

treasurytoday

research | insight | analysis

ASIA



China's lingering energy crisis

The long-term impact of China's energy crunch.



The Corporate View

Vivian Peng

Asia Pacific Treasurer,
Vice President Treasury
Flex



The view in 2022

A look ahead to the social, economic and political issues that will be exercising the minds of corporate treasury teams during 2022.

Regulation

Treasury gets to grips with Scope 3

Risk Management

Didi's delisting shows decoupling acceleration

Treasury Talent

Treasury weathers the recruitment challenge

Investing

Taking digital assets beyond a bitcoin investment

treasury**insights**
research | insight | analysis

ARE YOU MISSING OUT?

Join your peers in receiving the latest industry intelligence direct to your inbox weekly.



Subscribe now:
insights@treasurytoday.com

treasurytoday.com

Publishers

Sophie Jackson & Meg Coates

EA to the Publishers

Sarah Arter

Senior Advisor

John Nicholas

Editorial

Sarah Rundell

Head of Production & Client Delivery

Samantha Collings

Head of Global Projects

Lisa Bigley

Circulation Manager

Sophie Friend

Digital Content Manager

Joanna Smith-Burchnell

Senior Designer

Dawn Ingram

Founder & Director

Angela Berry

Chair

Richard Parkinson

Switchboard	+44 (0)13 0462 9000
Publishing	+44 (0)13 0462 9005
	+44 (0)79 4665 6656
Memberships	+44 (0)13 0462 9013
Advertising	+44 (0)13 0462 9018
Editorial	+44 (0)13 0462 9003
Production	+44 (0)13 0462 9019

Annual Membership Rate £285

memberservices@treasurytoday.com

© Treasury Today ISSN 1466-4224

Treasury Today is published bi-monthly
(6 issues) by Treasury Today Limited
Courtyard Offices • Harnet Street
Sandwich • CT13 9ES • UK

The entire content of this publication is protected by copyright. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means mechanical, electronic, photocopying, recording or otherwise, without the prior written consent of the copyright holders. Every effort has been made to ensure the accuracy of the information contained in this publication. Treasury Today Limited cannot accept liability for inaccuracies that may occur. Where opinion is expressed it is that of the authors and does not necessarily coincide with the editorial views of the publisher or Treasury Today. All information in this magazine is verified to the best of the author's and the publisher's ability. However, Treasury Today does not accept responsibility for any loss arising from reliance on it. No statement is to be considered as a recommendation or solicitation to buy or sell securities or other instruments, or to provide investment, tax or legal advice. Readers should be aware that this publication is not intended to replace the need to obtain professional advice in relation to any topic discussed.

Treasury Today USPS: (USPS 023-387) is published bi-monthly by Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES, UK.

Subscription records are maintained at Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES, UK.

Welcoming in the Year of the Tiger

Welcome to the first issue of Treasury Today Asia this year. In this January/February edition we celebrate the new year and welcome in the Year of the Tiger. Optimism may be in short supply following the last two years and in the wake of new travel restrictions across the APAC region. However, there are certainly welcome signs that the worst of the pandemic may be behind us and opportunities for corporates across the region.

We will continue to celebrate the achievements of our phenomenal Adam Smith Awards Asia 2021 winners who triumphed against the backdrop of the most competitive year of our awards programme to date. Their stories will be shared throughout 2022 in our podcast series and case studies, delving deeper into their winning solutions.

In this edition we take a look at China's energy crisis as China rations power amid dwindling supplies owing to the rising price of imported coal. We explore the root causes of the crisis, how long is it going to last and what it means for companies manufacturing in the region. Supply chains have been in frequent conversation in recent times, we assess the topic from the angle of sustainable supply chain solutions and look at how treasury is integrating ESG into corporate supply chains.

Elsewhere, we take a look at investing and focus on digital assets. Beyond their mainstream fame, we explore what they are and what their role within a corporate investment strategy is, as well as a deep dive into Risk Management in China and a Treasury Talent feature which explores the latest in recruitment trends in the industry.

We wish you a prosperous Year of the Tiger and look forward to collaborating in 2022.

INSIGHT & ANALYSIS

4



The long-term impact of China's energy crunch

China's energy crunch has now eased, but some sectors will continue to be impacted. The crisis has also raised questions about China's dependency on coal and its target of being carbon neutral by 2060.

TREASURY TODAY GROUP

8



The view in 2022

A look ahead to the social, economic and political issues that will be exercising the minds of corporate treasury teams during 2022.

REGULATION

10



Treasury gets to grips with Scope 3

Companies can't get to net zero if they don't get to grips with their Scope 3 emissions. Corporates, banks and ratings agencies discuss progress.



TREASURY TALENT 18

Treasury professionals sitting tight despite hirer demand

Treasury Today Group assesses the balance between supply and demand for senior finance professionals as corporates prepare for the post-pandemic business environment.



INVESTING 20

The promise of digital assets

Digital assets mean much more than an investment strategy for treasurers and have the potential to transform how treasuries – if not whole businesses – are run.



TREASURY ESSENTIALS

Treasury Insights	7 & 15
Question Answered	22
Point of View	24



12 The Corporate View

Vivian Peng
Asia Pacific Treasurer, Vice President Treasury



Vivian Peng, Flex's Asia Pacific Treasurer, talks about her pursuit of excellence and adapting to the challenges of the global pandemic.

RISK MANAGEMENT 16



Didi's delisting shows decoupling acceleration

As ride hailing group Didi's Wall Street dreams fall by the wayside, we explore decoupling trends and the spike in investor, bank and corporate risk.



Impact of China's energy crunch lingers

Although the worst of China's energy crisis is over, uncertainty remains and some sectors will continue to be impacted. Also, questions remain about China's dependency on coal and whether it is on target to reach the climate goal of being net zero by 2060.

China's dependency on coal came into sharp focus during the energy crunch of 2021, when the nation scrambled to meet demand ahead of the winter heating season. Energy was rationed and keeping households warm was prioritised over industrial production, and the knock-on effects of this could linger well into 2022. Although the worst of the crisis has now eased, questions remain about China's shift to a carbon neutral economy and what role coal will play in its future.

"Unexpected" is one way to describe the energy crisis that gripped China in the latter half of 2021. That's the word that

Shan Guo, a partner at Plenum – a China-focused research firm – says is top of mind when characterising the situation. Although some thought that an energy crunch could be the outcome of China's climate goals and decarbonisation, no one expected anything quite like this. And with China's economy being so large, and interconnected with the global economy, any shocks that are felt on the mainland have ramifications far beyond its borders. Some industries in particular are expected to struggle in the coming months, and the lingering effects of the crunch could translate into higher prices for various goods and services.

A coal shortage is commonly cited as the main reason for the energy crisis. Or, in a simple explanation about the coal by S&P Global Ratings, it was a case of, “A lot more demand, and a little less supply.” This increase in demand came as the first signs of recovery from the global pandemic arrived. Guo at Plenum explains that China’s energy demand grew rapidly in 2021 as the country emerged from the global pandemic ahead of the rest of the world. Industrial production ramped up and other countries shifted their orders to China. This surge in demand added to the need for power.

Dr Guo Yu, Lead Analyst, Asia Pacific at advisory firm Sibylline, says that the demand for energy was very high, and this also came in the context of soaring prices around the world. Commodity prices have been driven by the post-pandemic surge in demand when factories were left with many orders to fulfil. And when China needs additional power, it is mostly coming from coal. In fact, Dr Yu estimates that approximately 70% of China’s electricity is generated from coal.

At the same time of this increasing demand, there was also a shortage of coal. There are various reasons for this, such as the government’s move to shut illegal coal mines, and those that did not meet safety standards, for example. Elsewhere in China, mines had to close for other reasons. In north China, in Shanxi Province, flooding affected the coal mines there in October 2021, further adding to the slower production and shortage of coal. This drop in supply has been estimated by S&P Global Ratings as being a decrease of 5% in June 2021, year on year, and 3.3% in July 2021 for the same month the year before.

Meanwhile, China had reduced its reliance on coal imports, in part to meet its targets of reducing carbon emissions. Also, a political spat with Australia meant that it was no longer importing from the antipodean nation from November 2021. This was reportedly in response to Australia’s move to support an investigation into the origins of the COVID-19 pandemic, and investigate China’s early response to the outbreak. In 2021, from the start of the year to the end of August, S&P Global Ratings estimates that coal imports had decreased by 10%, on a year-on-year basis. At the same time as the decrease in coal imports, there was also an increase in coal-fired electricity production. S&P estimates that for the same period, also year-on-year, electricity production was up by 12.6% because of the increase in industrial demand as the world emerged from the pandemic and the orders got passed onto China’s factories.

China has publicly committed to reducing its dependency on coal and has stated it will reach carbon neutrality by 2060, with its carbon emissions peaking by 2030. However, although the country is transitioning away from coal, the alternatives cannot be relied on – a situation that was exposed during the energy crunch. Dr Yu at Sibylline points out that even though China is transitioning to cleaner energy sources like gas, the “underlying reliance on coal is not going to be overcome in the short term,” he says.

Guo at Plenum comments that the lack of coal also coincided with the under-performance of the renewable energy sector. She says that although there has been significant investment in the renewables sector, it is still volatile, and there has not been much hydrogen available, for example. In October 2021, a report by researchers at S&P Global Ratings noted that China’s hydropower had a



There was one problem coming after the other.

Shan Guo, Partner, Plenum

historically low water intake in 2021, and it was unable to meet the shortfall that was caused by a lack of coal. Also, wind power wasn’t a viable alternative during the crunch as wind is seasonal and there is not as much during the autumn. “There was one problem coming after the other,” says Plenum’s Guo of the situation.

Dr Yu at Sibylline describes multiple factors coming together to create a perfect storm that resulted in China’s energy crunch. And now, he says, “It is an evolving situation with factors beyond our control.” Like the weather: if the winter is particularly cold it will exacerbate the already high demand on the country’s power. “There is still a lot of uncertainty,” he comments (speaking to Treasury Today Asia in December 2021). However, the situation is not as bad as it was back in September 2021, he adds.

The energy crunch was exacerbated when many power producers – in the face of rising coal costs and a cap on the unit price of electricity – found that it wasn’t worth their while to produce electricity. S&P Global Ratings notes that the coal-fired power generators had less incentive to operate amid the surging coal prices, and their fuel costs had increased by more than 50% in the first half of 2021 compared to the same period the year before. This added to the electricity shortage, which led to rationing and planned blackouts, and there were reports of lengthy power cuts in Shanghai, for example.

The state intervened and took a number of steps to resolve the crisis. For example, it relaxed the rules on the unit price of electricity – giving producers the incentive to operate again. It also reversed its stance on importing coal and sought more orders. It also encouraged the production of coal by increasing mining capacity in Inner Mongolia and other regions. Bloomberg, for example, reported that more than 70 mines were ordered to ramp up production in Inner Mongolia. S&P notes that the authorities were encouraging power producers to sign long-term contracts with suppliers ahead of the winter season.

