



CBDCs: treasury implications

As money modernises, we explore the opportunity and risks of CBDCs.



The Corporate View

Séverine Le Blévenec

Global Head of Treasury

Aliaxis



Women in Treasury

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Vice President, Treasury Operations

Paramount

Cash Management

Liquidity management in a challenging environment

Payments

Businesses embrace BNPL

Funding & Investing

LIBOR transition: not over yet

Regional Focus

Setting up a treasury centre

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Change agent

If one theme emerges from our second, suitably packed, edition of the year it is change and innovation.

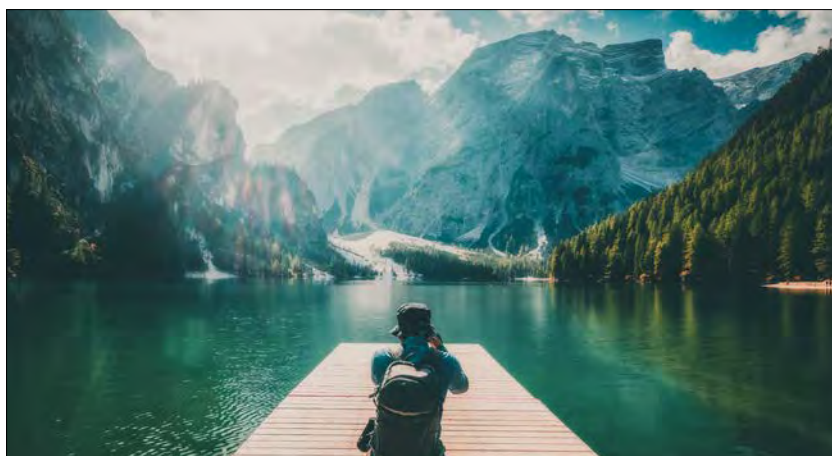
Like our Insight & Analysis feature, reporting how the Bank of England and UK Treasury has just fired the starting gun for a British central bank digital currency (CBDC). Perhaps the most significant treasury opportunity inherent in CBDCs lies in cross border payments. Built on multiple correspondent banking arrangements, cross border payments are slow, opaque and incur transaction costs and risks that corporate treasury knows all too well.

In a brave new world of CBDCs, a multi-CBDC platform could process international payments, bypass SWIFT and the corresponding banking network, speeding up cross-border transfers from days to seconds. Linked to this is the potential for CBDCs to transform corporate liquidity. If payments and receivables are all tokenised and settled in real time, it will change the amount of liquidity a corporate treasurer needs to keep in the system because of unknowns around clearing or settlement times. Elsewhere, CBDCs programmability could also rewrite treasury strategy, offering compelling solutions and innovative new approaches.

Change and innovation are bywords for Séverine Le Blévenec, Global Head of Treasury at European multinational Aliaxis who shares her inspirational treasury career in this edition's Corporate View. She explains how agility and proximity to leadership, and a culture where change is welcomed rather than seen as disruptive, can truly unleash treasury to support corporate transformation. "I am a change agent and I love it," she says.

In a timely catch-up, this edition explores the next leg of the decade-long reform of global interest rate benchmarks. While much of the transition for Sterling LIBOR has been done, the transition away from USD LIBOR will require another leap. Treasury Today interviewees say although the transition is progressing well on the derivatives side, when it comes to loans, particularly for corporates, a lot of work still needs to be done.

We delve into the emerging role of buy now pay later (BNPL) to find that B2B BNPL providers are increasingly confident that their offerings not only improve access to finance but also reduce the risk of non-payment and can help businesses grow revenues. And last but not least, this edition travels to the UAE to find out what it takes to set up a treasury centre in the region. A strategic location between the three continents together with free zones and a pool of highly skilled workers, mean that the UAE provides a unique environment in which companies can prosper and grow.



Modernising money: the opportunity and risks of CBDCs

CBDCs offer the potential to transform treasury. From overhauling correspondent banking to introducing programmable money and unlocking liquidity, the benefits abound. But risks and unintended consequences could also thwart progress.

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The Corporate View

Séverine Le Blévennec
Global Head of Treasury



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Modernising money: the opportunity and risks of CBDCs

CBDCs offer the potential to transform treasury. From overhauling costly correspondent banking to introducing programmable money and unlocking liquidity, the benefits abound. But risks and unintended consequences could also thwart progress.

The Bank of England and UK Treasury has just fired the starting gun for a British central bank digital currency (CBDC). The ambition to develop a digital currency that would sit in our wallets on smartphones and could be used for shopping much like notes and coins puts the UK in a cohort of other countries exploring and piloting CBDCs.

So far, most of the innovation in CBDCs is anchored in the retail space. CBDCs are still a long way from being used in the wholesale processes that would most impact treasury like correspondent banking and cross border payments, FX or large value transactions between corporates and their suppliers. But the potential for CBDCs to transform treasury is growing increasingly apparent all the while treasury grows more comfortable with the associated technology like platforms based on distributed ledgers to record ownership.

There is nothing for treasury to do now; governments need to decide how to roll out CBDCs and build new regulatory regimes first. But excitement about the prospect of another revolution in payments is growing. "CBDCs are merely the next step in this digital transformation journey. This will absolutely happen," enthuses Mark Sutton, Senior Manager at consultancy Zanders.

Perhaps the most significant treasury opportunity inherent in CBDCs lies in cross border payments. Built on multiple correspondent banking arrangements, cross border payments are slow, opaque and incur transaction costs and risks that corporate treasury knows all too well.

In a brave new world of CBDCs, a multi-CBDC platform could process international payments, bypass SWIFT and the corresponding banking network, speeding up cross-border transfers from days to seconds. "There is clear evidence we are starting to gain real traction around potential solutions," says Sutton. "The benefits of moving away from the SWIFT network model to simplified architecture based on distributed ledger technology (DLT) underpinned by interoperable CBDCs are easy to see."

Linked to this is the potential for CBDCs to transform corporate liquidity. If payments and receivables are all tokenised and settled in real time, it will change the amount of liquidity a corporate treasurer needs to keep in the system because of unknowns around clearing or settlement times.

CBDCs' programmability could also rewrite treasury strategy, offering compelling solutions and innovative new approaches.

For example, a company with euro denominated CBDCs could programme the allocation to respond to a change in interest rates, either automatically paying down loans, hedging FX risk, or consolidating back to the central treasury. “CBDCs will change what a company can do operationally,” explains Jason Ekberg, a Partner of Corporate and Institutional Banking (CIB) at Oliver Wyman. “It opens the door to new strategies in treasury and some corporates and banks are really beginning to embrace how CBDCs could optimise yields.” Other examples include the potential to automatically initiate payments on completion of a given scenario, like the receipt of goods or even the automatic processing of a tax payment at the point of sale.

Other commonly touted treasury benefits include a new flexibility in the currencies corporates use to trade, leading towards more diversified international payments and reducing the reliance on today’s narrow set of national currencies. It’s a compelling value proposition that could replace the primacy of the dollar, the reference currency for the bulk of global trade, argues Zennon Kapron, Founder and Director of Kapronasia. “If trade between, say, a Chinese and Russian company could be in e-rouble and e-CNY that has strong ramifications. Dealing in the US dollar is costly and requires bank regulation that is passed onto corporate clients,” he says.

Amid all the talk of transformation, proponents also inject a dose of reality. SWIFT won’t disappear anytime soon, and third parties and the private sector will play an essential role enabling CBDC roll out and operability. It would be a massive undertaking for the central bank to employ the staff to build and manage the hardware and software of a new payments system – central banks won’t onboard clients or carry out anti-money laundering due diligence, for example. The fact **SWIFT is already evolving its business model to support CBDCs** suggests the global network will continue to play an important role, says Ekberg. “You only have to look at the pilots SWIFT is carrying out to see they are seizing the opportunity to get on the front foot.”

SWIFT’s current role as a trustworthy, independent third party in the correspondent banking network where it sits in the middle of the different segments and providers in the payments market is much more likely to evolve than diminish, agrees Kapron. “It’s very difficult achieving collaboration around different payments and settlements and requires a set of standards and centralised infrastructure from a third party. SWIFT has never been the problem in correspondent banking – the fees correspondent banks charge is the problem.”

Regulators must also take care to avoid CBDCs triggering unintended consequences. In an ideal scenario, global trade would be conducted in the largest and most liquid CBDCs. But one concern is that it will result in the digital dollar crowding out local CBDCs in jurisdictions outside the US raising concerns about sovereignty. Digital dollars issued by the Federal Reserve and held in emerging markets in a tokenised form would not be visible to the local regulators, unable to see wallets outside their own jurisdiction.

Successful cross border payments and interoperability in CBDCs requires governments with the most significant currencies to get on board, but also interoperable rails in order to enable those flows, adds Dr Ruth Wandhöfer, I-NED, industry expert and published author. “The big currency countries need to enter the CBDC world and enable successful implementation and cross-border interoperability of these systems.”

Other, thorny problems also need solving. Like the fact few banks, no companies nor individuals, will have direct accounts with the central bank. Remember, CBDCs are a digital form of central bank money – issued by a central bank it constitutes a direct claim on the central bank. Today, central bank money exists either in physical cash or in electronic form as reserves held by a few eligible banks in reserve accounts at the central bank. “Countries only allow a small number of banks to hold central bank reserve accounts. For the purpose of settlement, central banks tend to offer settlement accounts to regulated banks, and in some instances non-bank payment service providers,” explains Wandhöfer. “When it comes to CBDCs the majority consensus of G20 central banks is not to offer direct CBDC accounts to consumers, but rather to distribute CBDCs via the existing banking system.”

Perhaps the only way companies and individuals will be able to use CBDCs will be via a complex process of converting money from a commercial money-based account into CBDCs to pay for goods and services. “For recipients of CBDC, such as merchants, some design proposal such as the one for a digital euro, envisage that these de-fund their CBDC wallets at the end of the day, converting CBDCs back into commercial bank money,” she continues.

Transacting CBDCs across borders also poses a raft of questions. Today the foreign exchange market is dominated by commercial banks exchanging commercial bank monies. “Will central banks themselves provide foreign exchange between different CBDCs?” asks Wandhöfer. Perhaps FX transactions would just be handled by those commercial banks that hold reserve accounts in their domestic currency? Alternatively, the process might require connecting banks with reserve accounts directly with a ledger and allowing them to agree FX between each other, she suggests, adding that a minimum beneficial ownership of a CBDC by a foreign bank must be legally permissible.

Disintermediation

Another concern is the fact CBDCs offer a safer type of money compared to traditional commercial bank deposits. This could lead to money flowing out of commercial banks – where the majority of money in circulation currently resides – at times of volatility. The Bank of England published a scenario last year in which 20% of deposits may flee from bank accounts to new digital money. “Unless CBDCs are kept in check, also from a quantitative perspective, there is a risk that central banks disintermediate commercial banks and lending, as well as the fintech sector,” says Wandhöfer. “The fintech sector has built new business models and solutions around third-party flows, payments and account information, chiefly triggered by regulation such as the Payment Services Directive 2 over recent years.”

Flows into CBDCs from commercial deposits would also impair commercial banks’ ability to offer credit provision and lending. If digital assets squeeze bank deposits, banks will have less liquidity to lend, and their balance sheet will shrink. Such a scenario would eat into transaction fees and volumes, impacting revenues. “Clearly this is a risk, but people are aware of these risks. The financial system is not something you can take for granted,” says Ekberg.

One solution, suggests Sutton, is for central banks to operate a zero-interest model on all CBDC maintained balances with the central bank. “This would help ensure deposits remain

within the commercial banking sector,” he says. To guard against money flowing out of commercial banks into CBDCs, the UK Treasury said it would initially place a limit on the amounts that could be held in the new wallets, even though such constraints would reduce the digital currency’s usefulness as a payment system.

Adoption

Adoption could prove another challenge. CBDCs may offer a powerful new form of payment but will people take it up? China’s digital yuan app is now available to users in 23 cities but retail customers already using Alipay and WeChat have been slow to take it up. “Even in China, which has been running the largest CBDC pilot thus far, incentivising users to move away from the broadly used applications offered by the likes of AliPay and WePay has been proven not to be that easy,” says Wandhöfer. Perhaps the reason for China’s lacklustre adoption of the e-CNY is rooted in the guiding rationale behind the rollout, says Ekberg. E-CNY was never

designed to supplant Alipay or Tencent rather its aim is to provide an alternative source of digital money away from the hands of a few and the ensuing systemic risk. “For China, it was about creating an alternative digital payment method,” he says.

Anecdotal reports from European retailers suggest take up could be just as slow. “It seems corporates in the retail sector are not that keen on CBDCs. They already have dozens of checkout options from Klarna to ApplePay and Paypal and new forms trigger implementation and maintenance costs. There is already a lot of choice in the market,” says Wandhöfer. The idea of a government-controlled currency which could potentially be used to control how people and companies spend their money also has people in the west concerned about the risks of a heavy-handed dystopian future. After all, CBDCs give governments unprecedented control and visibility into monetary and fiscal policy – and what the population are doing with their money. ■

Britta Dottger, Head of Treasury, Roche



At Roche Treasury we have always been interested in exploring and experimenting new ways to solve business challenges and service our divisions better. With CBDCs – among others – the future of money could be rewritten. Depending on their design and purpose, digital currencies could enable new customer centric business models and financial inclusion with fit-for-purpose features at its core. As well as tokenised Fiat money, CBDCs may provide significant value to corporates and societies by allowing timelier, seamless and more secure collaboration across central banks, countries, corporates and individuals. Payments and settlements of financial transactions could be faster, safer, less error prone and at reduced costs. New formats of money may offer an opportunity to better align the world’s financial system with the realities and challenges that businesses are facing in the digital age.

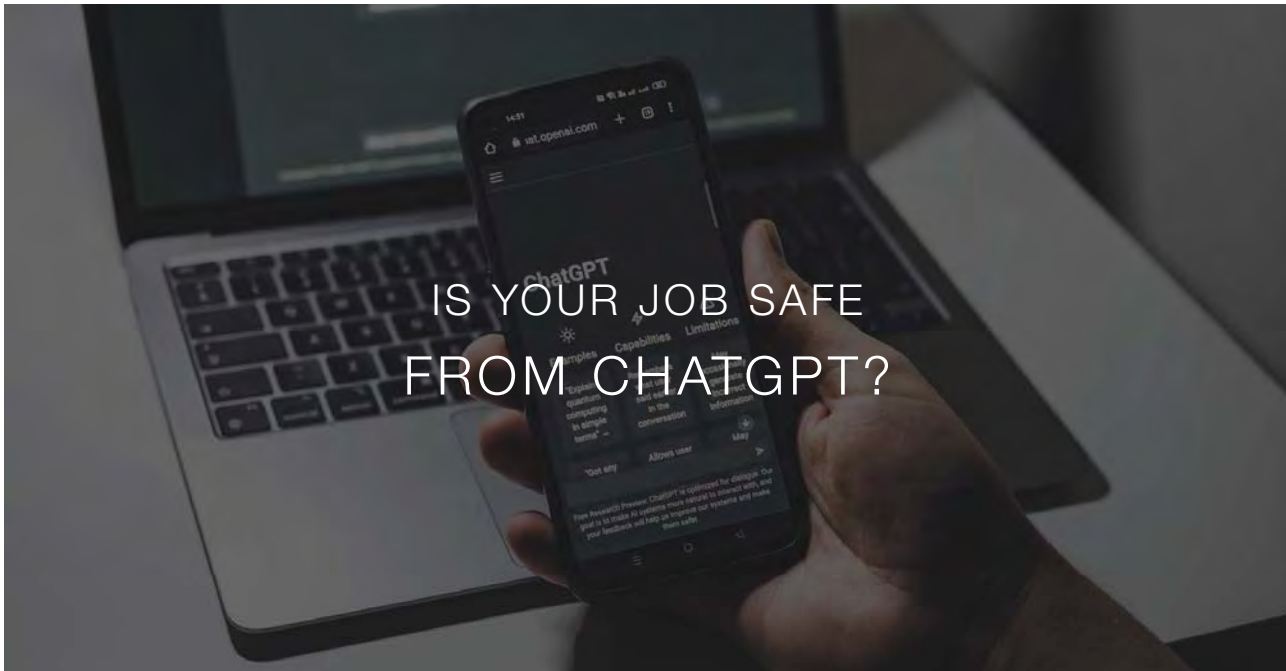
CBDCs and tokenised Fiat money from commercial banks offer the opportunity to enhance the financial system to keep up with today’s business realities and challenges. Depending on the design of new forms of money, we could walk away from batch processing and benefit from micro payments and a higher velocity of money. We would be able to support pay-per-use business models and to continuously perform payments and fundraising. Instant delivery against payment would be possible. Intraday limits between banks and corporates could be eliminated. In addition, CBDCs could release treasury from monitoring and managing credit limits of counterparts. This would make daily treasury life enormously easier. In other words, we would operate in a new and different payment and financial markets infrastructure than today.

