January/February 2023

treasurytoday ASIA

research | insight | analysis

Regional treasury gets strategic

Geopolitics and macroeconomics will be challenging for regional treasurers in 2023, but amid the crises are opportunities to demonstrate their strategic value.

The Corporate View

Nishedha Gunawardena

General Manager – Treasury
Aitken Spence PLC

Adam Smith Awards Asia

A celebration of innovation and resilience

Regulation

ESG comes to the fore

Risk Management

Balancing risk and reward in FX

Technology

Is AI a threat to humanity?

Trade

Decoupling: why breaking up is hard to do

treasuryinsights
research | insight | analysis

STAY CONNECTED

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

Subscribe now:
insights@treasurytoday.com

treasurytoday.com

treasurytoday
research | insight | analysis
ASIA

treasurytoday.com
Volume 11/Issue 1
January/February 2023

A time for reflection

In this latest edition of Treasury Today Asia we are delighted to begin 2023 with our readership assessing the latest trends and topics affecting the region's treasurers.

Our opening article assesses the key issues of the year for Asian treasury, starting the year with our trademark Insight and Analysis. Elsewhere we assess supply chain resilience and disruption and in our Technology feature we explore talk of the town, AI cutting through the hype to explore the challenges and opportunities this presents in reality.

After the turbulence of the past few years, when it comes to currency volatility, our Risk Management feature takes a look at tales from the frontline as we deep dive into FX risk in 2023. We also tackle regulation and standards in a round up feature on the key updates coming treasury's way.

We explore corporate best practice in our Adam Smith Awards Asia 2022 event write up and also within our Corporate View feature with Nisedha Gunawardena, Deputy General Manager of Treasury at Aitken Spence, exploring his career journey and lessons learnt.

Finally, our Question Answered feature will explore how prepared countries and companies are for new IFRS rules designed to tackle greenwashing and create a single set of corporate climate reporting standards to meet new investors' information needs.

All that remains is for us to wish our readership a prosperous and fruitful year of the rabbit which we welcome within the time span of this issue. We look forward to bringing you the latest information and celebrating community with you all throughout the year to come.

Publishers
Meg Coates & Sophie Jackson
Head of Events and Projects
Sarah Arter
Senior Advisor
John Nicholas
Editorial
Sarah Rundell
Head of Production & Client Delivery
Samantha Collings
Circulation Manager
Sophie Friend
Digital Content Manager
Joanna Smith-Burchnell
Senior Designer
Dawn Ingram

Founder & Director
Angela Berry
Chair
Richard Parkinson

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

Annual Membership Rate £285
memberservices@treasurytoday.com

© Treasury Today ISSN 1466-4224

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

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

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

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

IN THIS ISSUE

INSIGHT & ANALYSIS 4

Asia's regional treasury gets strategic

Geopolitics and the macroeconomic environment in Asia will continue to be challenging in 2023, but this new normal of uncertainty gives corporate treasurers an opportunity to demonstrate their strategic and advisory skills.

ADAM SMITH AWARDS ASIA 7

A celebration of innovation and resilience

Treasury Today Group's Adam Smith Awards Asia 2022 celebration dinner in Singapore was a joyous occasion. Our congratulations to this year's winners.

REGULATION 10

Walking the regulatory tightrope

New ESG related regulations are adding to the compliance burden treasurers face.

RISK MANAGEMENT 16

More currency chaos ahead

No room for complacency on currency impact mitigation strategies.

TRADE 20

Decoupling: why breaking up is hard to do

China's role as the world's manufacturer is changing thanks to political, ethical and logistical pressure. The founder of China-based manufacturer Velong Enterprises explains that lifting up his Chinese operations and dropping them into a new location is far from easy.

TREASURY ESSENTIALS

Treasury Insights 15 & 23

Question Answered 24

12 The Corporate View

Nishedha Gunawardena
General Manager – Treasury
Aitken Spence PLC

Nishedha Gunawardena puts his career success down to hard work, after getting a break at Citibank and setting his heart on working in treasury.

TECHNOLOGY 18

What ethical challenges does AI pose?

Artificial intelligence and machine learning are becoming commonplace in the business world, but there are numerous factors that corporates need to consider before they rely on this technology and do away with the need for humans altogether.

Asian treasury flexes its strategic muscles

Geopolitics and the macroeconomic environment in Asia will continue to be challenging in 2023, but this new normal of uncertainty and unpredictability – as well as a greater need for effective working capital and supply chain management – gives regional treasurers in Asia an opportunity to demonstrate their strategic and advisory skills.

The overarching themes that affect regional treasurers in Asia are expected to continue into 2023, and as the macroeconomic environment throws new challenges their way, treasurers are well positioned to show off their strategic and advisory skills.

Jasmine Tan, Head of Asia Pacific Treasury Advisory at J.P. Morgan, comments on the unprecedented macroeconomic landscape that treasurers are having to contend with. "In 2022, just as we expected Asia's markets to bounce back from the impact of Covid, markets were then faced with new adverse shocks in the form of production shortages and supply chain disruptions, the war in Ukraine, soaring inflation, interest rate hikes by central banks, ongoing US-China geopolitical tensions, as well as recessionary risks in 2023," she tells Treasury Today Asia.

That's quite a list of issues to grapple with, and many eyes are looking to China as a barometer of the economic prospects for the whole region. Sandip Patil, Asia Pacific Head of Liquidity Management Services, Treasury and Trade Solutions, Citi says, "Our clients have big businesses on the ground [in Greater China] and they ask where they should focus. We advise our clients to focus on their core business – such as manufacturing – and to focus on managing their

supply chain and working capital, and ensure they are comfortable with their cash levels."

Given the global market factors, such as geopolitical tensions, inflationary pressures and rising interest rates, Ankur Kanwar, Head of Cash Products, Singapore and ASEAN and Global Head of Structured Solutions Development, Cash Management, Standard Chartered, expects that market volatility will remain throughout 2023. He comments that 2023 will likely be the first full year that the region has Covid behind it. "This will be the time that treasury management practices adopted during Covid are put to test. In the new year, treasury teams could get an opportunity to showcase massive efficiency resulting from new technology tools and dynamic balance sheet management, further elevating their role as a key strategic partner to the business," says Kanwar.

One area that all treasurers and transaction bankers agree needs effective solutions is working capital. Tan comments that the lack of external funding is providing a greater need for effective working capital management that taps into alternative and cheaper internal sources of capital to unlock and consolidate trapped liquidity. Tan cites J.P. Morgan's Working Capital Index China report that estimates over US$330bn in liquidity in China could be released from supply chains if corporates undertook working capital optimisation measures.

This is in line with the view of Patil at Citi, who comments on how the current environment has also impacted the working capital cycle for corporations. "Cash inflows are reducing while cash outflows have not changed; this means that there is a need for increasing cash to run the same business," says Patil. With the rising cost of capital and funding, corporates now have even more incentive to be efficient. Also, while it is taking longer for companies to get paid, they want to pay their suppliers quicker – and so, they are using cash faster, bringing the need for effective working capital to the fore, says Patil.

Patil notes that ESG [environment, social and governance] continues to be a major theme for corporates as they need to ensure their supply chains are sustainable, and that their treasury centres are participating in a sustainable future. There are also working capital implications of ESG; if a company is unable to find a supplier who is green, for example, it will end up costing them more.

This points to the wider trend of ESG being embedded into all aspects of treasury, and not as a standalone issue. Tan comments that ESG is no longer optional for businesses, which are re-evaluating their business models, operations and supply chains. "Treasurers and finance teams are increasingly embedding ESG when making decisions across various treasury linked activities such as investments, procurement and financing, as the framework is expected to become increasingly critical in driving the long-term sustainability and growth of businesses," says Tan.

Tan continues, "Treasury sits at the nexus of corporate activities and can therefore integrate ESG into multiple workstreams and influence stakeholders across funding, cash management, working capital management, capital allocation and cybersecurity, as well as the selection of banking and other service providers." She illustrates with some examples, such as ESG-linked rapid credit facilities where ESG key performance indicators are embedded into the financing costs of the facilities. And in cash management, for example, green deposits are becoming popular where the use of proceeds of excess cash is ring-fenced for sustainability initiatives of the bank.

ESG issues have come to the fore when it comes to managing a sustainable supply chain. There are other considerations aside from ESG, however, that are also important for supply chain management. Recent global events, including the fallout from the Covid pandemic, have disrupted supply chains and have pushed companies to reconsider how they manage them.

Another trend that Citi's Patil notes – in light of the pandemic's supply chain disruption – is that many corporates are looking to diversify their manufacturing bases instead of having it concentrated in one or two locations. "While in Asia, ASEAN [Association of South East Asian Nations] and India look to be benefitting from this expansion, we are also seeing corporates reshoring back to their home country; with US companies moving back to the US, for instance," says Patil. And with this kind of move, "Everything also shifts with the billings and the collections," he notes.

On the supply chain disruption Kanwar at Standard Chartered comments, "Many corporates have had to adjust their inventory levels and move towards a 'iust-in-case' approach instead of 'just-in-time' for inventory management."

Another consequence of Covid has been the acceleration towards digitalisation. Patil at Citi says he expects digital innovation to be even more prominent in Asia this year than it was in 2022. "The pandemic helped with digitalisation, but Asia was already on an aggressive path anyway," says Patil, who estimates that half of global e-commerce happens in Asia. "Also, we now have greater access to smart tools, the financial ecosystem and associated technology such as APIs, virtual accounts and cloud computing – which have enabled people to interact and transact online, more than ever. For treasurers, they need to be ahead of these digital developments. If your systems are not digital, if your cash management policies or bank access are not digital, you will lag behind," says Patil. This digital world also brings other challenges. "The predictability is not there – the cash flow becomes more unpredictable even though the outflows are the same," he notes.

This is in line with Tan at J.P. Morgan's views. "Technology is evolving faster than ever, and companies are increasingly having to transform themselves as they adapt to new consumer expectations and new business models. With these business realities, treasurers are faced with the need to embrace innovation to best support their businesses," says Tan.

Tan also notes another trend of treasurers embarking on ERP [enterprise resource planning] projects. "We have seen treasury teams embarking on multi-year ERP and technology transformation initiatives," she says. These range from introducing real-time visibility of data, to adopting forward-looking treasury structures such as in-house banks or payment factories, and payments technology that uses artificial intelligence and machine-learning, or blockchain and smart contracts, or programmable payments, she explains.

