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ASIA



Asia addresses trade finance gap

More SMEs are being rejected for trade finance as the pandemic has widened the gap between supply and demand. Can technology alone solve the problem?



The Corporate View

Jonathon Hirst

Corporate Treasurer
SunRice



Women in Treasury

Louise Watts

Co-Founder
Transition Hub

Treasury Practice

Optimising treasury: where should you start?

Risk Management

The new risk landscape: are treasurers coping?

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Asia's regulations get more complex

Back to Basics

Cashing in on proactive liquidity management

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Trade, risk, regulation and much more

As we publish our July/August edition, we are closing the door on the first half of 2021. In this issue we look at a breadth of topics, from a feature on plugging the trade finance gap, which explores the latest in trade finance from across Asia Pacific to the latest in risk and regulation.

Elsewhere we continue with our acclaimed series of profiles of senior women from across the industry. July/August's This Much I Know feature looks at Louise Watts who is a leadership coach and future of work expert jointly running her own business with Karen Thomas from Sydney, Australia. We also catch up with another Sydney based Australian business leader, Jonathon Hirst, Corporate Treasurer of SunRice, who is the subject of this issue's Corporate View.

Our Adam Smith Awards Asia are open for nominations as of June of this year and we welcome submissions from across the Asia-Pacific region that demonstrate commitment to original ideas and unique collaborations. Our nomination forms are online along with a list of all this year's categories which include some which are new for 2021! Nominations will close in September and we look forward to seeing many engaging submissions from across different industries, locations and company sizes.

We look at the impact of new US corporate tax laws and how this impacts corporates operating across APAC. We also assess the risk management landscape and latest developments in the region as well as a deep dive on regulation.

We hope you enjoy the latest issue, stay safe amidst the ongoing pandemic and invite you to please consider nominating yourself in the Adam Smith Awards Asia.

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Asia addresses widening trade finance gap

The pandemic has exacerbated the global trade finance gap – the difference between the need for financing and the actual lending that occurs – which could have consequences for corporates' strategic suppliers in Asia.

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Louise Watts, Co-Founder

In this inspirational article Louise Watts shares her secrets of success and advises aspiring leaders to focus outwards on their path to growth.

[transitionhub](#)

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Nominations now open

The Adam Smith Awards Asia are now in their eighth year! We believe amidst a backdrop of global disruption and difficulty, it has never been more important to recognise and reward the very best and brightest in corporate treasury. We look forward to toasting the fruits of your labours as the most successful treasury teams across the region.

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Optimising treasury systems and processes

Optimising treasury systems and processes has never been more important. So where are the most significant opportunities for improvement, and where should treasurers start when embarking on an optimisation initiative?



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Asia’s regulatory landscape gets more complex

The regulatory framework in Asia Pacific is becoming more complex as the mega trends such as data and privacy, and environment, social and governance (ESG) issues take hold.



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Jonathon Hirst
Corporate Treasurer



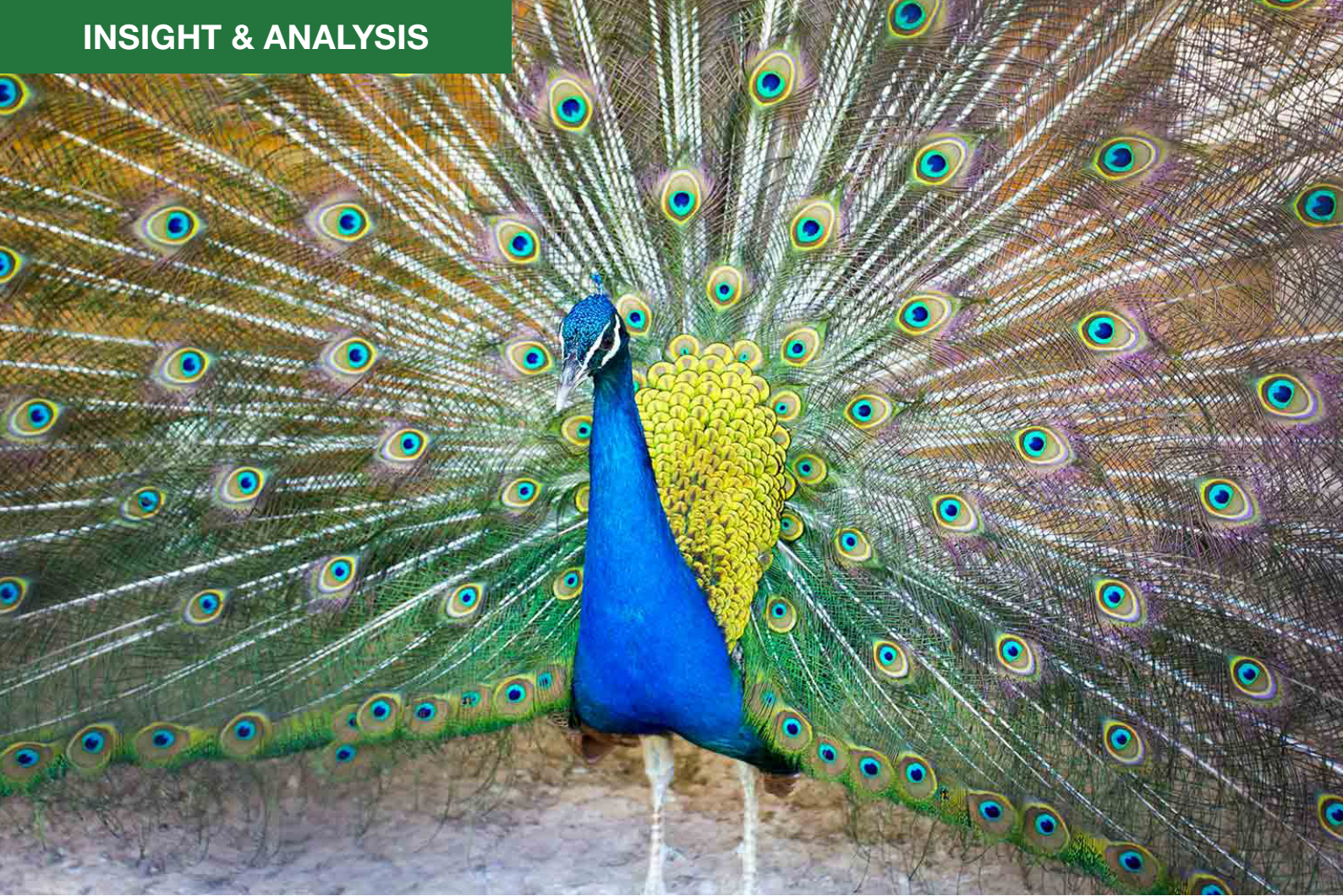
Jonathon Hirst, Corporate Treasurer at Australian food company SunRice, explains how he has navigated the challenges of recent years – from a two-year drought to the onset of the COVID-19 pandemic.

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Swimming with swans in the new risk landscape

The COVID-19 pandemic and climate change are altering the risk landscape for treasurers. While the risks may remain the same, treasurers are expanding their remit across a wider range of risks as challenges could emerge from any part of an organisation.



