvez.

For now, the e-CNY is a retail payment system and will have an impact on all types of corporates, although some more than others. Parvez says "the flows could be higher for corporates dealing in business to consumer, and consumer to business" transactions and the impact of the e-CNY would be greater for those companies.

Parvez comments that there are a number of things that treasurers can do to prepare ahead of the formal rollout of China's CBDC. This includes setting up corporate guidelines to adopt digital wallets to accept e-CNY payments. They can also establish the necessary hardware and software to start accepting e-CNY, for example scanners for reading QR [quick response] codes, and software programs like online e-wallet transfer capabilities.

Also, Parvez continues, the newly-added software needs to be integrated with the company's existing enterprise resource planning and treasury management system to streamline accounts reconciliation. This is especially important when processing anonymous transactions with missing payer information, he adds. Also, e-CNY adoption entails fewer hardware requirements – such as QR code scanners – so treasurers should focus more on software integration to enable online e-wallet transfer capabilities, offline e-CNY payment function and streamlined account reconciliation, says Parvez.

What would happen to the treasurers who don't take any of the steps to prepare, or even ignore CBDCs altogether? KWM's McCormack points out if CBDC use becomes mandatory in a particular market or for a particular type of transaction context – whether by law or contract – treasurers will inevitably need to evolve their own systems and processes, although access will likely still be through their banking and payment providers. When it comes to implementing the systems necessary to handle CBDCs, if they have been slow to react, they may find that they are at the back of the vendor queue, says McCormack.

Another issue, comments McCormack, is the contracts that treasurers have with their banks, for example, are likely to be updated to make sure they are relevant for CBDCs. This can present an opportunity to consider whether new payment or operational mechanisms would better suit their needs.

Could treasurers leave it to their banks to think about this on their behalf? Possibly, but it would be better for them to be ahead of the curve. McCormack says it is important for treasurers to start talking about CBDCs with their banking partners now, and by asking questions they are signalling that they expect their counterparts to have adequate plans and protections in place for handling CBDCs.

There are still quite a few unknowns with the new digital currencies. McCormack says that treasurers will need to grapple with the uncertainty surrounding the CBDCs for some

time. In the case of e-CNY, for example, the specific technical integrations that will be necessary have not been made fully public, nor have the full gamut of onshore and offshore applications, and so what it actually means in practice for businesses and users still remains to be seen.

Treasurers are already used to digital payments, but the difference with this infrastructure – notes a recent Oliver Wyman report – is that this system is sponsored by the Chinese government rather than the private sector.

One of the concerns with the e-CNY and other CBDC projects is that the state will have eyes into corporations and will be able to have visibility of all their transactions. "In the case of e-CNY there is a very careful approach about what data is collected, who can see the data and for what purpose," says McCormack. She explains that data provision is tiered and for low-value transactions there is not much data needed to onboard, whereas for high-value transactions, a lot more information would be needed. "Globally, data privacy and security are always in the top two or three issues that are debated when designing the architecture for CBDCs," McCormack says, adding that the debate focuses on protecting both personal and professional privacy, as well as protecting the data from cyber-criminals.

Another feature of CBDCs – with them being issued by central banks – is how they can be liberalised and extended into a cross-border, and offshore system. If the Chinese government liberalises the e-CNY – in a similar way as it has done with the internationalisation of the renminbi – it could accelerate the renminbi's adoption as a global trade currency, according to Oliver Wyman. For now the e-CNY is a retail system, but if its use is extended to cover wholesale payments, and is used by large institutions for cross-border transactions, it could supersede the dominance of the US dollar. If cross-border transactions are in e-CNY, and use the new payment rails, it could bypass the need for SWIFT's messaging and its correspondent banking network. "A new dawn of currency is upon us, and the time to act is now," the Oliver Wyman report states.

The e-CNY project is effectively "super-charging a currency and making it super competitive because of how easy it is to use," explains McCormack. With buyers and suppliers on a Belt and Road project, for example, they could transact via their CBDC wallets. "They can make that payment in a trusted and auditable way – to a degree not available for cash or traditional banking rails. It is an extremely compelling proposition," says McCormack.

The currency could be used by overseas companies for transactions that don't reach China onshore, much in the same way as the offshore renminbi – or CNH – has been used. At the moment it is unknown how far the e-CNY will be internationalised and if it will be available for offshore companies to pay counterparts in China or vice versa.

If, however, the e-CNY is extended to cross-border usage it could provide substantial savings. Oliver Wyman's 'Digital Currency Battleground' report estimates that if the CBDC could be used between China and Singapore there would be costs savings of SG$16bn to SG$24bn, or up to 5% of Singapore's GDP.

With China leading the way in the central bank digital currencies, other markets – and treasurers more generally – need to take note. And a global, interoperable infrastructure for CBDCs is already being considered as other countries explore what the implications of the e-CNY will be. A prototype has already been built for multiple Central Bank Digital Currencies (mCBDCs), which is being developed by the Bank for International Settlements, the Hong Kong Monetary Authority, the Bank of Thailand, the Digital Currency Institute of the PBoC, and the Central Bank of the United Arab Emirates.

The mCBDC platform has so far demonstrated how CBDCs can offer more efficient cross-border payments and settlements for treasurers – and their bankers. They are real-time, cheaper and safer and 24/7. In a trial of the mCBDC platform, international transfers and foreign exchange transactions occurred in seconds – a vast improvement on the several days that treasurers are used to waiting for their cross-border transactions to be completed.

For the e-CNY to be broadly adopted and used, there will be a number of factors at play. Parvez notes that the wide adoption of China's CBDC will depend on the PBoC's coordination with central and commercial banks around the world. Also, another factor that will be crucial to the e-CNY's success will be the new system for cross-border settlement, which will be something similar to the current Cross-Border Inter-Bank Payments System (CIPS) but with the ability to issue digital wallets to global users. And finally, Parvez notes, adoption will depend on the new regulatory framework globally.

Once the e-CNY does start to gain traction, however, it will open up new opportunities for corporates. It will be possible to rethink the way transactions are done, and in a sense the e-CNY is underpinning – or facilitating – China's digital economy. With its clean slate, the e-CNY infrastructure can be built specifically to interact with other cutting-edge technologies, such as the internet of things and artificial intelligence. And, once the e-CNY is in place, it could spur other organisations to innovate with solutions that haven't been possible before.

"For some treasurers it is unnecessary to think about CBDCs right now. For others it may be quite exciting for them or their group entities to be able to programme payments in a certain way and to explore the opportunities relating to the digitisation of money."

This echoes the possibilities that Brett Turner, Founder and CEO of Trovata – a provider of an open banking platform that automates cash management – told Treasury Today in a previous interview. He notes the biggest pain for treasurers is still cross-border payments, and CBDCs have the opportunity to do something about it. He notes that with CBDCs, "You can architect modern technology from the ground up and everything else – all this existing technology – becomes obsolete and you get a chance to have a complete reboot of all that," says Turner.

And he urged treasurers to think about getting their systems ready now: "The time is now to start thinking about your technology and systems environment," says Turner. "People need to start being ready," he added.

As the e-CNY trials gather pace, it will become more urgent for treasurers to consider how China's CBDC – and other digital currencies more generally – will impact them and their treasury operations. For those who don't act now, they could lose out. ■

Uncertainty around interest rate rises has not yet added significant complexity to the transition from LIBOR pricing, but experts warn of the impact of further rate increases.

According to a recent report from Coalition Greenwich, the combination of interest rate hikes and the move away from LIBOR pricing has the potential to create anomalies in commercial loans over the coming months.

Assistant Director Financial Advisory at Deloitte, Svenja Schumacher, acknowledges that the ability to forecast interest payments due to the backward-looking nature of risk free rates has become more difficult.

"For example, if someone took out a loan on £6m LIBOR beginning December 2021, they would know in December already how much interest would be due in May 2022," she says. "A loan on SONIA, in comparison, would have already captured the two interest rate hikes from December and February through higher daily rates, which are compounded to make up the final rate."

This also leaves the borrower with further uncertainty with regards to the March and April Monetary Policy Committee meetings, which could increase the rate further.

Given the lack of experience of how SOFR or other risk free rates behave in a hiking cycle, borrowers still trying to get their heads around how the new rates will be impacted by rising interest rates, says Ulrich Lotze, Head of Risk & Platforms Financing Risk at Standard Chartered.

"Asian banks are still calibrating how to accurately measure funding costs and how to translate that into liquidity premia for floating term pricing," he adds.

On the upside, the yield curve for most currencies was flat in 2021 and this meant that differences between forward looking term rates and overnight compounded rates were minimal, explains Shankar Mukherjee, UK Ibor Leader at EY.

It should also be noted that communication from the Bank of England on the use of SONIA compounded in arrears stated that "calculating interest on a compounded basis reduces the contribution of 'one-off' volatility in interest rates that may occur due to unusual supply and demand factors affecting a benchmark rate on a particular day" observes Stephen Farrell, Audit & Assurance Partner at Deloitte.

Another benefit of the risk free rates is that they tend to reflect the central bank's actions more effectively.

"When the Bank of England cut interest rates at the beginning of the pandemic in 2020, SONIA perfectly followed those rate decreases whereas LIBOR – whilst following those movements initially – developed in the other direction," says Schumacher.

Whilst both indices generally reflect the underlying development of interest rates, LIBOR also includes an implicit credit premium for the banking sector which can increase significantly in times of market stress.

The lack of historical data around the behaviour of the new risk free rates has been a key challenge in pricing, model development and validation. In the face of this, various proxy methodologies have been used and their performance will be tested as we enter a more volatile interest rate environment.

"Of course, the new risk free rates are designed to be different since they do not have a credit component, so how they perform particularly in stress periods will be interesting and a key input into product pricing and model refinement," agrees Mukherjee. "However, a steeper yield curve environment going into USD transition over 2022 and 2023 means there may be additional challenges."

Schumacher concludes that it is important to keep in mind that Libor was discontinued in the first place because of market manipulation "so having a benchmark which is underpinned by actual transactions is an overall positive outcome for all market participants." ■

Be quick, be good, be gone: the treasury mantra when private equity is at the helm

Private equity investors are snapping up listed companies at an unprecedented rate with far-reaching implications for treasury teams. With private equity in charge speed is key; sacred cows are challenged, value creators prioritised and balance sheet efficiency, cash generation and return pushed centre stage.

