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## Navigating regulatory change

How to keep on top of regulatory change in APAC.



### Corporate View

**Sarika Joshi**

Director of Corporate Finance  
Zalora Group



### Regional Focus

Hong Kong's future as an international financial centre remains on solid ground, despite the challenges of 2020.

### International Women's Day

We look at the legacy and future of this important day

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Act now to detect and prevent fraud

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# Preparing for spring

Welcome to the March/April edition of Treasury Today Asia. With the Year of the Ox now in full swing, we are all looking forward to the end of the pandemic and to resuming our community events in person in Asia.

We are preparing for our upcoming Women in Treasury Asia Forum which will take place this June digitally and we look forward to keeping our community in APAC connected and further advancing the dialogue around inclusion in the industry. We mark this month's International Women's Day by addressing the heritage and symbolism of this day.

This quarter we will also be sharing our coverage of our Adam Smith Awards Asia 2020 winners in our case studies and dedicated podcast series. Amidst the most challenging time for all of our community, both professionally and personally, the level of achievement was totally remarkable amongst the winners. We are delighted to be able to delve into their stories over the course of the series.

In this issue we address treasury challenges in a diverse regulatory environment. With regulations that change from country to country, from region to region and from time to time, we assess how to balance this hard to navigate space with the day to day demands of your corporate job. We assess how to find some certainty whilst spinning plates.

We also take a look at Hong Kong in a feature assessing what's next for the city state. Very few parts of the world have experienced as tumultuous a recent history as Hong Kong. As the powerful multicultural gateway city region rapidly changes, we look at what to expect next from Hong Kong and what it means for all those operating with and within it. Elsewhere, we investigate digital currencies, demystifying the fads and frenzies to show the intellectually curious treasurer what you need to know.

We hope you enjoy this issue and look forward to bringing you the latest and most thorough insight and to coming together as a community over the course of a year of recovery and opportunity.

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Director of Corporate Finance



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# Navigating a diverse regulatory environment

*For treasurers in APAC, managing regulatory change is a significant challenge due to the speed, volume and heterogenous nature of new developments across the region. How can treasurers stay abreast of upcoming regulatory developments? Which changes should they be aware of? And how can treasurers position themselves to take advantage of any new opportunities as quickly as possible?*

Regulation is a challenge for treasurers everywhere – particularly for those that operate across multiple countries or regions. This challenge is all the greater in Asia Pacific, which is characterised by numerous disparate countries, currencies, cultures and regulatory bodies. As a result, some treasurers need to stay on top of a large volume of regulatory developments. Companies operating in multiple markets across the region may be exposed to thousands of changes each year.

As Christopher Emslie, Asian Regional Treasurer at General Mills, explained in a recent Treasury Today Asia interview: “It’s quite a diverse region, because of the different regulations and the different way things work and the different ways that people look at business. It’s also quite challenging because the environment is continually changing. You can have new regulations announced in India or China, and then you have a day to react before the new rules come into effect. So you really need to be on your toes, and have trust in your partners to give you the right information so you can overcome these challenges.”

So which regulatory developments and initiatives should treasurers be aware of in the coming months? How can treasurer stay abreast of upcoming regulatory developments – and how can they ensure they are best placed to adapt to new regulations when the need arises?

## APAC’s regulatory environment: an overview

The region has a fragmented regulatory environment, with requirements varying from market to market, explains Aziz Parvez, head of Regional Corporate Sales, Global Transaction Services at Bank of America. “On one side of the spectrum, there are mature markets such as Australia, Singapore and Hong Kong which are open economies with limited currency controls – and on the other end, there are markets such as Vietnam, China and India with stricter controls,” he explains.

The latter can be more challenging, as companies may only be able to move or utilise their funds if they meet regulatory requirements, Parvez explains – “and in times of need, this may prevent the efficient use of funds. This further emphasises the importance for treasurers to have an accurate view of their funding requirements, so they can achieve optimal use of their funds.”

For treasurers trying to adopt a standardised approach throughout the region, remaining abreast of these disparate regulatory regimes is not straightforward. As Adesh Sarup, Head of Transaction Banking, North Asia, ANZ International explains, “The challenge of different regulations and rules across different countries in Asia, different currencies and available hedging options, the differing ability to physically or notionally manage liquidity pools, trade related risks and balance sheet management, are well known.”

## Disparate markets

The challenge of staying on top of regulatory changes is compounded by the fact that regulators in the region are not all travelling in the same direction at any given time. Carol Mah, Global Treasury Advisory Services Senior Manager, Deloitte Southeast Asia, points out that Asia includes both free and highly regulated markets – and while some of those markets are in the process of reducing or relaxing regulatory barriers, others are tightening or changing their regulations. “Countries with currency exchange controls are usually more challenging, as they hinder cash transactions and prevent the use of financial instruments to hedge FX risk,” she adds.

At the same time, other factors can drive the regulatory landscape, including civil situations, geopolitical events, economic growth and investment opportunities. “A number of country regulators took quick action in response to the COVID-19 pandemic to support their local economies and protect their currencies and balance of payments,” says Mah. “This resulted in more countries going into negative rate territory.”

And another emerging factor is the focus on data security and privacy, says Balaji Natarajan, Head of PCM Product, Asia at ANZ Institutional. “While on the one hand, these measures strengthen local operations, they can also pose challenges if data localisation hampers ease of access and control which corporate treasurers require – and it adds to the complexity of managing the different norms/requirements imposed by different countries,” he notes.

## Further challenges

While the region’s disparate and complex nature is well understood, another challenge for treasurers is the speed at

## Transition from LIBOR

As Carol Mah, Global Treasury Advisory Services Senior Manager at Deloitte Southeast Asia points out, “The LIBOR transition coming into effect by the end of 2021 is still a valid topic for companies with large debt portfolios and LIBOR-related instruments.”

The replacement of the London Interbank Offered Rate (LIBOR) was set in motion following discovery of a widespread rate-rigging scandal in the wake of the financial crisis. As a result of the subsequent investigations, banks around the world were fined more than US\$9bn in relation to the manipulation of rates. The Intercontinental Exchange (ICE) took over the administration of LIBOR in 2014, and working groups began looking into how the rates could be reformed. Then in 2017, Andrew Bailey, the chief executive of the UK’s Financial Conduct Authority (FCA), announced the intention that banks would no longer be required to submit to LIBOR after the end of 2021.