Asia addresses widening trade finance gap

The global trade finance gap - the difference between the need for financing and the actual lending - has dramatically increased since the onset of the pandemic. In Asia, small and medium enterprises are particularly affected, and although technology solutions show promise in addressing their needs, fintech alone cannot plug the widening gap.

The estimates may be different, but they tell the same story: a staggering number of companies are still being rejected for trade finance. The Asian Development Bank (ADB) estimated the global trade gap in 2018 was a staggering US\$1.5trn. And since then, the numbers have only got bigger. "The coronavirus pandemic has only worsened the situation," says Steven Beck, Head of ADB's Trade and Supply Chain Finance Program.

Now the International Chamber of Commerce (ICC) estimates another US\$1.9trn to US\$5.0trn would be needed to plug the gap. Add this to the original figure, and a total of US\$6.5trn is missing when the financing needs are compared with the actual lending that is taking place. If businesses in Asia don't

have access to trade finance, it ultimately affects their ability to bounce back from the pandemic, stunts economic growth and could halt development in the region. While corporate treasurers may think that trade finance for small and medium enterprises (SMEs) does not affect them, shocks to their supply chain will, and the current lack of financing could be an issue for their strategic suppliers in Asia.

Covid has accelerated and exacerbated trends that were already in existence. For SMEs and the trade finance gap, "the urgency of access to finance has been amplified," says Alexander Malaket, President of OPUS Advisory Services International.

The trade finance gap is by no means a new issue, and various industry experts in Asia have been grappling with it for a number of years. Malaket comments on one of the reasons for the gap: “We haven’t yet solved the economics of deep-tier financing into global supply chains.” He adds that traditional trade finance providers cannot finance micro-enterprises and SMEs on commercially viable terms. “It’s not that the banks don’t want to lend – the economics do not make sense,” says Malaket.

There are multiple reasons for this, including the due diligence, know your customer (KYC), onboarding and compliance costs, as well as the complexities in trade finance and in supply chain finance – including payables finance – and negligible margins generally earned in SME financing. Also, there are “significant demands on time and resources to help coach SME founder-managers on the esoteric mechanics of trade financing,” says Malaket.

Beck also points to the anti-money-laundering (AML) and KYC requirements as a major barrier for banks. In the wake of the financial crisis, when tougher regulations came into force, banks cut back on their correspondent banking relationships, as well as corporate and commercial relationships – in a move dubbed as ‘derisking’. This left parts of the world dangerously disconnected from the global financial system and, therefore, from international trade, says Beck.

Explaining the existence of the financing gap, however, is more complex – it is not just about shedding business that was deemed too risky. “De-risking has been justified based on the need to exit relationships that failed to meet thresholds related to financial crimes compliance. This is undoubtedly the case in some instances. But profitability and the commercial viability of relationships were also part of the calculus, even if they were less widely discussed,” comments Beck.

Newer regulations are also looming over the banking industry, which also affects its willingness to lend. Christoph Gugelmann, Co-Founder and CEO of trade finance platform Tradetec, comments on the hurdles for banks in bridging the trade finance gap: “The single biggest external concern for the industry is the incoming Basel IV rules. This will significantly increase the capital requirements that banks are required to put aside when extending trade finance to corporations and small businesses,” he says.

In the face of such pressures, one way to address the gap is for development banks – which don’t have the same profit motive as commercial banks – to step in. The ADB, for example, has been active through its trade and supply chain finance programme. Beck explains that in 2020, the programme executed over 7,000 transactions valued at over US\$5.8bn, a 50% increase in transaction numbers over 2019. And in the first five months of this year, there has been a 45% increase in the value of transactions that the programme has supported. “These transactions, executed with our bank partners, have helped, albeit in a small way, to reduce market gaps. Over 2,000 of the 2020 transactions support small and medium sized businesses,” explains Beck. He adds that the programme is active in 22 countries in the region, with the most active being Bangladesh, Pakistan, Sri Lanka, Vietnam and Uzbekistan.

There are other ways for the difficulties with trade finance to be solved. The Legal Entity Identifier (LEI) system, for

example, makes it easier to do the KYC and AML checks on small and large companies alike. This in turn lightens the load on banks, reduces de-risking, and increases the access to finance for SMEs as there would be more reliable information available about them.

One initiative that supports the use of LEIs is the Digital Standards Initiative (DSI). “The pandemic showed just how vulnerable global trade and supply chains can be when confronted with shocks. The pandemic also showed how important it is to make supply chains more robust and reliable to ensure critical goods get quickly to where they’re needed,” says Beck. He explains how the DSI aims to create digital standards and protocols so that the various parties – fintech platforms, exporters, shippers, ports, customs, warehouses, banks, importers and so on – are using standards that are interoperable. “This will make global trade and supply chains more robust. Interoperability and connections between supply chain stakeholders will also lead to greater transparency, enabling ‘tracking and tracing’ of component inputs throughout the supply chain. This will underpin greater sustainability controls throughout the supply chain,” says Beck.

This is an example of one initiative that seeks to make the wheels of global trade turn more efficiently. There are numerous other ways that technology – particularly digitisation – can be used to solve the issues that are affecting the financing of small businesses in Asia.

Alisa DiCaprio, Head of Trade and Supply Chain at R3, a blockchain development company, comments, “Trade finance has earned a reputation for an industry reluctant to adapt in the face of change. Characterised by unwieldy and cumbersome legacy processes, the industry has seemingly remained stagnant whilst other sectors have steamed ahead with digitisation.”

DiCaprio continues: “The pandemic has prompted the call for change that the trade finance industry has sorely needed for years, and steps towards technological innovation have been made. These technological advancements are helping to revolutionise the trade finance space and, hopefully, trigger a coordinated, global approach to creating more efficient trade.”

“Companies of all sizes will benefit from better visibility into trading relationships and easier access to financing options, narrowing the trade finance gap as a result,” DiCaprio adds.

The move toward digitisation echoes the thinking of entrepreneur Gert Sylvest, Co-founder of Tradeshift. Prior to establishing the trade technology platform, he worked on a digitisation project in Denmark that moved the public sector to electronic invoicing. From that project he realised that there was very little digitisation with trade finance – ultimately affecting billions of invoices globally – and an outdated model was being used. “It seemed fundamentally that the economic model was wrong,” Sylvest says.

In addressing this, the first step was to digitise the antiquated way of doing things and move to e-invoices, for example. Corporates were communicating with thousands of suppliers using reams of paper, emails and pdf documents. The starting point for Tradeshift, Sylvest tells Treasury Today Asia, was to make this process digital and create a system so that the seller could send information directly to the buyer.

When it comes to the trade gap, even getting access to data in a digital form is a challenge, says Sylvest. Also, there tends to be a one-sided view; someone could say they sent the invoice, for example, but only they really know if they did. When processes are digitised effectively, there is a two-sided view and the data relating to such transactions can be checked – and looks more like a ledger.

Sylvest comments that it is not digitisation alone that helps address the inefficiencies in trade finance, but rather getting the digital data into a network setting. Although Tradeshift is known for its e-invoicing and accounts payable automation, for example, digitisation is just the first step. The real impact comes when companies are able to participate in a network: “That has 1,000 times more value than just digitising,” Sylvest says. Tradeshift aims to connect companies and create economic opportunities through such a network, he adds.