At Standard Chartered, Kanwar also notes that ERP upgrades and consolidation will become more important in 2023. "Many corporates are going through ERP upgrades to newer versions like S/4HANA. Others are implementing

consolidation projects to simplify their technology infrastructure through the use of fewer systems. As these are significant projects, it is important that treasury teams evaluate how best they can leverage their ERP to make their operations more efficient as well as support business growth," says Kanwar. And the newer ERP versions can leverage the APIs, he adds. "This has made it possible for businesses to deliver real-time information to their customers and corporate clients. Given the evolving demand for more innovative solutions, an increasing number of proof of concepts on the usage of distributed ledgers and digital assets is a key trend that will likely pick up momentum in 2023," says Kanwar.

And with the pandemic shaking up how digital services are delivered, this also has other implications for corporates that have adjusted their business models: tax. Much like many of the other themes, the tax rules are a continuation of what has occurred before, but some issues will take on a new importance in the year ahead. From a tax perspective, Alan Lau, Partner and Head of Financial Services, Tax, KPMG in Singapore, says there are a few significant developments that treasurers need to be aware of.

The first major tax issue that will affect corporates in the coming months is BEPS 2.0 [base erosion and profit shifting], which aims to prevent corporations artificially moving their profits to low-tax jurisdictions to benefit from the arbitrage between the regimes in different countries. Lau explains that even more far reaching than the first version and has two pillars: Pillar One, which is focused on rules for where tax should be paid, and Pillar Two, which applies a global minimum tax rate to corporates.

Lau illustrates how the first pillar would work in practice. For example, companies that target large foreign consumer markets and sell into those countries, but don't typically have tax liabilities in those countries, will now be affected by Pillar One. Under the new regime, the tax rates will not just affect the seller's home country, but also the market they're selling to – even if they're only delivering digital services from a distance and don't have a physical presence there. This pillar, however, is limited in its reach as it only applies the largest corporations ie those with an annual turnover of over €20bn.

With Pillar Two, the threshold is a revenue of €750m. "More people are concerned about Pillar Two," says Lau. The rules work with a global minimum tax rate of 15% and if a company is paying less in a lower-tax jurisdiction, then they will have to pay the differential in their home country. "That is well understood [by most corporations], but there are unintended consequences," says Lau. "The devil is always in the detail."

Lau explains that many markets in Asia, such as Singapore, Vietnam, Thailand and the Philippines have offered lower tax rates as an incentive to attract multinational corporations. "Now with this 15% [global minimum tax rate] it renders those incentives ineffective," says Lau. Corporates are finding that the markets they moved to are now incurring an unexpected tax bill. "Those once attractive locations are no longer attractive," comments Lau.

And for MNCs that have their operations in markets like the UK or US where the tax rate is above the global minimum, it would be wrong to assume they won't be affected by the rules. Lau says those corporates should be very careful and enlist the advice of tax experts because the rules are so complex. "There are some cracks and gaps even for MNCs in high tax jurisdictions and they could find themselves in the peculiar situation where they can fall through the cracks and into the top-up tax. These companies have to do their impact analysis early," says Lau. Also, it is not just tax advice they need to get; they also need to get accounting expertise involved because a lot of the rules have been written using global accounting standards.

And companies that went more digital during the pandemic may now find they are being impacted by changes to value-added tax (VAT) and goods and services tax (GST) rules in the region. Lau comments that the rules are not new, but they have gone through some developments. For example, in Singapore the scope of the digital services rules have broadened so that more companies have to apply for Overseas Vendor Registration (OVR) if they are providing services to Singapore from another jurisdiction. Now the rules apply to 'remote' services, which essentially means digital and non-digital services. This could include, for example, telemedicine which is provided from overseas to individuals in Singapore. Likewise, the VAT rules in China have gone through some changes and while it doesn't have a digital services tax, explains Lau, if the recipient of the services is in China, then the VAT has to be applied.

These are just some of the developments that treasurers need to be on top of as they press ahead in their roles for the coming year. For those who are well-informed of these developments, this provides them with an opportunity to flex their strategic and advisory muscles and demonstrate the value that treasury can bring to the business.

Kanwar at Standard Chartered gives some examples of how treasurers can show the strategic nature of their role: "From evaluating the impact of Basel IV [rules on capital requirements] on the company to enabling new sales channels for faster growth, treasury functions have become core to strategic decision making in any company," he says. He gives some specific examples of when and how this could come into play: "While M&A [merger and acquisition] activity slowed in the first half of 2022, attractive valuations could lead to a spike in M&A activity in 2023 despite risks of a looming recession. When that happens, treasury teams have an opportunity to consider what the new corporate structure would look like and how they can help improve valuations of the company post the M&A," he says.

Another scenario where treasurers can flex their strategic muscles is with business continuity planning. "Various disruptions, including Covid and geopolitical concerns, over the past three years have made business continuity planning a key priority within every large corporate. Treasury teams are in a critical position to ensure that financial systems are operating at all times, supply chain disruptions are well managed and corporates have thought through all the potential implications of various geopolitical and economic scenarios," Kanwar comments.

One thing is for certain and that is uncertainty will continue for the year ahead. As treasurers become accustomed to unpredictability in the geopolitical environment, as well as the challenging macroeconomic situation, it means that more than ever they can flex their strategic muscles and turn any crisis into an opportunity. ■

A celebration of innovation and resilience

Back in person for the first time since the global pandemic, Treasury Today Group's Adam Smith Awards Asia 2022 celebration dinner in Singapore was a joyous occasion. Our congratulations to this year's winners.

For the first time since 2019, Treasury Today Group's community from across the APAC region gathered in Singapore at the end of last year for our 2022 awards at the iconic Raffles Hotel. Much more than just a networking opportunity, the evening combined with a delicious dinner and was a chance for corporate treasurers to receive their awards in person in the company of their peers, colleagues, and partners.

The Adam Smith Awards Asia showcases innovative solutions produced by treasuries both large and small, and since its launch has become recognised as the premier event in the APAC treasury calendar, setting the benchmark for the entire industry. Competition for our 2022 awards season drew over 400 nominations from 23 different countries with submissions coming from a wide range of global corporates, national companies and government departments.

Overall Winners and Highly Commended Winners across 21 categories, all demonstrating the very best and brightest in treasury, were invited on stage alongside their banking partners by our Publishers Sophie Jackson and Meg Coates to receive their awards. Above all, our 2022 winners showcased the role of treasury as a strategic partner, constantly challenged to deliver better and more innovative solutions to support corporate growth in Asia's fast growing, innovative and best-known companies.

The event began with a lively drinks reception. Extending a warm welcome to guests, Meg and Sophie gave full acknowledgement to the tremendous upheavals and challenges faced by everyone in recent times and acknowledged the strength of this year's winners. After the reception, guests made their way to their tables for treasury's best and brightest

to collect their awards and enjoy dinner to ringing applause. Their achievements and comments included below represent just a selection of the success stories and comments from the evening. Further details of each winning solution or personal award can be found on Treasury Today's website.

Applause

Indian multinational Infosys Ltd scooped the award for Treasury Today Asia's Top Treasury Team 2022. Treasury at the IT group has undergone a transformation over the last two years, successfully delivering a package of solutions spanning FX and working capital management, investment management and cash flow forecasting. The sweeping digitisation and automation programme has left the company's systems and processes stronger and minimised manual intervention, said Sachin Chougule, Associate Vice President, Finance & Treasurer, Infosys Limited, who flew from Bangalore to collect the award.

"The Adam Smith Awards Asia are the industry benchmark for best practice and exceptional solutions in treasury, so winning this global and prestigious award is a great moment us," he said. "It's testimony of our industry leading treasury solutions, best practices, and achievements. It also represents our constant efforts towards being resilient and evolving."

Digital transformation was also recognised at DT One, the world's largest B2B network of non-cash micropayments and digital pre-pay partners, winner of our Best Digitisation Solution. Indian multinational Adani Group, which scooped Highly Commended for the same category, has also made digitisation a key tenet of recent strategy, said Nitin Sethi, Chief Digital Officer, Consumer Businesses, at Adani Digital Labs who collected the award.

"I am honoured that our efforts to build a secure digital solution have been recognised at the Adam Smith Awards Asia," said Sethi. "It's always encouraging to know that your initiative to enable and support the industry is moving in the right direction. The success of Adani Digital Labs is rooted in enriching customer experiences. For us, our association with Citi Pine Labs has empowered our customers and is instrumental in elevating our digital transformation journey."

Best Foreign Exchange Solution went to Xiaomi Corporation. With an increasing global footprint, Xiaomi faced the challenge of effectively managing its exposures in multiple currencies; overseeing FX risks while remaining competitive in product pricing and honouring the company's commitment to 'provide the best quality at honest pricing.'

Sustainable

Our award for Best Sustainable Treasury Solution attracted some of our strongest 2022 nominations. The award was ultimately won by Lendlease Global Commercial REIT, for a sustainability-linked loan (SLL) to finance a mall acquisition in a debt solution of SG$860m – a size that was almost as large as LREIT's market capitalisation at that time.

Highly Commended in the same category went to Louis Dreyfus Company India as the first corporate entity in South and South-East Asia to execute a trade ESG financing transaction for cotton procurement, focused on ensuring proper checks and balances are in place for ESG classification. "This accolade is a testament to the commitment we value, and we look forward to expanding more sustainable financing to carry out our mission and realise our purpose, for the benefit of current and future generations," said Vinit Mishra, Louis Dreyfus Company, who collected the award. Elsewhere in our sustainability category, PureCircle, a subsidiary of Ingredion, was also recognised for its innovation around stevia sweeteners for the food and beverage industry. PureCircle has introduced a sustainable supply chain finance programme for the company's Chinese farmers of stevia leaf, the natural sweetener and sugar substitute.

Save the Children

Meg and Sophie were particularly thrilled to present global charity Save the Children a Special Recognition Award for its treasury's work helping families and children in Pakistan. Working with Standard Chartered Bank, Save the Children introduced a Mobile Wallet Payment (MWP) solution enabling the charity to transfer cash to the intended beneficiaries. The Mobile Wallet Payment used the straight through processing (STP) of the S2B (Straight2Bank) channel while collaborating with a Mobile Wallet Service Provider to reach target beneficiaries through 150,000+ cash outlets.

Other winners included Bridgestone Asia Pacific, a subsidiary of Bridgestone Corporation, the global leader in tyres and rubber, scooping Best in Class Regional/Global Treasury Solution. "We are truly honoured and humbled with this recognition. It reflects the great collaboration efforts among the team to get us to where we are today. This award will motivate us as we continue with our transformation," said Daniel Teo Thiam Guan, CFO, Bridgestone Asia Pacific Pte.

Highly Commended Winner of the same category went to auto industry manufacturer Garrett Motion, where Treasury Manager, APAC, Flora Yao, commented, "It is a great honour to win an Adam Smith Award, as our efforts are recognised by the professionals in the industry. It's truly empowering to see the strategic role that our regional treasury team can play to deliver to the needs of the broader franchise."