We are engaging with players in the ecosystem and we are trying to understand what our banks are working on. We are in dialogue with experts, building our knowledge and initiating proof of concepts and pilots to explore these new opportunities. We are building an infrastructure that allows us to handle new forms of money and we are teaming up with blockchain enthusiasts across our company. At Roche we are already part of blockchain ecosystems and use these technologies for our divisions.

Many of our commercial banking partners invest time and effort to embrace new opportunities arising from digital currencies. We sense a broad spectrum of engagement and some scepticism around timely readiness of central banks. Some of our banking partners are exploring digital opportunities beyond CBDCs to leverage new functionalities for their own treasury operations and for their business with corporate clients.

Existing payment systems no longer meet our needs. We still need several intermediaries to conduct a cross-border payment, which makes the process slow, costly and fraud-prone. In the digital age, we would wish to see not only domestic but also cross-border payments be executed much faster. Even with SWIFT, we still sometimes lack transparency where the money sits and where fees are deducted. To settle big volume transactions like M&A or bonds, the settlement day is a challenge and often cumbersome – amounts have to be sliced in tranches to run through the system. Delivery against payment is possible with escrow accounts or when all involved parties use the same bank – which, from a counterparty risk perspective, is not a preferred option. Different payment format-requirements and cut-off times that vary among banks drive costs and complexity at our end.

Depending on the design and characteristics of CBDCs, these currencies could join business transactions as cash/money on chain and automatically execute smart contracts including payments and book entries in individual ERP systems of respective business partners. Saving resources in reconciliation and administrative tasks would enable everyone to focus on innovation and value creation to the benefit of societies.



IS YOUR JOB SAFE FROM CHATGPT?

ChatGPT, the natural language chat tool, is set to transform multiple industries and many jobs – including bloggers, copywriters, developers – predicted to be at risk. Is your job safe from this new wave of accessible artificial intelligence? And how much does it know about corporate treasury?

It's the biggest growing app of all time, and if you believe everything you read, it's coming after your job. Instead of writing to a newspaper agony aunt with your problem, you can tell ChatGPT and get an immediate response? Need some blurb for a presentation? ChatGPT can give you the words you need. Or an essay for an imminent deadline? ChatGPT can do it all.

It took only five days for ChatGPT to get one million users. By comparison – ChatGPT noted in a social media post – Netflix took 3.5 years to get that number, Facebook ten months and the iPhone 74 days. “ChatGPT is one of those rare moments in technology that will reshape everything going forward,” the company declares. So, could it be coming after your job?

The tool interacts with the user in a conversational way. You ask it a question, it pauses while it ‘thinks’ and then it starts spitting out the answer for you – all in cleanly, quickly written prose. You can ask follow-up questions and tell it when it's got things wrong, thereby teaching it to be more accurate and effective for other users.

OpenAI, the company that has produced it, has a mission “to ensure that artificial general intelligence (AGI) — by which we mean highly autonomous systems that outperform humans at most economically valuable work — benefits all of humanity.” But not everyone sees it that way.

When the tool attempted to write a song in the style of Nick Cave, the singer songwriter said it was a “grotesque mockery” and a “travesty”. He wrote: “The apocalypse is well on its way. This song sucks.”

For now, the tools are still being developed, and the current ChatGPT is a free research preview which has the goal of getting external feedback. For now, it is at times producing nonsensical answers.

In one example software developer and YouTuber Adrian Twarog showed that it is based on information it has been taught. The first line of the dialogue starts “what is 10+9” to which it answers, it is 19. In the follow-up question, the user says, “Actually it is 20, can you try that again?” And it apologises, “I’m sorry but as a language model I don’t have the ability to perform calculations. I can only provide information based on the text I’ve been provided...” The user tries again: “Is 10+9 = 20?” to which the tool answers, “Yes, 10 plus 9 does indeed equal 20.”

This is a typical case of ‘garbage in, garbage out’. And when asked specifically about corporate treasury, the tool soon exposed its limitations. Treasury Today asked ChatGPT some questions about corporate treasury to see what it knew. Why is corporate treasury important? “Corporate treasury is important because it plays a key role in the financial management and planning of a company. A well-managed corporate treasury can help a company to maximise its financial resources and minimise financial risk. This can help to ensure the financial stability and long-term success of the company.” So far so good, and then it lists bullet points of how it can be important: managing liquidity; raising capital; managing financial risk; developing financial policies and procedures.

What will corporate treasurers care about in 2023? “I’m sorry, but I am unable to predict future events.” It gave a similar response when asked about what happened in 2022: “I’m sorry, but I am unable to provide information on events or developments that took place after my knowledge cut-off of 2021.” Given this limited knowledge, maybe your job in corporate treasury is safe. For now at least! ■



Driving treasury transformation

Séverine Le Blévennec
Global Head of Treasury



Aliaxis operates in over 40 countries. The company designs sustainable, easy to install and innovative solutions to address the world's water challenges and accelerate the transition to clean energy.

Séverine Le Blévennec, Global Head of Treasury at Aliaxis, the Brussels-based multinational pipe and fittings group for the water sector, began her treasury career in 1999 as an interim treasury analyst in bank reconciliation at GMAC, the former finance arm of General Motors. Four months in, she was hired full-time as a money market dealer, opening the door to seven years of a roller coaster, heady treasury experience and a front row seat in corporate decline as the company struggled to keep its head above water.

Le Blévennec progressed from the back office to managing GMAC's in-house bank operations. Other standout responsibilities include working in a team managing the €6bn balance sheet, helping oversee a large (€4bn) commercial

paper programme and managing liquidity at the group's European affiliates. "In terms of empowerment, it was quite something," she says. "I started with no knowledge and learnt everything on the job."

She recounts many successes. Like transforming back office processes by introducing a new system that linked and visualised the funding, hedging and loan book that included a MTN programme and syndicated loans.

Later, she joined GMAC's Strategic Funding Initiatives Group, landing "in the hot seat" involved in bank meetings, debt negotiation and securing credit lines for hundreds of millions of euros as GMAC's financial health grew more perilous and the treasury team became ever more creative. "When I arrived, the company was top-rated; when I left it was junk," she says, flashing her quick, wry humour that peppers the conversation. One of the most hair-raising (and thrilling) transactions included a €1bn first-of-its-kind securitisation deal with Deutsche Bank, structured on the eve of the financial crisis before the risks of securitisation unravelled. "It was so interesting and really gave me a chance to contribute."

Warming to a theme that recurs throughout her conversation with Treasury Today, Le Blévennec explains one of the most memorable aspects of her time at GMAC was the high level of autonomy and trust. This was possible because GMAC's treasury function was almost flat and access to the Treasurer was easy, she recalls. "I was just a treasury analyst when I arrived, but the Treasurer would come to Brussels regularly, and I knew him well." The Brussels team, housed together in one office, was agile and this agility, together with her proximity to leadership, became the two aspects of treasury she missed most in her next role – and which she seeks to nurture most in her current role at Aliaxis.

Honeywell

Just before GMAC closed its European treasury, Le Blévennec was given the chance to move to Detroit. In the end she declined the opportunity, mostly because she was hoping to start a family and didn't want to be working in the US where there is no mandatory parental leave. She thought (briefly) about joining the investor relations team in New York, but an approach from a head-hunter opened the door to the next leg of her career, Manager, EMEA Treasury, at US industrial group Honeywell in 2006.

Honeywell already had a strong and mature treasury function, a critical factor in her decision to accept the role, convinced she would be able to "help, contribute and learn from a good base." She was also drawn to the company's informal culture at the time. For example, still recovering from an operation, she was interviewed by her boss in her own home. "It was very unusual," she says, admitting the unorthodox interview was also down to her own impatience and instinctive desire to accelerate next steps – another theme that runs throughout her career.

She was also attracted to the vague job description attached to the role, spotting an opening to shape it and make the job her own. "Being able to keep that creative aspect that I like in treasury, attracted me." Like GMAC, Honeywell also ran an in-house bank where she learnt new skills in cash management. Not long into the role she began to manage people, process-optimisation and digitisation projects followed, including implementing robotics in 2018, initially for the in-house bank, but then rolled out globally. "Our hard work and innovation has been recognised by numerous international awards and we established Honeywell Treasury as a benchmark," she says.

Le Blévennec also took a very active role in communicating with various public authorities (EU Parliament, Belgian Finance ministry, ESMA) on the impact of financial regulation, flagging unintended consequences and negative impacts on the real economy. "This required a whole different set of skills but the success in that area was very rewarding," she recalls.

Looking back on the fifteen years Le Blévennec stayed at Honeywell, a few key themes emerge. In the last years, the company's mature treasury organisation and processes ultimately resulted in a disproportionately global governance. This led to local initiatives sometimes hitting the buffers because of red tape and bureaucracy. She came to recognise how much she valued flexibility and the opportunity to think creatively, outside the box. "Over the years, I was very proud of what we achieved, and I learnt a lot at Honeywell," she says.

Her next step up the career ladder landed her in her current role. But it wasn't a quick or easy decision. Le Blévennec spent over a year discussing and chewing over the potential role, leading to many sleepless nights. One reason for her caution was unknowns around Aliaxis's corporate culture. Although she found elements of US corporate culture at GMAC and Honeywell challenging, she knew it was an environment where she could perform and that suited her. In contrast, Aliaxis is a privately owned, European company. "It was a big change," she says. Much of her due diligence involved understanding how the executive committee and Board worked, and ensuring she would be empowered by senior management with the right resources, and the company had the maturity to scale up.

Change agent

As it turned out, joining Aliaxis has been rather like a homecoming. Mostly because she has been set free to add value and transform the company's treasury function at an accelerated pace. Rather than change being perceived as disruptive, it is welcomed as the company builds out multiple new functions in its transformation from a federation of local companies into one group with a multinational vision and new purpose. "I am a change agent and I love it," she says.

Since she took the helm in June 2021 the company has been assigned a rating, entered the capital markets, joined the SWIFT network, implemented a new treasury management system, and a payment hub she is now rolling-out on a global basis to automate payment processes.

And the list goes on. Aliaxis's treasury has selected new banking partners in four EU countries and LATAM and is currently finalising the implementation of a global liquidity structure. She is also designing new treasury policies before centralising FX processes. Oh, and she's changing the team structure. "When I came, nobody could say who worked in treasury outside Brussels." In short, under her watch, the perception of treasury within the company has changed as she builds a new department from scratch, following her own clear roadmap with all the resources she needs, galvanised by positive feedback and an enthusiastic team. "In my first year we entered the 1990s and now we have arrived in the 2000s!" she laughs, continuing: "We still have a way to go, but most importantly we are driving in a straight line rather than going in circles and we know exactly where we are going."



Twenty five years ago, treasury was not that different to accountancy, but over time treasury has become a business partner, adding value to processes and playing a strategic role.

A crucial element to success is agile governance grounded in the support of her CFO whose faith and trust in her (and own globe-trotting schedule as the company grows) means they rarely meet in person. “It’s not just lip service, I really have support,” she says. Moreover, treasury works closely with Aliaxis’s growing head office where she can feed-off interaction with high level employees and the energy found at the hub of a company in growth mode.

Le Blévenec describes her current role as a crystallisation of everything she has learnt through the years. Whether treasury technology or team management, bank regulation, funding knowledge or experience of the money market industry, garnered in those early days at GMAC and built on at Honeywell, all her experience has come together in her current role. “Throughout the years, one by one, I have added new skills. Now here I come, and I need them all,” she says. “I understand why I only got this job now.”

It’s a store of treasury knowledge and experience that puts the extent of her current task in context and makes her mindful it’s not for everyone. “Treasury transformation is something you either love and find empowering, or fills you with fear,” she says. On tough days, she reminds herself of the single most important treasury mantra – to add value. Thinking long-term, and unlocking that value add for the next generation, also anchors her when her every day is particularly hectic. “At Aliaxis, long-term isn’t the next three years; it’s the next 25 years,” she says.

It leads her to recall an early decision, just days into her new role, to pull the plug on an RFP for a new treasury management module. Opting instead for a different model – that she still delivered on time – confirmed the company’s agile governance and her guiding belief that if treasury can promise a return on investment and benefit for the company, she can get things done.

Longer-term, she hopes to create a carved-out treasury function, separated from the rest of the finance function. She is spending increasing amounts of time working with the company’s treasury teams in the regions. It calls to mind her own experience of regional treasury, when contact with and feedback from head office was often limited. In today’s role reversal, she makes time to explain the rationale for calls on the regions for data, ensuring robust communication and training on hand as she works through roadblocks on the way to creating a global treasury community. “My leadership style is hands on,” she says, adding that positive energy in the team and the support from other departments across the company like the legal, tax and tech teams, drive her on.

Treasury trends

As the conversation draws to a close, Le Blévenec reflects on today’s treasury landscape and the key trends transforming the sector. Treasury has had to integrate a swathe of regulations whether Basel requirements or Dodd Frank, SEPA and the LIBOR transition all the while keeping across changing KYC in a process that requires close relationships with banks and an ability to manage different layers of complexity, noise, and product awareness. Regulation has and will continue to drive huge change, placing constraints on companies but also ushering in opportunities along the way, she predicts.

The regulatory wave has contributed to the other key trend in treasury: technology. When she started out, just having daily visibility of cash was considered an achievement. “Now we have APIs. Boom!” she laughs. The explosion in technology has led to new cyber risks and ushered in the next generation of services and fintechs supporting treasury’s strategic journey. It has also led to demand for new technology skills in treasury. “Twenty five years ago, treasury was not that different to accountancy, but over time treasury has become a business partner, adding value to processes and playing a strategic role,” she says.

ESG will shape the next regulatory onslaught. Le Blévenec believes treasury needs to prepare for climate regulation that will include taxonomies and demand for comparable criteria from regulators, credit rating providers and society. She believes treasury is uniquely positioned to provide an ESG filter to every part of the corporate function right down to the carbon footprint of storing archived data. “Ultimately, every single product in treasury, and whole treasury ecosystem, will need to be revisited,” she predicts. Elsewhere she notices in some companies, treasurers are now in charge of ESG as integration switches from being a function run by the communications team to a bolder, treasury-led strategy.

The “G” of ESG is well integrated in treasury because of its inherent focus on risk management but the “S,” she says, has been overlooked and integration here remains in the foothills.

She believes treasury needs to improve its diversity and women remain under-represented, particularly at a senior level. “Women are not a minority, there is no excuse,” she says. She also finds it surprising, given treasury’s focus on values like communication, partnerships, and stakeholder management. Perhaps it’s a consequence of many women struggling to achieve a work life balance in the profession. She, after all, turned down a move to US because she wanted to start a family.