There are various other efforts under way that seek to apply the latest technology – and thinking – to finding ways to close the trade finance gap. For example, in March this year, the ICC announced that it was teaming up with technology vendor Finastra to tackle the trade finance gap by developing a financing marketplace for small companies. This ICC Tradecomm marketplace would give SMEs more financing options and would aim to match supply and demand. Bank and non-bank lenders would be able to transact on invoices from SME suppliers and later versions of the marketplace may also include other trade documents, such as letters of credit, bills of lading, and other bank-syndicated products, the ICC said in a statement at the time of the announcement.

Following on from this March announcement, the ICC had more to reveal on how it was addressing the trade finance gap. A couple of months later, in May, the ICC launched Trade Now, which is a suite of digital solutions. ICC Trade Now aims to connect SMEs to a number of providers, and the small businesses will choose the one that suits their needs best. Three solutions were announced under the ICC Trade Now campaign, including the already-mentioned Tradecomm marketplace with Finastra. Another solution, TradeFlow Capital, enables investors a solution based on the direct ownership of commodities – rather than extending credit. And FQX uses IBM’s distributed ledger technology Hyperledger Fabric to digitise promissory notes.

Frank Wendt, Chairman of the Board at FQX, explains to Treasury Today Asia how the company has taken the promissory note – a debt instrument with a 2,000 year history – and brought it into the digital age with the eNote. These eNotes, like the traditional paper-based promissory notes, are an unconditional promise to pay. These securities are attractive because they can be sold and transferred to other parties, such as investors – thus encouraging the flow of financing. And, because they are based on an international framework, the eNotes are enforceable in courts around the world. Unlike the paper version, these notes can be settled instantly, creating new efficiencies for the trade finance process.

Such a solution can aid the trade finance gap by making the process more efficient and ensuring smaller companies get paid quicker. One area that is ripe for disruption is in government contracts. “The government is one of the worst payers,” says Wendt. This exacerbates problems that suppliers are already experiencing. Wendt estimates that the government can take the largest share of GDP – in some

cases 50% – and if eNotes were used, it would make a massive difference.

Elsewhere, there are other issues that have been addressed. Gugelmann at Tradeteq also comments on the inefficiencies his company has tackled. The first was to develop artificial intelligence so that banks and issuers could accurately assess the riskiness of clients, vendors or individual transactions. This technology is now being used by participants of Singapore’s Networked Trade Platform, which includes multinational corporations, SMEs, financiers and shipping companies.

Also, so that banks can reduce their balance sheet pressures, Tradeteq has made it easier to repackage trade finance into capital markets products. “The ability to distribute these assets can free up cash which banks can lend to corporations and SMEs that otherwise would not be able to access financing. Of course, this requires a buyer to purchase that asset. Fortunately, there are many ‘cash-rich’ non-bank investors looking to invest in the trade finance market and benefit from the lower levels of risk and potential yields it offers,” says Gugelmann.

Gugelmann also explains how Tradeteq operates an electronic trading platform that allows banks and institutional investors to transact trade finance assets with each other.

These are just some of the ways in which technology companies are seeking to make the trade finance market more efficient, and in turn facilitate the flow of funds to those companies that need it.

However, on plugging the trade finance gap, Malaket says, “Neither technology nor fintechs alone will solve this issue.” He adds, “Technology will play an important role in changing the cost of servicing the SME segment, and fintechs have advanced matters through agility and innovation, as well as inspiring the banks to raise their game.”

Also, he says, fintechs have realised that banks are important to the overall ecosystem. “A collaborative posture makes more sense,” says Malaket, who in his years as a consultant to the industry has seen new entrants take a more combative approach. “Fintechs do not bring balance sheet capacity, clearing capacity or relationships with central banks.”

There are other factors that can address the growing trade finance gap. “There are things that should be done on the policy front to help drive liquidity to the SME sector, and one might suggest that SMEs themselves can help by actively working to become more compelling to lenders,” says Malaket. He also makes the point that not all of the trade finance gap should be filled. “A material amount of [the trade finance gap] is legitimate and includes transaction that simply are not bankable or represent bad credit risk,” says Malaket. Unfortunately, it is difficult to assess the proportion of this compared to the overall trade finance gap.

“One thing that may happen, as it did in the context of digitisation, is that the Covid crisis will accelerate a confluence of events to help address the SME finance and trade finance gap, given that trade – and SMEs – will be critical to our shared recovery,” Malaket adds. ■



ESG AND TRADE FINANCE

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

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

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

Rise of the ‘S’

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

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

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

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

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



treasurytoday**ASIA** **Adam Smith Awards ASIA**

Celebrate the fruit of your labours

Nominations now open

The Adam Smith Awards Asia are now in their eighth year! We believe amidst a backdrop of global disruption and difficulty, it has never been more important to recognise and reward the very best and brightest in corporate treasury. We look forward to toasting the fruits of your labours as the most successful treasury teams across the region.

The Adam Smith Awards programme recognises best practice and innovation in corporate treasury, regardless of company size, budget or industry sector. Nominations close on September 6th and there are 23 award categories in total. Representing the full range of activities that corporate treasury teams undertake, these categories are sure to capture your achievements. If you believe your work has gone above and beyond the call of duty, now is the time to put yourself forward.

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

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

3 easy steps to nominate



Step 1:

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



Step 2:

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



Step 3:

Winners will be announced at our live winners' announcement on October 14th and their success stories will be showcased in a series of winner podcasts and in individual case studies which will be published on our website in January.



2021 award categories

Treasury Today Asia's Top Treasury Team 2021
 Best Cash Management Solution
 Best WCM, AP/AR Solution
 Best Card/e-Cash Solution
 Best Trade/Supply Chain Finance Solution
 Best Funding Solution
 Best ESG Solution
 Best Risk Management Solution
 Best Crisis Management Solution
 Harnessing the Power of Technology

Best New Technology Solution
 Best Cyber-Security Solution
 Best SME/MME Treasury Solution
 Best in Class Treasury Solution in the ASEAN
 Best in Class Treasury Solution in India
 Best in Class Treasury Solution in the PRC
 Best Liquidity/Investing Solution
 First Class Relationship Management
 Best Foreign Exchange Solution
 Best Talent Management Solution

Individual awards

Treasury Today Asia Woman of the Year 2021
 Corporate Treasurer of the Year 2021
 A Rising Star

Nominations close on Monday September 6th and winners will be announced at our live winners' announcement on Thursday October 14th.

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

Top tips

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

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

If you feel your submission qualifies for **more than one category** please tick the relevant categories on the submission form.

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

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

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

This much I know

Louise Watts

Co-Founder

transitionhub

Why does diversity, equity and inclusion matter to you?

Diversity, equity and inclusion matters deeply to me as it represents real life, and our work should reflect that. I work on the basis that everyone has something to say, something to offer, something to learn and something to teach. I've seen so often how magic happens when you invest time in people, a conversation, some advice or in our case, some coaching and training. There is a fine line between those who get to participate and those who miss out, and I'm on a mission to show people how to step over that line. The fastest way we can make a difference to the diversity we see in organisations, is to ensure equity and inclusion is fair and representative of the communities we serve. Leaders need to be selected and trained for different qualities these days. It's no longer appropriate to promote people into leadership roles who are simply the most senior, most successful or the best self-promoter. If we continue to do that we will lack diversity, as women and marginalised individuals are not obvious choices.

