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March/April 2024

The push for digital sovereignty

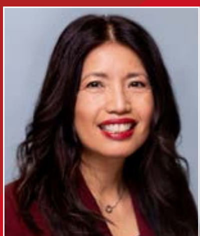
The rise of the digital economy is driving a push towards digital sovereignty where nation states seek to control their data.

The Corporate View

Steffen Diel

Senior Vice President, Head of Global Treasury

SAP



Women in Treasury

Philomel Pena

Director, UC Treasury

University of California

Cash Management

Filling the gaps in cash and transaction consolidation

Funding & Investing

Is the UK IPO market listing – or sinking?

Payments

Challenges with payments data monetisation

Sustainable Treasury

Data centres try to cut emissions

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A digital world

In a reflection of how data, the critical raw material for producing digital products and services, is increasingly shaping corporate treasury, two features in this edition focus on the new corporate gold, set to shape strategies and investment in the future.

Our Insight & Analysis article explores how nation states which have always protected their physical borders are now seeking to define and protect their digital sovereignty. This means putting a fence around the production, storage and flow of data to assert their economic interests and bolster cybersecurity.

The issue has implications for treasurers: cash and liquidity management, for example, is essentially data that is travelling across borders. And so are emails and Zoom calls where digital tools are facilitating the flow of data to other jurisdictions. Expect implications for taxation, as well as an additional legal and compliance burden that comes with more data governance rules.

Our second data focus homes in on sustainability, exploring how efforts by data centres, the guardians and stores of corporate data, are trying to limit carbon emissions and water use by creating economies of scale, plugging into renewables and equipment efficiencies. But a lack of awareness that the cloud has emissions, and exponential growth in the sector is hindering progress.

Our Question Answered delves into why it's a good time to issue corporate debt and explores some of the interesting trends shaping the market. Like the fact finance teams at high-yield issuers should make time to host investor roadshows in a marked change from previous years when the hunt for yield made debt from more risky companies easier to sell.

Sticking with funding, we explore why the IPO market is still moribund and if treasury will listen to London's calling. We explore whether London can restore its allure as an IPO destination and if the IPO market, which has just experienced one of the worst years in its modern history, is set to benefit from positive economic indicators.

This edition offers ever-popular insights on netting and pooling, and explains why treasurers still have much to gain from centralising exposures and maximising cash utilisation. We also explore why cash management remains high on the agenda for treasurers in the Middle East where budgetary constraints arising from geopolitical tensions are making it more critical to demonstrate the ROI on technology solutions.

Our Corporate View features an interview with SAP's Steffen Diel who discusses agile transformation and the importance of intelligent decision making. Finally, read on for Philomel Pena's, Director, UC Treasury at University of California, inspiring and personal career advice in this edition's Women in Treasury feature.

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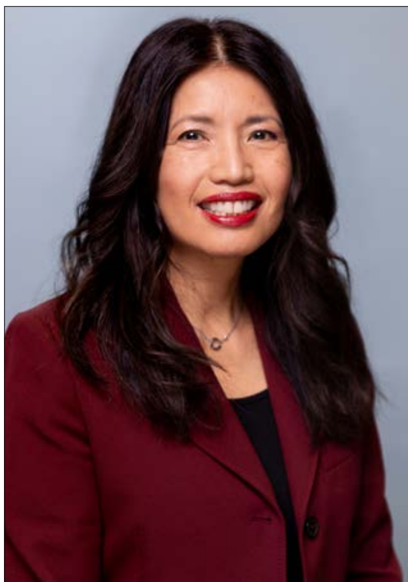

Philomel Pena

Director, UC Treasury

UNIVERSITY OF CALIFORNIA

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Digital sovereignty moves up the agenda

The rise of the digital economy – and the masses of data that accompanies it – is driving a push towards digital sovereignty where nation states seek to gain control over the production, storage and flow of data, and build their economic and cybersecurity defences.

If you take a photo of your dog, create a meme, and post it to social media, who has control over that data? Many jurisdictions could be involved: the software was likely created by a foreign company, as well as the social media platform. The data has been shared across borders and is now stored in the cloud, hosted by another company in a foreign land.

Nation states have long sought to protect their physical borders, but in the digital economy – where data proliferates – the boundaries are more difficult to define. Along with the rise of digital technologies, there has been a push towards digital sovereignty where nation states are seeking to put a fence around the production, storage and flow of data to assert their economic interests and bolster their cybersecurity.