The government had intervened following a public outcry because the crisis had reached their homes and affected their daily lives and there were serious concerns that many households would be without heating for the winter if swift action wasn’t taken. Guo at Plenum estimates that when the heating season begins, 30% more coal than normal is needed, and meeting this demand was a concern when the coal inventory was at a historical low.

The government’s intervention, however, was effective and the coal supply was increased – thus relieving the problem. “They have enough inventory for the winter, so the problem is over for now,” says Guo. She adds that the turbulence has largely been resolved, and adds, “I do not think the crisis is an issue anymore.”

The situation has improved and the actions by the state seem to have the desired effects, says Aiqun Yu, China Researcher at Global Energy Monitor. “With the government's strong intervention, rushing to allow dozens of coal mines to enter operation, encouraging existing coal mines to reach their maximum capacity, firmly shut down some of the energy intensive facilities, China's energy crisis since the second quarter of 2021 caused by a coal supply shortage has been largely mitigated.”

Yu continues: “Coal prices dropped significantly, though are still on the high end. The threat of the potential power cut and the winter heating cut have been relieved,” she says. However, this comes at a high environmental and economic price, she adds. “Coal consumption in 2021 will break the peak and reach a new record in the country's history. It's in the opposite direction of its carbon neutrality pledge,” she comments.

There could be some lingering effects of the crisis if the winter is colder than expected and energy demand increases further. The heating season, which typically runs from mid-November through to mid-March in the coldest parts of the country, will be affected by the weather. “If it is a particularly cold winter season the shortfall for supply could be exacerbated. There is still a bit of uncertainty – that's for sure,” says Dr Yu at Sibylline.

The Chinese government intervened and took action to ensure that people's homes would be heated through the winter. By prioritising the residential consumption of power over industrial production, certain sectors were particularly impacted – especially high-energy industries.

Sibylline's Dr Yu notes that high-energy industries such as steel-making and glass-making cannot operate at full capacity. And it is still possible that local governments can impose energy restrictions on factories. There have been some reports, he notes, of the electronics sector being affected by energy rationing. “It really depends on the location, the local authority, and the balance of supply and demand,” says Dr Yu. The factories can be ordered to shut down at quite short notice, he adds.

One high-energy sector that is likely to be impacted harshly is aluminium, notes S&P Global Ratings, and aluminium makers are expected to go through a “difficult time”. The aluminium sector is heavily dependent on coal and electricity, and its energy costs comprise a significant chunk – approximately 30-40% – of its overall production costs. With energy being limited, and its costs rising, high-energy industries like this are expected to be squeezed in the months ahead. Other sectors, however, will fare better. S&P Global Ratings notes that cement will be less impacted as the power shortages and price increases will have less of an effect on the overall production costs of cement. Also, S&P notes, the cement industry has made changes in recent years and has become more efficient and more adaptable.

Meanwhile, industries that are less energy intensive will suffer less. For example, Guo at Plenum comments, light industries – such as textiles – are unlikely to be as seriously impacted. The costs won't be as high for them as for steel, or aluminium makers, for example, as they require less energy in their production process.

The consumer sector is also less likely to be impacted, and S&P expects consumer companies to be able to withstand power shortages. Where energy is rationed, it is likely that the smaller manufacturers that will suffer a greater impact as larger companies tend to get priority with the power that is available, notes S&P. With energy costs accounting for a small part of the overall production costs, consumer companies are less likely to face long-term disruption.

Some sectors have been dramatically affected by the energy crunch. For example, the solar panel industry was reported to be particularly impacted by rising costs of its materials. This was put down to the energy rationing that was put in place to meet emissions targets, and also the shortage of coal. This meant that the production of silicon metal – a key component of solar panels – dramatically decreased. And so demand – and prices – soared. Bloomberg, for example, in October 2021 estimated that there was a 300% increase in the price of silicon metal.

Such an example shows the disruption that an energy crunch can cause, and its wider impact on the production chain of various industries. As China eases out of the energy crisis and recovers – after it ramped up coal production – there have been questions raised about China's plans for a carbon neutral economy and how much it will continue to rely on coal in the future.

These disruptions and energy crunches could be seen as part of a wider structural shift to cleaner energies. However, the coal shortage – and the scrambling to boost inventory ahead of winter – meant the government had to prioritise the heating homes over its loftier climate goals.

In terms of China's climate goals and net zero target, S&P Global Ratings notes, “We see some wavering, at least this year [2021]”. With this kind of disruption, it shows how “economically challenging” decarbonisation can be. S&P expects that the power outages will likely have a negative impact on China's economy. “This is creating debate within China about the need to balance growth with climate goals. For example, the government's decision to increase coal production in response to shortages reveal a degree of reticence about its carbon targets when they impede the economy and threaten social stability.”

In terms of the impact, Yu at Global Energy Monitor says, “The short-term coal supply shortage may be further relieved next spring, between the Chinese New Year and the end of the heating season. How the impact will be felt depends on how the government and the market interpret the crisis. So far, it seems the central government doesn't relax the energy intensity restrictions in order to carry out its promise of the carbon emission peak in 2030. The industries which heavily rely on coal are facing increased pressure to upgrade to other energy sources or being phased out,” she says.

While the focus has been on a coal shortage, the energy crunch has pointed to the complex issues that China is facing. “On the surface, it's the coal shortage that caused the crisis,” says Yu at Global Energy Monitor. However, she adds, the country's heavy reliance on coal, and a lack of non-fossil fuel alternatives, is the deeper cause. “China should expand its energy transition to renewables on a larger scale and at a faster pace to prevent an energy crisis like this one from happening again,” says Yu. ■



A NEW ERA BECKONS AS ISO 2022 GATHERS PACE

As the adoption of the ISO 2022 standard gathers pace for payments around the world, corporate treasurers would do well to think beyond the immediate benefits for them, and for financial institutions, and consider the numerous innovations it could bring.

Working out what a payment is for is not always easy. We've all been there: maybe you look at the bank statement, then click for more information, or maybe you need to rummage through some other documents.

Those days should be over once ISO 2022 becomes a global standard for payments. Although the messaging standard has been around for more than 15 years, its adoption is now set to gather pace and soon become the de facto standard worldwide for high-value payments.

At a simple level, ISO 2022 means that all the parties in the payments chain are talking the same language, explains Edward Ireland, Senior Market Development Manager at Bottomline Technologies. Also, the standard increases the quality and amount of data that can accompany a payment. It can also bring visibility on what payments are for, and efficiencies in operational processes. "So many times you have to go back to find out why this payment has been made," Ireland comments.

Typically, payment data has only been the account number, the amount, and the name, but now a lot more will be possible. Invoices could be referred to. Or with a car sale, for example, the vehicle registration and road tax documents could accompany the transaction. "That then means you have transaction information and not payment information," says Ireland.

A trade finance transaction could carry a link to a portal where you could view all the relevant documentation, comments Ireland. Or a house sale could carry data about the 'purpose of funds', the type of property it is, or even the title deeds. If used to its full potential, the messaging could help fight against fraud and money laundering, or if used innovatively, could improve customer experience.

Ireland notes the standard has been around for a while, but a number of recent moves have accelerated its path from local systems to global cross-border adoption. For the business case to be realised, it had to be an industry-wide initiative – and that is what is now taking shape.

For example, the Bank of England is moving to the standard with the renewal of its real-time gross settlement system (RTGS). And so is the European Central Bank's TARGET2 and the Federal Reserve's Fedwire. With this, and the countries that already use it – such as China and India – a global standard is emerging. This will be given a further boost with SWIFT's move to the standard for its messages by November 2025. "That then impacts everybody in the cross-border space," explains Ireland.

This standardisation will drive efficiencies and create opportunities for corporates. And according to SWIFT, it will drive progress in new business innovation, cost optimisation through automation, enhanced customer experience, and regulatory compliance.

In the first instance, the transactions on the Bank of England's RTGS from June 2022 will be 'like for like' – the transactions will be the same but in a new format. And from February 2023 the central bank will transition to the enhanced messaging, and from Spring 2024 will mandate purpose codes and Legal Entity Identifiers for certain high-value payments. Being able to identify the names and addresses of beneficiaries has an immediate processing benefit, comments Ireland, as it was not previously possible to identify all the parties in the payment chain.

For now, the impact for corporate treasurers is likely to be indirect, but they will have to respond to their banks when they ask for additional information during the transition. In the future, however, more innovation will be possible as it becomes the dominant standard worldwide. And you won't have to look up what that payment was for ever again. ■

The view in 2022

As a tumultuous year draws to a close, Treasury Today Group considers some of the existing and emerging geopolitical risks corporates will have to manage in 2022.

Before we even consider the global pandemic it is clear that 2021 will go down as a year of considerable social, economic and political upheaval. The election of Joe Biden as US president, the revival of the black lives matter movement following the murder of George Floyd, the emerging implications of Brexit, and extreme weather events linked to climate change have all had a profound impact across the world. Covid has been a sobering reminder of how interconnected the corporate world has become and is a theme that straddles several of the risk factors we have highlighted below.

To paraphrase former US Secretary of State for Defence Donald Rumsfeld, there are things that we know we don't know but there are also things we do not know we don't know. With that in mind, over the following pages we explore some of the geopolitical risk factors most likely to exercise the minds of corporates over the next 12 months and look at what steps can be taken to mitigate these risks.

Cybercrime

State-on-state activity is an obvious geopolitical risk factor, particularly in the grey zone (defined as the space between peace and war) which has been evident recently in the recent activities of Russia on its border with Ukraine and China's comments on Taiwanese sovereignty.

"Countries are less willing to take each other on directly and will instead push the boundaries of diplomatic and economic action, which includes activities such as cyberwarfare," explains Neal Croft, Global Client Relationship Director and Head of Geopolitical Risk at Willis Towers Watson.

According to Nicholas Fitzroy, Risk Briefing Director at Economist Intelligence Unit, the way the conflict between Israel and Iran is unfolding has considerable implications for cyber-security. "There were a number of attacks on Iran's nuclear facilities initially and then that expanded to cyberattacks on national infrastructure such as petrol pumps," he explains. "Now we have seen Iran hacking online medical records of citizens within Israel to cause reputational damage. So we can see it has quickly expanded beyond just trying to hit the other state in strategic ways and become a broad 'cyber war' that affects all types of citizens and businesses."

Being aware of the specific level of threat is vital. "It is important to track the types of cyberattacks that are coming from these states because the strategies they are using and the targets they look for are constantly shifting," adds Fitzroy.

For businesses, the current geopolitical and cyber risk landscape means that organisations are at heightened risk of being caught in the virtual cross-hairs of what could be considered a global game of cyber chess.

Croft recommends corporates conduct strategic analysis to identify the risk factors with the highest potential impact. "Once they have done that they can work out a risk management strategy and stress test their assumptions through techniques such as scenario development," adds Croft. "It makes sense to reduce risk such as cyber-security exposure before insuring what risk remains."

Energy supply

Gas prices across Europe increased substantially in the autumn due to tight supply, a surge in demand on the back of economic recovery and lower than expected output from renewables. As winter progresses further price increases are likely.