The deadline for transitioning to LIBOR alternatives is fast approaching. By the end of this year, the ICE Benchmark Administration is expected to cease the publication of LIBOR in CHF, EUR, GBP and JPY, as well as one-week and two-week USD LIBOR. For the remaining USD rates, a stay of execution is expected: in December, the IBA published a consultation paper proposing to extend the cessation of the remaining USD LIBOR tenors until June 2023. However, the delay is intended to allow outstanding contracts to mature, and the market has been advised to stop entering into new USD LIBOR contracts as soon as practicable.

Rather than replacing LIBOR with another single rate, each currency will have its own risk-free rate – these include the Swiss average overnight rate (SARON), Euro short-term rate (€STER), the Sterling Overnight Index Average (SONIA) for GBP; Tokyo Overnight Average Rate (TONAR) and the Secured Overnight Financing Rate (SOFR) for USD. Different administrators are responsible for each of the risk-free rates.

For treasurers, navigating the transition away from LIBOR is a significant undertaking. References to LIBOR can be embedded into many different types of transaction, including bank loans, bonds, derivatives and commercial contracts. As such, identifying and addressing all of a company’s exposures can take time – and may involve working with colleagues across the organisation, from tax and legal to sales and purchasing. In some cases, existing contracts may need to be renegotiated. Treasurers also need to make sure that their treasury systems and processes are ready for the transition from LIBOR.

which regulations can change. “Recently, regulatory changes have been quick, and have sometimes made it difficult for treasurers to keep up or even take advantage of the evolving environment,” explains Mah.

She adds: “The speed of change has exacerbated the need for treasurers to quickly and effectively interpret the changes in order to ensure compliance within the timeframes, and respond accurately to a change in regulation.”

As well as these issues, Sarup also notes that treasurers are having to deal with emerging challenges relating to operational risk. “An example of that is the risk of sudden business change, eg a business model change on account of geopolitical tensions, or the current COVID-19 pandemic,” he says. “Another example is the challenge imposed by cyber threats and events – these can vary widely in different Asian markets.”

Where the current pandemic is concerned, he notes that the trapped cash challenge has been exacerbated: “While monetary policy across Asia has focused on enabling adequate liquidity, this has reduced yield and restricted the ability to effectively move trapped cash where required.”

## Help or hindrance?

While managing the speed and volume of regulatory change can be a challenge, different regulatory changes can also bring new opportunities to manage cash in the region more effectively – depending on the direction of travel in individual

markets. As BofA’s Parvez points out, “In recent years, we have seen improvements in the regulatory climate, with regulators bringing changes to ease controls to facilitate businesses operating in the region.”

He explains that regulations play a very important role in effective cash management, especially when it comes to liquidity management: “In today’s environment, as companies look to consolidate liquidity, regulations can play a critical role. Markets that permit free movement of currencies allow companies to have better control and more efficient use of their funds.”

Natarajan, meanwhile, says that regulators and central banks across Asian countries are encouraging digitisation. And with greater digitisation – ie business volumes being transacted via digital platforms – payment services have opened up to newer players, such as non-banks that compete with banks and traditional service providers. “This is good as it leads to innovation and growth of the industry,” he says.

In addition, he says there is a push towards building real-time national infrastructure, “which is driving faster real-time collections, reduced days sales outstanding (DSO) and better control over cash flows – all of which are advantageous to regional treasurers.”

Of course, regulation can also be a “double-edged sword”, as Mah explains. “Even a positive change, such as an easing of cash repatriation back to the home country, has some implications on ‘business as usual’ activities,” she says.



Companies in specific sectors will have to comply and provide environmental data to ensure their financing needs and issue debt on the capital markets.

Carol Mah, Global Treasury Advisory Services Senior Manager, Deloitte Southeast Asia

Likewise, Natarajan points out that any regulatory change that arises due to protectionism or a single country's national interests "can often hinder effective regional cash management."

## Developments to watch

"While corporate treasury is not as regulated as financial institutions, they are indirectly impacted by the regulations that banks have to abide to," comments Mah. "A case in point is the Basel III regulation which impacted corporate use of notional pooling structures."

As such, there are a number of regulatory developments and initiatives that treasurers should be aware of in the coming months. These include:

- LIBOR transition.
- The rise of open banking.
- The growing use of central bank digital currencies.
- The adoption of ISO 20022 in correspondent banking.
- Changes to foreign exchange management rules.
- Data and digital initiatives intended to drive digital adoption across industry and business sectors.

Treasurers may also need to be aware of regulatory changes that affect specific industries and their supply chains.

Parvez says another a key development this year is in the use of technology in reporting processes. "A number of countries are moving in this direction, and that should help companies create efficiency in their own practices," he says, adding that treasurers should look forward to see how they can adopt these developments.

In addition, he says that China has announced regulations to further facilitate cross-border trade and investment. "They have also eased some of the cross-border borrowing and lending quota," he says. "These can help companies in managing excess liquidity."

And as Mah notes, sustainability and green finance are key topics for financial institutions. "Companies in specific sectors will have to comply and provide environmental data to ensure their financing needs and issue debt on the capital markets," she says.

## Staying abreast of changes

Keeping up to date with regulatory change is important, not only to avoid any compliance issues, but also to enable the

company to take advantage of any new opportunities that may emerge.

There are a number of ways that treasurers can keep informed about upcoming changes. One important source is the regulators themselves, so treasurers should subscribe to any relevant circulars and news alerts. That said, keeping track of changes across multiple markets can be challenging – so treasurers should also consult other sources that may be able to help them collate and digest relevant changes.

The company's bank partners should be able to provide regulatory updates that can help treasurers understand which regulatory developments are relevant to their businesses. "At Bank of America, we stay close to the regulators in each of the markets that we operate in and as such, we are able to provide quick updates to our clients, whenever changes are released," says Parvez.

Other useful sources of information include:

- In-house tax, legal and compliance teams.
- Local in-country management teams.
- Consultancies and advisory practices.
- Government and industry trade associations.
- Treasury peer groups and local associations.