The issue has implications for treasurers: cash and liquidity management, for example, is essentially data that is travelling across borders. And so are emails and Zoom calls where digital tools are facilitating the flow of data to other jurisdictions. Depending on how countries take action, the push for digital sovereignty could have implications for taxation, as well as an additional legal and compliance burden that comes with more data governance rules.

Simona Autolitano, a researcher and expert on the European Union's digital sovereignty at the Centre for Advanced Security, Strategic and Integration Studies (CASSIS) at the University of Bonn, comments that the understanding of digital sovereignty varies from country to country. In the EU, for example, it broadly covers how different member states want to control digital data on their territory, she explains. "It's not just about the flow of data, it's about creating and keeping the data on their territory," she adds.

Data is often described as the 'new oil', and Autolitano points out that data will be at the core of business in the future.

Right now, however, many countries are missing out on the opportunities that the digital economy brings because other countries are benefitting from the flow of that data.

The EU's economic security

According to the World Economic Forum, as of 2021, 92% of data from the West is hosted in the United States, and there are no European companies among the world's Top 20 technology brands. Not surprisingly, the EU has taken issue with this and wants to do something about it. Back in 2021, the leaders of Denmark, Estonia, Finland and Germany wrote in an open letter, "Now is the time to be digitally sovereign. We have to foster the Digital Single Market in all its dimensions where innovation can thrive and data flow freely. We need to effectively safeguard competition and market access in a data-driven world. Critical infrastructures and technologies need to become resilient and secure."

There are two main aspects to digital sovereignty, explains Autolitano: economic progress and security. Given the shift to the digital economy, the EU needs to ensure that it is not missing out on the opportunities of the data-driven world. For example, European companies may want to compete with US companies in cloud technology and host some of the data that Europe produces themselves. By some estimates, Amazon Web Services currently hosts about one-third of the world's corporate data, with Microsoft and Google not far behind. In a paper by the Atlantic Council, entitled 'Digital Sovereignty in Practice: The EU's Push to Shape the New Global Economy', academics Kenneth Propp and Frances Burwell explain that under the leadership of Ursula von der Leyen, the EU has been boosting its support for homegrown technology, creating various regulations for the digital economy, as well as addressing the EU's vulnerabilities and threats from other countries.

A paper by the European Parliament states: "With a worldwide market for new digital technologies expected to reach €2.2trn by 2025, a large part of Europe's growth potential resides in digital markets." In line with this, the EU is asserting its digital independence and addressing concerns about the competition from other countries with innovations such as 5G, artificial intelligence, cloud computing and the internet of things, and how they are now major strategic assets for the EU economy. The EU has already invested heavily into research and development – to the tune of €80bn over seven years to 2020 – to keep the region at the forefront of such innovations.

Big Tech's threat to sovereignty

The European Parliament paper notes that the pandemic – when reliance on digital tools grew – accelerated the issues around digital sovereignty. The topic, however, has been rumbling in the background for a number of years. One of the drivers has been the rising dominance of Big Tech – both US and Chinese companies – whose influence extends beyond national borders and the efforts of governments to claw back control over their data.

One interviewee who works in government affairs, who wished to remain anonymous, told Treasury Today that many countries have felt aggrieved to be missing out on the tax revenue while technology companies have been profiting from the data that its citizens have been producing. France is one such country that took action with a digital services tax, which was targeted at the likes of Facebook. The French government's position was that the social media company, as an example, had been able to capture the attention of French citizens – and collect data on its user's behaviour and preferences – and then sell those insights to multinationals, and other companies, for the purposes of advertising. However, the French government had not been benefitting from the tax revenue from this economic transaction that involved its citizens. Now that economic activity is occurring beyond the traditional national boundaries, many countries around the world have taken action to ensure their economies are structured in a way that is relevant for the digital economy.

Tax in the digital world

Collecting taxes in the old-world economy was much easier when goods and services were traded within physical borders. Now things are much more complicated. Take digital nomads, who may be a national of one country, tax resident of another, yet are working on their laptop from a beach in Thailand, selling services to another country, and receiving the income into a bank account somewhere else. This is just one of the issues of the digital economy that national governments are now grappling with.