Our Judges' Choice this year was collected by the team at Olam Group for an impressive debt portfolio restructuring project. The treasury team at Vinson Holdings won Overall Winner, Best Treasury Transformation, while Marsh McLennan, ST Engineering, Lendlease, Rio Tinto, Kimly Construction, BP Singapore, Intel Corporation, Nike, GSK, TFG Marine plus many more, were acknowledged across our award categories to resounding applause. Gwendolyne Ng, Treasury Manager at Danone was recognised as our 2022 Rising Star, and Joseph Chua at Lenovo was awarded Corporate Treasurer of the Year.

As part of our Adam Smith Awards Asia 2022 programme, we will run a series of winner podcasts, delving deeper into each winning solution with our Overall Winners, Highly Commended Winners, and their key partners. We will also produce case studies on all our award winners.

As the celebrations ended, the winners and their partners reflected on their achievements and successes in an uplifting end to an evening which saw the treasury community come together in person again. Perhaps Hariharan Subramanian, Senior Treasury Manager at IT multinational Cognizant Technology Solution in Kuala Lumpur, winner of Best in Class In-Country Treasury Solution, comment best-summed up the joyous evening of best practice, community, and partnership. "With collaboration between the right banking partners and everchanging technology, we can implement innovative and value driven treasury solutions in a challenging environment." ■

treasurytodaygroup
ADAM
SMITH
AWARDS
ASIA

Walking the regulatory tightrope

Treasurers face a plethora of regulatory compliance obligations, many of which are focused on ESG themes.

The ongoing transition from interbank offered rates (IBOR) and evolving regulations related to environment, social and governance (ESG) are among the regulatory obligations of most concern to treasurers.

The majority of respondents in Deloitte's Global Treasury Survey – 61% – said the transition to risk-free rates (RFR), or alternate reference rates (ARR) would 'most likely' affect their work in treasury over the next 12 months. Deloitte noted in the survey that the transition is in progress at the corporate level across countries and is likely to become 'business as usual' in the near future.

ESG regulation, on the other hand, will become much more prevalent, said Deloitte. Sixty percent of respondents cited ESG as likely to have a significant impact on treasury, driven by financial institutions and corporate policies.

Treasurers in the UK should also be aware of the upcoming Corporate Reporting Reforms, says Aisling Kavanagh, Head of Deloitte's Treasury Assurance Practice. "The reforms seek to drive trust in corporate reporting and business through improving transparency and the nature of information provided," she says.

In May, the UK Government announced a revamp of the country's corporate reporting and audit regime. The reforms include the creation of a new regulatory body and the introduction of greater accountability for big business.

The regulator will be tasked to reduce the risk of sudden big company collapses, said the Government. In 2018, construction giant Carillion collapsed, leaving £7bn of debts. A £1.3bn claim on behalf of the contractor's creditors, brought by the official receiver, is under way, with the receiver alleging that Carillion's auditor, KPMG, failed to properly audit the accounting of 20 significant contracts.

There are several measures proposed within the reforms, says Kavanagh, some of which will require the support of the treasurer to implement. "One of the key measures will require directors to make an explicit statement on the effectiveness of internal controls and the basis for that assessment will be included in the annual report. As a starting point, treasurers will need to work with the wider business to evaluate and confirm the robustness of the existing risk and controls framework within treasury and will likely need to support this assessment on an annual basis."

Additionally, the replacement of the current viability statement with a new resilience statement will require companies to report on matters that they consider a material challenge to resilience over the short and medium term. "Many treasurers will already support going concern and the viability statement, however the level and nature of detail provided is increasing. Treasurers may need to provide additional support in relation to forecasting, stress tests and provision of quality data," says Kavanagh.

She adds that guidance and timelines for implementation of the UK reforms "are constantly evolving. However, given the volume of upcoming change, there are some 'no regrets' activities that a company and the treasurer would benefit from – ahead of further guidance." Meanwhile, in the European Union, the European Commission is assessing corporate reporting, with an impact assessment based on consultation scheduled to be issued before the end of the year. The assessment will cover problems with the quality of corporate reporting and compare possible options to remedy these problems.

ESG and treasury

Reporting requirements are also a significant aspect of ESG activities, particularly regarding the environmental impact of companies' activities and treasurers have a role to play. The mandatory Task Force on Climate-related Financial Disclosures (TCFD) were created by the Financial Stability Board to improve and increase reporting of climate-related financial information.

At a recent ACT roundtable, delegates heard that while ESG ranks high on the public agenda and for policymakers, as well as in conversations between treasurers, their banks and advisers, investment in "ESG-friendly vehicles" remains relatively small compared to standard alternatives. A challenge to the adoption of ESG solutions is the level of subjectivity and numerous methodologies that can be applied to achieve different outcomes, making it difficult for treasurers to assess the credibility of solutions in a consistent way or to align with their corporate sustainability objectives.

A considerable challenge is the lack of data and comparable credit ratings for ESG investment vehicles. While issuer credit ratings are widely accessible to investors, says the ACT, access to specialised ESG data remains "limited and expensive", meaning a comprehensive view on the sustainability of an issuer is the preserve of only the most well-resourced investment managers.

This issue was raised at an ACT roundtable earlier this year, where participants said a paucity of credible ESG money market funds (MMFs) and a lack of scale to support the largest investors, plus an inconsistent use of peer and investment universes for comparisons on which to base decisions, were all factors to consider.

Participants heard that while ESG has become much more prominent in business and treasury, it is not often the primary consideration for treasurers' day-to-day decision-making. When it comes to where they place their money, participants argued, a treasurer's overarching remit to preserve capital and liquidity remains the priority. What has changed, they said, was the level of visibility of ESG and the onus to report on whether or not considerations of ESG factors played a role in the investment decision-making process.

Ernst & Young's most recent CFO Barometer found that almost 55% of all companies report sustainability information, although 80% indicate that they are not obligated to. Companies want to be prepared for the future standardisation and integration of sustainability reporting, says EY, but there is still "some catching up to do, as people seem to underestimate the work that needs to be done and the time window in which to do it".

EY noted that "not every" CFO is familiar with the EU Taxonomy Regulation, which has created an EU-wide classification system that provides a common framework for identifying which economic activities can be considered "environmentally sustainable".

"First and foremost, the Taxonomy links sustainability with financial KPIs, which is why the CFO is so important," says EY. "Only in the next step does it make sense for the CFO to take a step back and for a dedicated sustainability management profile, like a Corporate Sustainability Officer (CSO), to take the reins. Such profiles exist within corporations today but to a limited extent. The idea is that the CSO works closely with the CFO, the latter acting as a financial advisor. In any case, the CFO must stay involved, for one thing, because an integrated report is needed."

Deloitte's Treasury Survey assessed the role of treasury in organisations' ESG strategies. A majority (51%) said treasury helped to promote a "diverse and inclusive workforce". The issue of sustainable debt instruments – such as green bonds, sustainability-linked loans, and social bonds – was cited by 42% of respondents.

Other ESG-related roles identified by treasurers included revisiting policies and procedures to improve sustainability, investing in sustainable investment instruments, applying ESG requirements for counterparties, following ESG requirements proposed by financial institutions, and replacing inhouse data with cloud computing. Only 15% of respondents said they were not involved in their firms' ESG strategies.

Global bank J.P. Morgan identifies nine areas of activity for treasurers in supporting a firm's ESG strategy. These include reviewing the company-wide ESG strategy to understand core ESG priorities like greenhouse gas reduction and net zero carbon emission targets and sustainability development goals. Treasurers should establish an ESG stakeholder working group to evaluate ESG priorities across treasury partners in addition to benchmarking ESG performance to understand how third parties such as rating agencies view ESG performance and benchmark against industry best practices.

Further, treasury policies should be reviewed to identify ESG factors to improve and drill-down into financial targets across daily treasury activities. Treasurers should create transparency around current and future state targets with reporting on internal metrics and external scorecards and engage with partners to regularly test whether proofs of concept have helped.

Know your customer (KYC)

Governance – the G in ESG – has particular relevance for treasury. During a European Association of Corporate Treasurers (EACT) panel discussion, Noëlle Belmimoun, Senior Legal Counsel at ArcelorMittal, said of the more stringent regulatory regimes that require more information about customers, "strangely after so many years, we still face a heavy administrative and time-consuming burden. The situation is the same as seven years ago, with many non-standardised requests for information. Financial institutions are working to develop standardised documentation, but we have seen no improvement in this area and we all struggle to accommodate bank requests."

KYC is a significant element in the fight against financial crime and money laundering, and customer identification is the most critical aspect of it. International regulations influenced by standards such as those developed by the Financial Action Task Force (FATF) are implemented in national laws. EU directives such as the AML IV and V require financial institutions to verify the identity, suitability, and risks involved with maintaining a business relationship.

At the practical level, Belmimoun said, KYC has had a negative impact on the company's relationship with its banking partners. How a bank handles KYC is now one of the criterions that the company assesses before entering into a relationship.

Séverine Le Blévennec, Global Head of Treasury, Aliaxis, believes a lack of harmonisation between banks and companies is an impediment when it comes to KYC. "We are looking at how we can automate the exchange of data and retain fewer staff to deal with the data that cannot be automated. Technology could help us even more here."

Tarek Tranberg, Head of Public Affairs at EACT, said regulators walk a tightrope between encouraging innovation and forcing adoption of standards. Regulators are looking to identify where there is scope for harmonisation and the removal of duplication in KYC rules. "Regulators realise that KYC compliance is very burdensome and that in the past there has been too much room for manoeuvre in individual EU states. They are looking to harmonise all requirements from the top down and develop a regulatory instrument across all members states to avoid the additional burden of minutely different requirements across member states. But this will take a number of years."

Threat or opportunity?

François Masquelier, EACT, recently wrote that in general, most treasurers see regulations or their amendments as a "threat and a financial and administrative risk". They might involve more expensive financing, more expensive coverage, more documents to produce more quickly and tax restrictions.

However, regulation, even if it is restrictive, can have benefits, notably that of making markets more transparent, efficient, competitive, accessible, resilient, and less subject to systemic risks. "These are positive effects that are often overlooked and yet are essential," he wrote. "Who wouldn't want a more resilient financial system that is less subject to systemic risks? We believe that any regulation can be an opportunity to revisit its procedures and processes and consequently strengthen its internal controls." ■

Focus, purpose and hard work

Nishedha Gunawardena
General Manager – Treasury
Aitken Spence PLC

Nishedha Gunawardena puts his career success down to hard work, after getting a break at Citibank as a teenager and setting his heart on working in treasury. Since then, he has been purposeful and diligent in climbing the career ladder and reaching the position he's in today.