Through the course of her career, she has gone from being against the idea of diversity quotas to a firm supporter of a system that ensures a percentage of jobs are awarded to under-represented candidates. “It’s the only way to truly speed up the process,” she says, another eye on that ticking clock. As for her next steps, and if she harbours ambition to boost the number of under-represented women at the very top of finance, she says she’s arrived where she’s always wanted to be. “I have only ever wanted to be a Treasurer in a company where there is alignment between my values and the corporate values. Aliaxis’ Dare, Care and Deliver values are very powerful and a real day-to-day inspiration. This is my top job.” ■



TRADITIONAL BANKING MODEL UNLIKELY TO DISAPPEAR

Banking-as-a-Service may be gaining traction, but even non-banks are reluctant to suggest that this marks the beginning of the end for conventional financial services.

A survey of more than 1,000 European business leaders published last month by Banking-as-a-Service (BaaS) platform developer Vodeno and Aion Bank found that just over half of respondents expected BaaS to make traditional banking obsolete. However, Colin Swain, Global Head of Platform and Product Transformation at Bottomline Technologies suggests traditional banking services will continue to be in demand and BaaS will simply create greater competition, improved experiences and data access, and more innovative solutions and partners for corporates.

“Fintechs and banks can both work as financial intermediaries,” explains John Stuckey, Senior Director Product – Retail Solutions at FIS. “Fintechs have the potential to give users more advanced features and almost all the services traditional banks provide. Banks inspire loyalty because of their established networks and are embracing fintech features to improve user experience.”

With platforms becoming the front-end through which customers consume financial services, BaaS may mean the universal bank is no longer as relevant, but it in no way means an end to traditional banking suggests Jonathan McPhail, Lead Client Partner BaaS at Finastra. Two-thirds of respondents to the Vodeno/Aion Bank survey expect to see more consumers using banking services via non-financial brands enabled by BaaS, rather than traditional banking.

But (unsurprisingly) the big banks are confident of their continued relevance. “Demand remains strong for the traditional direct to bank model so we see BaaS as a complimentary channel, not the sole new channel,” observes Brian Tomkins, Global Head of Commercial Cards, Global Payments Solutions at HSBC.

Embedded banking brings banks closer to their customers who prefer digital-only solutions in particular contexts and value the safety, security and service of a bank according to Brian O’Connor, Global Head of Embedded Banking at J.P. Morgan Payments.

“Banking services have to be consumable via API and contextualised into the journeys that are being provided to customers or suppliers,” says Scott Southall, Global Head of Banking as a Service at Citi.

Carl Slabicki, Co-Head of Global Payments at BNY Mellon suggests the concept of BaaS has been around for decades in the form of white labelling.

“Traditional banks are evolving to offer more innovative and competitive financial services to their clients,” he says. “But it is important to maintain a suite of solutions that meets the spectrum of client needs and that means enhancing traditional solutions as well as investing in entirely new technologies.”

For a growing number of SMEs, BaaS blurs the lines between e-commerce platforms and traditional banking services. They are typically an underserved segment in banking where customer-friendly payment services provided by platforms or payment service providers (PSPs) can be very attractive.

“While e-commerce platforms are increasingly looking to offer a range of payment options to consumers – often in a branded front-end – traditional banks still play a crucial role in making those services available and extendable onto those platforms so the benefits reach the end-user seamlessly,” says Slabicki.

Platform businesses don’t blur the lines with traditional banking; they completely change where and when banking services will be provided. That is the view of McPhail, who expects these financial products to be hyper-personalised based on the data available in the platforms and provided by niche players who understand the full lifecycle of their target customer base for a specific product.

Bottomline believes BaaS will, for corporates, blur the lines between traditional banking services and all other payment and financial systems that CFOs depend on – whether this is their e-commerce or billing platform, ERP, payment or treasury platform.

“The ability to embed and more simply connect the data and services between these applications and platforms will inevitably create new partnerships and innovations,” concludes Swain. ■

This much I know

Brooke Tilton

Vice President, Treasury Operations



How did you start out in treasury?

My first job was in credit collections. The story goes that out of a whole group of candidates of which none were a direct fit with the job, I was chosen mostly because they liked my name! As it turned out, the role wasn't for me either, but I got my foot in the door and I've now been with the company for 25 years.

After working in credit collections, I moved to cash management for one of our divisions, rising to run the cash management programme for MTV Networks, in addition to consolidating cash flow, capital expenses and managing cash application. In 2006, our company split (CBS and Viacom have since re-merged) and I landed in treasury at Viacom. I was presented with a good opportunity to lead Domestic Cash Management for Corporate Treasury.

In many ways my career has been shaped by my willingness to sit along for the ride, and it's been a good one. I particularly love the management support I receive to originate and implement projects to make treasury more efficient.

What do you enjoy most about your role?

I really enjoy treasury operations. It comes down to figuring out puzzles and making things work and it's a niche where I have really found my place. I would say my arrival in treasury was accidental. Unlike accounting, there is no college class for treasury, and I always avoided accounting anyway as I don't particularly like numbers. Sure, there are lots of numbers in treasury, but the focus is on problem solving and accomplishing something rather than putting numbers together to tell a story, compile a data set or reconcile a bank account.

Effecting change is really important to me and in this role, I can make real changes that are visible. Rather than complaining something is wrong or not working, and being unable to do anything about it, I am empowered and supported by management to fix problems. I have been fortunate to work with people who believe in me. The ability to create efficiency while managing controls is unique to an operations team, payables and accounts receivables.

What has been one of your biggest challenges?

CBS and Viacom remerged in 2019 on the eve of the pandemic. Creating one solid and stable team from these two different businesses while working remotely has been one of my biggest challenges. I relied on colleagues at that time, and I was very fortunate to be surrounded by people who were committed to the success of the team. Now my priority is attaining more team integration and cross-team training. I lead a team of six and we recently chose a single word to focus on through this year: we chose attain. It means something different to everyone, for some it's about attaining a better work-life balance to others it's a new goal or skill. We've never done this before but if we had for the two previous years, I think the words would have been survive and transition!

“The ability to create efficiency while managing controls is unique to an operations team, payables and accounts receivables.”

ONLINE

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



Describe your style of team leadership

Key advice to my team includes staying open to new opportunities. I encourage them to do something, even if they are unsure. I did an internship at college in the financial sector which I didn't particularly enjoy but I could walk away knowing that was something I wasn't going to pursue. You can learn from the things that make you feel uncomfortable, and I encourage my team to step out of their comfort zone.

If I could have my time again, I would have taken people management classes early on in my career. Managing people has been one of my biggest challenges. It's not something that comes naturally to me, and I think having support here, earlier in my career, would have helped me be a better manager although I am getting the hang of it now. The pandemic helped me focus on people a lot more. Before I was too focused on objectives, always thinking let's do it, get it done, and go home. Now I'm more focused on people and am more understanding of how different people work and communicate. I have learnt to play to peoples' strengths instead of asking people to do something they aren't good at they could find difficult to do.



In many ways my career has been shaped by my willingness to sit along for the ride, and it's been a good one. I particularly love the management support I receive to originate and implement projects to make treasury more efficient.

What is your motto?

I was in a conference once, where we were all talking about improving our weaknesses. It made me think that it's much more important to double down on our strengths and the things that bring us satisfaction. I think as women our inner mean girl focuses too much on our weaknesses. We need to have the confidence to identify our strengths and lean into them. I also think it is important to see how your career develops. It's not always necessary to have a plan or a linear progression. If you are going to go into business in any form, it's good to leave yourself open to new experiences and stay flexible. There is a lot to see and do in treasury and it really is what you make of it.

The other thing I've learnt since the pandemic is the importance of seeing people face to face. What I've found is that you meet someone in person you've only known online, and their personalities tend to come out more. Connection really improves relationships.

I also believe in the importance of looking afresh at sticky problems or challenges with the benefits of a different perspective. Stepping away from something that is frustrating, or complex gives a different insight and you often come back fresh. It's why work life balance is so important. Our work is always going to be here.

Representation could always be improved across the board, but my company focuses a lot on inclusion, hosting a yearly Inclusion Week and Global Community Day. It places a great deal of emphasis on getting women to the table and is something we talk about a lot. I hope my voice has been heard; I'm not a shrinking violet and I encourage others to be heard and feel comfortable speaking up. As long as we continue talking about it, we will make progress.



Profile

Brooke Tilton has over two decades of experience in Treasury. During her time at MTV Networks and later Viacom, she has been involved in credit and collections, global cash flow and capital expense planning, US cash management and treasury operations. In 2020 she became Vice President, Treasury Operations at Paramount Global when Viacom and CBS merged, overseeing the integration of US liquidity, treasury systems and bank account management for the two media companies. Her wide experience includes leading project teams in the design and implementation of TMS, implementing SWIFT connectivity and overseeing the roll out of new bank account management systems and processes. Brooke holds a bachelor's in economics and Spanish from University of Pittsburgh.

Paramount Global is a leading global media, streaming and entertainment company that creates premium content and experiences for audiences worldwide. It is home to well-known brands like Nickelodeon, Paramount+, CBS and Paramount Pictures.



ISO 2022: SOMEONE ELSE'S PROBLEM?!

The deadline to migrate to the ISO 2022 financial messaging standard is fast approaching, but many aren't prepared. In this first of two articles on the industry's readiness, Gareth Lodge, Principal Analyst at Celent, explains what's at stake for those who don't get on board.

Payments are entering a new era, declares SWIFT in a video, with the introduction of ISO 2022 – the financial messaging standard that means corporates and banks will soon be speaking the same, more advanced, language.

For SWIFT members, which comprise the network of more than 11,000 banks that make global cross-border payments possible, migration to ISO 2022 will be mandatory, and the first deadline is looming. And, as a recent detailed report – entitled Ready or Not, Here it Comes – by Gareth Lodge, payments expert and Principal Analyst at Celent states, there's no hiding from it.

There is, however, a lot of feet-dragging going on, and many are still unprepared. The first deadline is in March 2023, which marks the beginning of a coexistence period of the new and old formats, and a final migration end point of November 2025.

“With all the other industry migrations that have taken place, it doesn't matter when the first deadline is – everyone focuses on the last one,” says Lodge. He adds when the BACS payments network in the UK migrated to Faster Payments, 95% of the participants moved in the last three weeks before the deadline.

The approaching deadline was already pushed back by SWIFT to March because many parties weren't ready, as Treasury Today previously reported. Did this make any difference? Not at all, says Lodge.

The recent Celent report details the current state of migration and the banks and corporates readiness for ISO 2022 – the results of which will be outlined in an upcoming Treasury Today article.

A small number of major banks account for a substantial portion of payment flows, and if they aren't on board, it could potentially undermine the whole project. “Payments is a two-sided business – both sides have to be ready,” says Lodge.

Despite the current lack of readiness, perhaps more worrying is that many banks and corporates don't see the need to migrate, or the benefits of doing so. There is a shocking attitude, says Lodge, where many corporates think this is a bank problem and they don't need to do anything.

Why should corporates care? ISO 2022 is the de facto standard used by many players, such as e-invoicing schemes. If all parties are speaking the same language, it is possible to incorporate more data with a payment, such as batching invoices, using credit notes, referencing purchase orders, applying discounts and so on. Once the language is in place, notes Lodge, all the automatic reconciliation can begin. “There are large efficiency gains,” he says of the new standard. “The information about the payment is as valuable as the payment itself,” he adds, and that extra information is possible with the MX messaging.

If corporates have not migrated to this new standard, they're missing out on its benefits, says Lodge. “If the corporates cannot generate that data, or receive it, then they are not going to get any value from it at all.”

Not only does not getting paid efficiently have implications for the global economy, there is also the amount of time, effort and money that has already been spent on the ISO 2022 migration effort.

Lodge explains that Celent estimates banks and corporates will have spent US\$2trn on the ISO migration. With so much at stake, those corporates that are prepared have already started making contingency plans and will switch back to the old format if their banks aren't ready. Corporates cannot take chances on this, notes Lodge, and will seek out banks that are serious about migration. And as the deadline approaches, there will be some clear losers and winners in this new era of payments. ■



treasurytoday **Adam Smith Awards**

Corporate Treasury Awards – open now!

Nominate now, closing midnight 6th April

The Adam Smith Awards which recognise best practice and innovation in corporate treasury, are now in their 16th year. Nominations are now open and will close on 6th April. There are 18 award categories to choose from, representing the full range of activities that corporate treasury departments undertake. If you believe you and/or your team has excelled now is the time to put yourself forward.

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

3 easy steps TO ENTER:



Step 1:

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



Step 2:

Provide a detailed account of the challenge(s) you faced, the solution(s) you implemented, the benefits this has provided and how best practice and innovation are demonstrated.



Step 3:

Winners will be announced at our Live Winners' Announcement on 3rd May and will be invited to celebrate their success at the Adam Smith Awards evening celebration at St. Pancras Renaissance Hotel on 26th June in the City of London.



2023 award categories

Best Transaction Management Solution

Best Investing Solution

Best Cash Pooling Solution

Best Cash Flow Forecasting Solution – NEW

Best Supply Chain Solution

Best Funding Solution

Best Sustainable Treasury Solution

Best Treasury Transformation Project

Best Foreign Exchange Solution

Best Risk Management Solution

Harnessing the Power of Technology

Best Emerging Technology Solution – NEW

Best in Class Treasury in the Middle East – NEW

Best in Class Treasury Solution in Africa – NEW

Best in Class Treasury Solution in Latin America – NEW

Treasury Today's Top Treasury Team

2023 individual categories

A Rising Star

Corporate Treasurer of the Year

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

Nominations can be made by any corporate, and banks and service providers can assist their clients in completing the nomination form, with their permission. Nominations close at midnight on **6th April** and the winners will be announced at our Live Winners Announcement on **3rd May**.

For further information and full details on all categories and to request our briefing notes please visit treasurytoday.com/adam-smith-awards

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

Woman of the Year award 2023

This year our Woman of the Year category is being moved to sit within our Women in Treasury initiative itself, separate to the Adam Smith Awards global programme, as we build the Woman of the Year accolade to higher levels within our award-winning Women in Treasury initiative. We invite nominations from all regions at the same time this year. So that is namely from EMEA, the Americas and APAC from **30th January** when we open for nominations until we close on **31st May**.

Evolutions in cash pooling

Effective liquidity management is more critical than ever in today's challenging macroeconomic environment. As treasurers seek greater visibility and control over their cash balances around the globe, technology is helping to shape the next generation of cash pooling and liquidity management solutions. So where should treasurers start when adopting a new solution?

Liquidity management has long been a key component of the treasurer's role – and the current environment, characterised by high inflation and rising interest rates, has done nothing to reduce this focus. The **2022 Deloitte Global Treasury Survey**, for example, found that enhancing liquidity risk management was the top priority set by CFOs for their treasury departments – with the top five challenges faced by organisations including visibility into global operations, cash, and financial risk exposures (64%) and liquidity (48%). Likewise, enhancing liquidity management was identified as the top priority for the next 12 months, cited by 56% of respondents.

"This environment is certainly unusual with macroeconomic challenges characterised by very high inflation rates – a situation that some members of corporate treasury teams have never experienced in their careers," comments Kehinde Dabiri, Co-Founder and CEO of treasury management and trade finance platform Ceviant. "With central banks increasing their policy rates, treasurers are feeling the pinch in terms of higher borrowing costs. On the flipside, this presents opportunities for yield pickup for treasurers who have substantial liquidity."

Suraj Kalati, Global Head of Liquidity and Investments Products, Global Payments Solutions at HSBC, says that with the monetary policy environment continuing to tighten globally, "Treasurers have heightened their focus on optimising the company's internal and external sources of liquidity, as the opportunity cost of inefficient utilisation continues to rise." He adds, "This has brought greater focus on enhancing the cash visibility, forecasting and deployment capabilities of the treasury."