"Eastern Europe in particular is heavily dependent on oil and gas imports from Russia and recent Russia/Europe tensions regarding the former's possible annexation of Ukraine could leave European consumers exposed to supply disruption and further price increases," explains Sophie Heald, Head of Modelling at Cambridge Econometrics.

Jason McMann, Head of Geopolitical Risk Analysis for decision intelligence company Morning Consult notes that Germany's new government will have a considerable impact on energy availability in Europe in 2022. "Olaf Scholz's administration would potentially have to jeopardise energy access via the Nord Stream 2 pipeline (a new export gas pipeline which runs from Russia to Europe across the Baltic Sea) if it takes a more aggressive stance against Russian expansionism, particularly on the Ukraine issue," he says.

Corporates can mitigate this risk by diversifying supply sources geographically, investing in low-carbon solutions, and sourcing more sustainable suppliers.

US foreign policy

Joe Biden has been pushing the line that the US is back in full diplomacy mode and the withdrawal from Afghanistan was a very clear example of the country's reduced appetite for armed conflict.

"Ironically, this might increase the risk of conflict because powers that oppose the US may think they can push harder," explains Fitzroy. "The US midterm election results at the end of the year will likely ramp up pressure on Biden and the Democrats as they look like they might do quite poorly, increasing internal distractions and reluctance to be dragged into new conflicts."

Fitzroy says the territories most likely to see conflict are Iran and Ukraine. "When the Russian economy is suffering – and

more importantly when the population is showing much less support for Putin and his regime – there is a precedent for expansion of military foreign policy as we have previously seen in Syria,” he adds.

Iran is also a potential flashpoint in the next few months because the prospects for the nuclear deal negotiations succeeding are very low and all the while Iran is ramping up its nuclear programme. “If those negotiations fail there aren’t many options on the table other than some form of military action,” says Fitzroy.

It is therefore important for corporates to understand the knock-on effects of conflict. Assets in Kiev or Iran would face an obvious physical threat in the event of armed conflict and there are broader threats around the imposition of sanctions on entities working in these countries.

US-EU bonhomie has increased markedly since Biden came to office, but whether this translates into closer coordination on the foreign policy front remains to be seen. Both sides have made some progress on resolving transatlantic tariffs issues, but have not yet decided when (or if) to pursue a united front against China, particularly with respect to market access and the Taiwan issue.

“President Macron’s push for a more independent EU foreign policy and struggles in presenting a unified front against Russia remain challenging,” says McMann. “Germany’s new government will likely be the determining factor in the China issue – if it is more willing to push back regarding Taiwan it is likely to suffer economically given its close trade relations with China.”

Vaccine inequality

Pandemic mitigation measures include demanding that employees are vaccinated, mandating the wearing of masks, and limiting the number of people coming in and out of buildings at the same time, although most corporates have already implemented some or all of these strategies.

“More broadly, it is about taking advantage of opportunities that may arise in 2022 because what we saw at the beginning – especially in Europe – was lockdowns that went on for three months or more and I think countries where possible are moving away from that,” says Fitzroy. “There may be local lockdowns and specific types of curfews – and vaccine passports might be introduced – but I think countries have realised they don’t have to lockdown for so long or so broadly.”

Former British Prime Minister Gordon Brown has warned that low vaccination rates in poorer countries has enabled new variants such as Delta and Omicron to emerge and spread rapidly even across countries where the majority of the population are double jabbed. From a commercial perspective, a much more unstable business environment is likely to develop as individual countries create a more fluid lockdown system. This will cause some confusion, but also provides short-term opportunities.

“Corporates need to be aware of the way the political wind is blowing in their particular markets,” adds Fitzroy. “Reluctance to reintroduce full scale lockdowns in some countries is driven by domestic politics, so understanding domestic politics in each country is very important when dealing with unpredictability.”

Rising nationalism

The trouble inflicted on economies domestically by Covid also increases the risk of more authoritarian nationalist regimes pushing for external distractions.

“A global wave of rising populism can coincide with increased nationalism and potential risks to multinationals on two fronts – limitations on their ability to invest in foreign markets and maintain multinational supply chains without government pushback, and ability to sell in foreign markets,” explains McMann.

Should nationalist sentiment rise further in 2022, corporates should aim to determine the extent to which such sentiment is fuelled by popular pushback against foreign companies as opposed to anti-immigration attitudes. The latter has been a flashpoint in recent years but determining which way the needle is likely to swing will help guide corporates’ investment plans and supply chain positioning. McKinsey makes the point that geopolitics is personal and that large organisations are likely to have stakeholders with differing cultural reference points and opinions on issues from human rights to privacy – differences that can dissolve into disagreements about risk and strategy. In a world where nationalistic sentiments are on the rise, no country dominates, and regulations and standards are fragmenting, such situations are bound to accelerate.

Supply chains

Lindsay Newman, a Director on the country risk team at IHS Markit adds supply chain resilience to the list of challenges, noting that corporates will need to predict, assess and manage the changing landscape through intelligence and data analysis, benchmarking and scenario planning.

“The challenge for firms operating globally is not how to exit but how to stay in markets,” she adds. “Firms will face risk as they seek to capture opportunity.”

According to János Hidi, Sustainable Investment Manager at Cambridge Econometrics, uneven access to coronavirus vaccines will further accelerate the trend of deglobalisation and supply chain restructuring. “Current uncertainties appear more risky because they pose immediate risks to businesses,” he says. “For international companies global supply chain risks are material, but are more under their control than political risks although it takes time to reallocate production.”

Sonia Baxendale, President and CEO of Global Risk Institute observes that populism has seen the rise of protectionist practices and barriers enacted due to actual or perceived security concerns, such as in the US-China trade relationship. “Stress tests will feature highly in risk management practices that may include scenarios of embargoes on certain jurisdictions,” she says. “It is important to maintain a conduit of local knowledge to fully understand the nature of the risk rather than hearing it second-hand via media sources, for example.”

McMann acknowledges that restrictions on Chinese firms doing business in the US and/or working with US suppliers and the Taiwan issue do not have easy solutions. “However, our data shows voters are open to reducing tariffs in the interest of driving prices downwards and a clear majority want to avoid direct military conflict with China, suggesting that compromise and reduced tensions are potentially on the cards in 2022,” he says. “For these reasons, we advise corporates to hold tight on their existing supply chains.” ■

Treasury gets to grips with Scope 3

Scope 3 emissions are typically the biggest part of a corporate's carbon footprint and the hardest to unravel and measure. But companies can't get to net zero if they don't get to grips with emissions in their supply chain. Corporates, banks and ratings agencies discuss their progress.

Earlier this year, the treasury department at French utility EDF structured and sold the energy company's first social bonds to investors. The proceeds have gone to finance capex purchases from EDF's SME suppliers supporting generation and production activities at its nuclear fleet and electricity network, particularly targeting small businesses in areas of high unemployment.

In another endeavour linked to EDF's promise to support its suppliers reduce their own carbon emissions and promised in the company's sweeping Mission Statement, it introduced a reverse factoring programme last year. It offers preferable discounting rates to its suppliers when they reach a certain level of ESG integration in their own business. So far, supplier uptake of the ESG-linked supply chain credit has been slow, due in part to cheap, government-sponsored bank financing to SMEs, but Bernard Descreux, EDF's Head of Treasury believes it will pick up going forward.

Both treasury initiatives have been driven by EDF's ambition to reduce its Scope 3 emissions, the carbon footprint of the components in a company's product and of those products once in use. Scope 3 emissions are typically the biggest part of a corporate's carbon footprint and the hardest to unravel and measure. They also reveal an important granularity: a coal mining company won't produce huge emissions in its mining processes (Scope 1), but use of its product (Scope 3) has a profound impact on global emissions; Tesla's production processes score poorly in ESG ratings because manufacturing the electric car is a carbon intensive process, but the product has minimal downstream emissions.

At EDF, Scope 3 emissions comprise the burning of gas sold to end customers as well as purchased electricity the company sells; emissions from the firm's minority generation assets plus all purchased goods and services, explains Matthew Reed, Head of Sustainable Finance Development, part of EDF's finance team tasked with finding, measuring and financing the reduction of EDF's total carbon footprint. "We reduced our Scope 3 carbon emissions by 11% last year, part of a targeted 28% reduction by 2030," he says.

Both Descreux and Reed link progress to the company's overarching climate strategy for carbon neutrality across all emission scopes by 2050 where the focus is on decarbonisation rather than offsetting emissions. The group's commitment to next zero resulted in EDF's finance and treasury teams drawing up a Sustainable Finance Strategy to fund the company's transition. Social bonds and ESG-linked supply

chain credit are the latest tools in an armoury that includes an €8.7bn green bond programme to date used to finance the bulk of EDF's renewable and hydro-electricity investment. "You need a clear-eyed carbon strategy," advises Reed. "Before pulling the levers, you need to be clear of the goals."

Basis points

Banks are offering a growing array of financial products to support companies getting to grips with their Scope 3. Citi offers corporate clients a sustainable supply chain finance product that incentivises their counterparties to improve their sustainability by offering preferable rates of financing and services. Like the overlay it applied to its existing supply chain offering for German chemical and consumer goods company Henkel, seeking to nurture resilience and incentivise sustainability across its supplier base. "We created two universes," explains Parvaiz Dalal, Global Head Payables Finance at Citi in London. "Henkel's most sustainable suppliers received favourable pricing with a certification process while Henkel's traditional suppliers remained on our basic product offering."

Citi uses a certification agency to check and rate the sustainability of all companies in the buyer's supply chain, segregating them into green, amber and red. Different sleeves within the programme allow suppliers to move up the ladder and tap preferential financing and services if their sustainability improves. "We find that suppliers in the programme categorised as 'red' typically strive to improve their sustainability and reach 'green' accessing the ensuing rewards for helping Henkel deliver on its sustainability goals," says Dalal, who links the burst in client demand to the pandemic. "Since COVID, companies are looking with much more detail at their counter parties; how things are sold and where and how they source."

The ability to move up the ranks is crucial to the programme's success and embodies the proverbial 'journey' inherent in ESG integration. "It is not a one-time exercise," says Dalal. In Citi's traditional supply chain finance programme, corporate clients' suppliers are onboarded through a light KYC process and not treated as the bank's clients. In contrast, under its Sustainable Supplier Finance programme, Citi reviews its clients' suppliers' certification and ESG status every year to allow 'red' suppliers to improve to tap the benefits and keep already 'green' suppliers on their toes. Buyers typically concentrate on their biggest emitters in the first year; in the second year they dig deeper and in the third year look at their long tail suppliers.

Getting started

Colour coding belies the complexity of tackling Scope 3 emissions. For many treasury teams, the biggest challenge is simply working out how to measure emissions in their supply chain. Rather than an industry standard or universally consistent metrics, the measurement landscape is populated by different ratings providers fighting for market dominance. “It is not an established market place,” says Mark Douglas, Managing Director, Strategic Accounts at supply chain finance platform PrimeRevenue, who adds that buyers and suppliers often use different rating agencies making it even more difficult to compare data.