Anchored to a rich history spanning over 150 years, Aitken Spence PLC is one of Sri Lanka's time-honoured and respected conglomerates with thriving business interests across diverse industries. Its trademark is borne across many pioneering projects in tourism, maritime, logistics, energy, plantations, services, and apparel in the region. Listed on the Colombo Stock Exchange since 1983, it possesses a credible record for partnering with global principals in every sector it operates in. With a growing presence across India, Bangladesh, the Maldives, Oman, Fiji, Mozambique and Myanmar, its adeptly perceptive of new avenues, opportunities and frontiers for sustainable value creation.

Purpose as happiness

Psychology has traditionally dealt with what is wrong with the mind, but these days the positive psychology movement focuses on wellbeing and human flourishing. What is happiness? Well, a positive psychologist will tell you there are two types: hedonia and eudaimonia. Both from Greek words, hedonia is about feeling good, enjoying life's pleasures and comfort. And eudaimonia, which more people are now realising is necessary for mental wellbeing, is about flourishing and living a life with purpose and meaning. Companies are also cottoning on to this idea, and some are really embracing it.

One such company is Aitken Spence, the Sri Lankan conglomerate whose business spans multiple sectors. On its website, it carries the motto 'Eudaimonia: a shared purpose', and it also has this emblazoned across the front page of its most recent annual report. The company explains it believes in the power of a purposeful existence: "Inspired by a spirit of people-centricity and innovation, we are structured to endure and deliver longstanding value – for it is in sharing our achievements, and in helping others to flourish that we realise our true joy and success," its website reads.

And the company seems to practise what it preaches. Its homepage carries some colourful and inspiring photographs and, unusually, gives the photographers credit. It also publishes the headshot and details of the staff member who took the photo – a simple way of recognising its people and giving them credit where its due.

Such clarity of purpose, satisfaction and flourishing, also extends to Nishedha Gunawardena, General Manager – Treasury at Aitken Spence. He has been very purposeful in his career and has reached his current position through hard work and being clear on what he needed to do for self-improvement and to flourish.

99% hard work

Gunawardena started his career as a banker, after being hired straight out of school by Citibank when he was 19 years old. He remembers vividly his reaction on his first day when he saw the treasury department and its Reuters and Bloomberg screens. "I was breathless and I thought 'This is where I want to be'," he says. And he kept focused on that goal, working with purpose to get where he wanted to be.

He started as a contract employee and knew that he would have to work hard to prove himself and secure a more stable position. He did just that and within ten months he secured a permanent job. "It was brilliant – I was really happy about that," he comments, explaining that this moment was a major milestone in his career.

He changed roles and worked in various departments at the bank, starting as an associate in international trade services, becoming a bank teller, then a senior bank clerk. He soon got to be in treasury and had a role in treasury operations. From there he headed the FX processing desk and was an authorised signer in the fixed income, currencies and commodities operations.

"And then an opportunity came up at Aitken Spence, I applied, and the rest is history!" he says. Moving from a bank to a corporate, he crossed to the other side of the fence; instead of being the one providing the solutions, he was now the one who needed them. "It made my life much easier having worked in the bank. When I looked at our requirements – I knew what the bank could do and think about it from that angle," he says.

He joined Aitken Spence as a manager in group treasury and was responsible, among other things, for cash flow management for the company's dozens of subsidiaries and a fund manager for a fund over LKR3bn (US$8.1m). He then became Assistant General Manager – Group Treasury, and these days he is the General Manager, having been appointed to that role in July 2022.

This current role is diverse and interesting, and includes cash and liquidity management, such as liquidity monitoring and the optimisation of bank relationships, cash pools and liquidity plans. Also, there is the risk management which involves reviewing and reducing overall risks by optimising counterparty limits and natural hedging opportunities. He is also involved in corporate strategy and engages in troubleshooting, problem solving and finding solutions for subsidiary-level working capital management, cash cycle improvements and policy implementation for group treasury. There is also relationship management, and he is the primary functional point for all banking activities of the group. And if that isn't enough to keep him busy, he is also a member of the company's Group Corporate Communications committee.

During his last year at Citi, In the early days, soon after he secured the permanent job at Citibank, Gunawardena was shortlisted for the bank's global leadership programme, a remarkable achievement when the bank often didn't select candidates from Sri Lanka, and for someone who started so young. What does he put this success down to? "Securing the permanent job was purely hard work. I was 19 years old – I hardly knew anything – and I worked so hard. I lived what I was doing. Citibank was really helpful in the early stages of my career and all those things came together. It was 99% hard work," he explains.

As part of this career journey, he realised that he needed to get professionally qualified. Again, he was purposeful in continuing his education and has since acquired a number of qualifications. For example, he has a certificate in treasury operations, foreign exchange, money market and fixed income operations. He is also a certified treasury professional, and completed a Masters of Business Administration (MBA), demonstrating how single-minded he is in setting himself a goal and achieving it.

A dynamic role

In his current role, as the General Manager of Aitken Spence's treasury, he has to keep on top of the many subsidiary companies and respond to their individual needs. "It is always changing. In a conglomerate's operating environment, the job itself is very dynamic, there is a lot of learning on a daily basis on the job – I find it exciting," he says.

And does it take a certain type of temperament to thrive in this environment, and enjoy working with the markets? "Some days it can get overwhelming and sometimes the markets feel like they are crazy and you get tired. Then you take a break and rejuvenate – that's it," he says. "Your personality can help or can make you want to have that kind of job," he says. He comments that he has observed throughout his career that some people thrive by spending time with other people, for example with clients on the sales side. And then there are the traders who like the numbers and the nature of the markets. "I'd like to think I cross both those types, but I tend to be more comfortable with the numbers and markets," he says.

Despite all his acquired knowledge and job experience, he comments on the lessons he has learned from working in treasury and dealing with the markets. "One thing I have learned is that no matter what you do, or how much you know, the knowledge is only part of what you have. The market always wins whether you are trading or not – you

> It is always changing. In a conglomerate's operating environment, the job itself is very dynamic, there is a lot of learning on a daily basis on the job – I find it exciting.

always need to respect the market – you cannot ever really beat the market," Gunawardena says.

And the markets in recent months have been difficult, with many unpredictable events that have caused unease for all participants. The macro environment has been challenging for treasurers around the world, who have had to adapt to a new normal of uncertainty.

Sri Lanka's challenges

The environment in Sri Lanka has been particularly challenging, and Gunawardena comments that the last two to three years have been difficult, and his priority has been to adapt and respond to the events that have unfolded. In the company's most recent annual report, both the chairman and the deputy chairman refer to the country's challenges. Harry Jayawardena, Aitken Spence's Chairman, wrote that Sri Lanka has been experiencing its most difficult times since independence in 1948. There have been a series of issues, including the depletion of the country's foreign reserves, which forced Sri Lanka to pre-emptively default on its sovereign debt and put pressure on the Sri Lankan Rupee, which depreciated by 76% in the first quarter of 2022. And this in turn led to higher inflation.

The company's Deputy Chairman Parakrama Dissanayake comments that Sri Lanka has been in a dark period with multiple crises coming together in a perfect storm. The country has experienced an economic crisis, an energy crisis, a sharp increase in interest rates and its sovereign rating is at an all-time low. And the country's state-owned enterprises may also need to be propped up, which will have an impact on inflation as fuel prices – and other services – would have to be repriced to reflect their true (and not their subsidised) cost. In amongst all this, however, Dissanayake is philosophical and quotes Robert Runcie, the UK's former Archbishop of Canterbury: "We shall not perish as a people even if we get our money supply wrong; but if we get our human relationships wrong, we shall destroy ourselves."

Gunawardena's priority in recent years has been to respond effectively to this changing environment in Sri Lanka. In his role, he is focused on managing the cash flows of the company, FX risks, credit risks and managing the various investment portfolios of the subsidiary companies. The conglomerate's 80 companies, which cover various industries such as tourism, logistics and renewable energy, have very different requirements that can vary at any one time. Gunawardena explains that he needs to cater to the specific requirements of the subsidiaries without losing sight of the bigger picture of the group and its overall purpose.

Working for a conglomerate like this presents unique elements to his role that perhaps his treasurer peers at other corporations do not experience. "The way we run things is that we are not only an advisory service, we actually structure deals and execute them. Especially in Sri Lanka, it is common for central treasuries to act as an advisory and they don't really execute – they just advise the subsidiaries on how to run things. We actually structure the deal and execute – that is very different to other central treasuries," he explains.

From the vantage point of his current role, Gunawardena can reflect on the major changes he has witnessed over his career. Particularly coming from an operations background, he has seen the impact of treasury moving to a digital world – and moving away from sending faxes and engaging in physical, manual tasks. And since he first saw the Bloomberg and Reuters screens as a wide-eyed teenager, the markets and asset classes have become much more complex.

A new approach to risk

More generally, Gunawardena thinks that there has also been a shift in the way people think, particularly when it comes to conceptualising risk. The Covid pandemic represents a step change in how people assess risk, he explains. These days, unpredictable events unfold at a greater pace than they have in the last decade, and this has had an impact on the way that people assess risk. "The traditional way of analysing risk is changing," he explains. There was an expectation that the recovery from Covid would occur at a certain pace, but then more uncertainty hit with the war in Ukraine. "The markets did not expect that," he comments. "It shows how dynamic and unpredictable the future is going to be. The way you analysed risk in the past is not going to be dynamic enough to sustain your business in the future," he adds.

So how can one plan for the unknown, or even the unknown unknowns? You have to have an emergency strategy, comments Gunawardena. "You have to plan and be prepared for the long-term, but you also need to leave some provision for unexpected shocks. You need to be able to adapt quickly – and not stick to the same old way of doings – and we have accepted things are different," he says. "Just because you have been successful and profitable in the past does not necessarily mean that it will continue to be so," he adds.

This approach to risk, which adapts to a dynamic and uncertain environment, will require a different skillset of treasurers. Gunawardena comments on the skills of the future: "We will need people who are willing to change and accept change, rather than focusing on one talent and strength just because it works for them for one year. It is helpful to have people who capitalise on their strengths, but in the back of their mind they should know that this strength may not be needed in the future. They need to be open to change and quick learners – these will be key traits of the future," he says.

Also, people skills will continue to be needed, even in the face of increasing reliance on artificial intelligence. "Having really good human skills will be helpful – sometimes you cannot totally depend on an algorithm or a trading platform – I do not think that alone will be enough," he says. "Beyond that I don't think we should be making any assumptions about the future. In ten to 15 years' time, the world will be in a very different place." ■

‘DO SOMETHING YOU HATE EVERYDAY’

A newly released bestseller by David Goggins, a man who has run a 100-mile race on broken feet, outlines how it is possible to overcome adversity and achieve greatness with the power of the mind. As he explains, it is all about sucking it up and callousing the mind.

If you think you’re having a difficult day, or life even, then it might be worth considering that you’re not even using 40% of your capabilities; you could achieve and do so much more if you just set your mind to it.