Removing the imaginary fine line, opening up opportunities for people to realise their potential and seeing beyond the obvious candidates is the way forward, in my opinion.

How have you interacted with corporate leaders and how have you seen approaches to work, life and diversity change over the past decade or more?

I interact with corporate leaders every day and I think more has changed in the last 18 months, than had changed in the previous decade. COVID-19 has impacted everyone, and we've seen a snapshot of what the world needs, presented very clearly to us all. Organisations who have looked after their people, kept them feeling psychologically safe, connected and engaged, are the organisations that people will gravitate to in the future. Flexibility, understanding, empathy, care, and concern – these qualities should not just be a response to a pandemic, but they need to be key features in the future of work. I don't know anyone who hasn't considered their own career, the meaning they find in it, the impact they create from it and how it relates to their life and family, in the last 18 months. As a result, we have seen many people change careers, step back from something too demanding or move towards something more meaningful. I do think many women have stepped away from their role because it doesn't suit their holistic view of their life and what is clearly important. That is not to say women are not capable of moving into the future of work. Many are looking for a different solution to the one they were putting up with prior to COVID-19. Now is the time for more organisations to engage women and diverse groups, with an offer of flexibility, respect and openness to new ideas. Then we will start to see a fully engaged workforce, with options to suit many situations, roles and responsibilities.

What is unique to the Australian corporate landscape and what would you like to see change?

We've been fortunate in Australia, being an island, we've been able to protect ourselves from COVID-19 to a large degree, by closing our borders and looking after those within Australia. But, that very approach is now impacting our future, in my opinion. Our vaccination roll-out has been slow, whilst our economic recovery has been fast, but that is a holding position and not a progressive go forward approach. If you are stuck on the outside of Australia, trying to get home, it's a long wait. With so much land and open spaces, I'd like to see a solution for bringing people home, bringing back talent from other countries, welcoming international students and

“Removing the imaginary fine line, opening up opportunities for people to realise their potential and seeing beyond the obvious candidates is the way forward, in my opinion.”

ONLINE

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



opening up our borders for vaccinated travel. Our most inspiring political leaders in this part of the world are women, such as the NSW Premier, Gladys Berejiklian <https://www.gladys.com.au/> and the New Zealand Prime Minister, Jacinda Adern <https://www.parliament.nz/en/mps-and-electors/members-of-parliament/ardern-jacinda> and they are incredible role models to all generations, no matter what side of politics people favour. They lead with compassion, kindness and practical leadership, which is what we need to see more of across all organisations.

On a cultural note, we have cultivated a warm corporate atmosphere in Australia. Business talk also blends with personal connection and people appreciate the power of the conversation. Our global clients welcome our friendly yet professional Australian style and we've really encouraged that warmth and human approach in all of our global work.

What is the best piece of advice you can offer to aspiring leaders?

My best advice to aspiring leaders is the advice I give myself and my team: think more about other people than you do about yourself. Lead by being human, encouraging the best human in behaviour in your organisation. Align your brand and the organisation you represent with your own standards and values.

Recognise that business is personal, and people need people, so integrate people with technology and be proud of supporting the healthiest human system within your organisation. (Reference to John Flint, previous HSBC Leader who is known to this day as the leader who prioritised people).

Any final comments?

I'd love to highlight the approach we are taking with Transition Hub to support transition into the future of work, preparing leaders for the future with inclusive and holistic professional development accelerators. www.transitionhub.com

From balletic beginnings

Louise Watts began her working life as a classical ballerina in an Australian Ballet Company. Growing up in a country town in New South Wales (NSW), Australia, her main focus was on ballet classes, performing in Eisteddfods (competitive festivals of music and poetry in Australia), and preparing for examinations, which required a high standard of ballet, knowledge of French terms and nerves of steel. Academically, Watts had also performed well and would have gone into law, had she not chosen the stage.

After an eight-year career in professional ballet, she then went to university as a mature student, achieved a BA Communication from UTS Sydney and, by then, was running her own professional development business called Image & Attitude. This smooth transition was facilitated by the confidence she had acquired from working as a performer and seeing the value of presence and impact within the corporate arena. Louise coined the phrase, "executive presence", and it's the platform on which she has built business ever since.

Leading women

When Louise graduated from university, she was about to deliver her first child, Campbell, who is now 25 years old and about to go to his first Olympics as an Australian rower in Tokyo. She followed this up with a daughter, Giorgia, who she describes as a dynamic young woman and a leader of the future. What was important to her then and still is to this day, is the ability to integrate life, work and family into one, with the flexibility to prioritise any one aspect when need be. Louise's team is all female, and she has found that they possess a natural tendency to get the job done, inject creativity and flexibility into their solutions, act as role models for women and men in business and cover for each other when family comes first.

Seeking inspiration

When asked who or what has most inspired her to date, Louise explained that a great deal of her inspiration comes from the young people she sees who are making sense of the world we are moving into. Louise thinks that organisations need to trust the insight and energy of young minds and learn from them as much as guide them. She proposes a system whereby young leaders shadow senior executive teams and integrate generational knowledge. Transition is taking place before our very eyes and we are going to need to work together to make the future of work inclusive, dynamic and appropriate for generations to come.

At HPC Global and Transition Hub they have an amazing young woman on their team, Holly Bartter, who is integral to the business. Louise first met Holly when she began tutoring her children in senior English at school. Since then, Holly has gone on to develop her skills across media, tech, start-ups and client engagement. Louise explains that Transition Hub and HPC Global today would not be what they are without her.

She has also been inspired by the resilience and flexibility that she sees across the world, as people navigate this pandemic. People didn't see it coming, but, says Louise, we knew something needed to change for people and the way they were working, evidenced by burnout, anxiety and lack of confidence across many cultures. 'Our expectation was that automation and AI would require people to reskill, promote their human qualities and find joy in collaboration. Little did we know that would be fast tracked, due to COVID-19'. Louise describes herself as inclined to think we will come through this more mindful, thoughtful and empathetic than ever before.

Optimising treasury systems and processes

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

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

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

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

Optimisation in a COVID-19 environment

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

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

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

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

The goals of optimisation

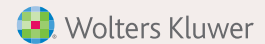
When setting out to optimise processes, it's important to have a clear understanding of what those processes are intended to achieve in the first place. "The goal of creating and documenting processes within the treasury function is to make sure data flow for decision making is consistent and holistic,"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

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

Optimisation in action

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

Optimising cash flow management at Wolters Kluwer



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

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

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

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

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

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

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

Obstacles to optimisation

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

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

Deloitte's Sharman adds that resistance to embracing change and new technology can also hinder companies' optimisation efforts – and that leading the way by adopting the latest technology in an innovative way is rarely smooth. In addition,

he says, "a simple 'fear of the unknown' of new innovations such as machine learning and Robotic Process Automation (RPA) leads to layered approval processes, and decision makers not willing or confident enough to release budget. This can limit treasury investment in innovation, or even as a 'fast follower'."