## Adapting to new regulation

While it is important to stay abreast of any relevant regulatory changes, treasurers also need to be able to adapt to any developments in order to avoid any fines or other penalties that could arise from non-compliance. As Deloitte's Mah points out, "Treasurers need to act quickly when new regulations are announced, not when they take effect."

She adds: "Getting new procedures or systems in place ahead of time can help ensure that organisations can finesse any delays, educate or train employees, and find the right support from different business communities."

"Needless to say, adapting and planning for regulatory changes is important for every business," says ANZ's Sarup. He notes that to an extent, treasurers can mitigate challenges and changes by:

- Implementing/adopting an effective treasury platform that caters to the changes and has the ability to be future-proofed.
- Adopting optimum and effective hedging solutions to address short-to-medium-term geopolitical disruptions.
- Having an ongoing programme management function in place to cater for regulatory changes so that they are not hampered by a lack of resources or a lack of information.

But some regulatory changes are more pressing than other. BofA's Parvez points out that while some regulatory changes are mandatory, and must be adopted within specified timelines, "in other instances, adoptions may vary depending on the impact and timeline stipulated by the regulators." Likewise, some changes are more complicated than others. "In any case, it is in companies' best interests to react promptly and aim to incorporate the changes required sooner in order to ensure minimal disruptions to operations," he says.



# Asia Trade in focus: pandemic fast tracks digitisation and boosts demand for advisory

*As part of our Citi Treasury Dialogues series, Kanika Thakur, Head of Trade for Asia Pacific at Citi in Hong Kong, reflects on the impact of the pandemic and notes how COVID-19 has fast-tracked digitisation in corporate treasury.*



**Kanika Thakur**  
Head of Trade for Asia Pacific



## Holistic solutions

Kanika Thakur was named Head of Trade for Asia Pacific at Citi in August 2020, at a time of change and challenge.

In the year of the pandemic, her relationship with her clients evolved to reflect changes in their businesses and working situations as well as a shift in the very nature of trade itself.

She talks us through the learning curves of 2020 and highlights the disruption and innovation that digitisation and COVID-19 have brought to Asia and the world.

Corporates rushed to shore up liquidity and borrow in the immediate aftermath of the pandemic, says Kanika Thakur, Head of Trade for Asia Pacific at Citi, as she looks back over the tumultuous year. “Our clients were primarily focused on resilience.” Next, companies in the region quickly turned to finding solutions for their wider ecosystem of buyers and suppliers, solving problems beyond themselves in a holistic approach. “We advised on business-friendly solutions that allowed companies’ entire procurement chains to benefit from their corporate standing,” says Thakur, who is based in Hong Kong, upon her promotion.

“Clients increasingly looked at the sustainability of their supply chains and entire ecosystem to ensure they could buy from them. The ability for companies to interact with their buyers and sellers became critical.”

This led to an uptake in supply chain finance and receivable finance solutions. Citi also explored how its corporate clients could mitigate risk by partnering with export credit agencies. “We saw classic trade instruments like letters of credit and guarantees make a comeback. Open accounts based on trust and openness were not always feasible.”

## Advisory demand

More than a year on from the initial impact, Thakur observes a new client demand for conversation and advice. Noting that

travel restrictions are not an impediment to the bank’s advisory role, she says Citi has successfully built on existing relationships with corporates in the region through ongoing client engagement. Regular webinars on topical ideas featuring expert speakers continue to see interest from clients.

In September 2020, when the bank hosted its Asia Pacific Treasury and Finance Virtual Week, over 3,300 participants attended the five-day conference.

## Digital trends

The pandemic has also accelerated existing digital trends. Before the pandemic, trade was still paper intensive for many of Citi’s clients, but many are now focused on building up their technological efficiency. “Technology is shaping the future of trade and many businesses accelerating their digitisation efforts,” she says, counting Citi’s own ongoing digital transformation amongst the cohort. “COVID-19 has accelerated the digital journey for us. We are looking at how we as a bank process our transactions,” she says.

The pandemic has also led the bank to connect and engage with clients differently, including linkages via APIs rather than traditional transaction banking models.

On the digitisation of trade more broadly, Kanika points out that trade involves numerous third parties like shipping and insurance agents that need to be included on electronic platforms. “The really interesting part is getting all these different parties onto electronic platforms so it can truly be seamless and without paper,” she said. “We are linking with platforms to make trade more electronic and digital.”

This includes partnering with fintechs, and Citi has made a number of investments in platforms leveraging blockchain. “We are looking at this in a holistic fashion, so that we can make significant changes more broadly, in addition to client connectivity,” she says.

Thakur also notes that governments are increasingly pushing for digital reporting of the whole trade cycle. “Governments are coming to the fore and we are working with regulators through ongoing dialogue and discussion,” she says.

As we look to the rest of this year, it seems clear that there have been some lasting shifts that have taken place this year as digitisation has been accelerated and relationships have adapted and evolved within a very new situation.

Where things will go next remains to be seen, but it is clear that the evolution of trade will continue and that the journey to digitisation that Citi is navigating its clients through, is ongoing and irrevocable.



# International Women's Day

*March 8<sup>th</sup> was International Women's Day. This year's theme was Choose to Challenge. This galvanising phrase is designed to spark a will to provoke change through challenge. In the 2021 fight for gender equality it is vital that we elicit the support and engagement of allies of all genders. As the organisation behind International Women's Day explains, 'A challenged world is an alert world. Individually, we're all responsible for our own thoughts and actions – all day, every day. We can all choose to challenge and call out gender bias and inequality. We can all choose to seek out and celebrate women's achievements. Collectively, we can all help create an inclusive world. From challenge comes change, so let's all choose to challenge.'*

What is the path for all those seeking more than mere performative allyship? For those who seek to challenge the status quo and wish to promote positive change in their organisations, teams, industries and societies? What is International Women's Day and why is it important to have a date in our calendars in which we mark and celebrate a group in society, in this case women?