Awash with trillions of dollars in capital to put to work, private equity investors are snapping up listed companies like UK supermarket chain Morrisons, German pet group Zooplus, US-listed Chinese recruitment group 51jobs or the ongoing circling of Toshiba. Once private equity takes the helm, treasury must buckle up for a new strategic, hands-on direction driven by balance sheet efficiency and a greater focus on working capital that puts conventional treasury on steroids. "Treasury has to respond under private equity and align to a new culture of business change and things done at speed," says Ian Fleming, Treasurer at the UK's now defunct department store Debenhams when it was under private equity ownership between 2003 and 2007. "Be quick, be good and be gone," he says, recalling his mantra at the time.

Driving factors

Years of central bank quantitative easing and rock bottom interest rates have created a world awash with capital that has private equity investors currently sitting on an estimated US$1.32trn of dry powder. "Private equity is a cyclical market that is the function of the price of assets, debt service costs and the availability of credit," says Fleming, referencing the factors linked to today's demand which although exacerbated by pandemic policy, also drove the boom in the asset class in the mid-2000s until the market crashed after the GFC.

Important other factors are also driving demand. Private equity houses target companies with robust cash flows and significant growth potential that they aim to sell within three to five years. UK listed companies, hit by low valuations compared to public markets in the US (and to a lesser extent Europe) due to Brexit and the fall in the pound, have attracted the keenest interest, but low public market valuations relative to private valuations are not unique to the UK.

Take two companies, one public and one private and both in the same industry going through a sale process, the listed company will have a lower multiple than the private one. "There used to be a premium for being listed but now the premium isn't there and even a discount may apply," explains Alvaro Membrillera, a partner in law firm Paul Weiss's corporate department and head of the firm's London office. "If you have a company going through a dual-track sale process, it is no longer a surprise that a trade sale achieves a higher valuation than the IPO."

The reason? Rigorous prepping and readying of private companies to optimise sale value leaves private firms with less value extraction down the line. Private owners have already addressed problematic issues like underperforming assets, litigation or jurisdictions that don't contribute to the bottom line.

Cash management

Private equity ownership brings a whole new angle to balance sheet efficiency that transforms cash management and working capital at a cultural, strategic, and operational level. It results in a heightened emphasis on cash and pressure on treasury to improve cash forecasting, generation and return. The cash buffers that provide comfort to many listed companies' balance sheets are quickly optimised, often replaced with a revolving credit facility to fund operations, says Membrillera. "We see this across the board." Fleming recalls that Debenhams cash profit and cash reporting strategy released £103m in working capital in the company's first year under private equity ownership.

Debt

Effective cash management opens the door to another key characteristic of private equity. Private equity investors deliberately favour robust, operational, cash flows because

they allow the highest levels of financial risk. "If you have robust cash flows you can better leverage the business," explains Fleming. "Strong cash flows allow for greater financial engineering."

Cue adjustments and optimisation of the relationship between debt and equity, all spurred on by tax breaks – like the ability to offset the cost of debt against the company's tax burden – today's low borrowing costs and using assets as collateral. "When interest rates are low there is an incentive to raise more debt than equity," says Clive Black, a director at investment group Shore Capital. "Private equity investors are after the maximum internal rate of return. By injecting debt into the financial equation rather than just being equity funded, they can get a higher return on invested capital."

Treasury becomes responsible for ensuring that the operating company can service the debt and managing the relationships with debt providers. Treasury will provide updates and rigour around communication, understand how the assets support the level of debt and be across ongoing debt refinancing of the initial take-out financing, repayment, and solvency ratios.

And now the added risk of rising borrowing costs is also in the mix, warns Black, who argues that today's private equity's tailwind is linked more to low interest rates and central bank largesse than investor talent and corporate entrepreneurship. "No doubt, as interest rates rise, we are going to see poorer investment decision and the risk of debt and leverage come to the fore."

Fleming also notes that for companies with an international footprint and revenues, treasury teams will often match the debt financing currency with the currency of its net inflows. "This can often create an overlay of hedging complexity not previously experienced or understood by management," he says.

The focus on cash and a strong cash control function often manifests in private equity investors having little enthusiasm for best practice. Providing more colour from his days at Debenhams, Fleming observes demand for treasury systems and process improvements was capped at robust, fit-for-purpose frameworks only. "Why invest £100,000 in a new TMS when you can invest in something else with an IRR of 25%?" he asks.

Hands-on

Treasury teams won't have to get involved in public reporting anymore but they should expect a new, proactive kind of governance shaped by strong board views on strategy that bring strategic, operational and personnel change. "It's nothing short of revolutionary," says Membrillera. Treasury in a listed company is one step removed from shareholders, and governance is balanced between executive and non-executive directors: shareholders don't ask to see management accounts and represent permanent capital, unlike private equity, where the joke goes, managers walk in backwards because they are looking to the exit.

Listed companies comprise a diverse group of stakeholders including activist investors seeking change but also passive investors tracking an index or those just wanting yield and a steady dividend rather than bells and whistles restructuring. This diverse stakeholder base means public companies often face resistance to close stores, move manufacturing facilities or consolidate business lines.

> When interest rates are low there is an incentive to raise more debt than equity.
>
> Clive Black, Director, Shore Capital

In contrast, private equity has much more freedom to support a company through a transition. It means treasury teams under private equity ownership are frequently called on to accelerate strategies that were impossible when the company was listed. It could be around a significant capex programme, revamping operational logistics, opening new sales lines, or refurbishing stores, all requiring capital and leverage.

Bank revamp

Private equity ownership can trigger changes in banking relationships. On one hand, large companies taken private with solid and deep banking relationships will likely keep those ties. Yet new banks coming in to finance the acquisition will also remain in the relationship going forward, and in most cases, private equity's own corporate teams design the initial financing. It leaves treasury teams with a pre-set financing package to manage including complex debt structures within a leveraged business.

Similarly, middle-range banking partners of a listed entity are often hoofed out by global players with more experience around securitisation or asset backed lending, who will then scoop up the ancillary business. "For example," says Membrillera, "a suite of regional Italian banks with long-dated and deep ties to an Italian company taken private may be displaced by large global financial institutions."

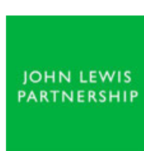
Still, it is not always the case. When the new treasurer of recently re-listed shoemaker Dr. Martens began exploring the bank relationships spilling over from the company's days under Permira's private equity ownership, he unearthed a surprisingly long list of banks: some he'd never dealt with before; a handful outside the UK and one private equity-owned lender.

The specialist skills and relentless pace required of treasury under private equity ownership has led to a spike in demand for service providers. Treasury skills in the mid cap space, a rich hunting ground for private equity firms and where companies often lack a treasury operation or specialism and everything is done by the CFO, are in demand. Skills like re-listing for example, an ordeal at Debenhams that Fleming recalls as one of the most challenging periods of his career. "Any one of the three main work streams related to the exit strategy (IPO, IAS adoption and a refinancing) would be challenging but all together, it was hard work!"

This is made easier, perhaps, by a final key characteristic of private equity and consequence of the employee mentality of old getting binned in favour of one of ownership: treasury and the finance team can expect much more generous compensation. "A Management Equity Plan will generally be more generous than the typical stock options of a listed company. The bad news is, in some cases, they will have to work much harder," concludes Membrillera. ■

Strength in partnership

Angel Cheung
Assistant Treasurer



Last Christmas, Angel Cheung, Assistant Treasurer at the John Lewis Partnership, volunteered to swap a few days at her desk in treasury for a stint on the London shop floor at the UK's famous department store and Waitrose food hall. She loved the front row seat it gave her on the seasonal scramble for everything from children's shoes to toys, teas and biscuits, as well as insight into the camaraderie at the company, the UK's largest employee-owned business which divides its profits among its staff, known as partners.

The John Lewis Partnership is the UK's largest employee-owned business and parent company of two retail brands – John Lewis and Waitrose, which are owned in trust by 80,000 partners. The Partnership began life in 1864 when John Lewis opened a small draper's shop on Oxford Street, London.

Equally important was the window it gave on how issues in treasury play out on the ground, none more so than today's tight supply chain impacting goods on the shelves. "When you spend time on the shop floor you feel much closer to the business," enthuses Cheung, speaking to Treasury Today in between long hours finalising the annual funding plan before year end.

Cheung, who joined the partnership eight months ago, has a hands-on remit that spans managing the loan book to broad responsibility for risk management and working capital solutions. She looks after treasury governance; works closely with banks and internal stakeholders and once year-end is out of the way, will focus on treasury policy updates and various new treasury projects. "Much of my work is strategy and project-based, besides overseeing our day-to-day treasury operations," she says.

She's currently taking a fresh look at investment strategies and solutions to enhance the company's return on cash at the same time as protecting a buoyant cash position and managing counterparty risk – as there are no equity shareholders, it is important to ensure there is sufficient liquidity and funding available to support the business in all times. The partnership currently invests surplus cash in short-term deposits and other short-term investments, but she's exploring other alternatives with the company's banks and service providers to optimise the company's investment strategy.

Elsewhere, a typical working day currently involves preparing and executing the company's energy and FX hedging strategy. Inflation is also an increasing focus for treasury. Particularly because of its implications on consumer buying choices that could change current demand. "I am mindful of the knock-on impact of inflation – on both customers' buying power and consumption sentiment," she says.

Bank relationships

Alongside John Lewis' cash balances, the business maintains a £420m committed revolving credit facility (recently refinanced for five years with ESG targets) with seven relationship banks, on hand should additional financial resources be needed. Like the company's plans to invest to transform and grow John Lewis and Waitrose also plans to diversify into areas such as financial services and rented housing. Elsewhere, everyday typical bank support comprises multiple accounts and FX management.

And in a reflection of the extension of the partnership ethos that defines the company, John Lewis' banking relationships extend beyond just service provision. "We really do treat banks as our partners," she says. For example, calls on banks for advice and insight increasingly encompass requests for innovative ideas around managing the treasury function, streamlining financial operations, seeking advice on market and regulatory expertise, and building out the risk management strategy. She also looks to banks for good advice on opportunities with treasury fintechs. "There is so much development that we need to be aware of, it's very helpful when our banks notify us with what is going on and presents us with suggestions." She also counts on partner banks to share treasury ideas, latest market development and keep the company up to date with treasury practice amongst industry peers.

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TMS

For the last six months Cheung has been involved in a TMS upgrade, part of which included accommodating LIBOR transition and introducing straight-through processing so that the company's different treasury systems like money market and FX trading platforms can now talk to each other. "It's an important achievement and saves a great deal of time," she says. "It also reduces the chance of human error." Reflecting on the experience, a key learning has been the importance of ensuring internal IT teams are also across ambitious TMS projects as they possess the technology expertise and internal IT systems knowledge. "Ensure internal IT teams are engaged from the project planning stage so they are fully onboard to provide advice and support," she advises.