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

The path to optimisation

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

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

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

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

Swimming with swans in the new risk landscape

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

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

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

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

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

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

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

This is a point also made by Damian Glendinning, Singapore-based Chairman of the Advisory Board at ComplexCountries, a global peer group network for senior corporate treasury professionals. "It is difficult to say what impact Covid has had

on risk *per se*: what it has clearly done is to show that risks can emerge in ways none of us could easily envisage."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



Managing risk in challenging times

Jonathon Hirst
Corporate Treasurer



From the recent two-year drought to the onset of the global pandemic, Australian food company SunRice has faced some major challenges over the last few years. As corporate treasurer Jonathon Hirst, these challenges have above all highlighted the importance of building strong relationships.

Headquartered in Leeton, Australia, SunRice is one of the consumer brands and trading name of Ricegrowers Limited, a food conglomerate that was founded by the Australian rice industry over 70 years ago. From its establishment of a single rice mill in the Riverina region of New South Wales in 1950 it has grown into one of Australia's largest branded food exporters, and is now listed on the Australian Securities Exchange. With reported revenues of over A\$1bn, SunRice has over 35 brands in its portfolio, employing over 2,000 staff in 11 countries including in Australia, New Zealand, the Pacific Islands, USA, the Middle East and Asia.

"Treasury is just an amazing part of any organisation," says Jonathon Hirst, Corporate Treasurer at SunRice. "Not only do you get to understand how an organisation actually operates,

but you can also see how the cash flows around it, where that cash came from and why it came the way it did – and what it's doing now."

Hirst grew up in rural Queensland. “Most people would consider it the middle of nowhere, but it was a lovely spot and a wonderful place to grow up in. It not only taught me about hard work but also the importance of having good, solid ethics,” he recalls. He then moved to Sydney to study accounting at university and gained his chartered accountancy qualification in 2002. Alongside his studies, Hirst joined an undergraduate programme with KPMG Audit, and worked for other accounting firms while gaining his professional qualifications. “But I was never going to hang around the accounting service firms too long,” he says. “I was very keen to get out into the corporate world.”

In fact, it was a change in Australian accounting from local to international standards that provided the catalyst for Hirst’s move into treasury. “I went to work for an oil company called Caltex. The change to IFRS (International Financial Reporting Standards) was quite complex, so they needed someone in their treasury team with a deeper knowledge of accounting.” With his promotion to Treasury Manager, Hirst was able to successfully deliver systems and processes for the migration to new IFRS accounting standards, as well as implementing new IT systems to improve transaction settlement and control within the treasury department.

Leaving Australia to move to London, he took up the position of Group Treasurer for Habitat, the iconic UK furniture business, at a time of uncertainty in the high street retail sector. With cash management a high priority, he was able to build a cash flow forecasting model supporting the CFO in managing the procurement of store items, as well as negotiating a warehousing facility in France which provided Habitat with additional credit capacity.

When Hirst moved back to Australia, he re-joined Caltex to project manage a capital structure review before being promoted to a finance manager role, where he managed a team of 11 staff across the traditional finance functions of credit, accounting, tax, transaction services, IT and business support.

In 2009 he took up the post of Assistant Treasurer, and in 2015 became Regional Treasurer for the oil company based in Singapore, reporting to both the General Manager and Group Treasurer. Returning from Singapore in 2017 he joined Blackmores, one of Australia’s leading natural health company, which produces a range of vitamin, minerals, herbal and nutritional supplements.

Current responsibilities

In May 2018 Hirst took up his present position as Corporate Treasurer of SunRice, Australia’s leading producer of rice. “It’s quite a broad-based treasurer role” he says. “The treasury’s core components are the traditional treasury functions. As well as looking after all the risk financing for the group and cash management, we have transaction services, accounts receivable and accounts payable, and responsibility for the balance sheet from a funding perspective. And we also have insurance.”

Hirst describes his role as being about creating a strong, controlled framework in which to operate. He adds: “We have a wonderful group of people who are experienced in what they do and who have an excellent understanding of the controls that are required to do things well.”

Although as an agricultural company SunRice is ordinarily subject to volatility, the effect of the recent two-year drought in Australia was to reduce rice exports dramatically. Understandably this had serious implications for the organisation. One of the major impacts was the need to adjust the supply chain, with only 5% of global demand available to be sourced from the Riverina.

“With that comes a change in risk,” explains Hirst. “You need to be able to cope with volatility not only in terms of your own organisation, but also the markets in which you are operating. In addition to this, you have the uncertainties of the foreign exchange market – particularly the instability of the rates between the Australian dollar and the US dollar.”

Innovative approaches

As a treasurer of many years’ experience, Hirst is acutely aware of the importance of innovation in the world of treasury. “For many years there have been wonderful advances in technology,” he says. “But there can be so many costs involved. The most important thing is to make sure that the treasury management systems are fit for purpose.”

His aims in bringing new technology into treasuries have primarily been to drive benefits for the organisation, improving information flow and risk management and supporting treasurers in understanding the risks. “It is all about trying to save money for the company, while protecting the balance sheet” he explains. “In the 20 years that I have been involved in treasury, I have seen the evolution from just day-to-day bank and bond borrowing into much more innovative working capital type structures.”

For Hirst, using innovation as a way of reducing costs and increasing profitability is only part of the picture. As SunRice is part owned by the farmers growing the rice crop, it is vitally important that they receive support from the company. “We use innovative financing not only to fund the investment of the farmers in their rice crop but also to support the early payment for that crop once delivered.”

In the area of international trade, it is the slowness with which digital documentation is replacing the physical that Hirst finds most frustrating, particularly in many parts of Asia where there are still legal requirements for ink signatures and the impression of company seals on paper. “International trade is still in the Dark Ages,” Hirst comments. “There is a whole world in international trade that is still paper driven, that still requires wet signatures. In some countries there is still a need for cross stamping – that’s where you have to lay out all the pages and stamp across the outer edge, inking each page.”

Increased visibility

Where the role of the treasurer is concerned, Hirst is a firm advocate for treasury having a very visible presence in the organisation. “What I enjoy most about treasury is that you feel that you are at the heart of the organisation,” he says. “You get to really know the cash flows and risk exposures, and this gives you a particular insight into how it operates.” Hirst sees his role as one of both protecting and supporting the organisation in making money: “I’m sitting down with the CEO, CFO and heads of finance every month to go through exposures and look at the cash flow forecasts and to examine the overall risks of the group from a treasury perspective.”

Turning to the evolving role of the treasurer, Hirst says there needs to be a strong sense that the treasurer is the “overarching financial risk manager of the organisation – you’ve got the financial risks, you’ve got insurance risks, and that gets you to this holistic understanding of how to manage the risks of the organisation, as well as playing the role of advisor to the CFO. So I’m hoping that treasury continues on this path.”

When it comes to advising the CFO, Hirst emphasises the importance of ensuring that the CFO can rely on the skills of the treasurer in a world of increased risk, and with volatility in financial markets set to continue. “It’s the systems and processes that we put in place that will ensure that the organisation retains stability as it sails through troubled times,” he adds.