Every year on March 8<sup>th</sup>, International Women's Day is recognised the world over. Its origins appear to lie in the early 20<sup>th</sup> century, originating from within socialism, namely within the Socialist Party of America and the International Socialist Women's Conference. On February 28<sup>th</sup> 1909 there was a National Women's Day in New York City organised by the Socialist Party of America. Then, in 1910, a special day was



proposed at the International Socialist Women's Conference. The conference endorsed the idea of a day each year which would be an international day of concerted action to protest for female suffrage. Then, starting in 1911, the day was celebrated across much of the Austro-Hungarian Empire on March 19<sup>th</sup>.

International Women's Day serves as a marker for women's suffrage across the world. All the while the fight for equality in terms of access, pay and representation is ongoing, International Women's Day serves as a moment of unity for global efforts and visibility for the ongoing struggle. It is a moment for education, enlistment and reckoning.

Treasury Today Group has long been committed to the fight for gender equality in corporate finance and beyond. Our Women in Treasury initiative works daily to offer a platform for women in the industry and a space to both educate and celebrate allies to the cause. Everybody has a role to play in ending gender discrimination in our industry and our platform is inclusive with a role and a voice for all.

International Women's Day for us is therefore a great moment for reflection. A time to assess the progress that has been made, to look at the learnings that have come from the push for gender equality. As this struggle has expanded to include diversity and inclusion in all its forms, what are some of the key learning experiences that we can take from the conversations we've been having around gender equality and apply to issues such as racial equity, LGBTQ+ inclusion and so on? Gender is the most visible and the most easily discussed of differences and so can be a gateway to conversations around other pervasive and pernicious forms of discrimination which occur in society and in our industry.

International Women's Day this year also marked the rather grim milestone of one year since the start of the world's lockdown orders and pandemic victims. As vaccination programmes roll out slowly but surely across the world, we can also take this opportunity to assess the large impact that the pandemic is unfortunately having on progress in gender equality.

There were many reports over the course of 2020 which highlighted the disproportionate impact of the pandemic on women and, certainly in the US, particularly black and Hispanic women (<https://www.mckinsey.com/featured-insights/future-of-work/covid-19-and-gender-equality-countering-the-regressive-effects>). The pandemic has shone a light on the existing inequalities of our societies and has cruelly had the greatest impact upon the most vulnerable amongst us. Conversations which we believed had progressed around women's roles at home and gender equality have been stripped bare by the disproportionate burden of domestic roles which seem to be falling upon women. The pandemic seems destined to make 1950s housewives of us all, as the long-term impact of increased domestic responsibilities and financial uncertainty upon women's progression in the workplace is yet to be seen. We know that the first step to overcoming barriers to women's progress is to acknowledge their existence. It is one of the reasons that our Women in Treasury Global Study data forms the heart of our dialogues around gender equality each year.

This year on International Women's Day, Treasury Today Group was delighted to partner with Kyriba to host a digital event to mark the day. The event included a very special

guest line up featuring a fireside chat with India Gary-Martin, Leadership for Executives (<https://www.leadershipforexecs.com>), Danette Le, Vice President and Assistant Treasurer of Hosthotels, Mary Wienclaw, Senior Manager of Foreign Exchange and Forecast Management at Baxter International and Dory Malouf, Senior Principal Value Engineer at Kyriba.

This was a moment to reflect on the progress that we have seen and the ongoing setbacks to female equality. The Women in Treasury Global Study data allows us to chart the progress seen in the industry. Without this data set we have no way of documenting the trials and tribulations, challenges and achievements of the gender equality agenda.

Our latest data set demonstrated some cause for celebration, with particular steps forward made somewhat obviously over the course of 2020 in flexibility and remote working. This is, of course, an area that has been entirely transformed by the COVID-19 pandemic. The changes in this space in 2020 may well have altered the landscape of how and where we work forever.

In terms of quotas for female representation and ethnic diversity at board level, which is one of the key markers that we at the Treasury Today Group have been monitoring over the past decade, 47% of the 2020 respondents support a quota for female representation on boards. 38% of our respondents support a quota for ethnic diversity. Support for a quota for female representation on boards has increased year on year since the start of our Women in Treasury Global Study to this current level.

When it comes to gender parity, there is also improvement in this space. However, 35% of our 2020 respondents still felt they were paid less than their male counterparts. This is down on 47% in 2019. Other areas showing an ongoing need for attention included exclusion at social events. As we celebrate successes in gender equality it is important that we are aware of the privileges and powers that our respondents possess, as we seek to remove the barriers to progress for all those who face discrimination in the workplace. One of the items on the agenda for our conversation on March 8<sup>th</sup> was practical tips and support for women who are negotiating pay, as we know that historical discrepancies can end up following women throughout their careers. There are, however, some tools that can be employed to great avail in order for women to be recompensed at the same levels as their male counterparts. As rallying cries for transparency on pay remuneration grow across the world we also offered some guidance for male allies who may be well placed to share information and support their female counterparts in order to rebalance historic inequity.

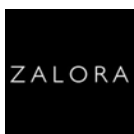
For the first time in 2020, 17% of respondents in 2020 were male and we are grateful to all those who completed last year's study, set against a backdrop of a global pandemic and immense economic uncertainty for countries across the world. As mentioned earlier, the platforms that International Women's Day and the Women in Treasury initiative have created need allies of all genders to support and inform industry conversations. International Women's Day is a time for us all to come together to challenge the status quo and to be agents of positive change in our organisations. We welcome everybody to get more involved, not just once a year, but every day with our work around gender equality in corporate finance. If you are interested in learning more or getting involved with Women in Treasury please don't hesitate to reach out to [wit@treasurytoday.com](mailto:wit@treasurytoday.com)



## Treasury and beyond

**Sarika Joshi**

Director of Corporate Finance



Sarika Joshi is Director of Corporate Finance at Zalora Group, where her responsibilities include tax, treasury, working capital, risk and special projects. She took her first treasury role at Cummins Inc in the US after completing her MBA at Indiana University's Kelley School of Business, and subsequently worked for companies including Nokia, Dell and Kraft Heinz before joining Zalora in September 2018.