Going forward, she hopes the new system will allow the company to use and analyse data in a more efficient way and support the team in preparing analysis. She also wants to increase efficiency in various treasury processes, while maintaining adequate internal control and governance. "It's all

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about fostering a better understanding of our business and helping us to further enable processes and performance."

Sustainability

Cheung had only been at John Lewis for four months when she helped close an inaugural ESG financing facility at the company. Last October, working with the sustainability team, she oversaw structuring of a new £420m five-year revolving credit facility linked to environmental targets that will replace existing facilities of £500m due to expire at the end of 2022. Integrating ESG targets was a natural step given an already engrained ESG ethos in the Partnership, she says. Under the structure, the interest rate John Lewis pays on the facility will vary depending on whether it achieves three key ESG targets.

The facility is linked to the company achieving net zero carbon emissions by 2035, a reduction of food waste by 50% across Waitrose by 2030 (against a 2018 baseline) and ending the use of fossil fuels across the company's transport fleet by 2030. With the benefit of hindsight, they seem like obvious targets, but Cheung says that choosing the right KPIs was one of the most challenging aspects of the process. "The Partnership has done so much work on the ESG front and there were quite a lot of ESG targets to consider," she says.

In the end, the team opted for KPIs that provided a good mix in different ESG areas. Looking to the future, she notes further opportunities to integrate ESG in treasury. Like ESG supply chain finance, investment options, as well as FX where she highlights the growing prevalence of banks offering preferable exchange rates skewed to sustainable endeavour, an avenue to be explored.

Even though I was happy at Kingfisher, these opportunities don't always come along, and working for John Lewis was an opportunity I wanted to try and do.

Starting out

Cheung was born and raised in Hong Kong where she lived until leaving for university in America to study economics at the University of Chicago. After graduation, she joined Citi in Hong Kong, working in investment banking across the capital markets and in mergers and acquisitions. Three years later, responding to her growing ambition to see through an entire project and be part of a company's evolution, she jumped into the corporate world and joined Tesco's treasury division in Hong Kong. "I wanted to get away from just executing deals for a bank and want to see the continuity of the projects I managed," she says. At Tesco her focus was corporate finance, leading capital markets transactions across Asia while also working on deal targeting, board approvals, helping the company appoint external advisors and liaising with investors. She also led on leading property sale and leaseback.

Two years later she moved to focus on treasury, first managing Tesco's Asian treasury operations before moving to the UK where she made Group Treasury Manager, Europe. "So many people end up in treasury who never started out there," she says.

Reflecting on that attraction she highlights the fact that treasury is always changing, offering the ability to step into a myriad of different roles spanning funding to risk management; sustainability or working capital solutions. Treasury also combines her passion for technology and numbers and brings a proximity to the business she loves, given its fundamental role in corporate growth and success. The icing on the cake is the treasury community where everyone seems to know each other, and a willingness to share experiences defines relationships. Whether it is upgrading a TMS or overseeing the LIBOR transition to new risk-free rates, there is an opportunity to share and exchange knowledge. "Treasury skills are transferable, and even more so in a retail environment because the main focus is quite similar," she says.

After a six and half year stint with Tesco she moved to Kingfisher, arriving in treasury operations at the global home improvements group a year before the pandemic started. During the pandemic, Kingfisher's business roared ahead on the Europe-wide surge in lockdown-induced home improvements and the business was blessed by a strong cash position. "It was a very exciting two years, and we had a great team," she says.

When an opportunity at John Lewis came knocking, she felt compelled to seize it. "Even though I was happy at Kingfisher, these opportunities don't always come along, and working for John Lewis was an opportunity I wanted to try and do."

When she is not working Cheung enjoys hiking, art, visiting museums and travelling. She is also keeping busy with a new love and passion for health and well-being, born in lockdown but which has turned into a rigorous and enlivening daily regime. "It was difficult at the beginning, but I now feel I am missing something if I don't do exercise," she concludes. ■

RUSSIA'S POTENTIAL CHINA PIVOT: SWIFT BAN COULD OPEN DOOR TO CIPS; SANCTIONS TRIGGER OIL SALES TO CHINA

Western nations have announced harsh economic sanctions to punish Russia for invading Ukraine, including blocking some banks from the SWIFT international payments system. SWIFT messaging systems are a critical part of international economic activity, and although being cut off won't prevent Russian banks from carrying out cross-border transactions, it will make payments expensive and difficult and will create a reliance on old-fashioned communication tools. It will also crimp Russia's ability to get paid for its oil and gas exports.

But payments experts also warn that ejecting Russia from SWIFT may have a limited impact. Peter Klein, CTO at FinLync, argues that if Europe really intends to disconnect Russian banks from the international and financial system, all global banks need to act in concert. "All banks should block transactions to and from any Russian bank domiciled in any country globally," he says.

Klein points out that SWIFT is just one third-party method used to move data in an electronic format from one bank to another bank – and there are plenty of other third-party alternatives. Moving money from one country to another country doesn't have to require SWIFT or even different banks.

And since Russian banks are domiciled in many countries, Russian banks don't have to depend on a third-party network like SWIFT to help them transfer data within their own organisation to another country. "Financing coming through loans from other countries doesn't mandate the need to go through SWIFT as a third party. As foreign banks are still operating in Russia, financial transactions can take place over Russia's own domestic payment networks," he says.

CIPS

In another concern, kicking Russia out of SWIFT could accelerate efforts by Russia and China to create a rival payment system that does not use the US dollar. Specifically, it could benefit China's own Cross-Border International Payment System, CIPS, and accelerate the development of the country's digital currency, the e-CNY. Several Russian banks are already connected to CIPS.

China launched the CIPS clearing and settlement services system in 2015 to internationalise yuan use, backed by the People's Bank of China. It allows global banks to clear cross-border yuan transactions directly onshore, instead of via clearing banks in offshore yuan locations.

Participant banks span institutions in Japan, Russia and Africa, where banks have received yuan funds via infrastructure projects under Beijing's Belt and Road Initiative. For now, CIPS still largely relies on SWIFT for cross-border financial messaging, but it has the potential to operate independently and have its own direct communication between financial institutions. Elsewhere, Russia launched its own cross-border payment system SPFS in 2014 but it is mainly used by its domestic institutions.

China pivot?

In the face of the recent sanctions, there has also been speculation that Russia could pivot to China to secure its economic survival. The two countries agreed a 'no limits' partnership in early February – on the opening day of the Winter Olympic Games in Beijing – that increased their collaboration against the West. This included, according to news sources, China supporting Russia's position against Ukraine joining NATO [the North Atlantic Treaty Organisation] as well as broader cooperation on issues such as climate change.

China, however, is caught walking a diplomatic tightrope where it needs to balance being Russia's ally without being viewed by the international community as endorsing Russia's military action in Ukraine.

One way that China could help Russia is for it to pivot its energy exports eastwards with liquified natural gas (LNG), for example. "If Europe were to stop buying from Russia, the infrastructure doesn't exist for Russia to pipe (or ship) equivalent amounts of gas to China. However, China could buy more oil," argues Williams. Chinese importers could also look for deals from Russia in other sectors, and its banks could lend to Russian companies. "China would portray this as continuing business as usual," says Williams. ■

Auditors under the spotlight as reforms fall short

Audit firms are under fire for a lack of competition, spiralling costs and missing accounting red flags. A reform process may not get to the heart of the problem of conflict of interest and limited choice.

The auditing industry, tasked with providing assurances on corporate information and reporting and giving confidence to the capital markets, is under fire for not doing its job properly. Audit firms have missed red accounting flags at an ever-growing list of corporate collapses, like retailer BHS in 2016, Carillion in 2018, Patisserie Valerie in 2019, German financial services group Wirecard and Greensill Capital in 2021. Against a challenging backdrop of evolutions in technology, changing business models and ESG integration, dissatisfaction with the industry that society relies on to inspect and challenge company accounts is at an all-time high.

It has led to ongoing and protracted calls for reform of the UK's audit industry. In its latest manifestation, reforms include proposals to replace the Financial Reporting Council, the UK's audit and accounting regulator, with a new watchdog with greater powers to police company directors, called the Audit Reporting and Governance Authority. Elsewhere, reform is expected to include the introduction of "managed shared audits", requiring FTSE 350 companies audited by one of the Big Four to hand part of the work to smaller accounting firms to improve competition and impose extra governance requirements on companies.

Aside from painstakingly slow progress and legislation not slated until mid-2023 at the earliest, critics argue the reforms won't address key challenges in the auditory process. For example, the conflict of interest inherent in auditors being contractors, paid by the companies they examine, remains unchallenged. "Audits are not independent," says Prem Sikka, Professor Emeritus at University of Essex and University of Sheffield. "Companies appoint and renumerate their auditors in a fundamental flaw to the process that no proposals put forward by the government has thought to address."

Secondly, reforms don't address weaknesses in the International Accounting Standards used by auditors to oversee companies and which frequently mislead on corporate health, argues Tim Bush, Head of Governance and Financial Analysis PIRC Limited, the corporate governance and shareholder advisory consultancy. "International Accounting Standards aren't fit for purpose. Until this is addressed, any technical reform is simply barking up the wrong tree."

Gloss over

Treasury is closely involved in the audit process. Auditors rely on treasury to deliver well-supported and thought through cash forecasts, provide valuable insights into how the treasury function works; what systems the company has in place, valuations and the pension offering. Regulatory changes like the transition from LIBOR or knotty considerations around reverse factoring also bring auditors and treasury into close contact. Anecdotes from the frontline in one of the most complex touch points between auditors' and treasury, hedge accounting, provide a snapshot of how auditors being in the pay of their corporate clients can go wrong.

Grappling with the complexity of hedge relationships is no easy task for audit teams while applicability – you cannot apply hedge accounting to every hedge relationship – and capturing and challenging fair values presented by the company is just as difficult. "Auditors will expect treasury to provide all hedge accounting documentation and data to support fair values and ask questions about why the company has put in place certain hedges," explains David Passarinho, a treasury accounting expert at Huawei, who joined the global telecoms equipment maker from PwC's Capital Markets and Accounting Advisory Services division to help Huawei develop a treasury accounting department to – amongst other things – support the audit.

Moreover, some accounting standards like IFRS, are principle rather than rules-based, giving leeway for interpretation. Companies may interpret information in a certain way, but it is incumbent on auditors to cast their own judgement and be sceptical, he says. "Auditors are aware of creative accounting and know bad management may use loopholes in their favour."