From drought to pandemic

Following the difficulties presented by the two-year drought, the escalation of the global pandemic in March 2020 brought some different challenges – not least because the company’s year-end is on 30th April. “The funding market wasn’t exactly fun last year,” says Hirst. “But we had a plan which we were able to execute. In reality, it’s about choosing the right vendors and the right banks. Ultimately, we were very fortunate in having a solid group of banks that supported us.”

For Hirst, the experience of the global pandemic has only served to strengthen his belief in the importance of strong relationships. “That really is number one for me,” he explains. “You develop relationships with banks and insurance providers, and with other organisations. Over the last 20 years, there have been some good times – a lot of good times – but there have also been bad times. It’s when those harder times come that you need to draw on those relationships.”

He also believes that in being a supplier of such an important food staple as rice, the organisation was in a fortunate position. “If you think about when COVID-19 hit Australia, what did people run to the shops for? They ran for toilet paper. And they ran for rice.”

With a surge in demand – “with orders at one point some 200% of forecasts” – and exporting to markets that were significantly affected by the pandemic, Hirst and the treasury team worked hard to ensure that the supply chain was supported, that cash was available when needed, “and that there was never a concern about the creditworthiness of our organisation.”

On the other side of the equation, it was important to ensure that customers were able to pay. “We needed to make sure that we were dealing with the right customers, and they were paying on time. But at the same time we were also there to support them if they were having trouble.”

Some other major challenges that Hirst faced were in the insurance markets and the foreign exchange markets. “In this COVID-19 environment, the insurance market has gone haywire. With the financial markets that happened quickly. But because most insurance contracts are renewed on an annual basis, it has taken time for the effect to work through to policy holders.”

For Hirst, it all comes back to the organisation’s understanding of, and appetite for, risk. “Do we truly

understand our appetite for risk? And what can we do to make sure we’re buying an insurance portfolio that’s really fit for purpose in terms of protecting or reducing costs in this type of environment? That’s probably our biggest challenge at the moment.”

In addition, Hirst notes that foreign exchange fluctuations have always had a significant impact on Australian companies. “We don’t know for sure where that is going. There is a wide range of expectations from highly qualified researchers in banks,” he says. “What we have to do is to figure out where best to place the hedging portfolios that we have in order to best protect our organisation. But it may also represent a good opportunity for our growers.”

The pros and cons of remote working

Like many treasurers, Hirst has had to come to terms with the challenges of remote working, made necessary by the global pandemic. “There’s definitely some wins and some losses in a working from home situation,” he says.

As a strong believer in collaboration, he misses the proximity of colleagues in an office environment, as well as the general atmosphere that can inspire people to push themselves further. “There’s a real benefit from actually being near people and listening to them and the whole buzz of the office.” However, Hirst is also a strong believer in the benefits of increased flexibility to the organisation and feels that the argument against people being allowed to work from home – that they would spend too much time relaxing and not enough time working – has been proven to be wrong.

“You know, when people are given the opportunity to work from home, they work more hours. When they are given more flexibility, they work harder. For me, it’s all about having trust in the people who work for you,” he argues. “You expect them to deliver. You monitor their output. And then you find they have delivered.”

That said, Hirst is also aware of the possible negative impact of remote working conditions on individuals. With the lockdowns and forced isolation have come increased stresses and strains to everyday life, bringing with them an increased public awareness and acknowledgement of the possible mental health implications.

In Australia, this greater focus on mental health has led to the establishment of what are called ‘R U OK? Days’. The purpose of such days is to make time to engage in conversation and help those who might be approaching a personal crisis to feel supported and encouraged to access appropriate help if necessary. “Perhaps the traditional view of Australians is that we are a little bit ‘rough and tough and tumble,’” Hirst reflects. “But underneath that exterior we are as soft as anyone else.”

As someone who likes to work as efficiently as possible, Hirst is keen to make use of the time not spent commuting to the office each day – time that he can spend with his children instead. “We’re a typical family, so that means we’re a noisy bunch of people,” he cheerfully admits. As both a father of four children and an enthusiastic scout leader, family and community are very important for him. When time permits, he likes to get back to the family farm. In his own words: “Family, community and a whole lot of work. And then I’m done.”

Asia's regulatory landscape gets more complex

Asia Pacific's multiple markets and patchwork of regulations are difficult for treasurers to navigate at the best of times. And now, newer, emerging trends – such as data and privacy, crypto and environment, social and governance (ESG) issues – are adding to the complexity of rules in the region.

With various laws, guidelines and pronouncements, the regulatory landscape in Asia Pacific can soon become a checklist of acronyms and alphabet soup. Keeping on top of the region's regulations is already a challenging task for treasurers, particularly with its diversity of markets, and that is set to become more difficult. Broader trends are afoot – such as the emergence of central bank issued digital currencies and a focus on environment, social and governance (ESG) issues – which are likely to be followed by even more rules and regulations.

The regulatory landscape is already challenging, and in some markets, such as China, it is constantly changing. “China is doing a lot very quickly,” says Tony Wood, Partner, Risk Advisory at Deloitte China. For treasurers, he says, “The macro challenge is the sheer pace of change and staying compliant with changes they may not have been aware of.”

And in other jurisdictions in Asia, there is an opacity to the regulations that can be difficult to navigate. The regulations could be published in an elaborate form of the local language, for example, which is difficult to translate. Not only that, Wood says, for Western companies “It can be hard work to understand what the intention is” of the various laws, regulations, guidelines and pronouncements. “Everyone struggles with that,” says Wood. He adds there are technology solutions available that aim to keep users abreast of the regulations across the region, but as yet they do not adequately solve this issue.

For treasurers, there is a lot to navigate, especially given the diversity of law and regulation in the various markets. “It is particularly difficult for smaller companies that are in many of these jurisdictions and need to stay on top of everything,” says Wood.

The range of regulations can be overwhelming, and for corporates they can be those that affect them directly, or those that are more indirect – with implications from regulations for the financial services industry, for example. Wood points to the trend of bank resolution regimes in various markets – such as China and Singapore – that will have implications for cash and liquidity ringfencing. This also comes in the context of the regulatory drive for greater transparency about where money is sitting and how inter-company positions are being managed, he says.

And another example of a macro trend that is affecting treasurers in Asia at the moment is the US sanctions regime, and how it is affecting individuals in Hong Kong, for example. In particular, the ‘connected parties’ of sanctioned individuals can be difficult to get clarity on and treasurers could find they have issues in their supply chain, comments Wood.

While issues such as sanctions, anti-money laundering or know your customer have been regulated for years, there are broader mega trends afoot that are new territory for corporates and regulators alike.

A mega trend that is affecting businesses of all types is data, and even treasurers are beginning to think how they can be more like Amazon or Google in how they use it to drive better outcomes. As big data becomes more commonplace, however, so do the regulations surrounding it – although it is still new territory for many.

Wood points to the information and security laws and regulations as a trend in the region. “We see a hardening of the regulation around those laws – for good reason – and all the countries in this region are in a debate about the privacy and the ownership of data,” he says.

In markets such as Indonesia, there are particular challenges around the cross-border management of data and information. This has forced international companies to have onshore operations and systems, and run subsidiaries with separate governance structures. “You have to be aware of these rules and what you can and cannot do. And it's not just being aware of the rules – you have to be aware of how they are being interpreted,” says Wood.