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*Part of Global Fashion Group (GFG), Zalora is an e-retailer based in Singapore. Zalora was founded in 2012 and has a strong presence across Southeast Asia, particularly in Singapore, Indonesia, Malaysia, Brunei, the Philippines, Hong Kong and Taiwan. As a curated platform, Zalora offers products from over 3,000 brands, including apparel, shoes, accessories, beauty, pre-loved and lifestyle goods. The platform has over 50 million visits per month. GFG operates in 27 countries across four continents through four established ecommerce platforms: Dafiti, lamoda, Zalora and The Iconic. GFG has over 16 million active customers around the world and reported revenues of €1.4bn in FY 2020. The group is listed on the Frankfurt Stock Exchange.*



For Sarika Joshi, one of the most significant benefits of a career in treasury is the ability to take roles across a range of different industries. As she explains, “This allows you to get a broader overview of how different industries function, their unique positioning in their relevant markets, and potential growth trajectories.”

This ability to work across different sectors is one that Joshi has harnessed in her own career. She began her career working as a Credit Analyst in India, before moving to the US to gain her MBA. Since moving into her first treasury role at Cummins Inc, Joshi has held roles in the US and Singapore at Nokia, Dell and Kraft Heinz, with her responsibilities including tax, accounting and operations finance as well as treasury.

More recently, Joshi joined Singapore-based fashion and lifestyle e-tailer Zalora Group as Director of Corporate Finance in September 2018. As well as treasury, her current responsibilities include tax, working capital, risk and special projects.

## Achievements to date

Joshi's roles have spanned the full spectrum of treasury activities, including debt financing and capital structure, financial risk management including FX, commodities and interest rate risk; pension funding, cash management and evaluating mergers and divestitures. “The exciting part of each of these sub functions has been bridging the problems and requirements of the business with solutions available in the external financial markets,” she explains.

In terms of Joshi's achievements so far, she says she has been fortunate that many of her roles involved working for companies at a moment when they were undergoing a major transition, including Dell's privatisation in 2013 and the Kraft Heinz merger in 2015. More recently, Zalora's growth story presented a similar opportunity when Global Fashion Group listed its shares on the Frankfurt Stock Exchange on July 2<sup>nd</sup> 2019.

As a result, Joshi has taken advantage of several opportunities to step up into leadership positions. One particular career highlight involved single-handedly leading a billion-dollar credit facility for Cummins shortly before the 2008 financial crisis. Her other notable achievements include being a market leader in trading and taking positions in CNH in 2010 in her role at Nokia, and mobilising over US\$500m in cash from APAC to the group to fund the Dell LBO. As Head of Corporate Finance at Kraft Heinz, meanwhile, she set up a treasury function from scratch and adopted a zero-based budgeting initiative as part of the 3G framework.

“While these times were challenging, they proved to be exciting – and most definitely extremely rewarding in terms of my growth as a finance and business professional,” Joshi notes.

## Current focus

Like many companies, Zalora has faced unprecedented challenges during the global pandemic – although the crisis has also presented some opportunities. “Being an e-commerce-focused company, one of the things that our business model allowed us to do was continue to reach our customers,” says Joshi. “It also gave us an opportunity to

expand into new categories at speed, and bring forth a wider curated marketplace to our consumers.”

However, this has also meant that existing ways of operating have had to be transformed almost overnight, with challenges that have included adapting to the changing market, adjusting the company's buying plans and rethinking cash flow management.

“Another important part of the crisis has been the mental health and wellbeing of employees,” says Joshi. She cites the importance of being flexible and adaptable when it comes to employees who are undergoing personal or family-related challenges related to their mental or physical health, and making this a priority for the business – “which is something that has been quite critical for the Zalora leadership team.”

Beyond the pandemic, Joshi says the key challenges for a corporate finance team – particularly when working for a fast-growing e-commerce company – include resource upskilling, automation and keeping up with a dynamic business environment.

“Part of my job in the past two years has been to expand and bring stability to these functions, and take them to the next level in terms of efficiency, so we can harness a strong foundation for all the exciting growth that Zalora aims to achieve,” she says. “This has led to stretched objectives and tight timelines – but with extremely rewarding outcomes when we hit the milestones we have set for ourselves.”

## Treasury and innovation

Where treasury is concerned, Joshi believes the role of the treasurer has already evolved to that of a critical business partner, rather than being an isolated role focusing solely on financial markets. Both today and in the future, she says that treasurers are increasingly focused on exploring how innovation in areas such as technology, automation and data analytics have the potential to deepen the value treasury can offer to the company.

“We have already heard of companies doing digital bond issuances and using blockchain for trade finance,” she says. “While these are currently pilot cases, all of these will become even more mainstream going forward.” What's more, she predicts that the treasury function has more exciting developments to look forward to “as new business models emerge, technology advances at an exponential rate, and new talent pools bring fresh ideas to the table.”

## Moving forward

Looking ahead, Joshi says she expects 2021 to be in some ways an extension of 2020. “As a company, we will be focusing on continuing towards our strategy of driving consumer value and growth via innovation, and creating ‘wow moments’ for our customers,” she says. “Functionally, for me the focus will be on bringing in more automation, harnessing liquidity solutions, and being prepared for the ever-changing tax landscape in the region.”

On a personal note Joshi is looking forward to being able to travel again once the pandemic has abated. In the meantime, while work keeps her engaged, her other interests include photography, filmmaking, writing, trekking and weightlifting.



# Hong Kong remains resilient in spite of challenges

*Hong Kong's economy took a hit in 2020 following months of social unrest and the impact of COVID-19. Despite its struggles, however, the city state's standing as an international financial centre remains on a solid footing.*

After a difficult 2020, Hong Kong is hoping for better fortunes in the lunar year of the Ox. Like the animal – determined and dependable – Hong Kong's financial services industry, and its role as an international financial centre, continue to hold strong and show resilience in the face of a number of challenges.

The city state has experienced crises before – the global financial crisis (GFC), the SARS pandemic, the Asian financial crisis – but in 2020 it experienced its greatest economic contraction in more than 60 years. In a research note, Chen Jianghui, an economist at Bank of China (Hong Kong) predicted that Hong Kong's contraction for 2020 will be in the region of -6%, far greater than the -2.5% of the GFC, and also the -5.9% from the Asian crisis of 1997. "Looking into 2021,

risks and opportunities coexist," Chen states, adding that the outlook for the year ahead is more positive, with GDP growth expected to be up to 5%.