That is the theme of a recent book Never Finished: Unshackle Your Mind and Win the War Within by David Goggins, a man who underwent a spectacular transformation himself from an overweight loser to a star Navy SEAL and ultra-endurance athlete.

This certainly isn’t a ‘be kind to yourself’ sort of self-help book. It’s more of a ‘wake up call, suck up the pain and do things you hate’ kind of book. It has a sweary bootcamp style, which at times makes for gruelling reading. It is also, however, an inspiring read that demonstrates anything is possible if you focus your mind and have steely determination.

That’s what Goggins was able to do. In his first book Can’t Hurt Me he tells a remarkable story of overcoming a childhood where the odds were stacked against him: poverty, racism, physical abuse by his father, a heart defect that required multiple surgeries, as well as learning difficulties and a stepfather who was murdered.

By the time he was 24 he was overweight and realised he was at risk of wasting his life. From there he transformed himself into a candidate for the US Navy’s special operations unit and went through the brutal Navy SEAL’s ‘Hell Week’ initiation. He managed to turn his demons into a positive force. “I’m haunted by my future goals, not my past failures,” he writes.

These days he likes running super long distances and regularly finishes in the top five in ultra-marathons. He is also a Guinness World Record holder for the most pull ups in 24 hours. If you’re wondering, he did 4,030 in 17 hours.

At times his account feels like a masochist’s guide to working out. But he thinks that you can achieve such greatness – even if your goals or objectives are different. “The pain that you are willing to endure is measured by how bad you want it,” he writes.

To transform your life, you don’t need to enter a 100-mile race, and you certainly don’t need to do it with fractured bones like he has done. And Goggins is not a fan of self-help books – they are only about improvement, he argues. What most people need is much more than that: you need to reignite belief, ‘the flicker in the darkness’ that can spark your transformation.

Goggins argues he has not accomplished what he has because of his potential. In fact, he argues, his potential was so well buried when he was younger that no one could see it. “Not only did I find it, I learned to maximise it,” he writes.

His latest Never Finished book lays out his Mental Lab, a kind of roadmap that others can use to inspire them to harness the power of their mind and transform themselves. And he argues the task is an urgent one; life is ticking away by the second and should not be wasted. In fact, he argues, if you waste one of the 86,400 seconds in a day, that could change the outcome of your day – and your life even.

He urges his readers to have the mental endurance to do whatever it takes to achieve your goals. “You are the warden of your life,” he writes. He also has advice on ‘The Art of Getting Hit in the Mouth’. If you are preparing for New Year’s resolutions and were intending to take a ‘be kind to yourself’ approach, then this isn’t the book for you. ■

More currency chaos ahead

Regular reviews of FX risk management strategy will be a vital factor in successfully navigating currency market uncertainty.

Kyriba's currency impact report for Q222 underlined the FX risk management challenge facing corporates, noting that the collective quantified negative impact reported by North American and European companies totalled US$37.3bn between April and June – a 126% increase from the previous quarter. This challenge is likely to become even greater next year according to a recent research note from ING, in which the bank's global head of markets suggested that FX trends will become less clear in 2023 and that volatility will continue to rise.

In terms of specific currencies, it has been pretty much all about the mighty dollar this year as it reached its highest level against the pound since the mid-1980s and neared parity with the euro for the first time in 20 years. What is particularly interesting from an FX perspective is the differing stories of inflation from each side of the Atlantic, and specifically that in the US it may have peaked since the country is largely shielded from Ukraine-related gas price spikes suggests Vedanta Hedging CEO, Abhishek Sachdev.

"This is what is driving volatility in GBP/USD," he explains. "We have seen a sharp increase in the cost of hedging GBP/USD beyond the 12 month point."

One of the most concerning observations comes from Michael Quinn, Group Trading Manager at Monex Europe, who refers to an underlying expectation that currency markets are being distorted by temporary factors such as the conflict in Ukraine and the hangover from supply side pandemic shocks.

"However, this expectation that markets will normalise was also there in the aftermath of the global financial crisis, but never actually materialised," he says.

So how should companies go about mitigating FX risks? Amol Dhargalkar, Managing Partner and Chairman of Chatham Financial says the first step is to get a clear understanding of exposures and underlying risks, ideally through a value-at-risk type of analysis which will help companies determine where to focus their mitigation strategies.

"Companies also need clear and early communication, especially during budget season, around new markets they may be entering into," he adds. "Those with existing hedging programmes may be entering 2023 with some rates already hedged at a better rate than the current market environment, which will buy them time, but eventually they will be exposed to the new rate environment."

He recommends that companies who currently hedge continue to do so on the basis that if you stop hedging it can be very difficult to determine the appropriate time to re-enter the market and that there is no guarantee rates will ever return to previous levels.

"Companies may choose to be a little more opportunistic in the execution of hedges to try and 'buy the dip', but even this can lead to dangerous chasing of prices that may never materialise," says Dhargalkar.

Sachdev recommends hedging more frequently for shorter durations and avoiding complex (for example, leveraged) option structures unless absolutely necessary. "It is more important than ever to keep hedging costs as low as possible, since these can quickly add up if a company is hedging a few times a year instead of buying all of their cover for one year at a time," he says.

Whether they hedge or not, corporates would be well advised to address issues such as a lack of reliable FX-related data and forecasts, manual and error prone processes, and poor or non-existent FX results analytics for both cash flow and balance sheet FX risks.

"Companies first need to get visibility into accurate FX data, which means understanding the transactional currency details of both the income statement and the balance sheet," says Scott Bilter, Principal of Atlas FX. "Where the transactional currency differs from the functional currency of any entity where this activity takes place, there will be an FX risk that needs to be monitored or hedged."

During calmer times pre-pandemic some corporates moved towards more exotic hedging products observes Eric Huttman, CEO of Milltech FX.

"In recent months we have noticed many reverting back towards the more straightforward linear products such as forwards, which are more liquid and easier for corporates to unwind should the market move against them," he says. "In our experience, corporates are also hedging a high amount of their exposure and instead of locking in rates for twelve months or more for FX forwards they are shortening the length of their hedging contracts."

The average tenor of the hedges put in place by the 251 CFOs, treasurers and senior finance decision-makers in mid-sized corporates surveyed on behalf of Milltech FX between June and July 2022 was five months, indicating that they are balancing concerns around profit erosion with the need to be nimble in the face of fragile supply chains, weakening consumer demand, and rising inflation.

In the context of the last year or more the dollar is still quite strong across the board. However, we have come off the highs quite a bit in the last two months so protection is worth considering reckons Thomas Anderson, Managing Director for Moneycorp Americas.

"The market is telling us that there will be a lot of volatility through the first quarter of next year, so preparing ahead of time is prudent," he says.

Agreeing on a budgeted exchange rate for the year will help when placing trades observes Joe Jones, Head of Sales at

Cornerstone FS. "This should be done in consultation with an FX specialist and take into account volume and timing of expected requirements, current rate(s), and an educated assumption on future rates," he adds.

Attempting to call the absolute top of a market in any kind of consistent fashion is impossible, yet leaving a business completely exposed in these market conditions is unsustainable suggests Quinn.

"The final quarter of the year has seen perceived risks subside and a cautious optimism has crept back in to markets," he says. "Companies have had time to adjust both cost and sale prices to account for the changing economic landscape, while governments have introduced a variety of programmes to support their domestic economies."

Yet the precise impact of monetary policy changes can only ever be estimated. After over a decade of low interest rates and an increase in monetary supply, it is still eminently possible that central banks have over-tightened and that we could slip in to a global recession next year.

Ivan Asensio, Head of FX Risk Advisory at Silicon Valley Bank suggests the drivers for currency direction will shift away from interest rate hikes and monetary policy next year and on to economic growth. "The key question is whether central banks successfully fight inflation whilst engineering a soft landing, or we are headed for a hard landing recessionary landscape," he says. "The latter will further aggravate volatility, dampen asset prices, and may result in a rise in the dollar as a result of risk aversion."

Dhargalkar says companies should plan their strategy assuming the strong dollar will continue. Historically FX rates do tend to revert to the mean, but the timetable to do that is unknown and it is not always clear when we have entered a 'new normal'.

"A lot of the drivers of dollar strength – rising interest rates, war in Ukraine, European energy costs – are not expected to be relieved any time soon," he says. "For most companies, the danger of being unhedged and the dollar strengthening further is a worse situation than hedging now and the dollar ultimately weakening."

According to Gary Slawther, a professional interim treasurer who works with companies with a wide spread of geographies, industries and exposures, corporates need to take a holistic view of FX risk management and recognise the importance of cash management.

"Companies that have traditionally hedged are still hedging," he says. "Now that interest rates have increased, a lot of treasurers who might not have hedged over the last decade or so are coming under pressure from their boards to change tack, but of course the cost of hedging has also risen."

Over the last 12-18 months we have seen spot rates rise above forward rates for the first time in many years. However, Slawther says that in his experience most CFOs are not giving in to pressure to change their FX risk management strategy on the basis that no one can predict how rates will change.

"When to comes to FX, if you are right half the time you are doing very well indeed," he says. "My advice is to have faith in your currency management programme – in some years it will be painful, but in others you will look like a genius."

One of the most fundamental things a company can do to protect itself against risk is to always have liquidity and this is something CFOs are increasingly telling their boards, making sure their working capital is structurally cash generative and that procurement and sales teams are not offering unrealistic payment terms.

"I have worked for five different CEOs over the last 18 months and they are all focused on improving liquidity, which is great news for treasury because this is an area where our skills and competencies come to the fore," says Slawther.

This trend also emphasises the importance of treasurers knowing and understanding their business because this will improve their understanding of where the risks and opportunities lie and recognise the traps that can lead to lost liquidity, he adds. "This is a time of great opportunity for the commercial treasurer." ■

Case study

International publishing company Informa has balance sheet exposures and translation of profits rather than significant FX transaction exposure given that around 80% of its EBITDA is in US dollars or US dollar pegged and that it reports on a consolidated PLC basis explains Group Treasurer, Richard Garry.

"We usually seek to finance out net investment in our principal overseas subsidiaries by borrowing in those subsidiaries' functional currencies, primarily USD," he says.

This policy has the effect of partially protecting the group's consolidated balance sheet from movements in those currencies to the extent that the associated net assets are hedged by the net foreign currency borrowings. Informa monitors the effectiveness of its hedging strategy monthly and reviews any foreign exchange volatility that is coming through the income statement to take additional action where necessary, adds Garry.

"On that basis, this year's volatility has been no more challenging than any other year as our regular processes have been effective," he says. "We also conduct an in-depth review of our strategy annually – utilising external expertise to ensure we are taking an independent, robust and up to date view – and again, that did not bring to light any changes required tactically or strategically."