Deciding what to measure is equally boggling. Companies can make the same product but with different carbon components depending on the buyer, while treasury teams struggle to feed data into their ERP systems. Finding the required data is certainly onerous. Suppliers need to detail and provide evidence of every potential sustainability credit or black mark from the source of their energy to the diversity of their workforce. It’s created a mixed level of enthusiasm. Tier 1 suppliers are quick to onboard, but Tier 1 suppliers’ suppliers are notably less willing. “This is where the conversation tends to get tougher – they don’t want to be dictated to,” says Douglas. Still, motivated by the belief it will help them win business, he notes that more companies are accepting that it is an imperfect system and taking the plunge.

Onboarding requires engagement and patience. Descreux hopes EDF’s social bond programme will become an important source of knowledge transfer, helping suppliers grasp and benefit from their role in supporting the utility’s sustainability targets. “Accessing this finance involves deep discussions on how suppliers can contribute to our goals,” he says. “Sustainable finance is something that is still very odd to many people within a company and within a treasury. It’s important to help people understand what it means.”

At Tesco, which became the first UK retailer to offer a sustainability linked supply chain finance scheme to its supplier base last year via a platform developed in partnership with Santander, the priority has been balancing a fair and credible scoring system with a process that is not too time consuming and complex for small suppliers. The company has tailored the methodology for SMEs so that the data ask is less onerous, explains Alex Ashby, Head of Treasury Markets for the retailer, where Scope 3 emissions make up more than 90% of the company’s total emissions footprint and where treasury came up with the supply chain concept in 2019.

Ratings agencies have an essential role in creating confidence in the grading system and preventing greenwashing. At French ratings agency EcoVadis, suppliers are rated and certified annually taking into account their policy, actions and results, explains Sandy Gray, Private Equity Sustainability Solutions, North America at the company. She also stresses the importance of rating agencies verifying the information they receive from suppliers to instil market confidence. “Rating providers should only utilise self-assessment questionnaires if they are accompanied with polling of that company’s policies, actions, results and verification of the information. Suppliers have to realise someone is watching them and that a rating is not a free ticket.”

She also notes that progress on Scope 3 reporting is still slow, partly because of the detail of information and data



Henkel’s most sustainable suppliers received favourable pricing with a certification process while Henkel’s traditional suppliers remained on our basic product offering.

Parvaiz Dalal, Global Head Payables Finance, Citi

required. Only 15% of the 90,000 odd companies EcoVadis rates can successfully report on their Scope 1, 2 and 3 emissions. “Companies can only begin to harness the emissions in their supply chain when they have a firm handle on how to calculate and report on emissions,” she says.

Benefits

A Scope 3 strategy brings recognition and rewards from investors. Speaking during a recent webinar hosted by FCLTGlobal, the not-for profit that aims to focus capital on the long-term to support a sustainable economy, Jim Fitterling, Chairman and CEO of Dow highlighted growing investor pressure on companies to get to grips with their Scope 3 emissions – and the rewards of action. Fitterling urged large corporates to “get on board” with Scope 3 and help SMEs in their supply chain reduce emissions. “We are working on our Scope 3 emissions with our suppliers, building it into our supplier partnerships with a clear line of sight,” he said. The company is also reducing Scope 3 in its products, many of which increase energy efficiency in buildings in line with emerging building codes and government policy.

Companies not taking action increasingly feel investor heat. Groups like Climate Action 100+, a group of global investors striving to ensure the world’s largest corporate emitters act on limiting their carbon footprint, have utilities in their sights. Like renowned laggard South Korea’s Korean Electricity Production Company, (KEPCO), monopoly owner of the majority of South Korea’s 50-odd coal-fired power plants. Climate Action 100+ investors are ratcheting up the pressure on the company to limit and exit coal and fossil fuel extraction to fuel its energy production with the threat of divestment.

In one encouraging trend, integrating Scope 3 is resulting in more private companies cutting their emissions. The argument goes that private companies, out of the public spotlight and free from looming regulation like mandatory climate-related financial disclosures for listed companies, are slower to cut emissions. But Gray points out that around 70% of EcoVadis’s 90,000 corporates are SMEs, the bulk of which are private. “We have developed a methodology that can work equally in public and private companies, across countries, industries and enterprise size,” she says.

Companies the world over have pledged carbon neutrality by 2050 but unless they get to grips with emissions in their supply chain, they’ll never meet their commitments. “You can’t be net zero as a company if your Scope 3 emissions are heading to net zero. They have to try and influence it,” concludes Prime Revenue’s Douglas. ■



Pursuing excellence and best-in-class solutions

Vivian Peng

Asia Pacific Treasurer, Vice President Treasury

flex

As an innovative and dynamic company, Flex has supported its treasury team in creating best-in-class solutions. Vivian Peng, Flex's Asia Pacific Treasurer, explains how she has been able to set a benchmark for the industry, pursue excellence, and adapt to the challenges of the global pandemic.

Flex is a global diversified manufacturer that helps a diverse customer base design and build products that improve the world. Through the collective strength of a global workforce across 30 countries and responsible, sustainable operations, Flex delivers technology innovation, supply chain, and manufacturing solutions to numerous industries and end markets.

Vivian Peng's career has been defined by pursuing excellence and creating best-in-class solutions throughout her years as Asia Pacific treasurer for Flex, a global diversified manufacturer. She hasn't always been in treasury though.

In fact, she has had a couple of 'past lives' in her career and made a couple of switches in her choice of profession. Peng explains how, on graduating from Fudan University, one of the top universities in China, she started her career in banking

– at the Bank of China – and then later moved into accounting and finance and worked in Hong Kong.

“Initially I had actually planned to be a banker, and then I ended up in finance. Then I found out that treasury is very interesting – it is on the opposite side of the banking industry – and so I started to focus my career on treasury,” explains Peng. In 2009, she started her treasury career in Flex to set up the multinational’s treasury function in China. From there she was promoted to a regional role, and she has led the Asia Pacific treasury for Flex since 2013. In this position she oversees the management of cash and liquidity, foreign exchange (FX) risk management, working capital, investment, capital and funding, credit, bank relationships, bank accounts and e-banking.

Peng has immersed herself in the challenges of this role and stayed on top of the treasury industry trends, always making sure that she is aware of the latest solutions and structures that are out there in the market. And she is glad she has made the switch from banking and finance into treasury.

“I like treasury a lot because it is interesting and has more of a direct influence and connection to the economic environment – you can see the value you are adding to the company more clearly,” says Peng.

And what she likes about Flex in particular are the opportunities it has given her to realise her career goal of being the best-in-class when it comes to regional treasury management. “When I started at Flex I realised this was a great platform for me: it is a great company and it was a good opportunity for me to realise the target I had of being a best-in-class treasury manager in the region,” she says.

China liquidity structure

One example of this pursuit of excellence is in the liquidity structure that she put in place for Flex in China. This, she also comments, has been one of her career highlights so far.

There were challenges in operating in China because of the regulations that were in place. For example, traditional cash pooling was subject to taxes for each regulation for borrowing and lending in both directions and Peng was instrumental in introducing the first tax-efficient renminbi cash pool structure in China. Flex was able to introduce a CNY cash pool that eliminated two-way borrowing and lending to overcome this issue. Also, Flex tackled US dollar cash pooling and secured approval from the State Administration of Foreign Exchange (SAFE) – a Chinese regulator to waive the need for an entrusted loan account in the USD pooling structure, which overcome the onerous documentation and reporting requirements. Once this more simplified USD pool structure was put in place, SAFE a year later allowed other firms to use this structure across the whole country, demonstrating how Flex was able to pioneer creative solutions to existing treasury problems. After several months, SAFE further relaxed certain rules which provided an opportunity for multinationals to manage their cash more effectively with centralised cross border pooling. Upon approval, Peng put the structure in place which included in-house cash-pooling, cross-border pooling and using virtual accounts, which were pioneer solutions in Europe, Middle East and Africa (EMEA) at that time.

Peng comments that she still scans the treasury industry to see if the liquidity structure she put in place in China can be

improved and whether there are other solutions that would be more appropriate and up-to-date. She comments that some banks still think it is difficult to offer this kind of structure. So far, however, she has not found anything better, and she says this structure at Flex is still the benchmark for the industry. It has also received wide recognition and a number of awards, and Peng and her team have also won Treasury Today Asia’s Adam Smith Awards Asia Top Treasury Team in 2015, and Peng was awarded Treasury Today Asia Woman of the Year in 2015.

Pursuing excellence

When asked about the lessons she has learned so far in her career, Peng focuses on pursuing excellence. “You need support to drive for excellence,” she says, explaining that the people she has worked with have been vital for her in achieving career success. Peng says that the company she works for – Flex – has been instrumental and important for her in achieving her goals. “Flex is the right company, with the right culture,” she says. “I am lucky that I have the right boss and great leader – Christian Bauwens. He is very international, innovative and smart,” she says, adding that the company has created a culture whereby the treasury team is able to do more, find creative solutions, and set a high standard in the process.

“Another lesson I have learned is that having a strong team is very important,” says Peng. She adds that she is focused on the team working together and bringing the right talent into the team. That talent, she explains, should have shared common values and be willing to learn, and face challenges. Finding treasury talent can be challenging, but it is possible to recruit from other fields – as in her case from banking or finance, for example. When Peng made the move into treasury, she was motivated to learn everything she could about this new field, was willing to learn, and also to work hard. These are the qualities, she says, that are important when hiring treasury talent.

The priorities in Asia Pacific

Treasury talent has its work cut out in the Asia Pacific region, where there are numerous markets to deal with, various regulations and some particularly strictly-regulated markets. In overseeing the Asia Pacific treasury teams, the priorities for Peng are ensuring that liquidity is optimised with high efficiency and low cost, and also managing risk – including foreign exchange risk and credit risk. These have long been at the top of the treasury agenda in the region, but they are just as important now as the business environment for Flex is changing rapidly. “Our company’s business is very dynamic, so a priority is ensuring our liquidity in our key countries in the region – China, India and Malaysia – and having a better structure in place. For years this has been the case, and this is still important, as is managing risk and the foreign exchange risk and exposure that Flex has,” says Peng.

The second priority, says Peng, is to focus on automation. In the last two to three years, she notes, there have been a number of technology companies – fintech and treasury management systems – that have transformed this space with more solutions of how to automate treasury management. With such solutions available, treasurers can now automate their daily operations and move away from using Excel spreadsheets. In this regard, Peng’s treasury team has achieved good results with its ‘smart treasury management system’. This was developed in 2021, within five months, and



Liquidity is still a top question in the region, but an issue now is also how well managed you are in terms of the various technology tools that are available.

automates cash management, for example, and can provide real-time cash visibility, accurate cash forecasting and automated cash planning, and can also automate full cycles of FX management from exposure capturing, hedging to FX impact evaluation. The effect of greater automation has been to respond faster to Flex's business needs, reduce costs, and be more effective in solving liquidity issues. It also provides data visualisation, which means that the treasury team can show their business counterparts the intelligence that is available, which in turn helps make better decisions.