Like many markets, Hong Kong's service economy came to a standstill in the wake of the pandemic. However, despite the hit to restaurants, shops, and the tourism sector, for example, the financial markets have been less affected. In fact, Hong Kong's position as an international financial centre has remained strong, despite the challenges of the pandemic and the protests.

A spokesperson for the Hong Kong Monetary Authority (HKMA) agrees: "Despite the challenges posed by social





Our Treasury and Trade Solutions business continues to grow in Hong Kong where we continue to gain market share and are actively engaged in partnering with our clients as they further digitise their business.

Vishal Kapoor, Treasury and Trade Solutions Head, Hong Kong, Citi

unrest and the COVID-19 pandemic in the past year or so, Hong Kong's monetary and financial system, as well as our role as an international financial centre, remained intact."

For example, throughout the disruption, the linked exchange rate system, which pegs the Hong Kong dollar to the US dollar within a tight range – continue to work well, and the exchange rate remained stable. Also, according to the regulator, there have not been any significant outflows from the Hong Kong dollar or the banking system. "On the contrary, we have seen more than US\$50bn of inflows into the Hong Kong dollar since April," the HKMA spokesperson tells Treasury Today Asia, adding that bank deposits grew 5.4% in 2020.

And despite the uncertainty and speculation that surrounded the suspension of Ant Group's initial public offering (IPO) in November 2020, (which was planned as a joint offering with Beijing), Hong Kong's status as an IPO venue does not seem to have been negatively impacted. In fact, the capital markets have remained strong. "Hong Kong remains one of the top IPO centres in the world," the HKMA spokesperson says, adding that in 2020 around HK\$400bn was raised through IPOs, a 27% increase on the previous year.

Herbert Poenisch, a former senior economist at the Bank for International Settlements and Academic Committee Member at China's Zhejiang University, comments how from the outset Hong Kong has defined its role as a financial intermediary between international investors and Chinese investors and borrowers – a role that shows no signs of abating. "Most important international financial intermediaries are based in Hong Kong and have not expressed their intention to leave," he tells Treasury Today Asia. The city state continues to have a number of advantages over mainland China, such as its financial infrastructure conforming to international standards. Chinese financial infrastructure, Poenisch notes, differs from international best practice. He gives the example of China not joining Continuous Linked Settlement (CLS), which would reduce settlement risk. "While this continues, together with capital controls and lack of transparency, there will be a solid role for Hong Kong," he notes.

Poenisch also points out the role Hong Kong plays with US dollar services, with Chinese entities, banks, enterprises, and high net worth individuals continuing to centre their US dollar business in Hong Kong. "The deep and liquid USD market in Hong Kong, together with real time gross settlement in USD, and the USD peg, guarantee USD funding and liquidity. During the USD shortage in early 2020, USD funding in Hong Kong proceeded smoothly. This was particularly important for Chinese banks, which fund their USD lending in offshore centres, first and foremost in Hong Kong."

Also, Poenisch notes, banks resident in Hong Kong – notably Chinese banks – continue their international lending from Hong Kong rather than the mainland. He cites Q320 figures from the

Bank for International Settlements that show cross-border claims from Hong Kong were US\$1.66trn, compared with US\$1.33trn from China and US\$0.82trn from Singapore.

For the near future, it appears Hong Kong's position as an international financial centre will remain unrivalled. "There are a number of runners-up to replace Hong Kong in financial intermediation, but none of them with the solid infrastructure and legal tradition, as well as wealth of experience as Hong Kong," says Poenisch. He considers the alternative financial centres: "Shanghai, with its international financial district, as well as Shenzhen as the residence of financial innovation, but also Hangzhou, with the head office of Ant (Group), are worthy candidates. However, their development is subjected to central control and guidance by the Communist Party of China (CPC)," he says.

Domestically, the financial services sector is a key contributor to Hong Kong's economy. Despite the impact of the COVID-19 pandemic, the industry has remained stable in recent months. Hong Kong's financial services industry has been resilient, and consultancy EY conducted a study to determine how domestic banks were perceived by the general public in Hong Kong. They wanted to test whether the industry's resilience was correlated with trust. They found that the sector could do better, in the mind of the public, with the 'trust driver' of 'integrity' – by providing more transparent information on transactions, and with 'purpose' – by demonstrating how it is having a positive impact on society.

Gary Hwa, EY's Asia-Pacific Financial Services Regional Managing Partner, comments, "While trust in financial services in Hong Kong remains strong, local banks are facing headwinds from increased credit risk in the wake of the COVID-19 pandemic. In this environment, both financial inclusion and sustainability must remain key focus areas for the sector if they are to maintain these positive levels of consumer sentiment," he tells Treasury Today Asia. "With wealth disparity continuing to widen, financial inclusion is more important than ever before and should form an integral part of the sector's overall recovery efforts. Likewise, Hong Kong financial institutions can take a leading role when it comes to sustainability, to help ensure environmental recovery goes hand in hand with economic recovery."

Financial institutions have also been taking a leading role in their services to multinational corporations (MNCs), and the transaction banks in Hong Kong have developed expertise in setting up regional treasury centres for them. This role was called into question, however, when Reuters reported in June 2020, citing anonymous sources, that some MNCs were considering moving their treasury operations out of Hong Kong, in the wake of the protests. It referred to one US retailer that was considering moving some of its cash management operations to Singapore, although this could not be verified.

The HKMA, however, maintains that Hong Kong is still an attractive location for corporate treasury centres. An HKMA spokesperson told Treasury Today Asia that “the COVID-19 pandemic has somewhat slowed the pace of multinational corporations (MNCs) setting up corporate treasury centres in the past year,” and the HKMA continues to receive enquiries from corporates, as well as requests from banks and industry associations to host webinars about setting up corporate treasury centres in Hong Kong. “In fact, there has been a surge of such requests in recent months, and the industry is expecting the momentum to return once the pandemic subsides,” the HKMA spokesperson said. The factors that attract corporates – the large talent pool, the favourable regulatory and tax environment, and connectivity with the region – remain unchanged.