The business has undergone significant change this year as it divested one of its divisions and this change, combined with the strength of the US dollar, also prompted a review of foreign exchange policy. But that review did not suggest any policy changes were necessary.

Futuristic AI poses unique challenges

Artificial intelligence and machine learning are becoming commonplace in the business world, but there are numerous factors that corporates need to consider before they rely on this technology and do away with the need for humans altogether.

Fans of the Swedish pop group ABBA can now see them in concert and experience them in their heyday of the 1970s, as digital versions or 'Abba-tars'. This virtual concert in London is part of a growing trend of replacing humans with artificial intelligence (AI), and now Korean pop music – or K-Pop – is doing something similar. The group Eternity recently released 'I'm real', an ironically named song that featured its 11 members. And just like the 'Abba-tars', they aren't real or human – they are virtual characters that have been created with AI.

If our basic entertainment is moving in this direction, what about the rest of the business world? Will we need humans in the future? What kind of decision-making will we leave to AI? And if we do that, what could possibly go wrong? Such are the questions of science fiction fandom, but for treasurers – and their corporations – the answers are fortunately a lot more mundane.

The use of AI and machine learning (ML) is consistently mentioned as a major trend by the treasurers that Treasury Today regularly speaks to. Dr Andreas Bohn, Partner at McKinsey and expert in treasury management, risk management and capital markets, explains that the main uses of AI by corporate treasury are for cash flow forecasting, optimising hedging decisions, forecasting the parameters of the markets and improving data quality.

Are these applications risky in anyway? Could the machines be running away with their own learning and make erroneous decisions? "There is always a risk of getting forecasts wrong," says Bohn. He comments that the issues usually relate to the data that the applications draw on. The data quality might not be appropriate, someone might have manually input it, and there might be errors. "The algorithms need to protect themselves against data errors," says Bohn. He adds that applying the human-in-the-loop concept, where AI and ML is developed with the involvement of humans, is important to ensuring that the technology is developed and used in a way where risk appetite, business needs and specifications are aligned.

As yet, it does not seem that treasurers are over-relying on these tools and heading for a science fiction scenario. "If people make mistakes it is more on the reliance of the status quo and not being able to imagine scenarios that would be outside the usual parameters," Bohn comments. For example, during the energy crisis, some were unable to even conceive that energy firms would go bankrupt or that energy prices would skyrocket. "When these algorithms are implemented it is still more in the testing phase than anything else. What I have perceived is that they are used on the treasury side as an additional tool, which is a backup and accompanies regular activities," adds Bohn.

When it comes to the riskier aspects of AI, Ben Rapp, Founder and Principal at Securys, a specialist data protection and privacy consultancy, comments that treasury's use of the tools is unlikely to be a concern. The ethical dilemmas of AI, which are becoming a hot topic for businesses and regulators alike, are more likely to be a challenge for financial institutions than corporate treasury, he notes.

More broadly, businesses are relying on AI and ML for strategic decisions. Andrej Zwitter, Professor of Governance and Innovation at the Netherlands' University of Groningen, says there are some very important considerations when implementing AI as a strategic decision-making framework. With traditional analytics and business intelligence, he explains, it is clear what is going in, in terms of the data, the process that will be applied and the different analytic techniques that will be used – and the outcome is transparent. "With automated decision making there is data scraping, and the quality of the data can often not be assured.

"Also, the process of AI is using convoluted statistics and complicated mathematics is being applied. Because it is so

complicated it is not possible to understand what the decision is based on – it is a black box." Zwitter adds, "There is no way to second guess the advice it gives."

There are numerous examples of organisations making decisions based on biased data. Zwitter points to an example of the Correctional Offender Management Profiling for Alternative Sanctions (COMPAS) tool, which was used by courts in the United States to predict the recidivism rates of offenders. However, it was later shown that this artificial intelligence had an inherent racial bias because it was based on population data from US jails, which had a higher proportion of African Americans. Also, because the software was proprietary, the judges were unable to look into how the judgements about offenders were made, explains Zwitter.

Rapp at Securys also raises this issue of the training of data, and gives the example of Amazon, which had to discontinue a recruiting tool it introduced in 2014 because its predictions of what an ideal software developer looked like used biased data. The machine was effectively learning – and then predicting – that a 'good' candidate was white and male. Rapp explains that once the tool is on this path, it becomes almost impossible to correct it, as you'd have to balance out this bias with an almost equal amount of data – on female software developers, for example – that doesn't exist.

Meredith Broussard, an Associate Professor at New York University and author of More Than a Glitch: Confronting Race, Gender and Ability Bias in Tech says, "There is a perception that using data to make decisions is more objective and more unbiased – that is not true. There is no such thing as an unbiased dataset." She gives the example of financial institutions building a solution that helps decide on who gets approved for home loans; that dataset would use who got mortgages in the past. "What social scientists know about lending is there is a history of discrimination of who has gotten home loans in the past and that past discrimination is reflected in the data," Broussard explains. She points to The MarkUp's investigation into racial disparities in mortgage applications and argues that all businesses should be doing algorithmic accountability reporting to test for bias in the data.

Rapp comments that financial institutions – and other businesses – will have to care about these issues because the European Union will soon be regulating the use of AI, which will cover issues such as transparency and the right of recourse. "There are broad questions about the power and the asymmetry of the relationship with the borrower," he says. "These regulations are going to hugely increase the scrutiny of those systems and institutions are going to be subject to much bigger fines if they cannot show they are being fair."

AI will be categorised in tiers according to its level of risk – ranging from unacceptable and high risk to low or negligible risk – and if businesses fall foul of the regulations they could potentially be fined up to 6% of global turnover.

Rapp outlines some areas that may be challenging for financial institutions. Anti-money laundering transaction screening and the profiling of customers can have a deleterious impact on customers, particularly when there are false positives and a 'good' customer is blocked out of their account based on an automated decision.

Also, there are issues with using biometrics to allow access to a bank account. This could be done through key stroke patterns, or facial features. But if a customer has hurt their finger and can't type properly, or has a black eye – or had recent plastic surgery, for example – they will be locked out of their account even though they are a genuine customer.

When asked if there is an unthinking over-reliance on these tools, Rapp says that the people working with them and implementing them are aware of the ethical issues involved. When it comes to the general public, however, especially if they have watched a lot of science fiction films – they are more likely to think that AI is more intelligent and powerful than it actually is.

Zwitter agrees. "These tools are referred to as smart and intelligent, but these words are metaphors – they have no real meaning. These tools are not intelligent or smart. They are algorithms, essentially mathematical formulas that are based on data and certain rules – there is no intelligence or smartness," he says.

Rapp agrees and says, "They are tools that are trained to do specific tasks. They can be remarkably good at that and seeming smart." In fact, he adds, sometimes when people think AI is being used to answer questions, it is actually a human in a call centre typing a response. And on a similar topic, Broussard recommends Behind the Screen: Content Moderation in the Shadows of Social Media, a book that examines the use of human moderators – and not algorithms – in evaluating posts on mainstream social media platforms.

"AI is great for a variety of applications" particularly automating boring tasks, says Broussard. "However, people run into trouble because they imagine AI can do more than it actually can. When people are imagining that AI is going to be sentient and replace humans they have to keep in mind of what it is good at and not good at – and balance the expectations. Even the name artificial intelligence and ML is misleading – it suggests there is a brain in the computer," she says.

It is easy to imagine that AI will lead us down a path where the machines have taught themselves enough, will take over from humans and the technology will be uncontrollable – the point of singularity. Is this a real danger that we need to be concerned about? Is humanity doomed? On the question of whether we will reach singularity, Zwitter says, "It is impressive what AI is able to do, but we are giving it too much credit – it is literally just zeroes and ones. There is no intentionality or agency; there is no such thing as intelligence with an opinion unless we point it somewhere. There is no reason to believe there will be a point in time where humans lose control over AI – unless we give it all the control and we outsource our moral agency to these tools," says Zwitter.

Broussard agrees that AI doesn't threaten the future of humanity. "One thing I would be concerned about though is autonomous weapons and the commercial availability of food delivery robots – and people doing things like attaching guns to them," says Broussard. She also points to the example of police in San Francisco proposing to allow police robots to kill suspects, which Broussard describes as "a terrible idea". After a similar response from the public, the proposal was reversed in early December 2022.

For corporates and their treasuries, it seems there is no need to worry about the machines taking over. The prospects of a science fiction dystopian nightmare are low, and when they see their favourite musicians they will most likely be human. For now. ■

Breaking up is hard to do: decoupling and how to prepare

China's role as the world's manufacturer is changing thanks to political, ethical, and logistical pressure. The founder of China-based manufacturer Velong Enterprises explains that his customers are calling for a dual supply chain. But lifting up his Chinese operation and dropping it into a new location is far from easy.

For Jacob Rothman, President and CEO of Velong Enterprises, a China-based manufacturer of kitchen and household products for export, the only way to navigate the worrying and deteriorating environment for manufacturers in the country making wares for the global market is to be proactive. "You can either sit here and wait for orders and customers to erode or you can prepare to move manufacturing to different spots around the world," says Rothman, an American who set the company up 20 years ago, speaking from Velong's Shanghai headquarters. "America's left and right are concerned about China, and China is saying it wants to focus on the domestic economy and is going after its top companies in an ideological shift that is worrying for businesspeople," he says.

For Velong's customers, which comprise renowned global retailers and brands, the current situation is a bad dream. But reality is also beginning to dawn. Velong has already set up new operations in Cambodia and India to run alongside its six Chinese factories and Rothman is now scouting new sites in Turkey and Mexico. But customer requests that the company increases safeguards and contingency in a hybrid supply chain based on production in China alongside other locations around the world are growing increasingly urgent. "Almost all our customers want to hear that we are opening other factories outside China. This seems to be the winning formula."

What's happening

A cocktail of escalating China-US tension on everything from trade, technology, and Taiwan to new US and EU sustainability rules, higher Chinese production costs, and the toll of endless pandemic lockdowns is threatening to unravel decades of economic integration between China and the west. All the while China's Dual Circulation Strategy places greater emphasis on its domestic market and targets reduced reliance on exports, driving greater independence and internal focus.

Witness how at the end of last year, ongoing pandemic restrictions upended production at Foxconn's Zhengzhou plant, a place called iPhone City. Like other Apple manufacturer Pegatron, Foxconn has now pledged to increase investment in alternative production facilities in India and Vietnam. The pandemic has taken a huge toll on Velong's 1,200 China-based staff, adds Rothman, describing how international employees have left the company, fearful of being trapped in their homes because of lockdown rules and desperate to get their children back into open schools.