Accounting firms have developed expert teams specialising in treasury to better get into the auditory weeds of hedge accounting and fair valuations. But crack teams of specialists deployed to deal with these complexities come at a price and sometimes auditors are reluctant to use them because the cost will push the price of the audit above the quote. It can lead to crucial red flags being missed, warns Passarinho. "Using specialist teams will increase the audit fees and could push them off budget. This can put the audit firm in danger of losing the audit unless the audit client understands the added-value of employing such specialists."

It's possible the problem of audit firms doing a lesser job to keep within budget is on the wane, given rising costs in the industry. The steady climb in audit fees in recent years – to the extent listed companies have experienced a fee increase of between 25-50% – suggests auditors are now pricing their

work more accurately and charging more to audit complex transactions and intricate issues like hedge accounting.

Sikka doesn't agree. High fees have been a characteristic of the industry long before the latest increase and should have more than enough for audit firms to deliver value and dive in deep, he argues. "I've seen invoices where audit partners are charged out at £1,500 an hour. When they say they need to be paid more, why can't they deliver value for that kind of money?"

Lack of competition

For other industry insiders like David Herbinet, Head of Audit and Assurance at Mazars Group, the recent price hikes are less to do with auditors charging more for a better job and more symptomatic of another deep industry malice: an acute lack of competition. "On a like-for-like basis, audit fees have increased substantially because of the limited choice and competition in the market," he says.

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A gradual decline in the number of auditors over the last 20 years means that over 90% of listed UK companies are audited by just four firms – which also audit the vast majority of the world's 500 largest companies. That tiny pool of choice evaporates even more when companies steer clear of a particular auditor because they are already consulting for the business in another capacity. "Most of the time, companies have a choice of just one of the big four which is just not satisfactory from a quality perspective given the lack of incentive and competition to perform," says Herbinet.

European and UK policy makers have come up with a variety of strategies to try and break up the dominance of the big four and ensure different firms take on new relationships. Organising a tender for a new auditor is a complex and costly process that companies tend to avoid, but now European rules prevent auditor-corporate relationships stretching over decades with mandatory once-in-a-decade re-tender rules and requests companies change their auditor at least every 20 years.

Critics argue this doesn't get to the heart of the problem. Mandatory rotation has led to a merry go round of the big four still winning the big deals and has done little to enhance choice. For Clive Bellingham, a partner at PwC for nearly 40 years and Vice President of ICAS, the professional body for chartered accountants, mandatory rotation also results in the loss of valuable knowledge accumulated over time and long-term relationships. "I'm personally not convinced audit firm rotation is the right answer."

The UK's latest reforms attempt to boost the number of audit firms competing for work in another approach. Under the proposals, challenger firms will team up on an audit with a Big Four name to help build skills and experience in a supported environment that also brings new teams into long-standing relationships. It could lead to an estimated 20% of aggregate FTSE350 audit fees going to challenger firms after five years and 30% after seven years.

ESG

Climate change reporting could shake up the market. Companies the world over have made net zero claims and corporate reporting on sustainability and climate preparedness needs auditing to protect against greenwashing. Rather than give more work to the existing cohort, auditing ESG statements and accounts could be an opportunity to attract new players into the market. The European Union is currently considering prohibiting the audit of financial statements being conducted by the same firm auditing ESG reports.

It's an approach that has divided opinion about whether it will complicate or facilitate an already challenging process. For example, auditing ESG accounts includes number crunching gaps like the timeframe companies use for calculating future cashflows tallying with their timeframe for emission reductions – given the latter's impact on cash flows.

Collective response

It looks likely that the reform process will usher in more pressure on other stakeholders to verify company accounts in a collective response. Auditors argue they don't have the powers of police or regulators and cannot be held solely responsible for poor internal corporate governance – corporate boards need to grasp their own risk management responsibilities and ensure the resilience of the business. Almost two-thirds of auditors believe the UK's corporate governance code should give directors greater responsibility for promoting, monitoring and assessing their corporate culture, according to a poll by the Chartered Institute of Internal Auditors.

Although more far-reaching proposals modelled on the US's Sarbanes-Oxley Act which require directors to sign off on companies' internal controls over financial reporting have been dropped, calls are growing for management and boards to take more responsibility for the preparation of financial statements. It means the role of treasury, with its view on cash and early warning signals of corporate trauma, will come to the fore. "Auditors operate in an ecosystem where governance is key. It is important to ensure enough is being done from a governance perspective by the board and other stakeholders," says Herbinet.

But the ability of treasury to do more leads PRICS' Bush to highlight the original problem of the current reform process: treasury's unique position to facilitate and support the audit process is stymied by current International Accounting Standards. Treasury is in pole position to help ensure corporate health and raise red flags, but treasury expertise has been squeezed out of the audit process, he says. "Sub-standard accounting models based on market value have squeezed out the basic tenets of treasury management focused on how a company has been, and is, funded," he concludes. ■

This much I know

Meredith Vance

Senior Vice President, Treasurer

NTT DATA

Tell us about your current position.

I am the Senior Vice President, Treasurer at NTT DATA Services, a large global IT services organisation, based at the company's North American headquarters in Plano, Texas. I've just celebrated my five-year anniversary at the company. When I joined, the company didn't have a fully developed treasury department – I had the opportunity to come in and build the foundation needed to transform the organisation into a robust and world-class treasury to meet the business demands of a growing organisation.

How has the conversation about inclusion and diversity moved on in the last few years?

Diversity and inclusion has moved beyond gender and race into deeper conversations and ways of thinking than previously. We're now openly talking about the different thoughts, values, backgrounds and experiences that help create a diverse workplace and enhance employee morale and overall job satisfaction. As a result, we're learning and appreciating how both our commonalities and differences come together and contribute to creating an inclusive environment – making it a priority, acting upon it and most importantly embracing it.

How can junior professionals be empowered to challenge bias and promote diversity?

I would say it is important for junior professionals to begin embracing diversity now by understanding their own unconscious biases to help remove barriers. I would also encourage them to join employee resource groups that exist in their organisation – but at the same time, remember that while it might be important to meet people with similar interests who can support their growth, it is equally important to develop new relationships with those who do not appear like-minded. We have several employee resource groups that are all open to any team member, whether they are a part of the community the group represents, an ally, or simply interested in learning and supporting the group.

I believe that the more we can learn from each other, the more we appreciate different points of view. That can only enhance team collaboration, add to job satisfaction, and promote a more inclusive environment. My advice to junior professionals would be to get involved while they are starting out in their careers, so that they can be a part of that change now.

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

As a woman who has had her entire career in finance, I would say don't let obstacles hold you back. Instead, navigate your way through them. There's a workable solution if you want it badly enough. I've been a working mom for 16 years; I have twin daughters – it was never going to be easy to figure out!

It is also important to have a good support system, whether it's your family and friends or a strong professional network, including a mentor. It's good to talk to other people who have been there and who can help you. I certainly feel very privileged to be a mentor, both to people in the organisation and outside it. And always be confident in your abilities and promote your successes along the way.

"We're learning and appreciating how both our commonalities and differences come together and contribute to creating an inclusive environment – making it a priority, acting upon it and most importantly embracing it."

ONLINE

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What is your motto in life?

'There is nothing more constant than change.' It applies not only to the business world but to your personal life, to life in general. That being the case, you need to embrace it. I like change – it's something that I thrive on. I'm always asking, 'What's the next challenge?'

Career progression

Meredith considers herself extremely fortunate to have spent her working life in the world of treasury. Yet after gaining her MBA, she was uncertain which area of the financial world would interest her the most. "At the start of my career, we didn't have LinkedIn," she recalls, "nor any of the amazing online recruiting resources that we have today."

Scouring the job section of the Sunday newspaper, she circled the opportunities in finance that she thought might suit her, and found an entry-level treasury analyst position for a large company in Dallas. After securing the role, Meredith quickly realised how much she loved both the treasury role itself, and the economic value that treasury drives for the organisation.

"From that point on, each step in my career became a thoughtful progression towards my objective of becoming a treasurer," she says. "The desire to add a new tool to my toolbox would drive me to gain not only deeper expertise in all the various aspects of treasury, but also wider experience in a variety of different industries."

As part of this progression, Meredith notes that sideways moves are sometimes important in a career. "I have made moves that weren't necessarily an upward step in terms of title, but they presented opportunities to learn more about treasury and further enhance my leadership capabilities," she notes. "It's about evaluating each opportunity so that you can acquire skills to help you progress towards your goal."

When Meredith joined NTT DATA in January 2017, she was able to use her extensive experience and knowledge to build a global treasury organisation, "almost from the ground up" – an exercise that has provided an opportunity to adopt highly efficient systems and processes. "In the past, just trying to understand our liquidity position around the world took a number of days," says Meredith. "Now we can get that information in a matter of seconds." Today, she says, her 'small but mighty' team has responsibilities including global cash management, financial risk management, investments, treasury M&A, and global insurance risk management.

Challenging times

When the pandemic struck, the team was three years into implementing initiatives designed to drive efficiencies and optimise the treasury infrastructure. "We were executing upon our global liquidity strategy and treasury technology solution at the time," Meredith recalls. "Having those solutions and technology allows us to adapt to change more quickly and thrive in the new environment."

In addition, she says, the past two years have acted as a catalyst for fundamental changes in the way operations are conducted: "Adapting quickly to change, learning to be creative and working out how to do things differently has been vital."

A key change has been the requirement to work remotely. "For most of my career, treasury was thought to be a function that needed to operate from an office," comments Meredith. "But with the pandemic, we learned that wasn't the case at all."

In practice, the transition to remote working was swift. "We've had to be extra diligent in communicating, because we're not physically seeing each other every day," she says. "We make sure that we maintain connectivity with the team as well as with our internal business partners – whether it's frequent 1:1 meetings, a weekly all-hands treasury team meeting, monthly Zoom call with our tax team to share knowledge or a quarterly touch-base with internal business sales teams."

Two years on, the team is still working fully remotely. "I'm not sure when – or if – that will change," says Meredith. "We might go to a hybrid model eventually, but I don't think we'll all be completely in-person again any time soon."