In theory every digital transaction could be taxed, but this taken to the extreme could cripple the global economy. For example, if every time data crosses a national border it is subject to tax, imagine what would happen if nation states took protectionism to the extreme and made all emails, or Zoom calls taxable or subject to tariffs. And for treasurers, given that moving money is essentially the transfer of data, if this was subject to taxation every time it occurred across national boundaries, this could be very difficult to manage. For now, however, there has been a moratorium on e-transaction data that crosses borders, according to a digital trade expert who spoke to Treasury Today. For now, while digital trade agreements are being negotiated, it doesn't look like that agreement will be broken, but if it is – it could wreak havoc on the way that the digital economy currently operates.

Most action has been taken in the form of digital services taxes, and there has been a shift in how governments treat companies that are selling digital goods and services from another jurisdiction. In a previous interview, Alan Lau, Partner and Head of Financial Services, Tax, KPMG in Singapore commented how there was a rising trend of seeking tax revenue for such transactions and various countries have been introducing additional taxes for foreign vendors. Singapore, for example, since 2020 has had a regime where such companies need to register under the Overseas Vendor Registration (OVR) and these rules were later extended to companies providing services from another jurisdiction whether they were digital or non-digital.

Digital sovereignty and cybersecurity

Taxation isn't the only reason that nations have been moving to assert their independence in the digital economy. As Autolitano already noted, digital sovereignty is also about cybersecurity and there has been a growing unease that many companies, individuals and government agencies are relying on foreign companies to host their data.

Autolitano explains that government ministries – given the amount of data they have to handle – are now putting that data in the cloud, but that could be problematic if the data is held offshore. This creates vulnerabilities about who can retrieve that data and could potentially lead to national security issues if other foreign governments have access to it.

From a cybersecurity point of view, there is also the potential for criminals to access the data without a national government having any control over it. "As long as you produce digital data, it will be interesting for criminals," says Autolitano. This is one of the reasons that many countries – such as China and Indonesia – have rules in place to store the data locally. Their moves towards data localisation on the one hand can be viewed as a prudent move for cybersecurity, although many observers criticise the approach as a form of economic protectionism.

Indonesia's data rules

Amid the trend toward digital sovereignty, Indonesia is a notable example of a country that has taken action and moved the topic up the national agenda in recent months. For example, in August 2023, Minister of Communication and Information, Budi Arie Setiadi was quoted as saying that Indonesian data must be protected: "Financial data must be in Indonesia because our financial data is vital." Later, in October 2023, President Joko Widodo spoke of the importance of Indonesia's digital sovereignty: "We have to protect our digital sovereignty and really defend our local content and local goods," he reportedly said.

Indonesia has also introduced a personal data protection (PDP) law that lays out how personal data should be handled. Gopul Shah, Director of Corporate Treasury and Structured Trade Finance at Golden Agri-Resources, which has a large presence in Indonesia, comments that the core of this law is about accountability and that organisations operating in Indonesia must be responsible for managing data. Organisations in both the public and the private sectors need to enhance their governance frameworks to ensure that personal data is protected, Shah explains. The PDP Law mostly aligns with the EU's GDPR [General Data Protection Regulation], says Shah, which means that the transition to these rules should be less onerous for multinationals who are already compliant with the European data regulation. There will, however, be an extra legal and compliance burden to bear. For treasurers, Shah says, "Banking, financial services and treasury activities will not see much impact except enhanced cost of legal, compliance and additional processes."

Range of trust issues

Historically, there has been a range of approaches from national governments regarding their digital trade, and how open they are to the free flow of data. While Indonesia has pushed for data localisation, there is a range of approaches that has been taken by the member countries in ASEAN [the Association of Southeast Asian Nations]. Anthony Toh Han Yang, Research Analyst at the S Rajaratnam School of International Studies, Nanyang Technical University in Singapore, previously told Treasury Today that countries like Singapore and the Philippines want a more liberalised cross-border data regime, whereas Malaysia, Vietnam, Indonesia and Cambodia have a more restrictive approach with their regulation.

When it comes to making digital trade agreements with other countries, one of the major issues is the degree to which data can flow with trust. This 'Data Free Flow with Trust' was a concept that was first introduced by the Japanese government, under the leadership of the then Prime Minister, Shinzo Abe. The idea is to facilitate the free flow of data while ensuring trust in privacy, security and intellectual property rights, and this has been taken up by the G7 member countries to turn the concept into reality, working on areas such as data localisation, regulatory cooperation, government access to data, and data sharing.