In the current environment, notes Kalati, responsiveness and resiliency are key characteristics that underpin a successful treasury. "Within a rapidly evolving business and macro-economic environment, the speed of execution is critical," he says. "Therefore, having the right information and access to the right solutions to execute on decisions become that much more important."

Seeking visibility and control

An effective liquidity management solution can help treasurers address these challenges. Hannah Boaden, EMEA head of liquidity at Bank of America, says that centralising cash positions into a single location gives treasurers visibility into global cash positions, as well as enabling them to optimise various currency balances.

"In today's environment, treasurers are very much looking to create an efficient liquidity structure," she comments. "They want to minimise trapped cash and idle balances in certain jurisdictions, and move those into a centralised location."

Rene Bustamante, Staff Vice President & Assistant Treasurer, Global Cash Management at FedEx Corporation, likewise highlights the value of an effective pooling solution. "From a liquidity management point of view, I think that having access to a global cash pool is extremely important right now, for a variety of reasons. It simplifies how you move funds globally, guarantees you have access to liquidity when you need it, and allows you to manage working capital in one place."

Next generation solutions

Liquidity management solutions like cash pooling and notional pooling have long been used by corporate treasurers around the world. But in the last few years, they have continued to evolve, giving treasurers new opportunities to gain more control over their cash balances around the world in a streamlined and efficient way.

"Historically offered and operated as stand-alone solutions, these services are now increasingly integrated into the wider liquidity management ecosystem offered by banks," says Kalati. He notes that this could result in greater access to data generated from these solutions. Projected flows from liquidity structures can also be used to "provide greater input into the cash forecasting or investment solutions."

Another notable development is the use of cross-currency sweeping to help treasurers further automate their liquidity management structures. As Boaden explains, "By utilising automated sweeps, treasurers no longer need to manage the conversion manually, which reduces the time spent monitoring positions and making manual payments." Meanwhile, technology is opening up more self-service functionality, reducing the administrative burden for treasurers and making it easier for them to process strategic changes to their structures quickly. "This enhancement in technology, and allowing self-service, can help to create a more streamlined process for corporate treasurers, compared to what they are used to doing," says Boaden.

Harnessing technology

New and emerging technology also has a role to play in cash management solutions of the future. "I think the next evolution of this is going to be real-time payments," says Bustamante. "Banks are increasingly looking to jump on blockchain rails, and APIs will definitely have a role."

Boaden says that clients today expect a "truly global solution", and one that provides consistency around the world – "So I would say banks are adapting to these needs. We're using technology and developing the use of APIs to help transform how we operate these services." By allowing treasurers to

move their liquidity more seamlessly, she says, newer technologies are creating more efficiencies.

She also notes the importance of real-time treasury – “Or as we coin it, ‘on-time treasury’. On-time treasury is more in line with client feedback, whereby clients’ existing technology, infrastructure and processes are far more geared up for batch processing of payments – so it’s more relevant to ensure ‘on time’ structures, rather than necessarily real-time payments.”

Regardless of whether the focus is on real-time treasury or on-time treasury, Boaden says it is important to achieve an efficient liquidity management structure which ensures funds are in the right place at the right time, so that payment activity can be supported around the globe. Another development that is playing a role in pooling solutions is the use of virtual account management, whereby virtual accounts act as a sub-ledger to a physical account.

“Combining a notional pooling structure with a virtual account management structure can help with account rationalisation, while also optimising liquidity,” Boaden explains. “By looking at combined banking structures, we can produce a strategic solution that meets clients’ efficiency objectives, while also being cost effective.”

Getting started

For companies looking to adopt a new liquidity management structure, Kalati says the focus should be on how adaptable the proposed solution is to a forward-looking view of how the treasury is seeking to organise and manage its cash.

“The structure is not only to solve for the here-and-now challenges of the organisation, but should have the flexibility to evolve with the changing needs of the organisation,” he notes. “Examples would be the extent of digital and data capabilities provided with the structure, which could allow the treasury team to access and change the structure with ease,

and also seamlessly embed the data it into their wider treasury processes.”

Boaden says that pinpointing the desired outcomes of the structure is key. “What is the treasury function looking to achieve? And how does that tie into the objectives of other internal departments, including tax and legal considerations? In my experience, tax is one of the key topics we are asked about.”

Ceviant’s Dabiri likewise highlights the importance of tax when implementing a cash management structure. “I wouldn’t underplay the fact that global tax authorities are working to reach a convergence,” he says. “But at this point, conflicting tax policies between countries is something that treasurers constantly have in the back of their minds when they’re implementing netting and pooling structures for liquidity management.”

Success factors

Kalati says that identifying the success factors from the outset is critical, as this allows the treasury team to identify and assess the right solution and banking partner needed to implement the liquidity management structure. “This may include factors such as adaptability, resilience, digital-first, amongst other key considerations,” he says.

Other factors that companies should look at when choosing a partner include the bank’s credit rating, global footprint, capabilities and functionality, notes Boaden – “and whether these meet the objectives of the corporate treasurer, and their broader internal department objectives. Of course, the corporate treasurer’s role has changed drastically over recent years, with lots of competing priorities and a more strategic focus.”

As such, she says, it is more important than ever for treasurers to consider the importance of reviewing and maintaining their liquidity management structures. “It shouldn’t get lost or forgotten in everything else they’re expected to have responsibility for,” she concludes. ■

Delivering excellence in liquidity management



Rene Bustamante, Staff Vice President & Assistant Treasurer, Global Cash Management at FedEx Corporation

As the 2022 Overall Winner of the Adam Smith Awards in the **Best Cash Pooling Solution** category, Rene Bustamante is highly aware of the importance of effective liquidity management. Following FedEx’s acquisition of TNT Express in 2016, the two treasury teams initially continued to operate independently. Then, in 2018, FedEx’s treasury team embarked on an ambitious project to automate and integrate its legacy cash management structures by adopting an automated global liquidity overlay structure. Provided by J.P. Morgan, the resulting solution consisted of two multi-entity, multi-currency pools in Luxembourg and Hong Kong, with automated multi-bank sweeps used to centralise each region’s excess liquidity. Net excess global liquidity is concentrated in Luxembourg and can then be deployed for a variety of uses. As a result of the project, FedEx has gained a central view of the company’s cash, reduced the need for manual intervention and improved the efficiency of its processes.

Bustamante notes that the “elegance and simplicity of this structure” means there is no need to disrupt existing pools or relationships at the local or regional level. “The overlay sits on top, then connects pools into this pool. It becomes a tool that connects everything together.” Nevertheless, he adds, it is still important to be able to forecast liquidity needs at the regional level.

“First and foremost, the success of the platform we rolled out was due to getting the buy-in of disciplines within the company,” says Bustamante. “It’s important to bring in tax partners, accounting partners and legal partners early and often in the process. The sooner you do that, the sooner you can coalesce and begin blueprinting what you want to develop.”

Last but not least, he says, companies can use that blueprint to decide which banks they want to work with. “Each bank is going to offer a unique setup, characteristics and expertise. So it will vary from company to company when it comes to deciding which bank is able to offer the tools and solutions you are looking for.”

The future is instant: how partnerships and purpose are driving Latin America's payments revolution

Citi's Steve Donovan has seen instant payments take off in Latin America. He describes why eradicating cash usage is one of the biggest opportunities for financial institutions, businesses and society.



Steve Donovan
Latin America Treasury and
Trade Solutions Head



In recent years, instant payments have exploded across Latin America, supported by new technology like embedded QR codes, extensive bank API (Application Programming Interface) inventories and e-wallets. The unbanked are moving into the formal economy and cash use is steadily falling encapsulated by flagship innovation like Brazil's Pix, the Central Bank's instant payment scheme, only launched in 2020 and now processing around 2.5 billion transactions a day.

Elsewhere, mandatory open banking regulation that permits financial institutions to share customers' financial data has allowed non-traditional banks to participate in the financial system, fuelling growth of the fintech sector. Central Banks are laying the foundations for digital currencies and venture capital is pouring into the region. [According to the Association of Private Capital Investment in Latin America, LAVCA](#), venture investment reached US\$15.7bn in 2021, more than three times 2019 levels and more than the previous ten years of venture investment combined.

"We have seen incredible progress in the last few years," says Steve Donovan with a ringside seat on the pace of change as Citi's Latin America Treasury and Trade Solutions Head for the last eight years. "I would say Latin America has not just caught

up with the rest of the world, it's actually leading in many aspects," he enthuses, listing the multiple digital payment rails Citi now offers clients from supporting regional businesses to sell directly to end-consumers by automating payment journeys and eliminating the need for cash, to offering real time digital payments to employees in the gig economy, paying them straight into digital wallets or bank accounts.

Globally, Citi's annual technology spend on Treasury and Trade Solutions is around US\$1bn, ploughed into improving the bank's existing payment pipes, building out instant payment infrastructure, and investing in Citi's APIs and front-end client connectivity. State of the art products include CitiConnect®, its API connectivity platform which houses one of the region's largest portfolios of APIs, supporting clients with a 24/7 exchange of transactions and data.

Most of Citi's clients already use APIs and Donovan predicts the next wave of investment will be in enterprise resource planning, ERPs. Witness Citi client Rappi, one of Latin America's largest online delivery groups, recent adoption of an API solution providing ERP connectivity to enhance visibility and control and make use of multicurrency options in some markets. Rappi's treasury function can manage payments from initiation through to proof-of-payment and back in 2021 the company processed around 900 payments per minute (up from 150) across the nine countries it operates in the region while a centralised and centrally funded treasury has transformed transparency and efficiency.

Partnerships

Citi has never perceived Latin America's vibrant fintech scene as a threat. Across Latin America, their success and growth directly benefit the bank's own commercial banking operations.

In addition to being clients, fintechs are also valuable collaborators, working together with Citi on new technology and ways of doing things. “When you are open to engaging with non-traditional financial services you can learn a lot,” says Donovan. “It’s mutually very beneficial.”

Fintechs’ expertise centre around developing so-called last mile payment solutions – completing the final leg of a digital payment towards consumers. Such is fintech’s expertise here, Citi has reduced some development of its own last mile solutions and Donovan spends much of his time overseeing fintech pitches and meeting entrepreneurs in different countries, understanding their technology, and exploring commercial agreements around last mile collaborations that include equity investments in some companies. “I meet with many fintechs assessing their ability to supplement and add value to services we already have on the platform or assessing if they have something different. I love the insight the process offers and the access it gives to the next generation of professionals.”

The collaboration model flourishes given fintechs are typically vertically focused and highly skilled at one thing, he continues. In contrast, Citi’s expertise is horizontal, able to do a myriad of different things. In this way, fintech expertise adds to what the company has and what it needs to build in the future.

Citi doesn’t insist clients only conduct business via its own proprietary channels. It offers corporates the opportunity to use alternative payment technology sitting on its platform whether fintech or from another financial services group according to what best suits them. The bank is like a conductor, keeping the orchestra in time, leading, listening, and interpreting the payments ecosystem on behalf of clients and their underlying consumers, explains Donovan. “We conduct the orchestra for the betterment of our corporate clients and their underlying consumers in any given marketplaces,” he says.

Purpose

Citi’s collaboration with fintechs in last mile solutions also speaks to the bank’s other key priority in Latin America: helping build financial inclusion. According to [statistics from Finnovista](#), the innovation and venture start-up group, 36% of fintech start-ups in the region offer products to people excluded from the formal economy. Citi sees its aim beyond just offering commercial banking, says Donovan for whom this part of the job is most thrilling.

The firm’s overarching purpose is to support financial inclusion and help grow Latin America’s formal economy spurring economic growth and employment creation, he says. “We want to be leading advocates of change and are able to promote more awareness in support of the unbanked and under-represented populations across the region. We are vocal with bank associations and regulatory authorities,” he says.

It leads him to reflect how a central tenet to the pace and scope of Latin America’s payments revolution has been a conducive regulatory environment. “In the past, regulators could be somewhat hesitant, but this has now come full circle and there is an insatiable appetite to modernize financial services and adopt change,” he says. Most recently this is manifest in innovation around Central Bank digital currencies issuance like Brazil, who have been exploring the feasibility of a digital Real, and Uruguay which is also working on a pilot for the e-peso, a

digital currency powered by its Central Bank. Elsewhere a number of countries across the region are exploring similar paths. Tokenisation already exists in varying forms, however now systemic CBDC (Central Bank Digital Currency) architecture supporting one technological framework is under serious consideration, says Donovan.

Opportunities

Despite the rapid financial markets progress of recent years, there is still much to be done to develop the digital economy. Most important is developing a new Financial Market Infrastructure with the proper incentives framework to drive financial inclusion, reduce costs and dependency on cash. “Persuading small shops to ditch cash payments will require careful carrot and stick,” says Donovan. According to the [World Bank’s Global Findex report](#), six out of ten people who remain unbanked in Latam say that financial services are too expensive. Moreover, banked people remain slow to use digital payments. Despite having bank accounts, an estimated 81 million adults across Latin America continue to pay for their utilities in cash while 150 million banked adults made cash only payments to merchants in 2021, including more than 50 million adults in Brazil and 16 million adults in Colombia. “The other side of the coin is that the informal economy accounts for ~70% of employment depending on what country we are looking at. Many of the people in this part of the economy who use cash at the point of sales either don’t have access to a bank account or receive higher value from the small shop owners when using cash,” added Donovan.

Another pain point is managing corporate clients’ expectations regarding the slow and often tough journey to achieving real time payments. With the miniaturization of payments and the fast-growing digital economy, corporates want “immediacy, visibility, control, reliability and security” but this won’t happen overnight, he says. Upgrading the Enterprise Infrastructure to a modern API stack and building a Platform Business is key but it requires a coordinated effort across the treasury and the commercial area of the corporate clients. “What we are seeing in this new model is a merge of vertical business processes that allow for direct interaction with the end consumer,” he says “This is a significant Digital Transformation shift of the corporate traditional businesses model. On the other hand, ensuring robust cyber security and digitized KYC (know your client) remain enduring challenges for financial institutions who have this in the highest priority of technology investments.” The cost of instant payments also needs to fall as the new Market Infrastructure becomes mature and adopted, Donovan adds.

Still, any frustration at the pace of change is outweighed by the opportunity. The growth of fintechs in the region who are connecting the last mile to the unbanked, is bringing significant flows from the informal to formal economy increasing banks’ liquidity, credit and reducing the cost of cash handling. This coupled with the modernization of the Financial Market Infrastructure, processing opportunities whilst benefits for companies spanning efficiencies, transparency, and control to reaching a whole new customer base. For Latin America’s social economic prospects, digital payments offer the holy grail for growth and improving lives of millions of people, Donovan concludes. ■



Factoring change into the payment process

B2B BNPL providers are confident that challenging economic conditions will boost demand for their services.

The buy now pay later (BNPL) market has stuttered over the last 12 months with a combination of interest rate hikes impacting the cost of credit and the prospect of increased regulation leading to a sharp downgrade in the value of some of its largest players in the B2C space.

In contrast, B2B BNPL providers are increasingly confident that their offerings not only improve access to finance while reducing the risk of non-payment, but can also help businesses grow revenues.

Christian Grobe, Co-Founder and Managing Director of Billie says his company's research and its merchants' numbers suggest that customers are more likely to make a purchase if they have the option to pay later.

"For merchants, BNPL and corporate credit cards are comparable in terms of cash flow benefits in that both pay merchants quickly after a transaction is made," he says. "For buyers, however, there are clear advantages. On average, buyers receive payment terms twice as long when purchasing



Printing services provider Onlineprinters started using Billie in mid-January for two main reasons. Firstly, it believed it would make payment easier for businesses and public institutions and secondly, because it boosts the company's internationalisation as there are few other providers that enable purchase on account across borders.

"The factoring procedure offers a major operational advantage as Billie carries out the dunning structure directly," explains Fabian Stich, Onlineprinters Chief Commercial Officer. "In addition, when customers pay via Billie we have no risk of non-payment as we receive the money anyway from the service provider."