Reflecting on why her department has been so successful, Meredith acknowledges the importance of having the right team chemistry, skillsets and vision. "We are a small team compared to the revenue that the company generates," she explains. "But we are folks who have high respect for each other and our experiences. We share knowledge and different ideas and collaborate really well together towards our vision. It's because we are able to leverage this amazing cohesion and talent, along with key support from leadership, that we have been able to make our vision a reality." ■

Meredith Vance
Senior Vice President, Treasurer at NTT DATA Services

Meredith has over two decades of experience in treasury, including roles at PayPal, eBay and Royal Caribbean Cruises. In January 2017, she was appointed Senior Vice President, Treasurer at NTT DATA Services, a top ten global IT services provider. Heading up the treasury of a multibillion-dollar organisation with business operations in more than 50 countries and regions and over 30 currencies, her responsibilities include global cash management, global capital markets, and global insurance risk management.

Don't get carried away by rising prices

Treasurers experiencing their first taste of high inflation can take solace from the fact that basic treasury management principles apply even in the most testing circumstances.

Former US president Ronald Reagan may have been exaggerating somewhat when he described inflation as being 'as violent as a mugger, as frightening as an armed robber and as deadly as a hit man', but there is no denying that its rapid rise over the last 12 months has been a worrying trend for many.

In January, UK price rises reached their highest level since just before sterling fell out of the European exchange rate mechanism in 1992, and eurozone inflation has never been higher. On the other side of the Atlantic you would have to go back to 1982 find the last time consumer prices showed a similar annual increase.

Some of the factors behind these increases will be familiar to seasoned inflation-watchers – the 1970s was a decade of energy crises, for example, while price rises are a common consequence of economic recovery as demand picks up. The difference this time, of course, is that the world is still grappling with the fall-out from an unprecedented pandemic.

However, there are still many steps corporates can take to mitigate the impact of inflation on their business, according to Richard Blokland, corporate treasurer at NewCold Advanced Cold Logistics in the Netherlands.

"These include provisions in customers' contracts to 'call' price increases during a contract year when inflation for a relevant cost driver hits a certain level," he explains. "Furthermore, businesses could differentiate the purchase of relevant cost drivers in terms of suppliers and/or contract tenors."

With around two-thirds of its costs relating to personnel expenses, SAP has increased its investment in talent retention while to protect its product margins the company has inflation adjustments defined in its support and cloud contracts.

Treasury teams should include inflation scenarios in forecasts for funding and risk management and consider lengthening procurement and maybe duration of debt, suggests David Blair, Managing Director of Acarate Consulting.

"Other strategies for mitigating the impact of inflation include segmenting cash on hand into operating versus investment and exploring offsetting bank fees with earnings credit," says Henrik Lang, head of global liquidity in global transaction services at Bank of America.

Corporates looking to quantify the inflation exposure of their business and the respective risks must first understand the type of inflation exposure the business is facing, whether there is enough pricing power to pass on potential price increases, and how earnings are developing compared to costs, adds Ole Matthiessen, Global Head of Cash Management at Deutsche Bank.

Simon Geal, Executive Vice President of procurement and supply chain consultancy Proxima identifies three possible approaches:

- Collaborating internally to identify where impact can be mitigated through simplification, substitution, cost engineering, or price uplifts.
- Working differently with suppliers and where appropriate creating partnerships, instilling innovation and ultimately securing supply which could also come from opening new sources.
- Cutting out overspend in terms of pricing or volume.

Dino Nicolaides, Head of Treasury advisory UK & Ireland at Redbridge, recommends that corporates assess the effectiveness of their hedging policies in the context of higher inflation and potentially higher interest rates.

"From a cash risk management perspective treasurers also need to identify any cash that is trapped across their organisation so that they can utilise it effectively," he says. "In a low interest rate environment where corporates can borrow relatively cheaply this might not be a priority, but if central banks raise interest rates sharply to combat inflation the cost of this idle cash will increase."

Options for corporates that find themselves in this position include implementing automatic cash pooling arrangements and reviewing intra-group lending processes.

Ghulam Alahi is practice principal at professional services firm Vision Consulting and managing director of firms in the real estate and retail communications sectors. He says treasury teams also need to take account of competitors' responses to rising inflation and determine whether price inflation experienced by the business is a supply issue that could reverse when supply chain pressures ease.

With a number of central banks either already raising interest rates to bring down inflation or likely to do so in the coming months, Alahi says some corporates could be faced with the double whammy of immediate and ongoing cost increases at the same time as the pressure of interest rate rises on their business and customer base.

"This may create opportunities for companies with surplus cash," he says. "However, for a company that funds its

working capital through borrowings there will be various aspects to consider such as where it is in the borrowing cycle in terms of the review point, whether the existing borrowing is on fixed or variable terms, and whether the borrowing is subject to any covenants that may be breached."

Nicolaides acknowledges that there is no easy answer to the question of whether higher interest rates are more or less of a concern than high inflation.

"High inflation erodes consumer purchasing power, which can lead to a slowdown in the wider economy that tends to affect companies operating in non-essential goods and services such as the luxury goods market disproportionately," he says. "High inflation also increases the price of raw materials. When inflation rises, the value of cash is eroded and corporates may need more cash for their day-to-day operations so corporates need to review the extent to which their pricing strategy can compensate for this."

On the other hand, higher interest rates as a mechanism for maintaining inflation at an acceptable level (2% in the case of the Bank of England), can impact investment decisions as debt becomes more expensive, increasing the required return on investments.

"Higher interest rates are more of an issue as they will have an impact on bank covenants," agrees Blokland. "But if a business has put in place an interest rate hedging programme which was tested and found to be sustainable, it probably won't be an issue."

SAP makes the point that we are still in a historically low interest rate environment and that negative interest rates on investments in the eurozone have a significant negative impact of business despite the financing benefits.

Lang observes that in either scenario – higher interest rates or high inflation – the net economic benefit or cost to companies depends on what balance sheet positions and business models they have employed.

"For instance, companies that have more short-term liquidity compared to floating rate liabilities may benefit from higher rates," he says. "Consider how some companies locked in longer-term funding (for example, bonds) when rates were low – they stand to benefit from higher rates. In a high inflationary environment, companies with more pricing power will likely benefit since they are able to pass through to their consumers the higher charges they receive from their suppliers."

It is also important to note that the toolset for mitigating interest rate risk is far more advanced than that for inflation. "Highly liquid swap markets, financing structures and other solutions should allow treasuries to fully manage interest rate risk," suggests Matthiessen. "As inflation risk sometimes cannot be mitigated, it could make sense to increase the focus on risks which can be hedged more easily."

As for the extent to which businesses have been affected by greenflation or inflation resulting from the transition to a green economy, Nicolaides observes that the corporates he speaks to generally view this as a short-term phenomenon that will have a long-term positive impact on their business.

"The transition to a more sustainable business model can require significant investment for companies in the short term," observes Lang. "However, over the past few years it has become clear that investors and lenders value companies that prioritise ESG metrics (a phenomenon referred to as a 'greenium')."

This chimes with the view expressed by NatWest in recent a report on the post-pandemic economy, in which it states that while the transition towards a greener economy poses macro uncertainties and short-term inflationary pressures, the effects decrease significantly over the longer-term as a result of cheaper technologies.

Corporates which are proactively tackling these challenges have benefited from higher demand for their products or higher investor attraction, while those in need of green solutions have had to pay higher prices for goods and accept longer waiting times according to Matthiessen.

"In the light of high carbon prices, implementing innovative and clean technology becomes more important," he adds. "Assuming carbon prices stay elevated, companies that rely on conventional technology for the future will face significant impact on their business model. The increase in prices has impacted all businesses and the recent increase cannot be solely attributed to the transformation to a green economy."

It is also important to note that inflation and greenflation are not the same thing. It is possible for some companies to experience inflation as a 'here today, gone tomorrow' situation if the industry in which they operate is resilient and the supply chain re-establishes itself relatively quickly and smoothly. In contrast, the effect of transitioning to a green economy is continual costs.

"Uncontrollable political factors will affect the move towards a greener economy and determine whether the 'green train' accelerates, decelerates or simply stalls for a while," suggests Alahi. "For the treasury professional, the costs of going green are likely to be ongoing and for public companies in particular there is greater attention being given to the green or not-so-green effects of the company's operations with the need to comment and report these aspects."

SAP accepts that the shift towards renewable energies as well as increasing CO_2 prices and special taxes on fossil energies might lead to higher energy price levels on a mid- to long-term basis. However, it says it is working on various initiatives to increase energy efficiency as well as reduce CO_2 emissions in its operations, such as carbon neutrality in its own operations by 2023 and a commitment to achieve net-zero along its value chain in line with a 1.5°c future in 2030.

"We are affected as energy is one of our most relevant cost drivers so we are acting on this development actively," says Blokland. "Our business needs to make this transition in the end and there are a lot of opportunities to do so."

The effects of change are being felt across many other aspects of the corporate world, adds Geal. "What we are seeing is a convergence of business strategies when it comes to procurement and supply chain," he says. "This means that a lot of businesses are looking to do many of the same things at the same time, such as greenification, automation and digitisation."

This is creating inflation in supply markets not just for products and services, but also for the strategy, transformation and change services that are needed to knit it all together. "Specifically in greenification we are seeing product and skills bottlenecks appearing which are pushing back lead times and pushing up prices," he concludes. ■

Driving sustainability in treasury

Corporations are continuing to place more focus on sustainability and ESG – but how can treasury teams embed sustainability into their activities? From green bonds and sustainable SCF to paperless processes and digital signatures, there's no shortage of opportunities for treasurers to further the sustainability agenda.

The importance of sustainability and Environmental, Social and Governance (ESG) considerations to multinational corporations continues to grow. Seventy per cent of respondents to Treasury Today's Global Sustainability Study 2021 said that sustainability is reflected in their organisations' core values, while 76% said that sustainability is now a board-level issue. Half of all respondents reported that their companies have a sustainability 'champion', and almost a third have committed to net zero.

"In a relatively short period of time, ESG has gone from being something that's at times been seen as a standalone agenda item to absolutely central, and increasingly embedded as a core part of planning and strategy. It's increasingly integral to every decision our customers make," says Andrew Blincoe, Head of Corporates and Institutions at NatWest. "The increasing focus on ESG continues to be driven from across the range of stakeholders: by customers, colleagues, by boards and executives."

> ESG has gone from being something that's at times been seen as a standalone agenda item to absolutely central, and increasingly embedded as a core part of planning and strategy.
>
> Andrew Blincoe, Head of Corporates and Institutions, NatWest

In addition, the expectations of potential future employees represent another driver for focusing on ESG. "We're all seeing this huge positive shift in mindset around ESG (Environment, Sustainability and Governance)," says Chris Jameson, co-head of product management for GTS EMEA at Bank of America. "The next generation of talent isn't going to sign up to a company that doesn't have strong ESG credentials, and live up to those credentials."