The European approach

The EU has already laid out its regulation for personal data with the GDPR, and is now taking the issue of digital sovereignty more seriously. In the past, it may have been correct to say that the EU was concerned with data from the perspective of human rights, and concerned about personal data and how it is handled – as is exemplified by the GDPR. Meanwhile other jurisdictions such as China were looking at data issues in terms of digital sovereignty. However, there has been a shift in the EU's stance under the presidency of Von der Leyen. Now, many of the EU's issues are framed in the context of geopolitics, explains Autolitano. There is a different concept of security – with a backdrop of conflicts in Ukraine and Israel, for example – and much of the EU's narrative is framed in terms of geopolitics and the need for security.

In terms of digital sovereignty, the EU is trying to set the rules of the game, with thousands of pages of legislation, says Autolitano. One target of the rules has been the financial sector, with regulation put in place to protect the region's financial infrastructure.

Treasury implications

Financial institutions are in the business of managing masses of sensitive data and so it is natural that they would be targeted with various rules and regulations, which will likely have an impact on the working lives of treasurers. This will become more apparent as treasuries become more and more digitalised, and treasury teams will increasingly rely on digital tools – likely produced by foreign companies – to manage their cash and liquidity. For those relying on fintech firms to assist with their digitalisation, this may create vulnerabilities if the data is not handled appropriately, points out Autolitano, and security will always be top of mind. Having said, the financial sector is well protected from cyber-attack because as an industry it has always been at the forefront of fighting cybercrime. "The financial sector is very well equipped – it has always been considered a critical sector," says Autolitano. ■

This much I know

Philomel Pena

Director, UC Treasury

Philomel Pena, Director, UC Treasury at the University of California, explains what motivates her, and why creating a comfortable environment focused on good communication is the best way to accomplish treasury's varied and multiple daily tasks.

Describe a typical day

The thing about treasury is that there is never a typical day, but this is what makes it such fun. I always start the day with a checklist of what I want to accomplish, but then things come at you from different angles. At the end of the day, my biggest job is to ensure the safe and secure movement of our cash and that it goes where it needs to go. It's my job to make sure our cash machine is well-oiled and as efficient and productive as possible.

How did you land your role?

I have been in treasury for over 25 years. I finished my MBA in San Diego and landed a job as an analyst. I got the chance to try all kinds of different elements of treasury from FX to receivables and it immediately sparked my enjoyment and interest. Since then, I've done different treasury jobs, particularly in the tech sector but wearing a bunch of different hats. I've now come full circle. I studied at the University of California and working here now is like coming home. I love the fact I'm giving back to a system that served me so well.

What gets you up in the morning?

Personally, I like my job to have a purpose, when you are fulfilled, the feeling is second to none.

What advice do you have for others?

I would advise others to be curious and stay curious. When you are offered an opportunity for something new, take it as long as it fits your values because you never know where it might lead you. Secondly, seek out the people who can support you because a positive environment is a breeding ground for career progression. Third, remember that failure creates resilience, strength and perseverance. We all have doubts: embrace it and keep moving forward.