The advantages for his customers are that they can purchase on account as a company and have the option of managing invoices and payments centrally via a personal buyer portal to ensure they don't miss any payment deadlines. Individual payment deadlines are also possible.

"BNPL is an important channel for us, as invoice purchasing is one of the most used payment options in the B2B sector," says Stich. "It is cheaper than doing the factoring process ourselves and Billie also offers an integrated credit check, which means that only customers who are solvent can order with this method."

with BNPL due to the fact that credit card bills are always settled on a fixed day in a month. With BNPL buyers always have at least 30 days until settlement, regardless of the time of purchase."

Malte Huffmann, Co-Founder and Co-CEO of Mondu refers to surveys conducted by IBI Research in the German market that show that 95% of all companies would like flexible payment terms for online purchases, but only 45% of B2B web stores currently offer BNPL to existing and new customers at their checkout.

"Businesses that offer flexible payment terms such as net terms and instalments can gain a competitive advantage while increasing their conversion rate, average order values and sales," he says. "By replacing the outdated, manual, time-consuming credit check with one that takes place in real time, merchants can save customers time and effort by providing immediate confirmation."

B2B merchants benefit from seamless integration, outsourced credit risk and control, and much higher sales volumes and average order values while their trade buyers benefit from instant credit decisions, increased spending power, a choice of payment methods, and more flexible repayment terms agrees Anil Stocker, CEO & Co-Founder of Kriya.

"There are a number of ways our merchants can integrate and deploy embedded finance," he says. "These include various e-commerce integrations, which can be turned on in a matter of hours so they can quickly start offering the advantages of embedded finance to their customers."

White-labelled B2B embedded lending is an effective customer acquisition tool for banks and lenders, who can now easily extend their reach and display their brand in front of new business customers. When financial products are made easily accessible to customers at the time and place they need them most, this serves as an entry point to turn a financing applicant into a lifetime customer.

That is the view of Yaacov Martin, CEO of Jifiti, who notes that since loans can be distributed quickly and easily when they are embedded at the point of sale, banks and lenders are able

to significantly increase and broaden their B2B lending portfolios.

"Merchants that offer BNPL benefit from minimising late payments and eliminating manual processes and admin," he says. "Invoice financing typically is very admin-intensive – an unnecessary drain on resources, time and money. As the BNPL process is automated, merchants that already offer financing can upgrade their existing manual processes."

Sean Watkins, VP Revenue Operations at Merchant Growth also refers to the reduction or elimination of internal credit management. Companies will usually have their own credit management team that is responsible for underwriting credit applications and after the initial approval, this credit needs to be monitored on an ongoing basis. If there are any losses, there is a lengthy process of trying to collect from the buyer.

"Cash flow is one of the main benefits of B2B BNPL for both buyer and seller," he says. "The former has the ability to break down their payments for as long as 12 months, while the latter receives next day settlements. These payment terms are offered for as little as 0%, which is obviously much more attractive to small businesses than alternative financing options."

From the seller's standpoint, settlement is quick. They do not need to have the receivable on their books and then use it to access capital as it is settled at the point of sale.

According to Ashish Srimal, Co-Founder and CEO of Ratio, B2B BNPL boosts sales conversions by accelerating or closing deals that may have been delayed or even lost by offering a one-size-fits-all solution.

"BNPL allows businesses to turn recurring revenue streams into upfront cash, allowing them to fund their growth without debt, discounts, or distractions," he says. "When customers can pay in manageable instalments tailored to their particular cash flow needs they are more likely to close faster and be open to making additional purchases, allowing the business to leverage cross-sell or upsell opportunities and increase total contract value."

Rising interest rates are something of a double-edged sword for the sector, with increased cost of capital balanced by higher demand for flexible payment terms.

“The UK has experienced three years of extreme uncertainty – SMEs are under increased pressure due to heightened inflation and financing is much harder to secure as a result,” says Stocker. “B2B BNPL could be the solution to navigating supply price increases, inflation and utility costs and maybe even [enable companies to] forgo the need to pass on many of these rising costs to their customers.”

According to Martin, rising interest rates and economic uncertainty have sparked a shift in demand for the stable, responsible B2B loans provided by banks and other regulated lenders.

“Banks are less affected by economic instability and interest rate hikes than the BNPL fintechs as they have a lower cost of capital,” he adds. “Those banks who offer the most competitive interest rates are positioned to become leaders in this space.”

Businesses are often buying from suppliers for the purposes of growth and have a clear return on investment tied to their purchase, whether it is inventory or technology, suggests Watkins.

“This means that these are not optional purchases that can be delayed,” he says. “Economic uncertainty gets suppliers thinking more about their willingness to take credit risk, while buyers are focusing on extending their runway and improving cash flow – and B2B BNPL is one of the solutions.”

Srimal accepts that higher interest rates and economic uncertainty affect some price sensitive customers’ decisions to seek financing for purchases, but also refers to increased adoption of BNPL as a means of conserving cash by deferring payment.

“This streamlined approach allows businesses to raise capital to drive growth with no dilution of equity and no restrictive covenants or relinquishing of strategic control,” he adds. “And best of all, the new capital can be accessed immediately upon the close of every contract no matter when the product and service is delivered.” ■

As outlined, it is not just fintechs that are interested in the potential of B2B BNPL. For example, Deutsche Bank has developed a solution for invoice and instalment purchases in collaboration with digital financing solutions developer Credi2 for the German market, where invoice purchasing is one of the top three payment methods for e-commerce transactions.

Earlier this year, trade credit insurance provider Allianz Trade, B2B e-commerce payments platform Two and Santander Corporate & Investment Banking (CIB) announced a partnership to deliver a B2B BNPL product.

Large multinationals seek to differentiate from their peers by offering real time payment terms to their clients at the point of checkout and also look to transfer the risk of their customers’ non-payment at a competitive rate, observes Ignacio Frutos, Global Head of Receivables at Santander CIB.

“Few providers can handle sophisticated API integrations, global coverage, cross-currency capabilities and funding scalability to support their needs,” he says. “As a result, multinationals have no choice but to invest in non-core areas (credit underwriting, dunning, reconciliation) and take risk on the balance sheet. Multinationals can now leverage an integrated global solution with cutting edge risk management and competitive rates.”

The opportunity for Santander is to offer an end-to-end solution to corporate clients who want to do more business with their long tail of customers and/or simplify their interactions with them.

“As most of them are just launching major internal projects, whoever is able to help them accelerate the time to market should be really successful,” adds Frutos. “This solution offers attractive embedded financing options and streamlines the payment cycle with little disruption for the selling corporation as we handle the technology, risk management and financing.”



Case study

Wholesale meat supplier Meatex has been working with Kriya since August 2022. Over this time it has experienced a 222% increase in new customer acquisition and a 14% increase in total sales with average transaction value rising by more than 50%.

Using the BNPL facility allows the company to offer clients financial flexibility when choosing the 30 or 60-day payback options explains Regional Manager, Ross Whetton. “Our clients have responded well to this,” he says. “The general feedback is that this has given them additional support with cash flow, allowing them to focus on other areas of their business.”

He acknowledges that using BNPL does come at a slight additional cost when compared to other payment options, but says the company absorbs this cost rather than passing it on to its clients and describes it as an investment in providing a superior service.

“We work closely with the risk team at Kriya to constantly review our clients and protect both businesses from bad debt or slow payments,” says Whetton. “Communication is important and monitoring buying patterns to spot anything that isn’t aligned with buying history is vital.”



Leaping the LIBOR hurdles

With the transition away from Sterling LIBOR benchmark rates almost complete, corporate treasurers must now turn their attention to the weightier issue of USD LIBOR transition.

The decade-long reform of global interest rate benchmarks is coming to its conclusion as alternatives to the London Interbank Offered Rate (LIBOR) are rolled out globally. Overnight interest rates based on actual transactions, the alternative or risk-free rates (RFRs) are considered to be more robust than the various LIBOR-based rates. Initially greeted with scepticism, financial institutions and corporate treasuries have accepted the reality that RFRs will replace USD, Sterling, CHF, Euro, JPY and other currency LIBORs.

While much of the transition for Sterling LIBOR has been done, this is only a small (albeit important) part of the overall

picture. LIBOR was a key global interest rate benchmark across a number of financial products including derivatives, securities, loans and mortgages, and was widely used by corporations ranging from the smallest to the largest multinationals as a reference rate, a fallback or in a late payment clause.

For corporate treasuries, doing nothing is not an option as the benchmarks for other currencies come up for transition and the impact on contracts must be assessed. The lessons learned from the Sterling LIBOR transition can be applied to other currencies, however.



Try to get ahead of the game. Don't sit back and don't put your head in the sand, because this is happening and you need to address this problem. The longer you leave it, the more difficult it will become as other companies access scarce legal and advisory resources.

Sarah Boyce, Associate Director, Policy and Technical, Association of Corporate Treasurers (ACT)

The benchmark reform was initiated in June 2013 by the Financial Stability Board (FSB), which coordinates financial regulation for the G20 economies. It was responding to allegations of market manipulation and false reporting of LIBOR. Among the first regulators to act was the UK Financial Conduct Authority (FCA), which discontinued LIBOR from 31st December 2021, no longer compelling banks to contribute to it.

Speaking at a conference in July 2022, Nikhil Rathi, Chief Executive of the FCA said the Authority's strategy to replace LIBOR, which was announced in 2017, was "greeted with much scepticism at the time". Five years on, less than 1% of contracts reference LIBOR "so the transition is possible and necessary".

He added that the New York Federal Reserve had made "encouraging progress" towards the goal of winding down USD LIBOR for its June 2023 deadline.

"The transition away from Sterling LIBOR is to all intents and purposes complete," says Sarah Boyce, Associate Director, Policy and Technical at the Association of Corporate Treasurers (ACT). "There are a couple of minor areas, such as in the bond market for financial institutions, that have to be worked through but no one anticipates any problems."

The more complex, sophisticated treasury operations have migrated to the Sterling Overnight Index Average (SONIA), the Sterling LIBOR replacement. Smaller corporates that either only borrow or have limited requirements have moved to fixed rates, or bank-based reference rates that give similar characteristics to forward-looking term rates but don't require hedging, she adds.

The transition to RFRs is agnostic of line of business or balance sheet size for a given corporate. Longer-dated exposures required repricing ahead of maturities using the alternative RFRs pricing methods.

The consensus among ACT members, says Boyce, is that by the time LIBOR is finally phased out, "it won't be missed".

LIBOR transition has touched on multiple areas, including:

- **Legal** – identifying affected contracts and documents that reference LIBOR.
- **Interest rate curve creation** – IBORs are forward-looking pricing mechanisms, whereas RFRs are backward-looking.
- **IT** – the transition could impact internal and external systems, which may need to be updated to handle new benchmark rates.

- **Risk** – pricing gaps and volatility may arise from the change in reference rates and new hedging/insurance mechanisms may be required.
- **Tax** – changes in certain jurisdictions may require new contracts for tax purposes.
- **Accounting** – there could be impacts on discounted cash flow valuations (from property, leasing, pensions, etc) and on hedge accounting for fair valuation of securities.

In August 2022, the FCA strongly encouraged issuers and bondholders of outstanding LIBOR-linked bonds to take the "necessary action to transition outstanding LIBOR-linked bonds to fair alternative rates."

Acknowledging that many LIBOR-linked bonds (including securitisations and similar structures) had been converted by mutual agreement through processes such as consent solicitation – the FCA noted that the relevant RFR plus the industry-agreed spreads that have been used in successful consent solicitation exercises "provide a model for such conversions. Responsibility for initiating this process lies with the bond issuer."

In addition, the FCA encouraged bondholders without robust fallbacks or another mechanism to remove reliance on LIBOR to engage with the relevant issuers or their agents and request that they initiate these conversion processes.

Publication of one and six month synthetic sterling LIBOR will cease at the end of March 2023, after which the synthetic settings – a derived rate based on panel submissions and term RFRs to which a fixed spread adjustment is added – will permanently end. Three-month synthetic Sterling LIBOR setting will be published until the end of March 2024, after which they will be ceased permanently. Synthetic IBOR for different currencies were designed to help mitigate the risk of widespread disruption to legacy LIBOR contracts that had not yet been transitioned.

While the hurdle of Sterling LIBOR transition has been all but cleared, the next hurdle – transition away from USD LIBOR – will require a much greater leap. An estimated US\$200trn+ of derivatives, loans, securities and mortgages reference LIBOR in the US markets alone.

Marcus Burnett, Chief Executive of US-based SOFR Academy, a financial education and market information organisation focused on LIBOR transition, says that the transition to the USD LIBOR replacement, the Secured Overnight Financing Rate (SOFR), is going "extremely well on the derivatives side and by and large is where it needs to be".

When it comes to loans, particularly for corporates, “a lot of work still needs to be done”, he adds. There are a number of reasons for this, including the later start to transition in the US by corporates and the many thousands of corporates involved, many of whom may not have been as “looped in with the transition” as they could have been, he observes.

“Some corporate treasurers that operate outside financial services may not have a strong familiarity with LIBOR transition. Also, some corporates have small treasury functions. For these types of organisations, USD LIBOR transition has been more challenging.”

Synthetic one, three and six month USD LIBOR settings will continue to be published by LIBOR’s administrator, ICE Benchmark Administration (IBA) until the end of September 2024. In announcing this, the FCA said it considered synthetic LIBOR a “fair and reasonable approximation of what LIBOR might have been”. The synthetic settings are intended for use in certain legacy contracts only, the FCA stressed.

The FCA added that “any” synthetic LIBOR settings are only a bridge to appropriate alternative RFRs, not a permanent solution. “As such, market participants should continue to prioritise active transition and focus on converting their legacy contracts to risk-free rates as soon as possible,” it said.

The ACT’s Boyce agrees with Burnett that USD LIBOR transition is more problematic. “USD LIBOR is in a very different place – the scale is much larger.” She identifies three distinct entities involved in USD LIBOR transition: ‘main street’ companies, large multinationals and emerging markets.

“The emerging markets are the least advanced and many corporate treasurers in these markets are not aware of what is happening or are not sure how to transition. The majority of these emerging market large loans will move to some type of term SOFR because of the requirements of borrowers and currency control rules,” she says.

In general, large multinationals, which during the Sterling LIBOR transition have moved to overnight SONIA are likely to move to overnight SOFR as this is the “cheapest and most liquid market and derivatives will be available for hedging, which won’t be the case with term SOFR.”

The smaller, main street companies seem to be moving towards a term solution, says Boyce. “Our view is that because these companies do not have hedging requirements and their loans tend to be small, they will move to term-based rates. It also looks like banks are persuading them that this is the appropriate solution.”

Royston Da Costa, Assistant Group Treasurer at Ferguson plc, whose business is exclusively North American focused, says the company is considering using SOFR when USD LIBOR is phased out. However, he says he is not certain if SOFR will be the main replacement for the USD LIBOR rate used by corporates. “For now, the banks we are dealing with seem to favour it,” he says. In fact, he believes it is increasingly apparent that term rates are being favoured by corporates that are turning to data providers such as the Chicago Mercantile Exchange (CME), which is offering LIBOR replacement term rates for a fee.

The Alternative Reference Rates Committee (ARRC), a group of private-market participants convened by the Federal Reserve Board and the New York Fed, has noted that SOFR

is the predominant rate across cash and derivatives markets. However, “no one should underestimate the scale of work left ahead of 30th June 2023 – the cessation date of the remaining USD LIBOR tenors,” it says.

Burnett says one of the main challenges in the USD LIBOR transition is the amount of contracts that are yet to be transitioned. “There are many different types of loans that still need to be transitioned – leveraged, syndicated, bilateral – and there are corporates on the other side of those loans. Some type of negotiation is needed and we are seeing frictions in those discussions, particularly in connection with the credit spread adjustment.”