This leads onto another priority for Peng, which is in supporting the business leaders at Flex. "Another priority is to become a closer strategic business partner," she explains. She says that her treasury team has been working closer with their business partners at Flex, and they are finding that the business is engaged with treasury and increasingly coming to them with questions about cash flow, foreign exchange and how to improve their working capital, for example. "They come to us with questions and discuss suggestions and solutions with us – as a trusted business partner," says Peng.

Treasury in a dynamic business

The nature of the industry that Flex is in, explains Peng, is very dynamic and the challenge for the treasury is to move very fast. She adds that they have shared a lot of information about this with their peers, which has been helpful for others to learn how to adapt to a dynamic and changing environment, especially in light of the COVID-19 pandemic.

The specific issues for the treasury team during the pandemic have been on effective liquidity planning in China, where the production schedule could be subject to change and could impact the liquidity needs – with a surplus, for example, if production decreases there. Or if business ramped up quickly and the specific issues have been in ensuring the company has sufficient funds there. The need for fast action, and being able to respond quickly, with changing payment needs means that accurate cash forecasting and real-time cash visibility is particularly important during a pandemic.

The liquidity structure that has been built in the region has so far served the company well and has proved to be resilient. Being resilient has been one of the major lessons that Flex has learned from the pandemic, and the company has published an e-book on the topic. In the foreword, Flex CEO Revathi Advaiti writes how more than 145,000 team members continued to show up every day at its factories, "masked up and physically distanced, ready to build and ship products that keep the world running and functional. Meanwhile, we continue to grapple with the commercial aftershocks of COVID-19, including a disruptive, global logistical logjam and shortages in all kinds of critical inputs from semiconductors to lumber."

In this environment, Flex's CEO writes, 'resilience' became the watchword, topping the corporate agenda and becoming an integral part of every business. "Beyond business continuity plans, we must develop the capacity to address fast-moving

and unpredictable events, spring back from major disruptions, and emerge stronger to drive greater success."

Peng comments that the treasury team was able to respond quickly to the changes in the market that COVID-19 brought. "We have been very well prepared for a long time," she says, adding that they have built good forecasting for their liquidity structure. Also, there was a well-structured liquidity programme, enough funding was in place, and they avoided having trapped cash in certain countries.

Working for a company that has a culture of being dynamic and moving fast, explains Peng, means that there has been a spirit of trust in the treasury team. In fact, treasury has been encouraged to build innovative and creative solutions in the region. In implementing such best-in-class and industry-leading structures, Peng explains that it is important to keep the lines of communication open, and also have a good dialogue with the various central banks in the region, "That is so important," she adds. Throughout her time in treasury management, Peng has maintained an active dialogue with regulators and has stayed on top of the latest trends and developments.

Looking back at treasury trends

Peng comments on these trends that have occurred throughout her career in treasury: "If you look back about ten years ago, the hot topic was liquidity and the challenges of trapped cash. Treasury has now expanded and moved on beyond that. Liquidity is still a top question in the region, but an issue now is also how well managed you are in terms of the various technology tools that are available," she says.

"Technology – this is a very hot topic. It is very important for the treasury industry and how we automate treasury processes and manage the data," she says. Also, these days there is a lot of discussion about blockchain and the role of distributed ledger technology and how they can be applied to the treasury management process.

The other major trend that Peng has witnessed over the last five to ten years is how treasury can be a business partner, and how treasury can be more active in building ecosystems, such as with supporting their customers and supply chain, Peng explains. Flex has been deploying different types of supply chain finance programmes to its suppliers for years.

Treasury in an ideal world

Looking to the future and what else will be possible, Peng says she would like to be able to manage liquidity even more efficiently and at a lower cost. And in an ideal world Peng would like to be able to automate and fully digitise the entire treasury management process, with real-time data and accurate analysis and forecasts. She believes this is achievable, as is another one of the goals she has in managing the Asia Pacific treasury at Flex: "To continue to have a strong team and work together happily," she says. ■



REDUCING SUPPLY CHAIN COSTS DEMANDS FLEXIBILITY

There is no single solution to the problem of increased shipping and logistics costs.

Supply chains are creaking across the world. In North America, corporates have seen the cost of moving a shipping container from Asia increase twenty-fold, while risk management specialist Gallagher estimates UK high street businesses have lost £9.3bn as a result of supply chain disruptions over the last 12 months.

Data from IHS Markit suggests that it takes three times as long to unload a container at a US west coast ports as it does in China. An obvious solution is to get more people working across the supply chain, but that is an issue no corporate can resolve on its own.

What corporates can do is attempt to renegotiate their logistics costs. According to research conducted by Gallagher, one-in-six UK businesses have done this successfully (although a similar percentage said they had simply absorbed these increased costs). Exploring alternative shipping routes might be a possibility, but this has to be weighed against the impact of longer delivery cycles.

Switching to local suppliers is another option worth exploring. Fifteen per cent of the companies surveyed by Gallagher planned to switch to domestic suppliers in 2022 to avoid cross-border shipments, while 28% of the 500 medium-sized businesses surveyed by BDO in July planned to on-shore suppliers by the end of this year, explains partner Ed Dwan.

“Almost a third (29%) intend to increase the cost of their product or service, while a similar percentage have reduced the product lines or services they offer,” he adds.

Stephane Crosnier, Accenture’s Supply Chain and Operations Lead in the UK, says some companies are reviewing their haulage and delivery contracts to see whether there is scope to partner with other businesses to reduce empty space in containers and vehicles and this improve efficiency.

“Another medium-term solution is to re-evaluate service levels,” he says. “Prioritising premium customer delivery is key, but it is possible that internal service levels could be reduced. For example, some stores or branches may be able to cope without a daily delivery if they have enough inventory.”

However, he also acknowledges that corporates shouldn’t be looking at logistics purely as a cost and that measures to offset higher prices need to be weighed against the knock-on impact on the customer experience. “Longer dispatch times or reduced stock, for instance, may hurt customer relationships,” he adds.

Technology has a role to play in improving the transparency of supply chain flows, according to Amy Shortman, Vice President of Overhaul. Risk management platforms can aggregate data from logistics ecosystems into a single unified view, enabling shippers to ensure they are getting the service they have procured.

“Consumers have come to expect near real-time information on shipment status and arrival times as standard,” she says. “How this data can be used when combined with situational details is where the transformation occurs – bringing in external variable factors that may impact the shipment such as weather, traffic or even risk levels of cargo crime.”

The due diligence process is often not detailed enough when it comes to second or third-tier suppliers and for many businesses there is a worrying reliance on a single supplier in one part of the chain, adds Neil Hodgson, Gallagher’s Managing Director of Risk Management. “Businesses also need robust continuity management policies and procedures,” he says.

In the meantime, corporates may look to cash in over the festive season. Paul Martin, UK Head of Retail at KPMG, observes that limited availability of stock has created strong pricing dynamics, which means we are unlikely to see any major discounting this Christmas as retailers bank on consumer willingness to buy the most sought after items at any price. ■



Didi's delisting shows decoupling acceleration

Didi's Wall Street dreams falling by the wayside and the ride hailing company's decision to list in Hong Kong shows decoupling between China and the US gathering pace. Meanwhile, other sectors of the Chinese economy like healthcare are next in line for the government's regulatory crackdown as investor, bank and corporate risk spikes.

Chinese ride hailing app Didi Chuxing's announcement at the end of last year that it will delist from the New York Stock Exchange and relist in Hong Kong has repercussions well beyond the fortunes of those who bought into the US\$4.4bn IPO five months ago. "After a careful study, the company will start delisting on the New York Stock Exchange immediately, and start preparations for listing in Hong Kong," wrote Didi on its verified account on Weibo, a popular Twitter-like platform in the country.

The decision is a consequence of relentless regulatory scrutiny from Chinese authorities, including a wide-ranging government investigation into Didi's cyber-security practices. The Chinese government wants to regulate new, online tech companies that have escaped traditional regulatory frameworks around business rules and consumer protection, argues Fraser Howie, author of *Red Capitalism: The Fragile Financial Foundation of China's Extraordinary Rise* in an interview from Singapore. The clampdown was first witnessed in the halt to Ant Group's dual listing on the Shanghai and Hong Kong stock exchanges in November 2020.

Nor does the Chinese government want foreign investors to have the granular knowledge of Chinese companies' customer base – Didi's mapping data, for example – that is granted by modern technology. And the pressure on Chinese firms to

delist isn't just coming from Beijing. The US Securities and Exchange Commission has drawn up rules that would allow it to delist Chinese firms that refuse to open their books over three straight years to US regulators – China has long rejected US audits of its firms, citing national security concerns.

Today's backdrop has put the wind up Chinese NYSE IPO hopefuls, all shelving their plans to follow in the footsteps of companies like Alibaba, Baidu, JD.com and NetEase and list on the most sought-after global stage. And although none of these big Chinese names have yet to mirror Didi's decision and pull out of New York, everyone is watching the next move and manifestation of China's gradual decoupling from US capital markets. "The West got it wrong; China is closing down once again," predicts Howie.

Long wait

At the very least Chinese companies hoping to float in the US are in for a long wait for further clarification of the rules. Companies still wanting to list will then face rigorous scrutiny and regulatory clearance from different government agencies and authorities. "The State Council's special regulations on overseas equity fundraising and listing will be amended; the responsibilities of domestic industry supervisors will be clarified, and cross-departmental supervisory coordination

will be strengthened," lists Bruce Pang, Head of Research at investment bank China Renaissance, who predicts a much more difficult climate for Chinese companies hoping to raise funds overseas ahead. Looking to the future he says the NYSE listing door may open slightly, but only to small and mid-cap companies in less controversial industries and low-profile sectors holding less sensitive data.

Positively, he hopes that investors and companies' concerns will be allayed by clearer communication. He expects Chinese authorities to better manage the pace and intensity of the regulatory campaign; communicating with the market about the motives behind the regulatory push and telegraphing future regulatory hotspots. Besides, the Chinese government is still keen for local companies to tap alternative sources of finance. China's state-controlled local banking system needs to be freed up to service SOEs and the "commanding heights of the economy," says Howie.

Homecoming in Hong Kong

Didi had decided to swap New York for Hong Kong, but the Hong Kong Stock Exchange may not provide the growth capital or platform for expansion Chinese companies seek. Initial public offerings in Hong Kong raised less than US\$26bn in 2021, down 10% compared with 2020, according to data from Dealogic. By comparison, global IPO fundraising jumped 75% in 2021 compared to 2020, with deals in New York alone rising to about US\$300bn.

Hong Kong will appeal to companies wanting to raise foreign currency capital and the region has deepened its capital market reforms: valuations, analyst coverage and liquidity have all improved. The Hong Kong Exchange recently announced consultation results regarding further facilitating dual primary and secondary listing in Hong Kong. "We expect the listing requirements to become more flexible and convenient, spurring a recovery in sentiment with a strong potential pipeline of Hong Kong listings ahead," says Pang.