In many respects, the EU's General Data Protection Regulation (GDPR), which addresses the handling of personal data by companies, is the benchmark for the region. In fact, the GDPR has had a direct impact on local regulations. A regulatory outlook report from Deloitte, for example, notes that the GDPR has influenced regulators in Asia Pacific with Thailand and India using the European rules as the basis for their own privacy regulations.

And the GDPR has also had an impact in Singapore. According to law firm Ashurst, “The GDPR gained prominence internationally partly due to its increased financial penalties for breaches – and that had a significant effect on organisations around the world, significantly increasing the visibility of data

privacy breaches at senior management level. Increased penalties for data privacy law breaches have subsequently been discussed in various jurisdictions – and Singapore has now followed suit.”

Anton Ruddenklau, Partner, Head of Financial Services Advisory, KPMG in Singapore, points to the Monetary Authority of Singapore’s principles for artificial intelligence and data analytics in the financial sector. The principles – ‘FEAT’ – of fairness, ethics, accountability and transparency are similar to those of other markets, such as the UK, regarding data, comments Ruddenklau.

With corporates investing more in data, and building artificial intelligence alongside it, these regulations will increasingly affect corporate treasurers. And in this brave new digital world, there are other trends they also need to keep on top of. One area that treasurers need to get a grip on is the managing of digital and crypto assets. Ruddenklau estimates that 8% of global clients have digital assets on their balance sheets. As it stands, there is no coherent standardised regulation that has taken shape to address this new area, although some markets have attempted to clarify the taxation framework for cryptocurrencies, for example.

In April 2020, for example, Singapore’s inland revenue issued guidance on the tax treatment of digital tokens and for initial coin offerings. Alan Lau, Partner, Head of Financial Services, Tax, KPMG in Singapore comments, “There are more questions than answers on how to tax crypto.” He adds that even the valuation of such assets can be challenging.

These issues coincide with a wider trend of stable coins and digital currencies that will be issued by central banks. Also, there is the long-awaited stable coin – Diem – from Facebook, all of which Ruddenklau expects to be launched in the near future. For treasurers, this means they will need to be aware of the implications. The question, says Ruddenklau, for treasurers is when they need to become proficient in crypto. “It is probably only two years away,” he says, adding that their assets will likely have a crypto element to them soon.

Along with data and digital assets, another mega trend affecting corporates is ESG, and more regulations are expected to come into force, in a more standardised way. A regulatory outlook report from Deloitte notes that previously ESG reporting has been mostly pushed by stock exchanges and for publicly-listed companies that are of a certain size. That is soon expected to change, and there are forums such as the Network of Central Banks and Supervisors for Greening the Financial System that are expected to bring further regulation. Its purpose is to “share best practices and contribute to the development of environment and climate risk management in the financial sector and to mobilise mainstream finance to support the transition toward a sustainable economy.” This would have the intention of pushing the financial sector towards the climate goals that were set out in the Paris Agreement (for example, to limit global warming to 2C above pre-industrial levels and aim for 1.5C).

The regulatory landscape is expected to become more standardised in how it handles ESG rules. So far, there has been a patchwork of approaches. Deloitte notes, for example, that corporates have been subjected to various global and local reporting frameworks. And on top of this, there have been a variety of approaches. For example, in Singapore, corporates have been expected to ‘comply or



All the countries in this region are in a debate about the privacy and the ownership of data.

explain’. Meanwhile in Australia, Japan, Malaysia and Thailand, for example, the ESG reporting was voluntary.

Broader than such reporting requirements, the ESG rules will affect treasurers in other ways. Ruddenklau comments how ESG rules will affect how goods are financed, the type of supply chains they have, and how businesses are run. The regulations have so far had an impact on capital markets and fixed income bonds, for example, he says. “We were talking about ‘green bonds’ a few years ago; now we are talking about a green supply chain,” Ruddenklau comments.

These changes mean that corporates will be assessed by their ESG risks when they want to borrow. Ruddenklau explains that for companies that are carbon heavy – like fossil fuels, heavy manufacturing, or data centres – their cost of funding will be higher unless they make a commitment to have a low impact.

“This will have a profound impact on the way treasurers understand ESG,” says Ruddenklau, adding that it will affect third parties and their supply chain, how they run their bank relationships and how they access financing.

Lau comments that the public sector has taken the lead on green financing. For example, the Hong Kong’s Green Bond Programme is a government initiative that leads in issuing green bonds to fund projects that have the aim of helping the environment and moving to a low-carbon economy. “The idea is for the government to take the lead and show the private sector how to do it and develop the whole ecosystem,” says Lau. If it was left to the private sector to develop, it would have taken a long time – the fastest way to scale up the programme was for the government to take the lead, he says.

Hong Kong has also been at the centre of another green initiative, the Alliance for Green Commercial Banks, which aims to “finance the infrastructure and business solutions needed to urgently address climate change”. The alliance was set up by the International Finance Corporation and the Hong Kong Monetary Authority (HKMA) and held its first meeting in April this year.

And in Singapore, MAS has created the Green Finance Industry Taskforce to accelerate green finance, which will likely have implications for treasurers as the guidance filters down. In May it issued a guide for climate-related disclosures and a framework for green trade finance, as well as green finance in other sectors such as real estate. Gillian Tan, an Assistant Managing Director at MAS, said at the time of the announcement, “These initiatives will also contribute to global efforts to achieve greater consistency and comparability in climate-related disclosures, as well as provide investors and market participants with the necessary information for climate risk analysis and investment decision-making.” As one of several mega trends that are impacting the regulatory landscape for treasurers, a move to such standardisation and consistency will surely be welcomed.



Methodical approach still king when it comes to cash

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

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

Francois Masquelier, former Senior Vice President & Head of Treasury and Enterprise Risk Management at RTL Group and CEO of Simply Treasury, agrees that the value destruction caused by persistent low or even negative interest rates

requires consideration of options with longer tenors and potentially higher return expectations, but also the prospect of increased volatility.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

consider the possibility to match the investment interest period against the borrowing interest period.”

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

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

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

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

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

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

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

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

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

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

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

Capital protection, positive yields and an acceptable issuer quality are now possible only with tenors which are longer

than maturities consistent with the strategic and commercial plan of most corporates.

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

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

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

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

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



CASE STUDY

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

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

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

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

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

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

How to prepare for global corporation tax reform

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



Matthew Rose

Director of Tax, Treasury and
Investor Relations
De La Rue

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

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

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

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

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

Companies also need to understand the existing but expanding rules around country-by-country reporting. Many

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

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



Fergal O'Brien

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

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

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

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

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

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

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

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



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

where they currently don't have a physical presence or pay taxes.

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

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

View from the US

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

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

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

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

Next question:

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

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

In-house banks in Asia

After the initial shock of the pandemic has worn off, treasurers are doubling down on efficiency and control. In-house bank (IHB) is an important tool to improve both for MNCs. With many countries still applying stringent financial regulation amidst weak infrastructure and fiscal complexity, Asia is not the easiest region for IHB. But treasurers are forging ahead none the less.

In-house bank (IHB)

In-house bank (IHB) is a powerful set of processes and systems that help MNCs increase efficiency, reduce risk, and tighten control. Implemented properly, IHB centralises foreign exchange, funding (and with it interest rate risk), liquidity, intercompany, payments and collections. If that sounds like a big deal – it is!