It’s not just the HKMA that remains positive about Hong Kong’s strengths as an international financial centre; transaction bankers are also bullish about the future of the city state. Vishal Kapoor, Treasury and Trade Solutions Head, Hong Kong, Citi, points to the bank’s long history in Hong Kong, which stretches back to 1902, and says, “We are confident in Hong Kong’s future as a leading financial centre and our clients remain our priority. Our Treasury and Trade Solutions business continues to grow in Hong Kong where we continue to gain market share and are actively engaged in partnering with our clients as they further digitise their business. We also continue to lead the supply chain business in Hong Kong and across the region. Supply chain-backed trade assets in Hong Kong grew double-digits in 2020 despite a slowdown in trade in the region, reflecting strong growth in our trade business.”

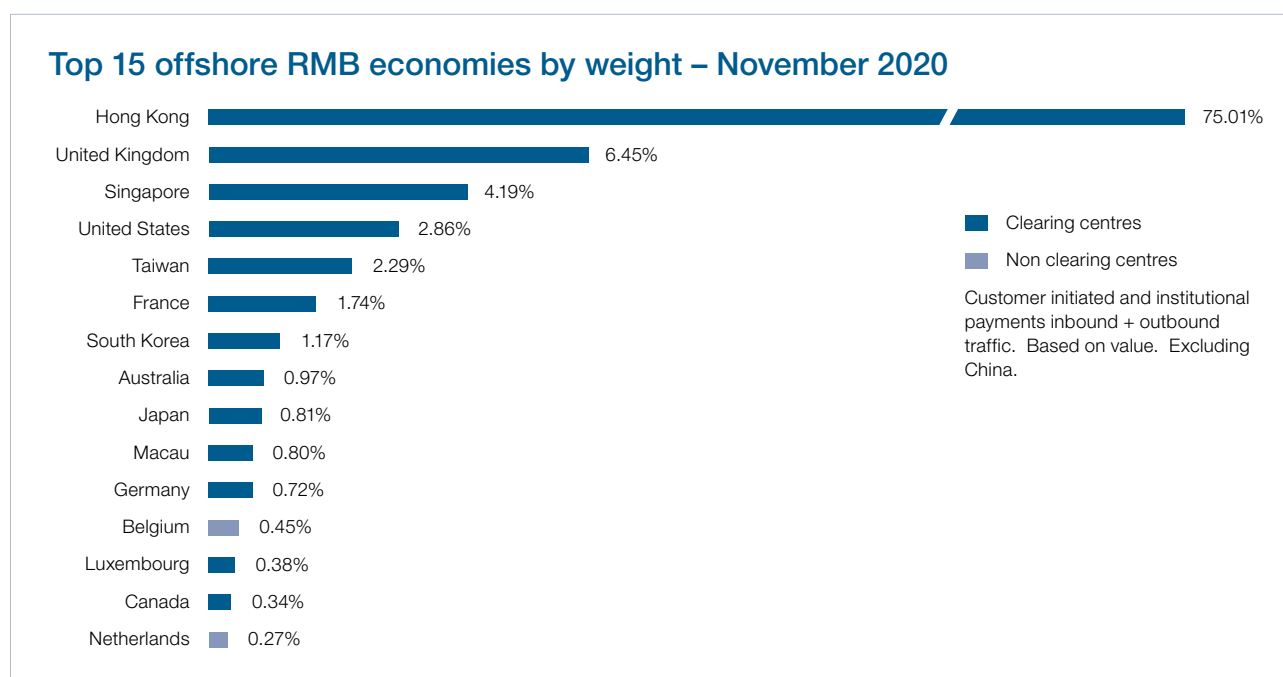
As well as continuing with its reputation as a centre for the trade of physical goods, Hong Kong has been building its reputation as an offshore renminbi (RMB) centre. According to SWIFT’s RMB Tracker from December 2020, Hong Kong was the top offshore RMB economy. The city state took the lion’s

share of offshore RMB flows, with 74.9% of volume being processed through its RMB clearing centre. This was followed by the UK with a mere 6.14%, then Singapore with 4.21%.

Poenisch comments that uncertainty prevails in the RMB offshore market. He explains the official policy of internationalisation of RMB has put the emphasis on RMB use for trade and investment settlement for bilateral trade and investment between China and its partners. “What is missing is a euro RMB market, ie RMB outside China’s jurisdiction used between non-Chinese,” he comments. He makes the comparison of the development of the US dollar as an international currency and explains how the development of the Eurodollar market from 1970 boosted its international role. This enabled non-US to invoice, settle and issue securities denominated in US dollars as well as hold investments in Eurodollar accounts and instruments. “After initial concerns about the possible inflationary effect of the euro USD market, US authorities have adopted a benign approach to this USD market beyond their jurisdiction and control,” Poenisch says.

Whether a euro RMB market will one day be developed remains to be seen. For now, however, there are a number of developments in Hong Kong that bode well for its immediate future. For example, there is the Greater Bay Area initiative, an economic plan that aims to connect Hong Kong with Macau and nine cities in Guangdong province – one of the most affluent regions in China. In June 2020, the authorities announced Wealth Management Connect, another move that would bolster Hong Kong’s standing as a financial centre, as it enables investors to buy wealth management products across the Greater Bay Area.

This, as well as other reasons – such as the city state’s flourishing fintech sector – are reasons to be optimistic for Hong Kong’s recovery after a difficult 2020. And like the Ox, Hong Kong’s standing as an international financial centre continues to be resilient and dependable.



Source: Watch. Powered by SWIFT BI





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

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

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

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

## Wait and see

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

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

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

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

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

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

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

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

# Making it hard for miscreants

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Watching the workers

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

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

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

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





# Bitcoin (not) for dummies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



# The benefits of sustainability

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

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

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

## Targets first

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

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

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

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

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

## Investors

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

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

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

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

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

## Leverage

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

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

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

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

## Investment

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

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

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

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

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

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



# Cash flow forecasting

*The pandemic has made cash flow forecasting both more difficult and more important. For most businesses, the last year up ended plans and forecasts. For many bankruptcy looked perilously close. Banks initially struggled to assess risk amid such uncertainty. Only massive fiscal stimulus kept credit flowing. Good practices are more important than ever in cash flow forecasting. This article will look at the what, how and when of cash flow forecasting.*

## Foundational

Cash flow forecasting is the bedrock of treasury. Treasury is fundamentally forward looking, and basically concerned with future cash flows which generate liquidity, foreign exchange, interest rate, credit and operational risks.