But Hong Kong may struggle to draw the deep pools of foreign capital Chinese companies seek. Foreign investors remain wary of Hong Kong's different rules and weak disclosure. For example, demand for listed stocks could be dampened by rules or conditions that make critical research difficult. "Hong Kong could become a dumping ground," says Howie who observes that Hong Kong's Zero Covid policy and strict quarantine rules will continue to hinder investors' ability to travel to the region and conduct due diligence on Chinese companies listing on the exchange. "It's difficult to build a financial centre if you can't get in or out," he says. "It's a lazy idea to think that Hong Kong will become the replacement for listing in NYSE."

Limits to listing in Hong Kong, and unable to expand their capital base, brand and reach through the US, Chinese companies will have to rely on domestic investors on Shanghai and Shenzhen stock exchanges. Most of China's biggest tech companies still derive the bulk of their revenues from customers in China, and these businesses will continue to thrive, says Howie. Listing on the mainland has also grown more appealing because of recent reforms in China's A shares, adds Pang, "A-share market reform is helping to facilitate listings with streamlined processes and more flexible options for companies with key technologies and market recognition."

However, Chinese tech companies' ability to expand geographically and compete internationally has been cramped.

Going forward this means their valuations will be more aligned to a utility than the explosive growth profiles they could have had. "Chinese firms will need to rely primarily on organic business growth or domestic markets to fund their expansion. A decade ago, listing on a foreign exchange would have been the goal of many IPO-bound mainland firms, but this has certainly been de-prioritised by regulators," says Zennon Kapron, Director of Kapronasia, a financial technology research and consulting firm. "Longer-term, it may actually inhibit growth and kill the golden goose that has been such a big part of China's international story."

Not just tech

The government's crackdown on the country's US\$100bn-a-year tutoring industry shows its regulatory sweep goes beyond thwarting overseas listings, the tech sector and business models around customer data. Chinese companies across all sectors face a new perilous regulatory landscape. "In our view, regulators look likely to crackdown on anything relating to anti-trust, abuse of dominance, monopolisation, M&A, controversial industries and juvenile protection," lists Pang, adding that financial holding companies and variable interest entity (VIE) structures are also in regulators' sights. A VIE involves creating an overseas holding company that allows investors to own a stake in a Chinese company that would otherwise be difficult because of restrictions in the mainland. Companies like Didi, Alibaba, Pinduoduo and JD.com have all benefited from the system.

Healthcare groups targeting the middle class with prescription drugs and services is the next sector most likely to see the government come in over the top. President Xi wants to support moderate wealth for all under the banner of "common prosperity," yet the health-care industry is one of the country's so-called "three big mountains" (alongside education and real estate) where spiralling prices are posing obstacles to affordable living. "As well as house prices and education, China is struggling to regulate healthcare fees," says Pang. "My guess is healthcare will be next to reduce inequality and maintain social stability because China's medical bills are rising steeply, outpacing government insurance provision." It holds damaging repercussions for healthcare groups, flags Howie. "Will they allow healthcare companies to set prices, or force them to act as a utility just delivering a service?"

Banks

Banks that have tapped into lucrative IPO business will also start to feel the pinch. "As the majority of Chinese IPOs aimed for US exchanges are either suspended or diverted to other venues, some banks' underwriting fees have been axed," says Pang, adding that company valuations (and potential fees) are now vastly different. "Chinese firms are tempering their expectations for valuations amid regulatory overhang." Meanwhile foreign banks get very little business from China's onshore IPO pipeline where deals are dominated by mainland lenders like Citic, the state-owned financial services group that oversaw 17% of a record US\$65bn in fundraising this year from new listings in Shanghai and Shenzhen, according to Dealogic data.

Banks, investors and corporates are only just beginning to feel the effects of decoupling in a sweeping reminder of the power of China's communist party, concludes Howie. ■

Treasury professionals sitting tight despite hirer demand

High job vacancy levels across many sectors are reflected in the treasury recruitment sector, where corporates are finding it challenging to fill senior finance roles.

The number of unfilled jobs continues to rise in countries recovering from the worst effects of the pandemic. UK vacancies reached a record high in November, the number of available positions in Japan was at its highest level of the year in October, and even in the US – where job creation figures were below expectations in November – demand remains high for finance professionals. In this context it is hardly surprising that companies are facing considerable challenges in finding the right people for senior roles such as chief financial officer, treasurer or financial director.

At the end of the summer the market was full of vacancies and senior finance leaders were confident about moving jobs. However, as summer passed to autumn potential candidates were thin on the ground – those who had been ‘waiting out’ the pandemic before they moved had done what they needed to and were now settled in new roles according to Refreshing’s Director, Charlie Jones. “Our work now is much more about headhunting and working hard to draw candidates from existing roles,” he says. “Responses to job ads are lower and we expect this to reduce further before the end of the year.”

Jones says it is not unusual for the best candidates to be considering three or more offers at a time. “There is huge competition to find the most talented people and companies who don’t work quickly and carefully consider the packages they are offering will lose out every time,” he adds. “Clients who have moved through the worst of the pandemic are ready to hire but until confidence returns and senior finance leaders feel happy enough to leave one stable job for another there will be an imbalance in the market.”

Bobby Lane, CEO of professional services consultancy Factotum, reckons it is more difficult than ever to find and attract the right people for senior roles as a result of a trend that was evident even before the pandemic. “The direction of the market pre-Covid was for chief financial officers and finance directors looking to take on a broader commercial role within a business rather than retaining a pure financial focus,” he says. “This means that many of those looking to change jobs are not looking to stay as a CFO or finance director but move into chief executive or managing director positions.”

Coupled with people taking time to reassess their personal goals and the way that they were working during lockdown, Lane says this has led to a contraction in the talent pool. “There are still people out there, but it is harder to find them and get them through the door,” he adds. “Existing employers are aware of the challenges of finding replacements so they are doing all they can to ensure that senior people do not leave, from increasing their salaries and loyalty bonuses to

changing working conditions or job roles. Even if someone says ‘yes’ to you, nothing is guaranteed until they actually walk through the door on day one.”

According to Lane, the explosion of start-ups in the technology sector in particular has significantly increased the number of businesses looking for senior team members with financial experience. “There are technical candidates and people with commercial acumen in the market, but finding an all-rounder is not that easy,” he says. “There are suitable candidates available for employers who are clear about the role they are offering and realistic about what they are looking for, but the opportunity to work with a technology start up or fast-growing business has been more attractive than entering the profession and training over the last decade.”

Emma Ireland, recruitment consultant at Ten Percent Financial, agrees that there are fewer applicants for vacant roles, although she says mid-level positions have proved harder to fill than more senior roles since the end of lockdown. “We see fewer suitable candidates for roles than pre-lockdown in terms of both external applications and expressions of interest from candidates already registered with us,” she explains. “This is creating a shortage within the sector and has seen firms struggle to fill the roles they are recruiting for.”

Rej Abraham, Managing Director of ABPM, strikes a rather more positive note, suggesting that while potential candidates are fully aware of their value and reluctant to move unless the proposition is commercially appealing, merger and acquisition activity has seen some senior finance leaders enter the job market. On the topic of flexible working, he reckons the majority of CFOs/finance directors still anticipate spending most if not all of their time in the office while accepting that their teams don’t necessarily need to do the same. “The e-commerce, healthcare, logistics, homewares, construction and IT services and technology sectors have been notably active and there is a bias for recruiting from similar sectors,” says Abraham. “Competition is particularly noticeable where organisations are competing for finance professionals from their own sector.”

With a reduction in candidate numbers there is always going to be pressure on companies to offer as much as they can in terms of salary and improved working conditions. Unlike Abraham, Jones says candidates now assume that finance roles will allow for working from home at least two or three days a week and that any company demanding more time in the office than this is at a huge disadvantage.

“Salaries at newly qualified levels are up by 10% or more in the past six months,” he adds. “Those at the most senior levels

have also seen their salaries rise, but to attract the best people companies are having to think more about the full package – bonuses and equity are less of a ‘nice to have’ than they were.”

Ireland also refers to increased demand for remote working roles, stating that for many this is now a non-negotiable factor. “For some, concerns about the pandemic are the reason stated for this, while for others it is a question of work-life balance,” she explains. “In many cases candidates are prepared to accept a lower salary if remote working is offered. But while working from home has become more common over the past two years some firms are still resistant to the idea, which can make recruiting more of a challenge.”

Lane agrees that the pandemic has prompted a reassessment of career objectives for many senior finance professionals. “The global experiment in home working gave them a real insight into what their work-life balance could look like,” he says. “I have spoken with a number of senior finance professionals who have subsequently decided that they would

take lower paid roles in order to be able to work from home more often and not face the daily commute.”

Lane echoes Ireland’s observation that employers that do not offer flexibility are significantly reducing their chances of attracting the best talent. To make their task even harder, he says companies may also have to accept the need to pay higher salaries to tempt the right people away from their existing employers. Looking further ahead, Lane reckons the disparity between supply and demand for candidates with both technical and commercial skills will ease over the course of this decade.

“In recent years there has been a resurgence in people entering the profession and training to be a finance professional, so there will be a new wave of commercially minded, well-rounded finance professionals for the future,” he concludes. “However, this does not help the current position so employers have to recognise the challenges that they will face as post-lockdown, candidates may be happy to stay where they are or look for a total change of direction.” ■



CASE STUDY

One of the obvious challenges in recruiting staff during a pandemic is meeting potential candidates in person rather than virtually.

“Fortunately the restrictions had been eased by the time we started the process so we were able to see quite a few people in person, but that might not be possible in the coming months,” says Amrit Chandan, CEO of clean tech company Aceleron, which recently recruited its first CFO through ABPM. “It is also important that the candidates are comfortable meeting this way.”

Because of the early stage nature of the business, Chandan was looking for someone with experience of venture fundraising as well as operational experience. “We promote a flexible working culture but for such a senior role it is vital that there is a willingness to get stuck in and do what is needed, including travel because some meetings are too important to do online,” he adds.

Chandan says he receives a large number of requests to connect on LinkedIn from recruiters looking to place people in the company on an ongoing basis, which he describes as “tiresome” when he is not looking to fill a specific role. The recruitment process for the CFO role started at the end of the summer and the chosen candidate was signed up in the second week of December. “We spoke to around a dozen people and my priority was to ascertain how they might fit into the business and whether they inspired confidence that they could do what I – and the business – need them to do,” explains Chandan. “Some of those we met had the potential to grow into the role, but just didn’t have the skills and experience we require right now.”

The company has a strategy of paying the market rate for new recruits, although Chandan says anyone looking primarily at the remuneration would not have been seriously considered. “For such a senior role we encourage working in person at least initially while the person is learning the ropes, but beyond that we enable staff to work around school runs and important life events,” he adds.



CASE STUDY

According to Nick Woodward, Group CEO of recruitment software vendor ETZ Group – which took on an executive financial director/CFO earlier this year – the biggest challenge in the recruitment process continues to be finding people with integrity. “We have talked to a lot of people who claimed to have certain skills and experience that they simply didn’t have,” he says. “Then you try to find candidates with real world business experience, people who have done something entrepreneurial or sales focused – and because the UK economy has become dominated by the service sector the pipeline of this type of candidate is drying up.”