Embedding sustainability

For treasury teams, likewise, ESG is an increasingly central priority. PwC's 2021 Global Treasury Survey, for example, identified 'Driving ESG' as one of five top priorities for corporate treasury, alongside business partnering, raising digital acumen, optimising cash and financial risk.

However, there are a number of ways that treasury teams are working to embed sustainability and ESG considerations. Green and sustainability-linked bonds and loans are becoming increasingly mainstream, as Treasury Today's Global Sustainability Study illustrated: 27% of respondents had used a sustainability-linked loan or RCF, while 26% had used a green bond. All respondents said they had signed up to ICMA green bond principles.

At the same time, the scope of activities included in sustainability has become much broader. "It's interesting to look at the evolution of the types of financing included in this topic," says Blincoe. "If we go back a little while, we primarily saw the ESG financing agenda emerge around raising green bonds. Now the focus is not just on conventional capital raising – it's much broader, including, for example, driving ESG through all parts of the supply chain." As Blincoe points out, companies are looking not just at their own carbon footprints and ESG targets, but also at the materials they use, and the carbon footprint of their suppliers.

Rise of sustainable SCF

The importance of the supply chain to a company's sustainability was highlighted by Treasury Today's Global Sustainability Study, with 48% of respondents including supply chain selection and management as a KPI to monitor ESG performance.

With more companies seeking to make their supply chains more sustainable, the use of sustainable supply chain finance (SCF) continues to grow. In a recent webinar with NatWest, Alex Ashby, Head of Markets, Group Treasury at Tesco, explained how the retail group has integrated sustainability into its supply chain finance programme, with suppliers able to access lower funding costs if they are performing well against their sustainability goals. Other companies, likewise, are turning their attention to the opportunities of sustainable SCF programmes.

"There are a number of ways that you can use supply chain finance in this regard," comments Duncan Lodge, Head of Traditional Trade, and EMEA Head of Trade & Supply Chain Finance Product Management at Bank of America (BofA). "Yes, you can think about tiered pricing for suppliers that meet certain criteria. But it's also a very flexible tool, and we're seeing it used in a number of ways within our client base."

For example, says Lodge, companies might consider sustainability when deciding which suppliers should be given access to an SCF programme from the outset. "This might mean focusing on suppliers that are meeting ESG criteria – or it might mean isolating a specific flow within your supply chain," he explains. "An energy company, for example, might choose to empower the suppliers that are part of their wind turbine supply chain."

Transactions and investments

Beyond finance, other areas may present opportunities for treasurers to embrace sustainability. In the transactions space, for example, digitisation can be harnessed to reduce the prevalence of paper – and, indeed, plastic.

"The most visible place for people to start has always been paper," says Jameson. "Whether that's bank statements, cheque processing or physical cash collection, the drive from paper to electronic has really been accelerated by the Covid pandemic." He explains that the adoption of digital signatures has been a significant shift, alongside the adoption of mobile wallets and online self-service tools. And where plastic is concerned, he notes, companies are increasingly shifting towards virtual card payments.

ESG also has a role to play in investment decisions. As Jameson explains, treasurers are already looking to weave ESG into their investment approach – and in a rising rate environment, "it will be very important not to lose sight of the ESG approach in an investment strategy, and not to give way to yield alone."

Seeking consistent standards

It's clear that there are numerous opportunities for treasurers to drive sustainability across their activities. But in this rapidly evolving area, there are also a number of obstacles that treasury teams need to consider.

"It can be quite overwhelming," comments Christian Aue, VP Corporate Finance at Dürr Group. "You have a lot of changing regulation and market demands, and you need to keep on top of those – especially with the taxonomy adding new criteria. It can be challenging for mid-to-small-sized treasuries to address these topics."

Blincoe says that while there is some progress towards consistent standards from a governance and reporting perspective, "We are very much on the journey." He notes that most large corporates are evolving their own views about

how they can make a difference, and how their activity should be appropriately measured. "Unsurprisingly, though, we continue to see appetite from across the spectrum for consistency in reporting metrics – investors are asking, 'How can we read across one company's ESG viability and compare it to another one?' The criteria they are using to measure themselves are quite different."

Efforts are underway to address these issues. Blincoe points out that some standardisation is under way across different asset classes, for example among banks working on syndicating loans. "We continue to see progress towards developing a consistent view across customers and sectors, and it's interesting to see how finance will converge around the transition to net zero. Measuring carbon will be one of the issues at the heart of mobilising finance," he adds.

Enabling change

Where transactions and trade are concerned, the speed at which treasurers can enact change is another possible hindrance. "Systems are notoriously costly to change – and if you're going to bring in new payment mechanisms that are more ESG friendly, there's a cost to that," notes BofA's Jameson. "Processes may be quicker to change, but it can take time to ensure the governance is in place and get buy-in from the team." In addition, he notes that it takes time and effort to change a consumer's behaviour – for example, by asking them to make payments using a different channel if they have historically posted cheques.

Addressing the proliferation of paper documents that is still associated with trade transactions has also long been regarded as a challenge. But as Lodge notes, "Fortunately there are a number of key ingredients now coming to the fore that make digitisation increasingly achievable, including the rule of law."

For one thing, the G7 model law on electronic transferable records (MLETR) is currently being written into country law by some of the G7 members, which is intended to enable the legal use of electronic transferable records domestically and across borders. In addition, last year the International Chamber of Commerce released its Uniform Rules for Digital Trade Transactions (URDTT). "Having a framework for what happens when documents of title move between counterparties is really important, as it gives companies and banks confidence as they start to adopt these digital alternatives," says Lodge.

Enablers of progress also include the rise of ecosystems such as the Marco Polo network, in which multiple counterparties come together to drive digitalisation and agree on common standards. Blockchain, too, may have a role to play in helping to remove paper from trade processes and drive digitalisation.

Another challenge is the issue of greenwashing, and the question of how to define what does or doesn't qualify as ESG. "The good news is that there are established ESG consultancies and rating agencies, and many of these have experience of supporting trade finance transactions and facilities," says Lodge. "There are also a number of second party opinion providers out there that can assess your internally-created ESG criteria, and give you confidence that what you're doing does indeed achieve the goals that your company is striving for." ■

DÜRR GROUP.

Achieving excellence in ESG

Global mechanical and plant engineering firm Dürr Group was recognised as the Highly Commended Winner in Best ESG Solution in the 2021 Adam Smith Awards. The winning solution centred around the issuance of the company's third sustainability-oriented Schuldschein loan, in which the company achieves a lower financing cost once ESG targets have been reached.

Speaking about sustainability more broadly, Christian Aue, VP Corporate Finance, says that sustainability is one of Dürr's key enablers – "and one of the most important aspects of this is to enable our customers to be sustainable themselves." Where treasury is concerned, he says the value treasury can bring to the organisation is by putting a spotlight on the topic of sustainability. "Also important is the way that you communicate with your bank, because you need to be credible in what you're doing with sustainability," he comments.

In recent years, he says, banks have built up their expertise on this topic. "They are also shifting their product focus to be able to offer treasury solutions which are sustainable or green. And of course, they also now challenge you, because it's getting more and more important for them to think about how they build up their customers."

But as Aue notes, this is not a one-way street. "We are reviewing all of the products we use, and also our partners, in terms of how they are engaging with sustainability. So it's not just the banks asking us about this topic – we also expect our banks to act in a sustainable manner. And we are also reviewing all of our projects to see where we can instil the topic of sustainability."

Nevertheless, Aue points out that not every area of treasury should be infused with a sustainability element. "We've discussed some products where we've decided not to go ahead, because it doesn't make any sense for us to do it."

Corporate Treasury Awards – showcase your achievements!

Nominate now, closing midnight 11th April

The highly acclaimed Adam Smith Awards programme is now in its 15th year. This globally renowned platform showcases the very best and brightest in corporate treasury across the industry. The Adam Smith Awards corporate treasury awards programme recognises best practice and innovation, regardless of company size, budget or industry sector. Nominations are now open and will close on 11th April. There are 18 award categories to choose from, representing the full range of activities that corporate treasury teams undertake. If you believe your work has gone above and beyond the call of duty, now is the time to put yourself forward. Corporate treasury departments operate as true strategic partners to the business. You are constantly challenged to deliver better and more innovative solutions and an Adam Smith Award is the benchmark of that achievement. The Adam Smith Awards recognise the position of importance the treasury profession occupies around the world and how treasury professionals are stepping up to build business growth. Everything you need, including the short nomination forms, can be found on our website throughout the nomination period – it is a simple case of completing and submitting the short form online.

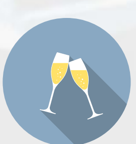
3 easy steps to nominate:

Step 1:

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

Step 2:

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



Step 3:

Winners will be announced at our Live Winners Announcement on 12th May and will be invited to join us to celebrate their success at the Adam Smith Awards evening celebration in London, date and venue to be confirmed (restrictions permitting).

2022 award categories

Treasury Today's Top Treasury Team 2022

Best Transaction Management Solution

Best Cash Pooling Solution

Best Treasury Transformation Project

Best Card/e-Cash Solution

Best Supply Chain Solution

Best Funding Solution

Best Sustainable Treasury Solution

Best Risk Management Solution

Harnessing the Power of Technology

Best Digitisation Solution

Best in Class In-Country Treasury Solution

Best in Class Regional/Global Treasury Solution

Best Investing Solution

Best Foreign Exchange Solution

Individual awards

Treasury Today Woman of the Year 2022

Corporate Treasurer of the Year 2022

A Rising Star 2022

Nominations can be made by any corporate, and banks and service providers can assist their clients in completing the nomination form, with their permission. Nominations close at midnight on 11th April and the winners will be announced at our live winners announcement on 12th May at 3:30pm BST | 10:30am EDT | 4:30pm CEST. Case studies on all our winners will be published on our website and their success stories will feature in our popular Adam Smith Awards winner podcast series. All winners will receive an invitation to the Adam Smith Awards evening celebration, date and venue to be confirmed (restrictions permitting).

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

Good luck with your submissions and we look forward to celebrating the success of our 2022 award winners! Should you have any queries please do not hesitate to contact us at **awards@treasurytoday.com**

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

Singapore powers ahead with treasury innovation

Singapore has been focused on spurring fintech innovation and building an ecosystem of players – a 'cluster effect' – to support it. As a top location for regional treasury centres, many of the latest fintech projects in the city state will have an impact on how corporate treasuries in the future will be run.