Without cash flow forecasts, treasury cannot operate. Without cash flow forecasts, the risks are unknown and risk management becomes impossible. Worse, practicing risk management without forecasts risks at best inflated costs and at worst added losses. For example, entering into foreign exchange forward contracts without properly understanding the underlying foreign exchange exposures risks increasing rather than reducing foreign exchange risk.

## What, how, when

As with many business processes – only more so – cash flow forecasting processes must address what, how and when. What are we trying to achieve? How will we succeed? When should we do it (with what frequency)?

The what element requires clarity about the purpose for the cash flow forecast. The how element relates to the process design and the tools used. The when element is concerned primarily with frequency.

## What means objectives

Simplifying, most businesses use three distinct cash flow forecasts:

1. FX exposure forecast serves to capture FX exposures (however defined) across the group, so that they can be effectively hedged (however defined). This is often for a rolling 12 month period by legal entity by currency.
2. Rolling 12 month cash flow forecast serves to determine subsidiary and group level funding needs, so that these can be met cost and tax effectively. This is typically a rolling 12 month period by legal entity in functional currency.
3. Cash positioning serves to ensure that individual bank accounts have just enough balance to cover upcoming payments and to minimise idle balances. This is typically daily for five to 30 days by bank account and currency.

(For simplicity, I am ignoring the long-term or strategic forecast often for three to five years at group level.)

The FX exposure forecast (1 above) could logically be a subset of the rolling 12 month cash flow forecast (2 above). Many businesses plan and manage in functional currency, which means that the FX exposure forecast has to be a separate exercise.

Cash flow forecasts can also serve for reporting and control purposes, but the above are the key intrinsic treasury functional purposes which relate to capital structure and funding, risk management, and short-term cash management respectively.

In the latter instance, cash positioning can allow businesses to progress from 'just-in-case' cash balances to 'just-in-time' balances. This can produce material reductions in idle cash.

## Granularity

A key issue with granularity is avoiding excessive demands on reporting entities. Too many treasuries seem to espouse the notion that more detail is better. They seem to ignore how much work this means for colleagues across the organisation.

In general, the guiding principle for granularity must be accountability. Granularity should be sufficient to enable treasury to identify whom to contact in case of anomalous variations – but not more. A simple example is to split internal vs external flows, since these are often handled by different teams. Another is to split direct and indirect procurement because often they are managed by different teams.

Another critical factor is what actuals are available. Cash flow forecasts more granular than what is available from actual (historical) reporting are basically unverifiable.

## When means frequency

Frequency of cash flow forecasting also has to be modulated according to the utility of the information. Again it is a question of applying minimum work to generate maximum actionable information.

For example, in cash positioning, the 20% of bank accounts that generate 80% of flows should maybe report daily or twice a week. For most accounts, weekly forecasting should be sufficient. For less active accounts, monthly may be sufficient.

Most of the other two forecasts are most commonly monthly. In some businesses more regular updates might make sense.

Many businesses specify a materiality threshold for ad hoc updates ie when material new information arrives within the organisation. Ad hoc inputs are disruptive to the planning cycle but enable closer management of balances and risks. What constitutes material will vary between different businesses.

## How means tools and processes

Although many geeks will want to use the latest gee whizz technology, in most cases technology choices should probably be predicated on more prosaic criteria.

Since cash flow forecasting in its various guises often requires input from teams across the business, not just treasury, the starting point should be what is already widely used at least within the finance community of the business.

To many this will mean Excel. However Excel, for all its flexibility and widespread use, is not a platform for operationally critical processes. Excel is wonderful for experimentation and exploration, but it lacks the sustainability and resilience of 'proper' systems based on distributed databases with robust access control and availability. More importantly, Excel solutions often rely on extensive copy pasting which is a minefield for unnoticed errors. Excel's very flexibility is its Achilles heel because there is no data validation and no error correction.

For treasury, TMS will seem the logical choice but not all teams outside of treasury will be familiar with TMS, and using a system once a month is a recipe for frustration. ERPs – where usable for forecasting – are generally well supported at least in the finance function. BI platforms are similarly broadly used, and may thus be a good choice.

In general, the technology platform for cash flow forecasting should probably be based more on user accessibility than technical merit.

## AI

AI – or more prosaically machine learning (ML) – is being used for forecasting with some success and much fanfare by some businesses. Digging deeper almost always reveals that ML is only trusted with extensive human sanity checking.

In current times when COVID-19 has disrupted whatever was normal before the pandemic even for businesses who have weathered the crisis well, the limits of ML have been exposed. ML is based on extrapolating from historical data patterns. To the extent that historical data patterns have been invalidated

by the pandemic, ML has limited utility – ML is basically a pattern matching game, when the patterns are no longer valid, ML's magic evaporates. In true disruptions, wetware (aka humans) are the best predictors.

## Scenarios

In times of great uncertainty, best practice is to produce forecasts for different scenarios – normally optimistic, expected and pessimistic aka minimax scenarios.

Scenarios help businesses prepare for different possible outcomes, which is critical in times of disruption. Scenarios can help elucidate the true value of real options.

McKinsey recently wrote a pertinent piece on scenario based cash planning.

## Sustainability and resilience

Although more and more treasuries aim to contribute to growth and profitability, ultimately treasury is a risk management function whose role is to enhance the sustainability and resilience of the business.

Management sets strategy and tactics, and treasury ensures the business survives to deliver, by providing adequate but not excessive risk capital at optimal cost to support the business.

Cash flow forecasting in its various forms is critical to this role of treasury. Without good forecasts, treasury has to provide 'just-in-case' capital rather than 'just-in-time' capital, which is inefficient and costly.

Another aspect of resilience is to ensure that treasury can continue to support the business adequately even when processes such as cash flow forecasting are disrupted. BCDR (business continuity and disaster recovery) is a critical aspect of cash flow forecasting, since it is critical to the functioning of the business.

## Conclusion

Cash flow forecasting has always been foundational to treasury, because treasury cannot manage risk without forward looking information, however imperfect it may be. The disruption brought by COVID-19 has made this priority even more clear. Pragmatic and functional approaches are essential to ensure treasury enables the business to thrive in troubled times without draining internal resources.



### 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.

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