The company’s latest recruit was found after a search that lasted around three weeks and was assisted by Ten Percent Financial. “We didn’t have as many options as we expected, although the candidates were all good quality,” says Woodward. “In terms of salary and working conditions, candidates want to be able to work from home – it is very hard to attract people if you make them come to an office when the work can be done equally well remotely.”

Digital assets promise opportunity beyond bitcoin

So far, the treasury interest in digital assets has focused on investing, and mostly in bitcoin. Now, however, attention is turning to other kinds of digital assets and not just for investing; they have the potential to transform how treasuries – if not whole businesses – are run.

Legendary rocker Rod Stewart once gave Elton John a fridge for Christmas. Not any old fridge, mind you, but the latest one at the time. He'd spent £600 on it – which was a lot back in the 1970s – but when his fellow musician reciprocated with his gift, it paled in comparison. “He gave me a Rembrandt painting! I've never felt so stingy,” Stewart reportedly said.

Now in the era of digital assets, such a mismatch in generosity could be solved with tokenisation. Now you could buy a portion – the equivalent of £600's worth – of the painting and make an illiquid asset easily tradeable. Or perhaps you want to do away with physical paintings and venture into the world of digital art. A non-fungible token (NFT) of Melania Trump's eyes, a digital watercolour that is selling for 1 Solana (approximately US\$180), perhaps? This seems like a bargain when compared to ‘Everydays – The First 5,000 Days’ by Beeple, a collage of 5,000 digital images that sold for US\$69m at Christie's in March 2021.

When it comes to digital assets, treasurers aren't looking to the art world for their investment strategy, but they are considering other types. “People are being cautious, but at the same time they are also curious about this asset class,” says Manoj Ramachandran, Principal of Digital Assets at BNY Mellon.

The US-based bank has got involved in this space – with its Digital Assets unit – in response to client demand. Also, Ramachandran says, “the timing is right” because there is now greater clarity around the custody of digital assets. And there is also an emerging ecosystem of fintech providers that can support the development of various digital asset products.

“I would not say everyone is thinking about it – they are at the very early stage with their allocation of this asset class,” says Ramachandran. “I think it will be a few years until this is mainstream from a corporate treasury perspective,” he adds.

So far, the interest has been mostly on investing in cryptocurrencies, and Ramachandran notes that corporate treasurers became more interested after seeing companies like Tesla and MicroStrategy investing in bitcoin.

Anatoly Crachilov, Founding Partner and CEO at Nickel Digital Asset Management, comments that it is natural – given the nature of their business – for treasurers to be conservative

when it comes to digital assets. “They have to be mindful of liquidity,” he says. If it is their first foray into investing in digital assets, they are most likely to venture into crypto and its most liquid asset: bitcoin.

Such an investment is increasingly being considered by corporate treasurers. For example, Nickel Digital Asset Management found in December 2021 that growing numbers of listed companies were investing in bitcoin. Their analysis revealed that 20 listed companies with a market capitalisation of over US\$1trn have approximately US\$9.3bn invested in bitcoin, after originally spending US\$5.8bn. Geographically, the bulk of these companies – 13 out of 20 – were in the US or Canada.

For many, an investment in bitcoin makes sense for a treasurer's portfolio. In a previous interview with **Treasury Today**, Brad Yasar, Founder and CEO of EQIFI, had something of a rallying cry of “Buy bitcoin!!” Even for those who aren't believers in the cryptocurrency, he argues, they should think of an investment in bitcoin as an insurance policy.

Crachilov makes a similar case for investing in bitcoin for treasurers who may still be reluctant: if you allocate a small portion – 1% – the upside can still be significant, without being too exposed to the volatility. “Sizing matters,” says Crachilov, when it comes to a bitcoin allocation. He illustrates by comparing a traditional investment portfolio of 40% bonds and 60% equities, which are invested in the S&P500, to a portfolio that includes 1% and 59% equities. He tracks their performance over a nearly nine-year period from 31st December 2012 to 30th September 2021.

The traditional 40/60 portfolio had a cumulative total return of 144.3% (annualised return of 10.4%) over that period, an annualised risk standard deviation of 9.8%, and the maximum drop – or drawdown – was 21.6%. If the portfolio is adjusted to include 1% bitcoin, the cumulative total return increases to 170.8%, the risk is 9.9% (not much of an increase), and the maximum drawdown remains the same. This drop is the same because the biggest decline was in March 2020 when there was a sell-off because of Covid. Crachilov argues that a treasurer could enhance their portfolio by including bitcoin – an uncorrelated asset class – because historically it has behaved differently from the equities market.

If a treasurer is feeling braver and increases their bitcoin holdings to 3% there would be a cumulative total return of

232.2% – a much larger figure – but the risk increases to 10.1%. At this point Crachilov says, “The benefit outweighs the risk – that is the beauty of this.” However, he notes, as you allocate more and more crypto, “At some stage it is way too risky – a single digit allocation makes perfect sense,” he adds.

Also, Crachilov argues that bitcoin has a role to play in an investment strategy if you are looking to protect against currency debasement, where the value of the currency is lowered. He points to the figures for the M2 money supply, which increased by 28% between December 2019 and December 2020 to US\$19.5trn as part of the US pandemic stimulus. The only other time the M2 indicator has been this high, he says, is in 1943 when the US undertook a stimulus programme as part of World War 2. At that time, M2 increased 27%. Initially, the impact of that stimulus had a subdued effect on inflation. However, it came with a three-year delay and by 1946 inflation was 18%.

“Bitcoin is the logical choice” for protecting against this scenario, says Crachilov. Bitcoin has a “non-discretionary immutable monetary policy” which means that no entity can affect its supply. Approximately 90% of bitcoin has been released and the remainder will enter circulation according to a fixed schedule over the next 120 years. Investing in an asset like this provides a hedge against the US dollar becoming devalued, says Crachilov.

And for those who are still reluctant to invest in bitcoin because of its volatility, Crachilov argues that you don’t need to be a believer in its value increasing. Instead, you can trade on its nature as a volatile asset and invest without taking a directional view, and rather harness its swings in volatility.

Beyond bitcoin, there are other cryptocurrencies that are of interest, such as Ethereum. This is a more dynamic asset as it is upgraded more regularly. Also, it has a whole infrastructure of smart contracts, and is an interesting investment for those looking to diversify, says Crachilov. And for the more adventurous, there is investing in decentralised finance.

This is the space that Yasar’s EQIFI plays in, which is positioning itself a leader in the field, with a single platform for banking, trading and lending for fiat and cryptocurrencies. The defi platform is connected to a regulated bank (EQIBank) so that high-net worth individuals and businesses are able to transfer their digital assets from the platform into the regulated banking system.

Digital assets have many forms, and corporate treasurers’ interest is now looking beyond the simple investment strategies of bitcoin or other cryptocurrencies. BNY Mellon’s Ramachandran comments that there is demand from treasurers in other assets, such as tokenised cash as well as tokenised bonds.

Also, with offerings like PAX Gold, for example, it is possible to buy gold as a digital asset where one token – on the Ethereum blockchain – corresponds to one ounce of physical gold that is stored securely in a vault.

Tokenisation means that a physical asset can be transformed into parts – tokens – that are digital and can be used as proof of ownership or traded. They can make assets that are typically illiquid, such as property or paintings, more liquid by making it possible to invest in a portion of them. If you need US\$50,000 urgently, you could sell off a portion of your home



People are being cautious, but at the same time they are also curious about this asset class.

Manoj Ramachandran, Principal of Digital Assets, BNY Mellon

– by dividing it into 50 US\$1,000 chunks for example – and allow a new class of investors to benefit from its rise in value. You get the cash you need quickly without having to sell your whole home. And the blockchain can cut out the intermediary, making it possible to do such a transaction without an estate agent or a solicitor.

Tokenisation has already been trialled in the property sector and a September 2021 study by Hamburg Commercial Bank and the Frankfurt School Blockchain Center (FSBC) found that 41 companies in 17 countries had already started to pilot tokenisation.

Dr Philipp Sandner, Head of the FSBC, comments on how digital assets is a broad class, and can include digital securities so that stocks and shares can be transferred using blockchain technology – which makes it more efficient for trading.

Ramachandran also notes there is interest in tokenised securities. He notes that from a financial assets perspective, any securities instruments have the “potential to leverage distributed ledger technology (DLT) to make the issuance and the transfer process more seamless and transparent – that is driving some of the activity in the market,” says Ramachandran.

And aside from the transfer of securities, there are other more ground-breaking uses of the technology. Sandner explains how it is possible for corporations to tokenise industrial assets, such as machines, tractors, planes, or trains. In the past, a company would have probably involved a leasing company so that they could afford to have access to such equipment. Now that model can be revolutionised because of the blockchain technology: it is possible to slice up the asset and offer it to a range of investors. And the asset could be thought of as a profit centre, which is paid for on a per-use basis. Using the internet of things, the machinery could have sensors on it. These connect to the blockchain, which is also linked to a payments engine and accounting software, so a transaction occurs every time it is used. Such a way of doing things has the potential transform how corporate treasurers work, says Sander. “This transforms how they think about the financing of assets,” he says.

In this kind of innovation, Sandner says, treasurers have a key role to play. They often underestimate the role they have to play in innovation, he adds. “Blockchain is very often related to finance – this makes the CFOs and the treasurers the people to drive blockchain adoption in companies,” he says. For anyone thinking they may be too far behind, Sandner says, don’t worry it’s not too late – you haven’t missed out. “Everyone can be part of this journey.” ■

China's money market fund landscape

“ What does China's money market fund landscape look like today, and what developments are likely in 2022? ”



Aidan Shevlin
Head of International Liquidity
Fund Management
J.P. Morgan Asset Management

The Chinese money market interest rate landscape has rotated substantially in 2021 as investors grappled with the implications of slower economic growth and the PBOC's reluctant monetary policy pivot. Concurrently, money market funds (MMFs) witnessed strong inflows, despite increased competition from new products. In 2022, lower interest rates, a focus on climate change and the implications of looming asset management product rule changes will create challenges and opportunities for Chinese MMFs.

The interest rate pivot

From robust growth at the start of 2021, multiple factors negatively impacted the Chinese economy, translating a gradual slowdown into a sharp decline. The government's commitment to deleveraging the property and shadow banking sectors, combined with Delta variant outbreaks, all magnified economic volatility and prompted expectations of fiscal and monetary policy easing.

Initially, hawkish PBOC comments pushed SHIBOR yields to year-to-date peaks in February. However, by the mid-year, the PBOC pivoted to neutral and then most recently a dovish policy stance. The central bank cut the Reserve Requirement Ratio twice; on both occasions it was foreshadowed by calls by Premier Li for monetary support for the real economy.

Anticipating these cuts, SHIBOR yields declined and the curve flattened throughout the remainder of 2021. The PBOC also focused on maintaining adequate liquidity, ensuring that repo rates were much more stable than in 2020. However, escalating property-related risks continued to negatively impact onshore credit spreads, which surged higher in the second half of 2021.