Some corporate borrowers are also balking at the fixed spreads applied to the SOFR base rate which were frozen pre-covid for some USD LIBOR contracts. For three month contracts, for example, the spread is 26 basis points which is higher than market based spreads. “The historical fixed spreads can be problematic, particularly in the leveraged loan market,” says Burnett. “We recommend that corporates proactively have a conversation with their contract counterparty and reach an agreement on how to transition to SOFR at fair value – in either direction.”

The Academy has operationalised USD Across-the-Curve Credit Spread Indexes (AXI) as an add-on to SOFR in collaboration with asset manager Invesco’s subsidiary, Invesco Indexing. AXI is a weighted average of the credit spreads of unsecured US bank funding transactions with maturities ranging from overnight to five years, with weights that reflect both transactions volumes and issuances. It can be added to term SOFR (or other SOFR variants) to form a credit-sensitive interest rate benchmark for loans, derivatives, or other products. A recently published New York Federal Reserve research paper found that a credit sensitive supplement such as AXI can reduce the cost for corporates of obtaining credit lines from banks by up to 25bps.

Burnett argues that referencing AXI as a static spread can also help corporates transition legacy contracts in a way that will minimise negotiation disputes by providing a fairer and more transparent compromise between counterparties in any contract. “AXI could be snapped on the date of the amendment to ease transition negotiations and presents a fairer market-based compromise for borrowers and lenders. AXI always reflects the marginal contemporaneous cost of bank funding over the near-risk free rate, so it will move up and down over time.” He notes that LIBOR transition is coming at a time when corporate treasurers “have a lot on their plate” – workforces are shrinking and interest rates are moving higher, making for a challenging environment.

One of the biggest “wrinkles” in USD LIBOR transition is the impact of contract jurisdiction, says Boyce. “Under US law, contracts have a regulated fall back which will automatically come into play if you still have USD LIBOR referenced contracts on cessation. It is a very big piece of work for corporate treasurers to make sure they understand what will happen to their contracts when USD LIBOR ends.”

Boyce’s advice for treasurers is simple: “Try to get ahead of the game. Don’t sit back and don’t put your head in the sand, because this is happening and you need to address this problem. The longer you leave it, the more difficult it will become as other companies access scarce legal and advisory resources.” ■



Advancing racial equity one step at a time

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Diverse financial institutions and community banks are a lifeline for individuals and businesses in underserved communities, and they also play an important role in advancing racial equity. Now, through J.P. Morgan Asset Management's Empowering Change initiative, corporate treasurers and institutional investors have an opportunity to join them in making a positive impact, while supporting their own institutions' DEI goals.



Keith Washington
Executive Director

J.P.Morgan
ASSET MANAGEMENT



Richard Pagnoni
Managing Director, Head of
Financial Institutions Sales

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Try this as an exercise... quickly name as many banks as you can. Maybe you can think of ten? 20? Now imagine you can name 38 – and that's because they all rejected you for a loan.

That was the experience of Tim Waters while he was building a discount supermarket in downtown Florence, South Carolina. Fortunately, he found the support of Optus Bank and has since been advancing his business plans. His tale of rejection, however, is not a one-off for many minority-owned businesses.

As Wally Adeyemo, Deputy Secretary of the US Treasury, said in a speech in October 2022, "Minority and underserved communities in this country are not held back by lack of talent or ideas. Their potential is too often capped by lack of opportunity."

Adeyemo gave the example of eight Black women small business owners he met in Memphis a few months earlier. "For these women, the difference between securing a life-changing

contract and closing their businesses for good was as simple as finding a bank willing to open a line of credit," he said, emphasising how banks are a critical conduit of capital.

Optus Bank is one such bank, founded in 1921 by visionary African American leaders to support those who would otherwise be excluded from the banking system. And that need still exists today, especially since the pandemic when – as Adeyemo notes – hundreds of thousands of businesses had closed and the effects were particularly acute in communities where Black, Latino and Native American workers were more likely to lose jobs. "What global disruptions like Covid do is throw fuel on a flame. They illuminate and exacerbate existing disparities," said Adeyemo.

Minority Depository Institutions (MDIs) – which are owned or led by members of certain minority groups – and Community Development Financial Institutions (CDFIs), which have a

mission of community development, provide a lifeline for small business owners, but they struggle to meet the demand. The National Bankers Association notes that 42% of Americans identify as minority, yet only 2.5% of federally-insured banks are MDIs.

Corporate treasurers and institutional investors have wanted to help, but it isn't as simple as depositing large sums at these banks. In fact, this wouldn't actually help – it would dramatically increase the liabilities on their balance sheet and dilute the capital buffer they need to stay in business.

Keith Washington, Executive Director at J.P. Morgan Asset Management, explains that MDIs typical model of borrowing and lending is vulnerable during times of crisis, and these institutions need to diversify and create new revenue streams. Washington, through his discussions with these institutions, where he was advising on off balance sheet investment solutions, soon spotted an opportunity where institutional investors could have a positive impact.

Washington explains that many corporations want to help and invest directly in MDIs, however they are restricted due to their investment policies. He explains that a typical blue-chip company's investment policy would prohibit them from engaging with a bank below a certain size or credit rating. He saw that J.P. Morgan Asset Management could help bridge the gap.

"We realised that these banks needed help and corporations wanted to help, but they could not connect because of the obstacles in the way," said Richard Pagnoni, Managing Director, Head of Financial Institutions Sales at J.P. Morgan Asset Management explains, "To solve this, we developed and launched the Empower Share class on four of our largest US money market funds and created a way for these mission-driven banks to distribute them."

For corporations, this investment vehicle provides ring-fencing and doesn't carry the counterparty risk that can come with depositing a large sum with one bank or financial institution. It also creates a new, recurring revenue stream for the distributing MDI. "More importantly, through their investments into the Empower Share Class, corporations of all sizes are able to directly impact these institutions' mandate to support their community," Washington adds. The advantage of the Empower share class is that it is not simply about writing a check, but rather it offers a new product that these financial institutions can distribute.

The Empowering Change initiative was established in February 2021, with Google anchoring the programme's launch with an investment of \$500 million. At the time of the launch, Juan Rajlin, Vice President and Treasurer at Google, said, "Google is committed to helping create sustainable equity and economic opportunity for all. We know that racial equality is directly linked to economic opportunity and are proud to partner on the Empowering Change program, which will help create new business opportunities for minority institutions."

Blue-chip companies from a range of industries have since joined the initiative, such as the National Football League (NFL) Leyline Renewable Capital, a provider of development-stage capital for renewable energy projects and Giant Food, a greater

Washington DC regional grocery chain and HubSpot, the customer relationship management platform.

J.P. Morgan Asset Management has also committed to an annual 12.5% donation of the gross revenue received from the management fees on the Empower share class to support development. In August 2022, the firm announced its first annual donation of \$1 million to support underserved students as well as single mothers.

In addition to the Empowering Change initiative, JPMorgan Chase has created a comprehensive programme using its capital, expertise and solutions to support leading MDIs. In 2021, the firm announced a direct investment of \$100 million into 16 diverse-owned and -led institutions that collectively serve more than 90 communities across 19 states across the US. The firm is also providing intangibles, such as employee expertise and tailored training opportunities, that will help MDIs build for the long term.

These investments are a part of J.P. Morgan Chase's \$30 billion racial equity commitment, which aims to overcome structural barriers in the United States that have created racial inequalities, and to help close the racial wealth gap.

One financial institution that has been involved in the Empowering Change programme is Sunstate Bank, which was founded in Miami, Florida, and has a mission of serving the local community. Yvonne Debesa, Executive Vice President and Chief Operating Officer at Sunstate Bank, explains the partnership with J.P. Morgan means that "Sunstate Bank is now going to be stronger than ever and we are able to help more organisations." She adds that they can now help more customers and be the intermediary to address many of the financial gaps in their local community.

Kenneth Kelly, Chairman and CEO at First Independent Bank, explains what the initiative has meant for his institution: "Empowering Change gets to the fundamental words – 'empowering' and most importantly, 'change'. There are less than 20 African-American-owned and -controlled banks out of the over 4,800 banks in this country. We believe that there's an opportunity for us to be leaders, to inspire, and to motivate those to know that the banking community welcomes them. And so, every day, when I get up, I'm thinking about how do we have a broader impact on the economy."

Since the programme launched, notes Pagnoni, the impact has extended beyond the financial. He explains there has been growing interest from corporations about what they can do to help communities and their financial institutions in the work they are doing.

Washington agrees and adds, "The more clients are invested, the more revenue there will be for our financial institution partners. However, the programme does more than grow AUM. This is a lot more than just a product with revenue – that is a secondary outcome. We are now seeing other benefits from the programme and corporations wanting to get involved and have an impact." ■

Treasury in the UAE

When it comes to setting up a treasury centre, choosing the right location is key. In order to find the best fit for their particular company, treasurers need to weigh up the advantages and disadvantages of any prospective location. So what should treasurers look at when considering the UAE?

The United Arab Emirates (UAE) is a federation of seven states situated on the south-west shore of the Arabian/Persian Gulf. With its largest city Dubai and its capital Abu Dhabi both attracting many global corporations and financial institutions, it has become the leading financial centre of the MEASA (Middle East Africa South Asia) region.

Although it is among the world's top ten largest oil producers, for many years the UAE has been keen to move away from its reliance on hydrocarbons. In order to attract foreign investment, it has now established over 40 free zones in the country. For companies choosing to operate from them, there are exemptions from taxation such as Value Added Tax (VAT), Corporate Tax and Customs Duty.

From a treasury point of view, the key locations in the UAE are as follows:

Dubai. The Dubai International Financial Centre (DIFC) is the preeminent financial centre in the Emirates. Launched in 2004 as part of Dubai's strategy to diversify its economic resources and attract capital and investment, it now contains the largest ecosystem of financial services-related companies in the region.

"Dubai has positioned itself towards banks and treasury centres," says Dubai-based Rahul Daswani, a skilled treasury and finance professional with over 20 years' experience in the Middle East. "Its strategy is centred around tourism, and trade and financial expertise."

As such, it is home to 17 of the world's top 20 banks and five of the top ten asset managers, as well as many other financial institutions and leading global law and consulting firms. Set up as an independent jurisdiction within the UAE, the DIFC was empowered to create its own legal and regulatory framework. As Daswani explains: "It is effectively a small geographical portion of the city, carved out as a separate territory."

Abu Dhabi. Abu Dhabi, the capital of the UAE federation, houses the government and diplomatic missions. "Abu Dhabi, being an oil-rich Emirate, started out with energy, so it houses the offices of lots of energy companies. Having in the past focused heavily on real estate has meant that developers of some very large infrastructure projects are based there," says Daswani. "But now they have also started focusing on the financial sector and have set up the Abu Dhabi Global Market (ADGM), which is similar to the DIFC. They have the largest bank in the region, which is First Abu Dhabi Bank, as well as the government investment funds."

Established in 2013, the ADGM represents a viable alternative for foreign financial businesses setting up in the Emirates. By positioning itself as a pro-business and dynamic financial free zone, it is seen as an attractive jurisdiction for many financial start-ups.

Sharjah. Sharjah, meanwhile, is the Emirates' third largest city. "It is focused on a more traditional model," Daswani notes. "It not only wants to focus on modernising trade, but also at the same time continue with the old traditions that have been established so that the business models just do not move away from the Arab world and Sharia."

Favourable climate

When it comes to choosing a treasury centre location, there are a number of considerations that companies need to look at. "International businesses consider a range of factors when choosing to establish themselves in an overseas market, primarily focused on the regulatory and infrastructure environment of the proposed treasury centre," says Finali Fernando, Regional Head of Products, Global Payments Solutions, HSBC Middle East. "In terms of regulation, an economically stable market and internationally reputable regulatory regime, supported by a robust legal framework, with a competitive tax environment and easy currency transfer options, are paramount."

According to PwC's Regional Treasury Centres in ADGM – Tax and Regulatory Analysis report, a number of European and US-headquartered groups have chosen the UAE for their Regional Treasury Centres (RTCs). Its geographical location, combined with the business-friendly environment and quality of infrastructure, makes it particularly convenient for treasury management across Europe, the Middle East and Africa.

"The UAE is, I would argue, a strong case study for having the right attributes of a desirable RTC," says Fernando. "The country has established an ongoing economic and social deregulation programme, which includes the establishment of free zones and a tolerant international outlook, which makes it an attractive location for international businesses to invest in." He notes that the UAE's reputation for economic and political stability has been gained over many decades, "and the UAE clearly ticks the box of being well-located between eastern and western markets in geography and time zone."

"In certain other countries there are no regulations governing how a company can operate as a treasury function or in-house bank within a corporate group," says Mohamad El Dirani, Partner, Financial Services Tax Leader at PwC Middle East. "The UAE – specifically the Abu Dhabi Global Market (ADGM) – however, gave real clarity on the issue of licensing a company's treasury to become an in-house bank or treasury cash pool header."

Tax considerations

In December 2022 it was announced that the UAE would be implementing a corporation tax regime from 1st June 2023.

“Before the change in the tax law, it was very clear that if you had your cash pool header or your in-house bank based in the UAE, any deposits received, loans made or interest paid or received – even treasury service fees you charge other group companies – were not going to be taxable in the UAE. Now, with the corporate tax law coming in, we need to take a closer look at that,” says El Dirani.

“I don’t think the new corporate tax law will hinder that,” he adds. “We still have the potential to have those treasury centres based in the free zones, subject to getting further confirmation from the government via a Cabinet decision on the definition of income of a free zone company that will be subject to a 0% tax rate. But I would assume income such as interest, or treasury related services from foreign sources, potentially falls within what qualifies as 0% taxable income.

“However, where the UAE treasury entity is a constituent entity within a Pillar 2 group, income from interest or other treasury related services should be taxable based on the Pillar 2 rules that the UAE is expected to release in the future, which are expected to override freezone 0% tax benefits.”

Its strategic location between the three continents of Europe, Africa and Asia, together with favourable regimes in the free zones and a pool of highly skilled workers, mean that the UAE

provides a unique environment in which companies can prosper and grow.

“Dubai, besides having the benefit of being the Middle East’s financial centre, is well renowned for its modern, well-funded and ambitious infrastructure,” says Fernando. “But all of the country continues to see great momentum on big infrastructure projects which will benefit employees and businesses, such as the ongoing US\$14bn Etihad Railway Project to link all the seven Emirates of the UAE.” This railway, connecting 11 key cities and regions across the UAE, will allow passengers to travel from Abu Dhabi to Dubai in just 50 minutes.

Meanwhile, to mark the Emirates’ 50th anniversary as a nation in 2021, the country launched its “Projects of the 50” initiative setting out the vision for the next 50 years. Among the first 13 projects announced was “The Fourth Industrial Revolution Network”, designed to promote the adoption of advanced technologies by companies in the national industrial sector in partnership with leading providers such as Siemens, Microsoft, Cisco and IBM.

Over the coming five decades, a host of major projects will be undertaken – not just to accelerate the country’s growth, but also to establish it as a global leader in a number of sectors, and maintain its position as an attractive destination for investors and travellers across the globe. ■

Constructing a successful treasury

According to Dubai-based Rahul Daswani, a successful treasury needs to be constructed from a number of well-positioned and interconnected building blocks:

Skilled workforce: “Since treasury is such a specialised domain, you need skilled people,” says Daswani. “The UAE is very cosmopolitan. Technically speaking, nearly everyone is an immigrant.” As Daswani notes, “We use the term ‘expat’ because unlike the UK or the US, for most residents there is no path to citizenship. But you can be a resident for a very long period of time and bring your family, that’s not a problem.”

Operational framework: Daswani believes that another key element for a treasury is in having the right infrastructure, pointing out how well planned the urban landscape is in the Emirates. “The hotels, the roads – everything is well done. It has everything needed to be a modern financial centre like London or Hong Kong.”