If you are lucky enough to have a good office view in Singapore, you can see the container ships approaching and leaving the port. The locals say you can judge the state of the global economy by how many ships there are; if it looks busy, business is booming.

Singapore has long been a trading hub and in recent years has been building the infrastructure to match it. Multinationals and international banks have set up regional offices there to support the financial transactions for the physical trade that can be seen from their windows.

Singapore has been able to reinvent itself throughout its history, says Zennon Kapron, Founder and Director of Kapronasia, a consulting firm that focuses on the fintech industry. "It is a small country with very few natural resources. It has always had a story to drive growth: 15 to 20 years ago it was biotech; ten years ago it was tech, and now it is fintech," he says.

And the focus on fintech is creating an incredible amount of economic growth, he says, and a number of the Southeast Asian unicorn companies – high growth tech companies with a valuation of more than US$1bn – have a presence in Singapore.

It is an attractive place to do business because of its infrastructure, tax regime, and the 'cluster effect' that has been created by having start-ups, multinational corporations and international banks all in such close proximity.

This has been proactively managed by the government and the Monetary Authority of Singapore (MAS) has pushed for Singapore to be a fintech hub – both in terms of the innovation and building an ecosystem. The city state currently has more than 40 innovation labs and more than 1,000 fintech companies. MAS sees the financial sector as an integral part of Singapore's ambition to be a smart nation, and it's not just about fostering innovation – it's about having a purpose as well.

At the Singapore Fintech Festival in November 2021, MAS Managing Director Ravi Menon said, "The future of money, finance, and the internet will have far-reaching effects on economies and societies. It is important that public authorities and the financial and technology communities work together to shape that future, so that money, finance, and the internet can be forces for good, helping to expand economic opportunity, enhance social inclusion, foster stability, and protect our planet. Ultimately, money, finance and the internet must serve the people who use them."

Premdeep Shah, Deutsche Bank's Corporate Bank Head of Fintech and Platform Coverage for ASEAN, comments how Singapore is a vibrant place when it comes to fintech, which has been supported by the government and the policies of MAS. "Singapore is a powerhouse of innovation," says Shah, adding that its small population means that it is a testbed of the latest consumer trends, which can then get rolled out to ASEAN and beyond. "The adoption of technology is very strong in Singapore," he says.

With the latest fintech trends, Shah says, "corporate treasurers may think that innovation and disruption primarily affects start-ups – or fintech themselves – they might not think it is relevant to them, but that is not entirely true," says Shah. There are companies that are at the forefront of this innovation, he says, and "these companies do not have to be in the fintech space".

Kapron comments that he has observed a shift in the habits of treasurers and their approach to fintech. Only a few years ago, he says, the idea of approving a US$2m transaction from their phone seemed foreign, for example. "Now they are comfortable with this and high-value transactions have come to the mobile phone – they can sit at lunch, approve payment. There has been a change in mindset," he says.

Now the major trend around innovation is about insight, says Kapron. Treasurers want these high value transactions to go through at relatively high speed – real-time payments, the infrastructure of which is already in place – but the speed is not so sensitive in high-value transactions, says Kapron. "The change is in the opportunity to better analyse the data around treasury and cash management and to be able to act on that in an automated way," he says.

There are a number of innovations coming out of Singapore that are relevant to treasurers. Shah notes that one is using blockchain for supply chain financing. An automaker that purchases headlights from a supplier, for example, is now able to use supply chain financing – through the use of distributed ledger technology (DLT) – for its supplier, and its supplier's supplier, or even one level below that, comments Shah.

Rahul O'Verma, Asia Pacific Head of Innovation for Treasury and Trade Solutions, Citi, comments on the other items that belong on the list of treasury innovations. These include the rise of digital assets; embedded finance and how it is driving direct-to-consumer growth; the coming age of healthtech;

and using fintech to make better decisions around environmental, social and governance (ESG).

Citi has set up a new digital assets unit and is ramping up hiring to boost expertise in blockchain, digital assets and digital currencies. Those hired will be based in Singapore, as well as other cities, he explains. The bank has also boosted its capabilities for instant payments, and been involved in hackathons and accelerator programmes. It has also partnered with API Exchange to tap into the ecosystem of fintech firms and be able to deliver a range of solutions – via APIs [application programming interfaces] – more quickly.

Such initiatives reflect how transaction banks in Singapore are exploring a number of areas of innovation to support their treasury clients. Deutsche Bank's Shah comments on how other fintech trends in Singapore have a bearing on what treasury innovation looks like. "Buy Now Pay Later is a trend that is particularly hot right now in Singapore," says Shah, and is relevant to corporates that sell directly to consumers. Companies that do not have this firmly embedded into their payments and collections may face challenges in getting it off the ground, he says.

Also, embedded finance – a trend that O'Verma at Citi also identified – is becoming more relevant and enables non-financial companies to offer financial products. Shah gives the example of a ride-hailing app making it possible to book a journey and an insurance policy at the same time. The insurance lasts for the duration of the journey and could cost as little as 30 cents, for example.

Deutsche Bank has a number of large digitally-native companies among its clients. In developing solutions that support the needs of these innovative companies, the bank is able to feed the latest trends back into the product development for its clients in more traditional industries, such as manufacturing. This is a way of "bringing the new economy back to the old economy", says Shah.

Linking new innovations and bringing it into traditional institutions is always a challenge, and Standard Chartered has developed a way to experiment with the latest technologies in a way that is unencumbered by the legacy processes, systems – and thinking – of the traditional bank.

SC Ventures, as the innovation unit of Standard Chartered, is run independently from the main bank and this means that it can innovate more efficiently, explains Harald Eltvedt, SC Ventures' incubation lead. It develops solutions on its own and has also collaborated with corporate clients.

In a sense, SC Ventures is able to prototype some elements of what the transaction bank of the future might look like. Eltvedt comments that at SC Ventures they are experimenting with business models – sometimes by themselves, sometimes with partners – and the main bank benefits because they are able to innovate in a more agile way.

As it innovates, Standard Chartered has an eye on the potential future needs of its clients in both the physical and the virtual worlds: "We see ourselves as the bank of the metaverse," he says. He explains that the bank is preparing itself so that it can be relevant in this future. Although no one knows what the metaverse will actually look like, SC Ventures has six principles – or high conviction themes – to guide it through its innovation. These are focused on being a digital bank; e-commerce; supporting SMEs; digital assets and

We see ourselves as the bank of the metaverse.

Harald Eltvedt, Incubation Lead,
Standard Chartered's SC Ventures

tokenisation services; capability as a service; and sustainability and inclusion.

Eltvedt comments that the digital bank is about providing a digital banking platform – that enables others to plug in via APIs – that can support the "online, mobile-first, instant-gratification world that we're now in".

With the online commerce and payment solutions, Eltvedt says, "It might seem late in the game, but it is really needed. We actually saw during the pandemic the migration to online commerce accelerated – particularly in emerging markets where there was a transition to online banking and online payments at a much greater pace than other economies," says Eltvedt.

One successful venture to come out of SC Ventures is Zodia Custody, which provides custody for crypto assets and enables institutional investors to securely invest in this new asset class. And on the trade side, SC Ventures invested in Linklogis, a Chinese supply chain finance technology company, which launched an initial public offering (IPO) in January 2020. They also formed a joint venture to create Olea, a digital trade finance origination and distribution platform. Eltvedt explains this platform puts suppliers, who are mostly in China and Southeast Asia, in touch with institutional investors anywhere in the world. "Blockchain can track the securities that are being created and where the investment is going," he says. "It tracks everything in a visible and authenticated way, and creates more transparency between suppliers and potential investors."

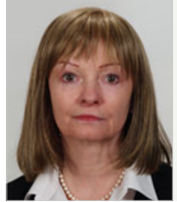
And when it comes to capability-as-a-service, SC Ventures has developed Standard Chartered nexus, a white label solution that allows other organisations – including corporates – to use its infrastructure. "We have an institution that has been around for a long time – there are certain things we know how to do well," he says. Through open banking, and a 'plug and play' model, "We provide our capabilities to other players so they can manage their own system, their own lifecycle and they do not have to do the governance and all the security themselves," he says.

SC Ventures is currently testing a use case for this in Indonesia, Eltvedt explains. When asked what kind of company would want to use Standard Chartered's software-as-a-service in this way, he says that it could be a company that wants to transition to online commerce and manage the transactions itself and run its own loyalty programmes, for example.

With such a hotbed of innovation on its doorstep, treasurers in Singapore have a wealth of options to explore and apply, as well as the opportunity to explore what the treasury of the future will look like. And, if they are lucky, they might also have a nice view of the ships from their window. ■

Cash pooling

Is cash pooling still an effective and valuable strategy for companies aiming to maximise the availability of capital?



Susan Hillman
Founder and Partner
Treasury Alliance Group

Cash pooling has different flavours. Companies can pool in-country or cross-border. It is the latter that appeals to multinational corporations because it allows them to maximise their credit and offset positive and negative balances across different legal entities. There are two approaches: physical and notional.

Physical pooling allows funds in separate subaccounts – at the same bank – to be automatically swept to and from a header account. The participating entities' bank accounts are either in surplus or deficit position on an end-of-day basis. The physical concentration to the designated header account effectively zero balances the subaccounts. Physical pooling can be used across multiple legal entities, located in the same or different countries – but on a currency-by-currency basis. The idea ensures that a company doesn't have one entity overdrawn on the same day that another entity, in another jurisdiction, has excess cash. Everything is swept at the end of the day, and the next morning funds cover outgoing payments for the overdrawn entity.

Movements between accounts in this way are categorised as intercompany loans to and from the header entity and the participating subsidiaries. Specific loan documentation related to the pool structure is prepared in advance. The holding entity should be designated as an agent for the group which allows the interest paid and earned to be treated as bank interest and is not subject to withholding tax.

Notional pooling achieves a similar result but is accomplished by creating a shadow or notional position resulting from an aggregate of all the accounts, which can be held in multiple currencies. Interest is paid or charged on the consolidated position. There is no actual movement or commingling of funds. It is a seemingly simple, hands-off solution; but the opaque nature of the arrangement in terms of costs and minimal documentation between separate legal entities makes many tax directors uncomfortable.

Most multinationals prefer physical pooling as it is cleaner from a tax perspective because those movements to and from the header accounts are characterised as loans. Cash pooling is day-to-day cash management – if you have an operation that needs funding on an ongoing basis, either handle through a capital infusion or a direct intercompany loan with specific terms and conditions.

Physical pooling is typically done with one bank, and companies must decide which of their banks is going to manage the daily cash positions and liquidity. There are only five or six banks globally that can effectively offer this service and have the reach and reporting platform required.