MMFs with long duration positions outperformed, but heightened expectations of additional monetary policy rate cuts next year have diminished the longer-term outlook for MMF yields. Given their focus on high quality investments, MMFs, especially triple-A rated funds, remained insulated from higher credit risks – although credit markets are likely to remain volatile in 2022.

The evolving asset management industry

Mutual fund assets under management (AUM) jumped to a new record high of CNY24trn, up 34% year-over-year (as at

end Q321). While this was impressive, mutual funds still only represent 10% of the total bank deposits base (~CNY230trn) – although they have caught up on bank wealth management products (~CNY27trn).

In absolute terms, the biggest increase was in MMFs, which jumped 29% year-over-year to a new record high of 9.4 trillion – a strong rebound following declines in 2019 and 2020. MMFs still represent the largest asset class with 39% of total AUM, although this has continued to trend downwards from a peak of 67% in Q318 as other asset classes, have grown faster.

MMFs utilised by e-wallets continued to dominate, representing 49% of total MMF AUM – interestingly, these are now more diversified as regulatory concerns translated into more fund choice across these platforms. Institutional demand also remained strong, representing 38% of AUM, although the number of triple-A funds was unchanged – AUM growth was also robust as multinational corporations and large local institutional investors sought MMFs with good liquidity and security.

These growth trends are likely to persist in 2022 as ongoing pandemic and economic uncertainty encourage renminbi retail and institutional investors to hold elevated cash balances.

New rules, new competition

China's Asset Management Product (AMP) Rules will finally come into force at the end of 2020 after a one-year delay. Originally announced in April 2018, the rules represent the most significant change to how China regulates its shadow banking sector since inception.

The new rules require banks to take their wealth management products (WMP) back on balance sheet, convert them to mark-to-market and, importantly, no longer guarantee returns. By the end of 2020, WMP outstanding had declined sharply as banks repackaged and resold these products via their new asset management companies, and this trend will continue into 2022.

Aside from the competition posed by new NAV-style asset management products, MMFs will also face challenges from new mutual fund products, including NCD Index Funds and ultra-short duration funds, offering different characteristics and features. The authority's prioritisation of ESG factors, especially climate change and a focus on carbon neutrality, have likewise started impacting security issuance, fund developments and investor requirements.

Nevertheless, attractive returns, ease of use, high liquidity and good credit quality should help MMFs maintain growth momentum into 2022.



Yuanyuan Li

Head of Fixed Income HSBC
Jintrust, Fund Manager
HSBC Jintrust Money Market Fund

What does China's money market fund look like today?

Since renminbi money market funds were first introduced in mainland China in 2004, the sector has been growing in both size and significance.

As of November 2021, there were 330 registered MMFs in mainland China, with RMB9.4trn in (AUM), representing around 38.77% of all types of asset AUMs. The MMFs serves as an intermediary between borrowers seeking short-term funding and investors searching for a low-risk cash management solution. MMFs play a very vital role in short-term, fixed income capital markets.

While there is a large number of MMFs in mainland China, the industry is concentrated. The top ten funds concentration has decreased gradually since 2013: the top ten funds accounted for over 64.20% of assets in 2013, but the figure was 24.77% by the end of November 2021.

In the past, retail investors preferred wealth management products and bank deposits, whereas institutional investors were limited to products offered by banks. After the introduction of MMFs, while retail investors welcomed this product, they seldom pay attention to the risk control of MMFs. As for institutional investors, they are more interested in MMFs for their higher safety margin nature, as well as their high liquidity and market yield characteristics.

The rapid growth of MMFs in the market has sped up regulatory tightening. In 2017, CSRC published regulatory requirements for all the open-ended mutual funds, and also imposed stricter regulatory requirements on MMFs such as WAM and WAL, single asset investment limitation, credit quality, single entity exposure etc, which aimed to reduce the financial disintermediation and increase the stability of China's MMFs.

Benefiting from the rising focus on the safety margin of MMFs in the mainland China market, the fund size of HSBC Jintrust MMF has grown steadily since its inception in 2011. HSBC Jintrust Money Market Fund has a strict risk control process, and is suitable for corporations with RMB surpluses in mainland China. The investment objective is to maintain the low risk and high liquidity of its assets and seek to achieve a yield that is higher than that of its benchmark: RMB seven-day call deposit rate.

What developments are likely in 2022?

In 2021, due to the low interest rate environment, hybrid bond funds which include a certain portion of equity assets, also known as "fixed income plus" products, have become more popular among investors. We believe the trend will continue in 2022.

The performance of the fixed income plus products beat market expectations in 2021. As of October 2021, according to data from Wind, the median performance of hybrid bond fund was 4.2% and bond fund-II was 4.10%, beating the performance of long-term pure bond fund (2.99%) and short-term bond fund (2.67%).

We think this trend will continue in 2022, as 2021 was the last year for transitioning wealth management products from being valued on an amortised-cost basis to a net asset basis. Those investors who focus on lower risk and stable performance will likely turn to invest in fixed income plus products.

As at 3rd December 2021, there are six interbank AAA NCD index funds registered in mainland China. This is the first time that the interbank AAA NCD index has been introduced. The interbank AAA NCD index fund's risk characteristics is in between traditional MMFs and short-term bond funds, with normally a seven-day holding requirement. It provides a new tool for those investors who are risk-averse while seeking a yield return that is a bit higher, as its underlying assets are AAA NCD issued in the mainland China market.

There is a potential risk arising from the mismatch between yield and time under amortised-cost valuation. As such, some regulations are implemented in order to control the usage of the amortised-cost method. The interbank AAA NCD index fund is suitable for those investors who focus more on cash management solutions, and we expect this product is likely to become more popular in 2022. ■

Next question:

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

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



APIs and real-time

Building on my last article and the concept of mash-ups, I want to explore further the importance and challenges of APIs, which are a critical technology for connecting applications and pretty much essential for real-time treasury.

API landscape

Although APIs are much hyped at the moment, and heavily promoted by banks who have developed them, their adoption by treasurers – and even by TMS vendors – is hindered by a lack of standardisation and the difficulties of implementing bilateral API connectivity.

APIs can use different standards for:

- Functionality (both what and how).
- Content (the specific formatting of information).
- Protocol (the mechanics of communication).
- Security.

SWIFT, who are having good success with ISO 20022 XML as the common standard for file-based bank connectivity, are also working on API standardisation. SWIFT's progress with

API standardisation is slowed partly by the complexities involved and partly by banks' desire to differentiate themselves in the API space.

Thus, treasurers seeking to evolve their bank connectivity into APIs are finding that the ambitions are thwarted by the heterogenous offerings and the cost and complexity of bilateral bank connectivity. This is especially problematic for treasurers who need real-time bank connectivity.

Fintechs to the rescue

This issue of heterogeneity and cost and complexity is an ideal environment for nimble fintechs to address. Established players have little incentive to address this area, either because they have vested interests (like banks wanting to differentiate or ERP vendors having their own proprietary solutions) or because the costs are too high to be attractive (like TMS vendors finding the heterogeneity overwhelming).

Fintechs tend to build from the ground up for diverse connectivity. They are normally too small and specialised to build broad applications, so they build specific solutions predicated on connectivity as a means to integrate into corporate ecosystems. So they have a natural advantage in addressing this challenge.

Fintechs also have less (or no) attachment to legacy, and are thus able to pivot faster to attractive niches (broadly areas where customers have problems that are not well addressed).

Pivot to APIs

A good example of this kind of pivot is FinLync. FinLync started with building apps within SAP to provide specific treasury and finance related functionality that was not inherent in the ERP. Led by customer demand, they started to develop APIs with their users' banks to provide real-time functionality.

Demand from non SAP potential customers led FinLync to develop its bank connectivity API aggregator as a standalone product. This can be used by any API enabled solution at the corporate.

How it works

The concept of an API middleware is not new per se. Google Apigee, amongst others, offers this kind of functionality. The issue with such generic solutions is that they require the user to specify in detail the input and output across the four dimensions mentioned earlier. This is still a lot of work for treasurers whose focus is on bank connectivity, not to mention the hassle of keeping up with the evolution of each bank's API functionality.

Further, many systems that are API enabled are not necessarily able to connect to bank APIs. For example, most ERPs use APIs extensively to connect their different modules. For example, SAP calls this iDocs – but that does not mean they support bank connectivity.

What differentiates FinLync is its focus on bank connectivity. FinLync relieves treasurers of the grunt work of specifying each bank's API and ensuring a harmonised data flow to their own applications. They are also actively updating their multi-bank API aggregator with new functionality as banks deliver it. In fact, FinLync often advise banks both on the functionality required by corporates and on the actual implementation, acting as the de facto standardiser of bank API connectivity.

Conceptually, FinLync's multi-bank API aggregator can be seen as the API version of what middleware and SWIFT provide for bank file-based connectivity. Corporate applications like ERPs and TMSs have only one API connection with the aggregator, which in turn converts the data across the four dimensions mentioned to bank specific APIs.

FinLync have already established API connectivity with over 30 global banks, and are continuously adding more, based on customer needs. Depending on bank responsiveness, they can add bank APIs within days.

How treasurers benefit

Treasurers who need real-time bank data have to use APIs. Normal MT940 bank statements are sent at end of day by banks, and are thus practically only available to treasurers at the start of the following business day. Even MT942 intraday statements are typically sent once or twice per day, at most hourly, and not all banks provide this service. APIs enable near real-time updates as and when transactions occur.

Bank API specifications are different for each bank. So treasurers using multiple banks face the challenges of implementing – and crucially maintaining – multiple different API connections to their different banks. Such implementations are expensive and time consuming, and, since API technology is evolving fast, maintenance is a big problem.

Using FinLync's multi-bank API aggregator shields corporates from this complexity and cost – essentially outsourcing it to FinLync. This provides corporates with a less painful way to benefit from API connectivity with their banks.

Further, the aggregator provides a contractually simple solution – corporates already have legal relationships with their banks, and they need only the added relationship with FinLync.

Conclusion

The multi-bank API aggregator provides an elegant solution for treasurers seeking to evolve to API connectivity with their bank. It avoids the cost and complexity of developing API connectivity with each bank bilaterally, and helps them retain flexibility when they need to add new banks. ■



David Blair, Managing Director

Twenty-five years of management and treasury experience in global companies. David Blair has extensive experience managing global and diverse treasury teams, as well as playing a leading role in eCommerce standard development and in professional associations. He has counselled corporations and banks as well as governments. He trains treasury teams around the world and serves as a preferred tutor to the EuroFinance treasury and risk management training curriculum.

Clients located all over the world rely on the advice and expertise of Acarate to help improve corporate treasury performance. Acarate offers consultancy on all aspects of treasury from policy and practice to cash, risk and liquidity, and technology management. The company also provides leadership and team coaching as well as treasury training to make your organisation stronger and better performance oriented.

david.blair@acarate.com | www.acarate.com





treasurytoday.com