Even if China unravels its zero covid strategy, the political situation makes continued decoupling likely. The US Chips and Science Act has pledged huge investment to boost domestic research and manufacturing in the semiconductor industry and comes alongside throttling back on physical and intellectual exports of cutting-edge technology. The expanding definitions of nationally sensitive industries and technologies has limited foreign direct investment and barred cross border data transfer creating a compliance risk for western and Chinese businesses, explains Amanda Chen, a Partner with RHTLaw Asia's Corporate & Capital Markets Practice who flags ride hailing app DiDi's US$1.2bn fine for violating China's data security laws as a vivid example of what can go wrong.

Add tariffs and new rules to the mix. Companies from camera-maker GoPro to shoemaker Crocs cite new tariffs and other government-driven trade restrictions as their reason for cutting production in China of goods destined for the US and shifting closer to home. Rothman says US tariffs have not been particularly damaging for his business – rather than hurting manufacturing operations in China, he says US consumers felt the pinch of tariffs most. But he notes a changing ethical tide is driving friend shoring and reshoring trends. New sustainability rules are forcing companies to have much better sight of their supply chain like new EU and US laws prohibiting the import of goods made with forced labour with implications for products made in factories in China's oppressed Xinjiang region.

Manufacturers moving out of China and softening US China trade is more drip-drip than on a grand scale and isn't impacting every sector. The US Department of Agriculture reported US farm exports to China hit a record in 2021. Textile and furniture sectors have exited China over the last decade because of costs rather than any wider decoupling trend, and multinational companies will always seek to buy the cheapest, best quality and most quickly produced goods, regardless of geopolitical noise. Still, experts confirm a steady, gradual, diversification trend gathering pace. "Step by step the chain is moving out," says Ivan Lam, an analyst at Counterpoint Research. "It's most visible in consumer electronics and smart devices."

Key considerations

India is one of the most popular destinations for consumer electronic and smart phone groups setting up new production facilities. Building manufacturing operations in India lands companies in one of their biggest markets, explains Lam. "They want to kill one bird with two stones. It's the same reason why they originally set up shop in China." Only India has a similar size population and potential labour force to be the world's new manufacturer, adds Rothman. "Demographics are the most important thing in manufacturing." But he says every new market has challenges compared to China. "The world seems to want Chinese equipment, Chinese engineering, product development, know-how and customer relations, but picking up Chinese operations and dropping them into a new location for the same price is challenging."

Japanese and Korean traditional consumer groups have set up shop in Vietnam. Like South Korea's Samsung, Vietnam's biggest foreign investor and exporter – but it has taken years. Today Samsung accounts for one fifth of Vietnam's total exports from its phones and parts factories in the northern industrial hubs as well as operations in the south where it pumps out fridges and washing machines. "Vietnam wants to be the next China, but it took Samsung ten years to build up its manufacturing base in Vietnam," says Lam.

One of the key benefits of Vietnam is lower production costs compared to China where the strong yuan and a rise in the minimum wage has pushed up costs. Jack O'Sullivan, founder of e-bike company Modmo, speaking to **Treasury Today in 2021**, said one reason for locating his production facilities in Vietnam in a factory in Ho Chi Min was plentiful, cheap labour.

Still, Lam warns that companies must balance cost benefits with the need for a skilled labour force. Manufacturers in China have benefited from a skilled, blue collar work force thanks to government investment which may not be matched in other locations. "Foxconn plans to expand its Indian operations, but they will have to rely on local governments bringing workers into the towns, and local authorities providing schools," he says.

Manufacturers' ability to source product components outside China is another challenge. Mexico doesn't produce the right steel for Velong's range of grilling and kitchen tools, timers and thermometers, for example. At its Cambodian factory, most parts are imported from China anyway, and if tensions in the region rise, shipping out of Cambodia will be challenging.

Most of the work at contract manufacturer Foxconn's Indian production facilities is focused on assembly and packaging even though the plant has been up and running since 2019. Depending on the model, Lam estimates between 40-50% of

> You can either sit here and wait for orders and customers to erode or you can prepare to move manufacturing to different spots around the world.
>
> Jacob Rothman, President and CEO, Velong Enterprises

Foxconn's iPhone components are sourced and shipped from China and assembled in India. "The whole thing needs to change. You don't want to pay shipping costs," he says. It was a similar story at Modmo. Ebike parts were shipped into Vietnam from China, sourced from diverse Chinese suppliers marketing their products on Alibaba. In contrast, many bike part suppliers in Vietnam don't even have websites.

Elsewhere, suppliers scouting new facilities must weigh up the cost of land rental and tax policies. Lam notes China's tax policies have "always been favourable" compared to some countries that "charge to export." Companies manufacturing in Vietnam for European buyers benefit from its trade agreement with the EU whereby 99% of tariffs will go to zero over the next six years. Ultimately, relocation will be driven by cost factors and led by incentives from local governments, surmises Lam. "It's a very simple financial calculation that comes down to what a company can gain from shifting out."

Tools

Treasury Today Asia interviewees report a range of strategies and tools for corporates wanting to shore up their supply chain. Echoing the same message Rothman increasingly hears from Velong's customers, RHTLaw's Chen advises corporates establish dual supply chain systems in a strategic overhaul whereby one chain supplies the Chinese market and the other customers in the west. It requires a flexible corporate structure to oversee both supply chains and should include replacement capabilities for each market separately, she says. "Establish a task force to closely track developments and share information in key markets to develop global strategies and mitigate the effects of decoupling."

Other strategies centre around resiliency. Stewart Dunbar, co-author of 'Improving Supply Chains in the Oil and Gas Industry' told Treasury Today Asia that Maintenance, Repair and Operations (MRO) supply chains – prevalent in the energy sector where many supply chains involve replenishing equipment and services rather than making things to sell to an end consumer – can prepare for de-coupling.

The sector sources much of its spare part requirements and equipment from China and struggled to secure supplies during the pandemic. And these groups can't easily switch to near-shoring or manufacture equipment and parts close to production sites because many of the regions they operate don't have the required production capacity, labour or skills. But because oil and gas groups control their own demand, they can be better prepared by putting in place robust maintenance strategies, ensuring capacity (or spares) on hand for critical equipment failures. He also urges MRO treasury and procurement teams to not just view supply chains through a cost lens because sourcing a more durable, better-made component means it will need replacing less.

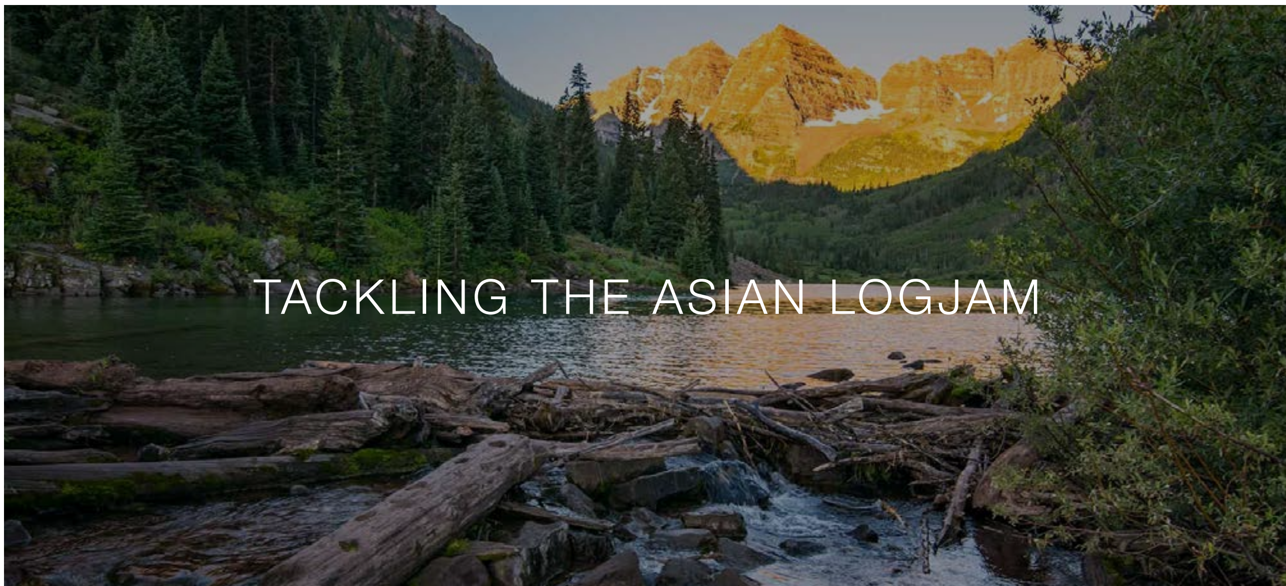
For corporates identifying new suppliers in new locations, supply chain finance is a valuable tool, says Parvaiz Dalal, Global Head Payables Finance at Citi. Supply chain finance offers new suppliers the ability to access cheaper and consistent funding by leveraging the buyer's strong credit rating and get paid cash when goods ship and are accepted by buyers. "Supply chain finance really does change the gamut around moving from one location to another. New suppliers sourcing finance on their own and putting their own balance sheet on the table is unreliable and costly," says Parvaiz who counsels stressed supply chains are not only influenced by decoupling trends. The pandemic, war in Ukraine and inflation are also to blame.

If decoupling trends gather pace, Dunbar warns against the temptation to return to 'just in case' supply chains. Back in the 1990s, the proliferation of 'just in case' procurement strategies left companies with "millions of dollars" of inventory lying around. "You will pay dearly for 'just In case'," he says. Instead, he suggests strategies like shared sourcing. In this approach, different companies use the same distributor to supply the same item, rather than each company holding inventory. This strategy could also be managed internally within the company. For example, a company could set up its own regional or global spare parts centre that feeds the locations with product as and when, keeping inventory low but ensuring constant availability from a single point.

A comparable type of shared sourcing worked for the oil and gas industry at the height of the pandemic. In some regions, oil groups cooperated sourcing health and safety goods and services in short supply by sharing contractors and equipment. "It was a case of asking your competitor to help you out. No one wants a safety failure in the industry," says Dunbar.

Companies can prepare for supply chain disruption by moving away from contractual relationships with their suppliers, he continues. Rather than have a relationship structured around fulfilling a contract, supplier relationships could be based on partnerships. In turn, companies should understand that a supplier may only have the capacity to fulfil limited customer orders and will do so according to their internal perception of the right customer to serve. "Companies need to change and view things slightly differently," he says.

Helping others is also a byword at Velong. Large state-owned Chinese companies have already diversified manufacturing across ASEAN in China-plus one strategies, visible in the spike in ASEAN exports. However, uprooting and moving production is a Herculean task for the average Chinese manufacturer. Yet these companies make most of the goods stacked on the shelves in western stores. Rothman, unlike his manufacturing peers, many of whom don't speak English and are struggling to renew passports or apply for visas because of government restrictions, is in a position to scout new facilities, figure out logistics and test pricing and the availability of raw materials and labour. It's why he's exploring new manufacturing sites in Mexico and elsewhere, not only for Velong, but for other Chinese manufacturers across an array of sectors. ■



TACKLING THE ASIAN LOGJAM

A strategic approach to supply chain management is minimising the negative impact of ongoing disruption across Asia.