Cash pooling can reduce costs as companies are not paying fees to multiple different banks or doing wire transfers to fund operations or move excess cash – however the real value for companies is in administrative saving and cash optimisation. Cash pooling also eliminates overdraft charges and in times when interest rates are higher, companies can get a return on their cash. Still, there is a cost to a pooling arrangement and pricing may differ between banks.

Can third-party vendors provide pooling services? Information and transaction tracking potentially, but I can't see banks being pushed out of the picture. Banks hold the balances and provide the credit lines that are normally behind this type of service, so I'd advise companies to give this service to one of their credit banks that can offer cash pooling. It is good transactional business and can provide balances and liquidity for the banks which is required from a regulatory perspective.

Manish Joshi
Director, Cash & Banking Operations, META
GE Corporate Treasury

Cash pooling enables companies to efficiently use their own money, and drives working capital management. As a rule of thumb, companies would prefer to use their own money rather than borrow from financial institutions, so pooling also reduces the cost of capital. Cash pooling also helps ensure that funds are available when needed, helping to smooth the payments process.

As a structured approach, companies can focus on cash consolidation at a country level first. This works best for a country that has multiple entities and business lines enabling better use of cash within the country for the purpose of payments, efficient collection, and consolidation. The process also involves defining the optimum requirement for cash at a country level and determining the core surplus which can be utilised by the wider company for cash management around the globe.

Cash pooling drives efficiencies in terms of companies' ability to use their own funds. For example, in emerging markets in places such as Africa, cash pooling and collections in local

currencies are often used for local payments and expenses as soon as possible to reduce FX exposure and protect against the risk of currency devaluation.

Cash pooling is a strategy that can be used to manage FX exposure, excess liquidity, and country and bank counterparty risk. By extension, companies shouldn't shy away from borrowing in local currencies either. If collections and expenses are in local currency, companies may think about borrowing locally to fund the business to protect against the risk of devaluation. Local currency borrowing costs are preferable to the implications of FX devaluation.

It is simplest for a company to use one bank for its pooling needs, but this isn't always possible because banks have footprints in different countries. Different regulatory requirements and product development can also require companies use the services of multiple banks to pool. Companies need to set up cash pooling between these different paradigms. Many countries still prohibit cash pooling, particularly those with low dollar reserves or with economies that are import-dependent.

Lori Schwartz

Global Head of Liquidity & Account Solutions
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All companies need cash to support their business and make payments. This liquidity is an important risk mitigant, but excess liquidity can also be inefficient when seen in the context of capital that the company hasn't deployed to invest either in the company or the yield curve.

Solutions like physical cash pooling connects accounts and corridors of activity, moving cash in between accounts to ensure treasury has cash where it needs it and when, in the right currency, and able to cover short positions or aggregate long positions. Notional cash pooling is similar but doesn't involve physically moving cash. It creates a fungibility across currencies and provides visibility, control, and optimisation. Companies can also integrate virtual account solutions that retain the integrity of data and information on that underlying position.

Cash pooling is vital for optimising cash on account. Take a multinational with decentralised operating entities running their own businesses. These subsidiaries will keep their own cash buffers to mitigate risk and ensure they can make their payments that when added together, combine to make a significant sum across a global company. Yet not every operating company needs their buffer every day. As companies go on a journey of centralisation, they will create a fungibility in those cash buffers. It means that different entities can have a cash injection according to their needs, creating a central buffer that is optimised – and reduced – at a treasury centre.

When companies migrate from a decentralised to centralised structure, they can reduce the need to keep cash on deposit by up to 50% from simple efficiencies. Treasury can see what cash it has and where it has it, giving real-time control that allows companies to take that surplus capital and invest it to accelerate the business growth.

Of course, the cost of capital fluctuates in any given economic cycle, but companies benefit from reducing the amount of capital whatever the cycle because reducing capital is a value add. We saw a huge demand for pooling in 2020 when the business cycle changed and companies realised they would benefit from a centralised structure, with visibility and control of their cash.

Technology and digitisation are also driving pooling demand. Digitisation has led to an acceleration in e-commerce, giving way to faster payments and causing money to move much more quickly, putting pressure on liquidity management. Corporate treasury needs to know where cash is and have access to it. For example, one of the biggest challenges within cash management is short-term forecasting. It has created a need for structures that can respond and allow treasury to put cash where it is needed and in the right currency.

In another example, the evolution in e-commerce means more companies are selling third party goods and need to manage third party monies (3PM). It means these companies are an intermediary in a cash exchange. We increasingly work with companies to structure liquidity and account solutions that support 3PM which often involves safeguarding cash and requires even more visibility and control. ■

Next question:

"What does ISO 20022 mean for the payments industry and how should treasury prepare?"

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War in Ukraine: as globalisation wanes expect the emergence of regional blocs

The Ukraine war has once again put into the spotlight the relationship between globalisation on the one hand and liberalisation, growth, democratisation and peace on the other.

It is generally assumed that globalisation leads to more international cooperation and stability. This was also the assumption – certainly vis-à-vis the outside world – that underpinned the foreign agenda of leaders such as Bill Clinton and Tony Blair, who propagated free trade and open markets as the road to peace and prosperity. Although this causal relationship is nowhere near as strong as it seems and as many politicians want to suggest, globalisation is certainly able to contribute to a better international political climate in two ways:

- Great powers generally opt for a different approach depending on whether they operate in a globalised or in a deglobalised world. Even when globalisation is rampant, great powers will not shun rivalry. However, they will be more inclined to use soft power instruments and they will be less likely to adopt a tough approach. If states are embedded in a world characterised by deglobalisation, there will be fewer brakes on their actions and they are more likely to escalate affairs via hard power – leading to war in extreme cases.
- In the liberal US-led world order, China and Russia regularly chose to conform to this order in the 1990s and beyond – in the sense that they implemented economic reforms and made many political concessions in order to reap the benefits from being embedded in the global economy. For example, in 1994 Russia agreed to the Budapest Memorandum (which was basically intended to prevent Russian interference in Belarus, Kazakhstan and Ukraine) and Moscow reluctantly agreed to NATO expansion in Eastern Europe. China increasingly opened up its economy at the time and even became a member of the WTO, in spite of its conflicts with the West that might have knocked China off its globalisation course. Importantly, it was not just globalisation that made China and Russia back off so as to be able to profit economically. Indeed, the US, as the biggest advocate of that globalised, liberal world order, seemed virtually untouchable. Others therefore had little choice but to partly dance to the tune of Washington in order to participate in this world order.

In any event, the most plausible conclusion is that globalisation largely resulted from geopolitical stability in the post-Cold War era. Globalisation seems to require (more) cooperation between countries, whereby globalisation may subsequently solidify this cooperation and trigger some sort of positive spiral that leads to more prosperity and stability. But this is certainly not a law set in stone. Just as globalisation is not the cause of improved relations between great powers, so too is deglobalisation not the driver of deteriorating geopolitical relations.

As Professor of International Relations Norrin M Ripsman wrote in International Affairs: "The liberal economic order… appears to be a casualty, rather than a catalyst, of broader political and geostrategic changes such as waning US hegemony, nationalist demands for protection and the emergence of populist leaders less committed to the liberal agenda."

If deglobalisation mainly results from a deteriorating geopolitical climate – rather than triggering such a climate – then this does not bode well for global trade, international capital flows and other forms of globalisation.

At any rate, there have been consistent attempts in recent decades to downplay the importance of geopolitics and hard power. Violence was thought to have increasingly less impact as a means of power, because the world was said to be/is dominated by capital flows, trade and the internet, among other factors. Just before the Russian invasion, we heard a renowned foreign affairs commentator claim that "war with conventional weapons is hopelessly old-fashioned." Obviously, this was/is naive.

The world has known four regimes in the last century, each of which has killed over ten million people: the Soviet Union from 1917-1987 (62 million), the Communist Party of China from 1949-1987 (35 million), the Nazis (21 million) and the Chinese nationalists between 1928 and 1949 (ten million). After the Second World War, 1.5-2 million Germans, among others, were murdered in and around Poland, and there were the atrocities in Rwanda and Cambodia, among other places. In short, in the words of Dutch writer Arnon Grunberg: "Excessive violence has been a constant in human history. The idea that we have reached the pinnacle of the civilisation process and left the aggressive impulse behind us has always proved haughty."

Humankind has fairly regularly fought large-scale wars since its origin and will continue to do so in all likelihood. Certainly as long as the world remains divided between democratic and autocratic political systems.

These autocracies persist for a long time and, according to some analysts, are even prevailing. In light of Russia's current actions, an essay by Anne Applebaum published several months ago in The Atlantic is particularly topical. It is certainly possible to critique the article, but Applebaum makes many striking observations that we should keep in mind:

- Autocracies are not run by a single bad guy, but by networks of kleptocratic financial structures, security services (military, police, militias and surveillance) and professional propaganda channels. These authoritarian networks are often linked to similar networks in other dictatorships, but are also – actively and passively – supported by numerous players in the democratic world (lawyers, trust offices, banks, etcetera).
- These autocratic networks do not operate as a bloc or alliance (as, for example, during the Cold War or during the Second World War), but as a loose association based on deals rather than ideals; Applebaum speaks of Autocracy Inc.
- As an autocrat, you do not usually have to resort to mass incarceration, abuse and/or murdering of opponents. It will suffice to pick a few prominent figures and crack down on them. The rest will largely keep quiet.
- The lessons of 1989 and the Arab Spring were not lost on autocrats: democratic revolutions can be extremely contagious. This is why Putin was so shocked by the revolutions in Georgia, Ukraine and Kyrgyzstan about a decade and a half ago, and why he brutally crushed protests in his own country in the ensuing years.
- Putin – as well as other authoritarian leaders, such as Lukashenko and Assad – is convinced that a regime change in his country will irrevocably lead to his imprisonment, exile or death. This means that there are barely any limits on what Putin and associates are willing to do to stay in power.

The Ukraine war will accelerate and deepen the trend of deglobalisation and bloc formation, which we have often touched upon in several of our reports. The corona pandemic had already made countries very aware of their reliance on international supply lines, and the current geopolitical instability is compounding this to a considerable extent. To an increasing extent, companies will move production closer to home, increasingly locating production sites and supply companies in countries with more stable political structures and choosing security of supply over the cheapest options. More broadly, it is quite likely that we will see more and more bloc formation with America as the centre of one bloc and China as leader of the other bloc. This will exert structural upward pressure on inflation, as production costs will rise. ■

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