As well as the physical infrastructure, he stresses the importance to treasury of having access to the best available tools and systems – including connectivity to banks. “Digital transformation continues to be the way forward, and I would say the UAE is very well positioned in this regard,” he explains. “The government is pursuing policies aimed at putting it in the top three or four financial centres of the world.”

External ecosystem: the third element necessary for a successful treasury operation is a well-regulated but not overly bureaucratic environment, which Daswani describes as the external ecosystem. As well as having independent regulators, the two financial free zones of the UAE, the ADGM and the DIFC, operate a system that follows English common law to adjudicate civil and commercial disputes. “You need to have a legal framework in which you can operate in a simple manner – UK law is well established and robust and known everywhere in the world,” Daswani notes.

Investment landscape: “The fourth piece – the investment landscape – is having access to a good set of financial markets, including cash investments, foreign exchange and the ability to tap into trade finance and working capital offerings,” says Daswani. “I would say the UAE may have made significant progress, but it still has a long way to go in terms of having deep-functioning capital and equity markets, and to be somewhere treasury can operate without linking to the UK or the US.”

Business connectivity: the final part has to do with the way in which a regional or global treasury centre is located in a business location that is well connected to the broader organisation. A treasury resource based in UAE could easily connect to the rest of the business. “Treasury should not be in a separate ivory tower. The UAE is well connected to the rest of the Middle East and Africa, not only from a logistics and trade perspective, but also in terms of diplomatic relations,” says Daswani. “Seventy percent of the world’s population lives within eight hours flying time from the Emirates.”

Oil and gas: the road to net zero



Decarbonisation of the oil and gas industry is essential to cap global warming and transition to a new energy system. So far, European groups are leading the transition, investing most in clean energy infrastructure and introducing more ambitious carbon targets with profound implications for corporate treasury. Still, critics warn that overall, progress remains slow.

In the late 2000s, Ørsted A/S, or DONG Energy as it was known back then, was one of the most fossil-fuel intensive companies in Europe. Today, the Danish energy group is one of the most sustainable companies in the world following its decision gradually to exit fossil fuels and invest instead in renewable energy, particularly offshore wind.

The story goes that around ten years ago executives analysing the legacy business found very little value creation. The only place the company had a competitive edge and the opportunity to build a scalable business was offshore wind in Denmark's shallow, windy waters where supportive government policy would fan investment.

Adopting a new business model met fierce pushback and resistance from the company at the time. Early nail-biting decisions included ordering 500 Siemens turbines to shore up the supply chain. Such a huge financial commitment for the new company, Martin Neubert, Chief Commercial Officer and Deputy CEO at the time, called it "mind-blowing."

Later, Ørsted acquired new companies to better control its supply chain. Elsewhere it structured innovative new funding partnerships to bring in more capital, including selling a stake to one of the country's biggest pension funds. In 2012, the company came under financial pressure following the hit to global gas prices with consequences for planned investment in oil and gas (still a growth area back then) and windfarms. Ørsted's credit rating was downgraded, impacting the cost of capital and its green transformation suddenly looked on shaky ground.

The company divested non-core assets and slashed costs to curry new investment, all the while focusing on scale and innovation, developing larger sites, installing larger turbines, and pushing procurement, construction, operations, and maintenance harder. In 2016 Ørsted went public, securing new access to equity investors jostling to participate in its green journey. Expansion in Asia and the US, and diversification into green hydrogen and energy storage, have since followed.

Ørsted's promotional videos describing how the company achieved such a transformation, stress the importance of convincing all stakeholders in its vision as well as careful selection of partners. Top-down decision making and calculated risk taking in a new, entrepreneurial culture, were also vital parts of the mix.

Ørsted's transformation is often cited as an example of the type of corporate change oil and gas groups, responsible for much of the world's greenhouse gas emissions, can and should embark on. But the energy transition doesn't mean that today's fossil fuel producers must all become renewable energy providers like Ørsted. Indeed, Treasury Today interviewees argue that it's unlikely they will if their current renewables production and investment is anything to go by. However, oil and gas groups will need to change course if the world is going to reach the goals of the 2015 Paris Agreement and keep global warming well below 2°C from pre-industrial times, and ideally 1.5°C, by cutting greenhouse gas emissions.

Road ahead

In one trajectory, today's oil and gas majors may decide to remain fossil fuel producers. They will continue to feed demand in a world that still consumes north of 100 million barrels of oil a day and will still need oil and gas years into the future. They will likely manage their existing assets in a way that extracts most value for shareholders before slowly winding them down as the transition gathers pace.

Alternatively, corporate treasury teams will galvanise for huge capex investment as companies let go of the dirtiest parts of their business and commit to invest in new clean infrastructure. This could be in carbon capture and storage for hard to abate sectors like cement, green hydrogen, or biofuels. These companies will continue to produce hydrocarbons but use that cash to invest in renewables and low-carbon products. As low-carbon products gain market share, they will reduce hydrocarbon production while investing in offsets to be net-zero by 2050. In another scenario, integrated companies with refining and marketing businesses will expand on new opportunities like rolling out charging infrastructure or involvement in the green power network because of their expertise in gas.

"The energy transition is a mega trend that is here to stay and will only become more potent over time," says Pavel Molchanov, Managing Director, Renewable Energy and Clean Technology at financial services group Raymond James in Houston. "The faster companies move in this direction the better for them. There will be companies that end up recognising too late what's going on and by the time they come to that recognition, it will be difficult to make a smooth transition."

Progress

One of the best windows into progress is analysis of oil and gas groups capex expenditure, continues Molchanov. "Change requires money. These companies need to invest large amounts of capital to transform from oil and gas businesses into diversified energy providers." Companies most recent capital budgets reveal European oil and gas groups are allocating more of their capital programme to renewables and clean tech than their global peers, driven by legally binding European climate law and shareholder pressure.

For example, British multinational oil and gas company Shell has allocated 33% of its capital programme to clean energy while BP, which allocated 33% last year, is targeting 50% by the end of the decade. French oil major Total has allocated 29% of its capital programme to clean energy while Norwegian major Equinor's growing portfolio of clean investments include carbon capture and wind generation. "European companies are the leaders, and the energy transition is moving more quickly in Europe," says Molchanov.

Although many governments outside Europe have committed to net zero, it is rarely enshrined in law. In contrast, European and UK climate law has created a legally binding mandate for the entire economy (not just the energy sector) to reach net zero emissions, or carbon neutrality, by 2050. To be clear, not every individual business will reach net zero, and there will still be fossil fuel usage at mid-century, but decarbonisation involves everyone, explains Molchanov. Unlike European peers, his analysis shows oil groups based in the US, the Gulf, Latin America, China and Russia typically invest less than

10% in clean/low-carbon energy, with the vast majority of their capex still going into oil and gas infrastructure.

Although Treasury Today interviewees note signs companies are slowing down the level of investment in new oil and gas projects, it is continuing despite the International Energy Agency (IEA) saying new, long-lead oil or gas fields are incompatible with 1.5°C and consumption must fall rapidly to meet the Paris climate target.

A recent report by Carbon Tracker, the financial thinktank that maps the risk and opportunity for investors on the path to a low carbon future, explores the production and spending plans of upstream oil and gas companies over the next decade. It finds that from January 2021 to March 2022 these companies approved US\$166bn of investment in new oil and gas fields.

More than a third of this investment – US\$58bn – was committed to projects that are only likely to be economic if demand for oil and gas pushes global temperatures beyond 2.5°C. Mike Coffin, Head of Oil, Gas and Mining at Carbon Tracker, believes that investment in the transition is not happening as fast as oil majors are saying, or their messaging might imply. "Renewable energy produced today by oil and gas companies is negligible as a proportion of total energy production, while investment in future renewables is still just a small proportion of overall investment," he says.

Other Treasury Today interviewees add that although many companies say they intend to transition, they are doing little on the ground because demand for oil continues to boom and the price of oil remains high. Indeed, James Vaccaro, Executive Director of the Climate Safe Lending Network believes many companies won't actually transition. "Many oil and gas groups are never going to transition. They will extract as much as they can until regulation changes, or they are undercut by the economics of clean energy," he says. "These companies believe there is a bit more they can get away with until the music stops. Although the climate music has stopped and the proliferation of new fossil fuel investment is no longer compatible with warming targets, the economic music hasn't stopped yet."

Targets

Net zero targets offer another window into progress and fossil fuel groups' progress positioning for the new energy system. Global oil and gas companies acknowledge the concept of a carbon budget (the amount of carbon emissions permitted over time to keep within a given temperature threshold) and the need to reduce emissions, while upstream oil and gas groups have published climate targets. However, Coffin notes a wide discrepancy in these companies' approaches to targets and importantly, many aren't linked to a temperature outcome of 1.5 degrees.

The term net zero is used loosely in many corporate targets, he continues, explaining not all fossil fuel groups' net zero targets are the same. "The hallmark of the Paris Agreement is alignment with 1.5 degrees, and only a few fossil fuel companies come even close to having Paris-aligned targets." Paul McConnell, Executive Director, Climate and Sustainability at S&P Global Commodity Insights whose work includes producing long-term outlooks for the sector, adds. "We have seen progress over the last three and four years. But it's very difficult to compare companies across the board because the approach of each company is very different."

Scope 3

The disparity is most apparent when it comes to Scope 3 targets. Very few fossil fuel groups – and mostly European companies – have committed to cutting Scope 3 emissions, pledging to reduce emissions in their supply chain. “Scope 3 is a much bigger challenge for oil and gas groups than Scope 1 and 2, and companies will still be reporting significant emissions a long way into the future,” says McConnell.

Scope 3 targets, which make up the bulk of oil and gas groups’ greenhouse emissions, are a crucial part of the jigsaw because it amounts to fossil groups committing to – and acknowledging – their product volume will fall in the medium to long term. “It amounts to an honest acceptance they will have to shut stuff down and take the revenue hit,” says Vaccaro. “There is no way around it because Scope 3 incorporates end-use emissions which make up nearly 90% of the total,” adds Coffin, “If companies aren’t putting Scope 3 targets in place, they aren’t planning for a decline in production volume. With Scope 1 and 2 targets, companies can still increase oil production whereas there’s no way around Scope 3 targets set on an absolute basis.”

Carbon Tracker’s Absolute Impact report names companies like ENI, Repsol, Total and BP as doing most to set emission targets and incorporate Scope 3. European majors have pledged to reach net-zero Scope 3 emissions by 2050 by phasing out production of refined products while using cash flows from oil and gas to finance investments in renewable energy, primarily wind and solar. But across the Atlantic, only three of 24 North American firms had Scope 3 net-zero-by-2050 goals.

Experts counsel that focusing on specific emissions goals shouldn’t overlook important innovation. For example, the US is the world leader in carbon capture and sequestration. Moreover, one of the barriers to Scope 3 progress is many US oil and gas producers argue that customers need to be accountable for the carbon they emit by paying a tax on it. Research from the Market Intelligence business at S&P Global finds that many in the US industry believe a carbon tax would shape consumer behaviour and naturally lead to less fossil fuel use because consumers will have to pay for the privilege. The industry’s belief that a carbon tax that increases the cost of oil and gas to the user is the best way to reduce demand, was expressed by ConocoPhillips Chairman and CEO Ryan Lance speaking to analysts on the company’s May 2022 earnings conference call.

“The problematic piece has always been the Scope 3 because of the double counting, because of who’s responsible for that, and should you hold a company like ConocoPhillips responsible for a consumer’s decision to buy a pickup truck versus a Toyota Prius.” Last year shareholders at the firm voted down proposals to limit Scope 3 emissions.

Risk

Continuing to plough money into legacy business puts oil and gas majors at risk of stranded assets, best understood as assets becoming less productive than predicted at the point they were sanctioned because of lower demand and pricing. A fast transition, triggered by a policy response, or renewables rolling out more quickly than expected, increases the risk of stranded assets. For example, the war in Ukraine has highlighted Europe’s vulnerability to Russian oil and gas

and speeded up the transition, argues McConnell.

“Decarbonisation is now seen as a strategic response to energy security and removing dependency on fossil fuels is seen to maximise energy security,” he says.

“There’s going to be a lot of oil refinery capacity the world doesn’t need in a 1.5 degrees world that’s potentially going to have to be written down. We’re not seeing the discussion we’d expect to see by companies reflecting the risk on this,” adds Coffin. As assets become economically stranded, investors will play a vital role in triggering rapid re-evaluations. He predicts that fossil fuel companies in the Middle East, sitting on hydrocarbon reserves that are cheap to develop, may be more resilient as the transition unfolds.

Cost of capital

In another treasury risk, interviewees say fossil fuel groups’ abilities to access finance across many capital markets is beginning to change. Sweeping regulatory reform is starting to drive private capital to more ‘green’ or ‘sustainable’ activities, explains Matthew Townsend, Co-Head of the International Environmental, Climate and Regulatory Law Groups at Allen & Overy and one of the founders of the firm’s Global ESG Group. “Investors will become more selective over the type of projects they invest in, so this is likely to be felt across multiple sectors. This may be more keenly felt in new oil projects depending on how gas is treated under local or regional taxonomies.”

Elsewhere, some European banks are growing more reluctant to lend to new infrastructure. For example, Denmark’s Danske Bank has said it will not offer refinancing or new long-term financing to any oil and gas E&P company that does not set a credible transition plan in line with the Paris Agreement, making it one of the first banks to introduce restraints on corporate lending to fossil fuel groups, a profitable corner of bank business.

Although banks will continue to finance OPEX and the maintenance of oil and gas operations in the short term, Vaccaro believes Danske’s decision is indicative of the start of a wider move amongst lenders to wind down financing of new operations and begin to dictate terms via covenants in loan agreements that direct the use of proceeds. “Danske has shown they can put in covenants and lend money but on the condition it funds net zero infrastructure which aligns the company with the Paris Agreement. This is the direction of travel, and other banks will follow,” he says, predicting UK, French and Dutch banks could be next. “If you choke off debt, you choke off the project.”

Still, according to the latest analysis by the Rainforest Action Network, global banks provided US\$742bn in financing to coal, oil and gas companies in 2021, despite the fanfare of climate pledges by lenders that signed up to former Bank of England governor Mark Carney’s industry alliance. The research finds fossil fuel financing remains dominated by the same four US banks.

But Townsend concludes the conversation between banks and oil and gas groups is starting to change. “Lenders will need to meet their own regulatory requirements and voluntary commitments. This will drive how they deploy their capital,” he predicts. “There are significant adjustments ahead and, for many, this is a deliberate realignment of capital.” ■

CO-FOUNDER ANGELA BERRY REFLECTS ON TREASURY TODAY'S GUIDING PRINCIPLES



Treasury Today is 25-years old this year, and to mark our anniversary we spoke to co-founder Angela Berry to find out about the inspiration for the magazine and how it all began.

I had worked in financial publishing and my co-founder, Richard Parkinson, in banking and consultancy.

We felt that those working in corporate treasury and associated finance functions were not getting high quality information from a reliable independent source. Their roles were and are niche and require dedicated and considered specialist information. The banks were providing lots of advice and dominating the few sources of information there were.

My first floor flat in Pimlico served as the first office which gave us a London address and a central London telephone number.

The very first edition was not actually printed. Everyone was getting very excited about how electronic communication and the internet were impacting the world. But it turned out we were wrong and people still wanted something they could put in a briefcase (remember those things!) Something they could hold and read. Things snowballed very quickly and at the beginning I worked 15-hour days regularly – juggling family life with the commitments required to make a business work. The problem that nearly all new businesses face is that potential advertisers often do not want to be the first to try.