In some parts of the world it is almost possible to forget that we have just lived through the most disruptive pandemic in living memory. However, despite moves by China last week to dismantle elements of its zero-Covid policy, the manufacturing sector across Asia is a long way from a return to normal.

A recent report from Coalition Greenwich noted that two-thirds of corporates have experienced supply chain disruptions in the region over the past 12 months. In an interview with CNBC earlier this month, Joe Monaghan, CEO of Worldwide Logistics Group observed that declining container freight rates from Asia were compelling carriers to reduce services to balance supply with falling demand as recession fears increase.

Shipping firm HLS has warned clients that container capacity could fall by 5% or more next year.

However, the Coalition Greenwich report also noted that corporate treasury departments have been implementing adjustments to their supply chains that will have long-term ramifications for businesses, economies and the trade finance industry that supports commerce across the region.

The most common approach has been to diversify the supply chain by adding new domestic and regional raw material sources and alleviating reliance on individual suppliers. Corporates are also working to make supply chains more agile – investing time and capital to enhance their ability to accurately forecast demand and supply – as well as shifting to longer-term contracts with suppliers and shipping companies, increasing inventory levels, and hedging FX and interest rate risk with financial contracts.

Nigel Cole is Product Manager at Golledge, a UK-based supplier of frequency products that exports to more than 50 countries representing more than 60% of its revenue. He suggests that one of the best strategies for countering ongoing logistics and supply chain disruption in Asia is doubling down on supplier relationships, which means "learning to love long haul flights" and investing in regular face-to-face meetings.

"These meetings should be used to understand what is important to the supplier in terms of logistics and production efficiency – using them to communicate only your own needs is a mistake," he says.

Golledge's primary partnerships span 20 years. "There is an obvious temptation to change based on factors such as price, but this will not build loyalty and deliver stability during times of disruption," says Cole. "Building long-term relationships will also help you to understand the correct escalation path and who to turn to when a critical favour is required."

Another useful strategy is dual and triple sourcing. In a move away from the vendor reduction programmes of the past, having more than two suppliers for each item on the bill of materials has become more important than ever, although Cole cautions that companies should avoid spreading business too thinly over multiple suppliers.

"Stocks are of vital importance (it is not just about running lean anymore) and understanding longer-term demand is vital," he adds. "Orders cannot simply cover initial lead times – companies should share forecasts, ramp-up schedules and project lifetimes. If you have invested in the right partner and built a relationship, they will order, take risks with you and commit to reserve or place long-term orders months or even years in advance."

Cole observes that lead times have increased more than fourfold from 12 to 50 weeks. "While they are recovering slowly, companies should keep in regular contact with their partners to understand local issues and updating manufacturing resource planning systems regularly is vital," he says. "Finally, a recent trend gathering momentum is physical investment in key partners. This effectively means buying capacity and this will help to build all-important supplier relationship further." ■

Sustainability regulation

How prepared are companies for new sustainability reporting rules designed to tackle greenwashing and create a single set of corporate climate reporting standards?

Jo Holmes
Head of ESG Reporting
Marshalls plc

We've been reporting our carbon footprint since 2004 and we've been a FTSE4Good constituent for 17 years. So sustainability reporting isn't new for us, but it's certainly become much more complex. It is now rightly driven by data, controls and the need for transparency.

The sustainability reporting landscaping has changed dramatically over the last few years. We're not only engaging with numerous ESG ratings agencies, but legislation and standards are also driving reporting, and developing quickly. As a FTSE 250 plc, we have a mandatory requirement to report according to the Task Force on Climate-related Financial Disclosures (TCFD). The process of TCFD reporting has been a welcome one as it gives our stakeholders a well-rounded view of our approach to climate change. We're now anticipating the launch of the International Sustainability Standards Board (ISSB) standards worldwide and the TPT (Transition Plan Taskforce) guidelines in the UK. Though they are both going to add another layer to our reporting processes, they will also offer a much more level playing field. Stakeholders will now be able to compare different companies because we'll all be reporting to the same standards – which we see as a positive step.

As a manufacturer and supplier of hard landscaping products like concrete paving, drainage solutions and roof tiles, we know that our carbon footprint is something we not only need to understand, but also manage, measure and report. We measure our Scope 1 and 2 emissions and we're proud to have reduced our carbon footprint by 50% between 2008 and 2020. Our Scope 3 emissions are those from our suppliers, including cement producers, so it's a large footprint. Though we haven't previously reported our Scope 3 emissions, we have measured it and this year we'll be looking at it in more detail with a view to reporting. It's important to us to show our entire footprint, not just the part that we have a direct impact on.

Our reporting of sustainability progress is mainly in our Annual Report and our Sustainability Report, both of which are available on our website. At this stage, these reports are separate though I know the direction of travel is to have integrated reporting. This isn't something we're contemplating right now but as sustainability reporting becomes much more standardised, our reporting will evolve.

My advice to those in the sustainability reporting field is to keep a keen eye on what's coming. We've been watching developments in the US and the EU, as well as looking at what might happen in the next few years, so for example the likely rise of biodiversity reporting. Being prepared for these developments is key and it's driving what we're doing internally. The other important part of sustainability reporting is materiality. Assessing and reporting on what really matters to you and your stakeholders gives a much more transparent view of your business, which is what those reading your Annual Report are really looking for.

Chris McGarry
Partner
White & Case

The European Union's Green Deal ushered in four key pieces of legislation. First on the scene was the Sustainable Finance Disclosure Regulation (SFDR) followed by the EU Taxonomy Regulation, which together with the SFDR define what classifies as an environmental investment and a social investment. Now we have the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD).

CSRD will come into law early 2023 and will be implemented in phases. It requires companies to report the risks they face from climate change and other sustainability issues, and how their business is impacting climate change. It also requires companies to publish the policy they have put in place for Paris alignment and their exposure to carbon generated power. It entails mandatory information gathering and reporting. Larger companies will have to comply for the financial year starting 2024 but companies not domiciled in the EU will have longer unless they are listed in the EU. The detailed reporting templates within CSRD will use ISSB standards as a baseline. In the UK, which is drawing up a Sustainability Disclosure Requirements (SDR), ISSB global standards will also be the baseline in the reporting templates.

The EU's CSDDD regulation is still being negotiated between the Council on the one hand and the Commission and European Parliament. It will require companies to publish a measurable transition plan to Paris alignment and the eradication of human rights adverse impacts. The Council of Ministers recently published its mark-up of CSDDD regulation. France has pushed back on requirements that banks

contractually impose the legislation on their borrower clients, arguing it was too much of an operational burden for banks.

Both pieces of legislation represent a paradigm shift for businesses to take responsibility for their own supply chains and to think strategically about the impact of their business on stakeholders. CSDDD will hold the most severe penalties for non-compliance since it allows penal sanctions to be imposed by member states, plus any impacted stakeholder may bring civil litigation against companies which breach CSDDD obligations. The penalties member states impose under CSRD must be effective and fines will be based on global turnover, while injunctions will be able to stop activities. It is not going to be a case of just a slap on the wrist for non-compliance. In another important element, the EU has also commented on co-opting businesses to deliver international treaty obligations which include the Paris Accords and the Universal Declaration of Human Rights.

We advise companies not to wait for the detailed CSRD reporting templates due by 30th June 2023, but to take steps to do the work now on the headline strategic, governance and operational issues which are already clear under the CSRD. Aspects of the regulation are going to apply to EU subsidiaries of non-EU businesses. There is also an element of group-level reporting, so a non-EU parent company will have to provide information. Companies don't have to be that large to be caught by these laws. EU subsidiaries with a turnover over €40m and non-EU parent companies with a turnover of over €150m or if they are listed in the EU must also comply.

George Richards

Partner, Head of ESG Reporting and Assurance

KPMG

Currently there are many different standards for sustainability reporting, and because they are mostly voluntary, there is considerable divergence in what companies report. Finding consistency and comparability amid a patchwork of voluntary frameworks and standards has proven to be a major challenge.

To drive higher-quality comparable reporting, processes for preparing sustainability reporting need to be designed and operated with the same rigour as those for financial reporting. The consolidation of sustainability reporting standards that is now taking place, notably under the ISSB, presents an opportunity to do this, and we are fully supportive of the ISSB's ambition.

New proposals on the first IFRS Sustainability Disclosure Standards, part of the ISSB work, mark the next step towards equal prominence for sustainability and financial reporting. The proposals aim to create a global baseline for investor-focused sustainability reporting that local jurisdictions can build on and be compatible with other sustainability reporting regulations being issued by the EU and by the SEC in the US.

It looks likely the standards will be published in 2023, and a rapid route to adoption is expected in several jurisdictions. In some, the standards will provide a baseline either to influence or to be incorporated into local requirements while others are likely to adopt the standards in their entirety. This is a critical milestone in the journey towards a consistent global baseline of investor-relevant sustainability reporting. The aim is to drive transparency and enable investors to make better informed choices.

These standards are being developed at a much faster pace than IFRS Accounting Standards. Under the proposals, companies would report on all relevant sustainability topics (not just on climate-related risks) across four content areas that are consistent with the TCFD eg governance, strategy, risk management, and metrics and targets.

Reporting would be connected to the financial statements and released at the same time. Therefore, companies will need processes and controls in place so that they can provide sustainability information of the same quality, and at the same time, as their financial information. Getting ready now is critical even if the final standards may not be identical to the proposals. We know more standards will be coming along the horizon, such as those discussed at COP15 in December 2022 relating to biodiversity loss and natural capital. And sustainability reporting requirements are not just limited to listed companies. Large private companies will also need to report, initially on climate related disclosures and eventually a range of other topics.

Companies that already report in line with existing frameworks such as the TCFD and have the processes in place to produce similar sustainability-related information are likely to find reporting under the final ISSB standards easier.

Corporate sustainability reporting can – and should – start driving a different conversation in the board room such that business owners stretch their thinking and ensure, from the top down, leadership teams are making principle based and strategic decisions that take the climate, as well as broader sustainability considerations, into greater and sustained account. These conversations become less about what a company 'must' do (comply) and more about what a company 'wants' to do (bring change).

Here in the UK, we have an opportunity to build a world class reputation for sustainability reporting and external assurance and further strengthen our internationally renowned capital markets, our position as a leading business destination and reinforce our commitment to sustainability more broadly. It is critical that we seize this moment, and we are fully committed to playing our part as a firm. ■

Next question:

"How could trade finance benefit from digitisation and how much progress has been made so far?"

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

treasurytoday.com