The term “In-house bank” is loosely used in two ways.

1. Some people use IHB to refer to treasury centres, which typically transact intercompany loans, deposits, and FX with subsidiaries (who continue to use stand-alone bank accounts and so forth).
2. IHB as discussed here is anchored by the use of (multi-currency) intercompany current accounts that replace bank accounts altogether for operating subsidiaries.

In full IHB, operating subsidiaries have no bank accounts in their own name at all – they do all their payments and collections through their IHB intercompany current accounts.

The table below compares certain aspects of operating subsidiary processes standalone vs treasury centre vs IHB:

	Stand alone	TC	IHB
Loans	Bank	TC	ICA
Deposits	Bank	TC	ICA
FX	Bank	TC	ICA
Bank account	Yes	Yes	No
Payments	E-banking	E-banking	ICA
Collections	E-banking	E-banking	ICA

ICA=Intercompany Current Account

Scope

As will be apparent from the above, IHB is the ultimate treasury centralisation tool. As such, the scope of IHB can be very wide, and the implementation correspondingly complex, especially in restricted markets.

Whereas connecting operating subsidiaries to a treasury centre typically shifts their wholesale banking needs (loans, deposits, FX) from banks to treasury centre, full IHB centralises all operating subsidiary banking needs.

Not all IHB implementations include all possible aspects of IHB but here are some of the operating subsidiary activities that are often included:

- Loans/funding.
- Deposits/investing.
- Liquidity management.
- FX risk management.
- IR risk management.
- Payments on behalf (including payroll, administrative and statutory payments).
- Receivable/collections on behalf.
- Intercompany settlement (balance netting through intercompany current accounts, as opposed to payment netting).

Many IHBs additionally provide business support services in the financial aspects of contracting such as FX and counterparty risk, subsidiary capital structure, and taxation of financial transactions. IHBs often centralise and manage guarantees for operating companies in businesses where this is pertinent.

Regulations

Given the scope of IHB, regulatory constraints are a major issue in restricted country roll outs. Countries in Asia often present regulatory challenges. The consensus is that only five countries in Asia qualify as light regulation markets – Singapore, Hong Kong, Japan, Australia and New Zealand. In these countries, full IHB is possible (though quirks in Japan's domestic practices – for example, statutory payments – can be challenging for holistic payments on behalf).

The regulations that most constrain IHB include exchange controls, capital structure limitations, regulatory bank accounts and so forth. In general, IHB implementations work with local regulators, advisors, and banking partners to optimise processes in order to achieve maximum efficiency while complying with regulatory constraints.

As an example, countries that do not allow netting of cross border flows often allow aggregation of inflows and outflows separately – aka gross in/gross out – which still allows considerable cost savings and control improvements.

Another example is agency dealing where intercompany FX is not allowed.

Tax

All cross border treasury operations have tax impacts (as do some domestic ones). IHB is normally more focussed on cost and control than on tax, and IHBs tend not to generate massive profits because of their focus on processes and control, but clearly tax can be a significant cost element. Massive profit shifting using intercompany loans at off market rates is largely a thing of the past, after a decade of global focus on BEPS (base erosion and profit shifting).

Recently, under the auspices of the OECD, 130 countries have signed up for a "bold new framework for international tax reform" of which a 15% minimum corporate income tax rate is a corner stone. There is some speculation that this might reduce the attractiveness of low tax jurisdictions for IHB. From an Asian perspective, Singapore and Hong Kong – the preeminent IHB locations – are indeed low tax jurisdictions, but IHBs are normally located there because of their centrality to Asia, their deep and broad financial markets and talent pools, rather than to shelter profits.

Given the importance of intercompany funding in IHB (bank balances and loans are replaced by intercompany balances in

the intercompany current accounts), withholding taxes on related party interest can be a material issue. This drives Asian IHBs to Singapore and Hong Kong.

Transfer pricing can be an issue for IHBs both in terms of market rates and service charges. The key here is to follow well documented arm's length pricing. The efforts of the past decade of work on BEPS has made transfer pricing a hot topic with many tax authorities, but it has also often brought clarity as to what is acceptable (for example, through precedence). Bank pricing may not be considered fair between related parties. In some cases, the tax authorities on each side of transactions may not agree about what constitutes fair pricing. Mostly these issues can be resolved with open communication with the relevant authorities.

Technology

Although one can demonstrate IHB process arithmetic in Excel, in practice, IHB requires robust technology to succeed. Mostly, this takes the form of ERPs or TMSs. Some companies have developed IHB functionality in house, but commercial software for IHB is such a well-developed market that building rather than buying probably does not make sense for most MNCs.

For corporates using a single instance or well-integrated ERP that has IHB functionality, this is often the path of least resistance. It should be noted however that buying and implementing the required modules can be surprisingly expensive and time consuming – it is normally not just a question of flipping a switch.

For corporates whose ERP does not support IHB or who have heterogenous accounting systems, a TMS can provide the glue and requisite functionality to support an IHB implementation. Implementing a TMS will normally be cheaper and simpler than implementing a new ERP, and many groups use specialised ERPs that are necessary for their specific business processes.

Conclusion

Despite the challenges in regulated countries, IHB is a powerful tool to reduce costs and improve controls. Hundreds of IHBs are operating successfully across Asia, and many more are in implementation. Although IHB is not a quick and easy fix, the rewards are worth the effort. Detailed planning and investigation, as well as solid advice and open dealing with regulators, help to ensure successful outcomes.



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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.

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Steven Beck, Head of ADB's Trade and Supply Chain Finance Program; David Blair, Managing Director, Acarate; Andreas Bohn, Partner at McKinsey & Co; Sarah Boyce, Associate Director – Policy and Technical at the Association of Corporate Treasurers; Paul Bramwell, Principal & Founder, Treasury Tech Advisory; George Dessing, Executive Vice President, Treasury & Risk, Wolters Kluwer; Alisa DiCaprio, Head of Trade and Supply Chain, R3; Royston Da Costa, Assistant Group Treasurer, Ferguson plc; Philip Freeborn, Group CIO, COO and Head of Pricing & Risk, Delta Capita; Damian Glendinning, Chairman of the Advisory Board, CompleXCountries; Christoph Gugelmann, co-founder and CEO of Tradeteq; Jonathon Hirst, Corporate Treasurer, SunRice; Alan Lau, Partner, Head of Financial Services, Tax, KPMG in Singapore; Fergal O'Brien, Director of Lobbying & Influence, Irish Business and Employers Confederation (IBEC); Leonardo Orlando, Executive, Accenture Finance and Risk Practice; Curtis Ottley, Partner, US Tax Desk, KPMG Singapore; Dean Rolfe, Partner and Head of International Tax, KPMG Asia Pacific; Matthew Rose, Director of Tax, Treasury and Investor Relations, De La Rue; Anton Ruddenklau, Partner, Head of Financial Services Advisory, KPMG in Singapore; Adrian Sargeant, CEO, ESG Treasury; Carl Sharman, Head of Treasury Technology Advisory, Deloitte; Tony Wood, Partner, Risk Advisory at Deloitte China.



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