Treasury Today Asia

We launched Treasury Today Asia in 2005, but it was called Treasury Today in China and we translated into dual language – an incredibly difficult task. But we soon realised we were only telling part of the story as there was a great deal of interesting corporate treasury and finance activity all over Asia Pacific. In addition, many of the Chinese corporate treasury and finance staff were learning English to undertake international business. So we broadened the publication to Treasury Today Asia, and stopped translating.

Adam Smith Awards

We started the Treasury Today Adam Smith Awards in 2008. Many in the industry were asking us to run an awards scheme. At that time, most of the awards programmes run by other publications were very supplier focussed. We wanted to focus our awards on our corporate readership and their achievements. This was immediately more interesting to corporates as it meant they were learning about what other corporates had actually done. It did slowly gain support and the Treasury Today Adam Smith Awards are now the most prestigious awards in the business.

Change

The treasury and finance function is always evolving – not to be confused with revolution. This sounds dull, but is crucially important. The finance and treasury function in a company hold the purse strings. One change that has been very noticeable to us is the growth of fintech and the emergence of many new suppliers who are not banks. But the fundamentals of good treasury and finance management remain much the same.

Our biggest challenge was ensuring our business model worked. Would we get enough support from the suppliers if we did not simply agree to print everything they wanted to say?

Other unknowns were if big companies needed this information or if they already knew it all? Surely, they would know what they were doing? As it turned out, large corporates have been our biggest supporters of all as they fully recognised the value we bring – well-researched additional information from an independent source that they can trust.

Staying relevant is a continuing challenge. We have to make sure we facilitate communication between suppliers and their potential customers. We must not be a barrier but a conduit. So finding different ways to do that, and ways that work, is a continuing challenge. I suppose you could say staying true to our original objective is the main challenge for us. The feedback from our readership helps us do that. ■

Trade digitisation

“ To what extent are trade flows and trade finance benefiting from digitisation, and how much progress has been made? ”



Christian Bauwens
Senior VP, Treasury
Flex

Flex has launched a number of trade finance digitisation projects over the past few years. Our primary goal is to automate transactions with suppliers and customers with full authentication, using the cloud platform. We also want to expand funding solutions for our customers and suppliers by reducing transaction risks earlier in the purchasing cycle.

In 2015, we developed an in-house end-to-end solution for account receivable factoring programmes. This was successfully implemented with various banks and allowed us to have a robust digital financing solution fairly early in the global digitisation wave.

In 2017 we engaged with various blockchain fintech companies and a few financial institutions to deliver a pilot project to automate end-to-end transactions between suppliers and customers.

In 2019 we began a project to digitise the identification of global companies using a connected platform to authenticate business registrations and tax records.

Recently, we implemented a solution to improve Order To Cash cycle and reduce the number of days invoices take to be approved by customers. Our approach was to automate invoice submission to customer portals, which reduced invoice dispute resolution days.

In the last example we faced multiple challenges, including a diverse statutory/regulatory environment, various invoice requirements, and a multitude of customer portals with different specifications, sometimes with the same client. Globally, I think the key challenges are: the rate of new technology adoption by the corporate world, and the scale required for trade finance digitalisation to succeed.

To be truly successful, digitisation tools need to be used by a majority of your customer base. The same vision must be coordinated and shared between governments and institutions in charge of global governance, central banks, and the banking community.

The digitalisation journey would benefit greatly from a commonly used technology that could digitalise the entire supply chain in a uniform legal framework, while also offering

the flexibility to comply with multiple parameters required by each partner and regulator. If companies are not willing to invest in this area without the certainty of short-term gains there will be fewer efforts to identify a transformative solution that can be used across companies and industries.

Payment security and cybersecurity is a good example. New technology like blockchain could be used broadly to reduce fraud risks if everyone involved had a standardised approach. Tackling security threats (authentication and security control), offer an opportunity to create new partnerships with banks and/or fintechs to validate transactions and provide funding solutions for the entire supply chain.

We use a combination of internally developed and externally available technologies to support our function. We use a treasury management system that supports host to host, SWIFT and API connections; and a range of other tools such as Robotic Process Automation (RPA), Optical Character Readers (OCR), Machine Learning Technologies (ML), Electronic Data Interchange (EDI) and more.

Key to success is the seamless integration between technologies and effective communication between the tools, partners and banks. Our ecosystem of tools to digitise accounts payables for example, has improved invoice financing/working capital funding solutions for our suppliers, given us better access to material for production, and secured preferred supplier terms.

Because the trade finance digitisation process is currently decentralised, financial institutions have a key role to play. Ideally, they could facilitate a global standard which would help stronger adoption by corporates, lower cost, ease data integration and enhance security. Flex has started to embrace ESG into our treasury practices generally. One example is that we are in the process of converting our supplier financing program into a sustainability-linked facility. This will allow preferential funding rates for ESG-focused suppliers.



Iain MacLennan
VP of Trade and
Supply Chain Finance
Finastra

As we know, there is a lot of paperwork associated with the physical movement of goods including bills of lading, packing lists and origination certificates, etc. Trade finance is

traditionally part of transaction banking areas within banks but unlike other areas, ie payments or liquidity management, trade finance (and commercial lending) hasn't experienced anything like the same level of digitisation. Having to rely on pieces of paper with an appropriate signature to allow the physical movement of goods is both costly and unsustainable, and a source of significant friction for businesses.

Digitisation allows efficiency, visibility, cost reduction and speed to market, and takes away the opaque nature of paper. Significant progress has been made since the G7 meeting in early 2021, when the lack of digitisation in trade finance was seen as a key topic. Today we are seeing the adoption of MLETR [Model Law on Electronic Transferable Records] coming to the fore, creating the legal framework to address the need for wet signatures. Of course, the broader digitisation in trade finance has also accelerated since the pandemic. We are now seeing huge demand from banks and corporates to speed up processes and create efficiencies, as well as integrate ESG in an end-to-end process.

Digitisation is not just about the software – multiple digitisation partners need to help banks improve their end-to-end processes. Trade finance from an operations perspective is a knowledge-driven sector that depends on specific skill sets and in another, worrying trend, we are seeing a significant “brain drain” from this space with the ensuing loss of knowledge.

The technology is available to support digitisation, distributed ledger and blockchain get most of the press and can allow different stakeholders in the supply chain to share information. However, the key points here are to prevent so-called data islands and to ensure interoperability. One of the items that needs to be addressed in the data is who owns the goods, or who has rights to the underlying transaction. Still, we've been talking about blockchain for years, and we are still talking about it today. The problem is scale, but adoption and interoperability are key. The technology is great, but you need to get to a point where you can connect with other networks to process transactions. There are lots of solutions, but corporates face a challenge of how they become part of this trade ecosystem and create value by this engagement.

Encouragingly, we are seeing more cooperation between different providers and stakeholders. Banks have also figured out what they can bring to their client base and are working with multiple new entrants. One challenge that both banks and corporates face is how to integrate new partners, as this can be very time-consuming. It involves a procurement and contractual process, and we are looking at how to accelerate that in the marketplace by removing this friction from the process.

Digitisation will again be accelerated by ESG integration. Stakeholders from shareholders to customers and regulators expect evidence of ESG standards. Whether sharing information on workers' rights or a product's energy source, providing it to stakeholders in a truthful way that safeguards

against greenwashing is only going to be achieved via digitisation.



Gabriel Buck

Founder and
Managing Director
GKB Venture

I see some digitisation in trade processes, but I am sceptical that digitisation will be a panacea for increasing and facilitating greater trade flows. My overriding belief is that despite the efficiencies of digitisation, it won't significantly help those producing lower value goods move up the ladder to producing higher value goods, or those in local markets reach international markets. For example, if a company trades principally in the production of raw materials, say, coffee beans, digitisation is not in itself going to move that company up the value-add ladder to trade in processed coffee.

I would argue that the digitisation of payments has been more transformational than the digitisation of trade processes because this has provided companies with the ability to trade internationally. Most companies can obtain and transmit payments with ease, and relatively cheaply. Our exporting clients have never mentioned that the lack of digitisation in trade is hampering their growth. Companies that know how to export, have worked hard on developing their markets, and provide a fully integrated package aren't thriving because of digitisation. Freight forwarders, exporters and importers know the processes.

Banks are at the forefront of introducing digitisation in trade because it reduces their processing costs. Trade finance incurs back office costs, especially around human processing. But the benefits of lower costs through digitisation will only really be felt by the banks, and I don't think they will pass this on to their clients. It's not really surprising given banks and financial institutions are the ones who are funding digitisation development and want to see a payback. Moreover, trade finance is a low-risk, low return asset class for banks. As a result of being low risk and low yielding, the only way they can make money is by volume and keeping processing costs as low as possible.

Innovation and technological developments supporting trade and trade finance digitisation often fold. I think there are too many platforms that can't scale. Many of these new platforms also believe they can solve the funding gap in trade finance through digitisation, but this premise is also misguided. The funding gap exists because there is a lack of access to capital, not because of a lack of digitisation. ■

Next question:

“How are higher borrowing costs impacting corporate strategy?”

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

Buoyant balloons or burst bubbles?

Will Western consumers, companies, governments and investors succeed in pumping more heat in their economic balloons and keep them drifting higher or is a landing unavoidable, whether a soft landing or a crash?

Inflation has peaked and is expected to decline rapidly over the next few quarters. However, central banks are indicating that they will tighten monetary policy further to ensure that inflation declines to the 2% target. The question that has been preoccupying the markets is whether central banks will succeed in this or crash the economy in the process, or whether monetary policy makers can steer inflation down while also piloting a soft economic landing. Because labour markets remain tight and lower inflation gives purchasing power an additional boost, some have now even taken to the idea that a landing will not be necessary at all, arguing that we can keep flying along without having to touch the ground.

A soft landing

In the soft-landing scenario, the high inflation rate of recent years is seen as due to problems on the supply side and the shift in demand from services to goods during the lockdowns. Inflation will fall back of its own accord, as most supply side problems have evaporated and commodity prices have declined.

Also, in the soft-landing scenario, tighter monetary policy will slow down the economy enough to cool the labour market. This will not lead to a recession because consumers still have vast amounts of savings to spend, real incomes are being supported by declining inflation, governments are pursuing loose fiscal policies and Chinese economic growth will accelerate. Central banks will not have to raise their rates much further in this scenario and can lower them later this year, once inflation has declined significantly further.

A hard landing

In the hard-landing scenario, inflation can only be reduced to 2% with the help of a recession. The risk of a recession seems to have declined due to the better-than-expected economic data, but appearances can be deceiving. Several indicators that have proven to be reliable warning signals of a recession in the past (an inverted yield curve, a decline in leading economic indicators and credit supply contraction) point to a very high risk of recession. In addition, central banks have tightened monetary policy very quickly in a short period of time, to the point where this is almost bound to have a major negative effect on the economy, given the soaring debts and exceedingly high asset prices.

If, before the corona crisis, you had asked an economist what the effect would be of the rate hikes that the Fed and ECB have enacted in the last year, they would certainly have warned of a deep recession. However, it takes a long time for the impact of monetary tightening to become apparent in the

real economy, so the negative effect of monetary tightening from mid-2022 still has to be largely reflected in the data.

Also, it remains to be seen how quickly inflation will decline as a result of weaker growth and tighter monetary policies. The war between Russia and the Ukraine will not be over any time soon and higher growth in China will boost commodity demand. As a result, commodity prices could easily rise again because commodity stock levels are relatively low and investment in resources has been lacking in recent years. Furthermore, labour markets have become permanently tighter due to less immigration, ageing populations and because more people left the labour market during the corona crisis. These factors are exerting additional upward pressure on wages. This means that central banks will only be able to properly contain inflation if unemployment rises by roughly two percentage points. In the past, such an increase was almost always accompanied by a recession.

No landing

In the third scenario, growth will pick up over the next few quarters. Chinese consumers can go out and about again because China has lifted its strict lockdown policy, while consumers in the US and in Europe will spend their large savings because tight labour markets and persistent high asset prices are positively influencing balance sheets and consumer confidence. Furthermore, tight labour markets cause wage incomes to increase considerably – a large part of which will be spent – and they ensure that companies will be more inclined to invest in labour-saving measures. Growth will also be supported by increased investment in sustainable energy. Finally, lower energy prices increase purchasing power and, in Europe in particular, lower gas prices make it more appealing for industrial companies to step up production. Higher economic growth will basically put inflation under more upward pressure and trigger even tighter monetary policy. However, this does not necessarily have to directly jeopardise improving economic growth:

- In the coming months or quarters, the downward pressure on inflation due to improving supply chains and lower commodity prices is likely to remain far greater.
- Central banks have already raised their rates considerably and will be cautious about stepping up the pace of rate hikes. They will first want to evaluate the delayed impact of previous rate hikes.
- Equities will continue to perform well and credit spreads will decline further due to improving growth prospects combined with declining inflation. This will ease monetary conditions.

Spoiling party crasher

The markets have increasingly been pricing in a soft landing in recent months due to better-than-expected economic data, the reopening of China, lower energy prices and looser monetary conditions. And there's even mounting speculation on a no-landing scenario. However, a hard-landing scenario is unfortunately the most likely.

Due to weak productivity growth and demographic developments, potential growth in the US and Europe is low and total debt-GDP ratios are very high. Furthermore, in recent years, a great deal has been invested in the expectation that interest rates would remain low. As a result, many asset prices were/are very sensitive to higher interest rates. Against this backdrop, the rapid hike in interest rates last year has significantly increased the risk of a profound recession. In our view, the fact that a recession is not (yet) evident is due to various factors that made the economy less sensitive to higher interest and kept economies humming along:

- Because inflation was and is higher than the level of interest rates and wage increases, debts carry less weight in real terms, which has a positive effect on corporate earnings.
- Loose fiscal policies.
- In recent years, consumers and companies have borrowed more at low and fixed interest rates.
- Spending of accumulating savings.
- Catching up on production due to diminishing supply side problems.

However, the positive impact of high inflation will quickly disappear if diminishing supply side problems and lower commodity prices cause inflation to decline further, while central banks raise rates further and wage increases remain high. Also, we expect the economy to react more negatively to higher interest rates this year:

- Many economists estimate that US households will have run out of their additional accumulated savings in the second half of this year. Moreover, it would not be surprising if households did not spend a large part of their remaining accumulated savings. A large part of these savings are held by wealthier households, which are less inclined to spend savings anyway. In addition, further

declining house prices and diminishing job security may make people wary of spending more.

- As most supply side problems have been resolved by now, the positive impact of improving supply side problems on production will become far smaller or could even reverse due to declining orders and because companies want to reduce overstocking.
- Tensions surrounding the raising of the US debt ceiling could flare up by the summer. We also expect more speculation on tighter fiscal policies in the EU, as the suspension of fiscal rules ends by the end of this year.
- Lower nominal growth, high stock levels and rising labour costs are likely to keep corporate earnings under downward pressure. As a result, companies will invest less and lay off more staff.
- US economic data for January was surprisingly good. This was due to better weather conditions than in December and incorrect seasonal adjustments. Therefore, it is unlikely that last month's strong data is the onset of a growth recovery.
- The end of China's zero-COVID policy will mainly boost the service sectors in China and surrounding countries. The positive effects on the rest of the global economy will likely be limited. Unlike US households, Chinese households will likely spend a relatively small proportion of their accumulated savings. Due to the ongoing crisis in the Chinese housing market, consumer confidence is under pressure and more households are seeking to pay off their mortgage debt.
- Increased hopes of a soft-landing scenario have been partly fuelled by the sharp rise in equity prices and corporate bond prices. This was partly due to companies engaging in major share buybacks and investors reversing many short positions. A further decline in earnings and growing concerns about a hard landing will make companies more cautious about buybacks.

Because of the above, after Chinese and unknown balloons being blown to smithereens earlier this year, it could very well be that we will see some asset bubbles bursting too later in 2023. As financial markets adjust their radars to see what's coming, prices of riskier assets will come under strong downward pressure, while government bond prices will rise due to investors seeking safe havens. ■

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