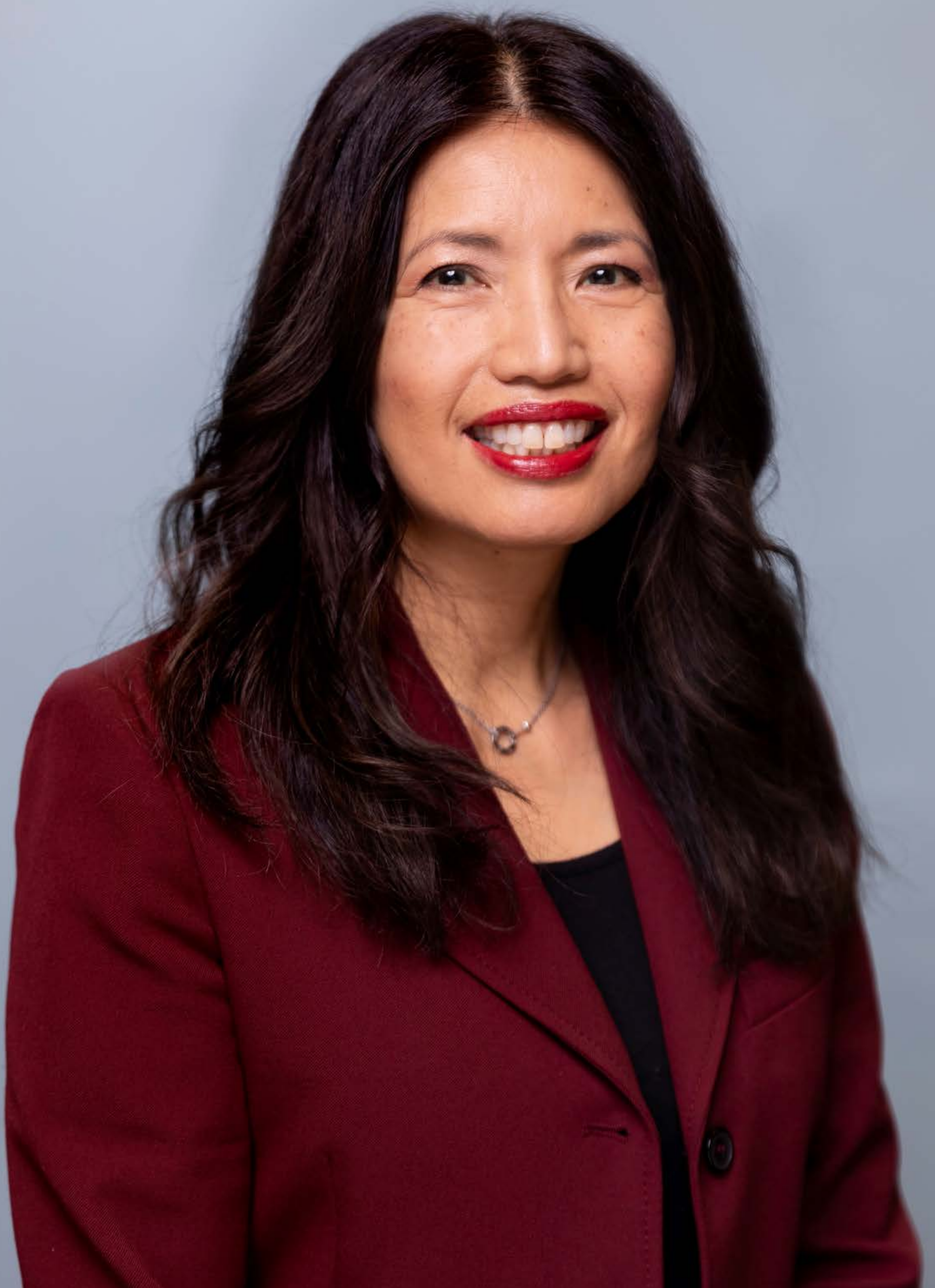
Describe your style of leadership

I think my style is transformational; I really do try to focus on innovation and the future. Change is hard on a lot of folks, and I endeavour to try and make sure I'm creating a comfortable environment supported by good communication so that people understand the need to evolve and how it can support an organisation. I guess my leadership style also focuses on people. People are our greatest asset. My theme song as a working person is Fleetwood Mac's 'Don't stop thinking about tomorrow,' it gets me in a positive frame of mind, especially if I sing it driving to work!

"I like to compare treasury people to engineers. Engineers are innovative, creative, solution driven and treasury is the same."

ONLINE

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



Keep the faith

It's difficult to believe, but Philomel insists she has doubted herself throughout her career and can still find herself questioning her ability, a perspective that she links to being raised in a culture where women were taught to just say "yes", not "ruffle feathers" and "keep it simple."

She also attributes her upbringing to her reluctance, more prevalent early in her career, to put herself in uncomfortable positions and take on stretch assignments. It's a tendency to doubt that she still catches herself doing today. "Today I still find myself thinking, did I fund that account? Did I put that item in the contract? Did I hedge that exposure?" she says, only half joking.

She also links her earlier hesitancy to venture forth and take risks to another cultural hangover that is particularly common amongst women: constant striving for perfection. It took her a long time to understand the value of growth found in imperfection, and today she strives to create a supportive and friendly environment where imperfection and failure, and strategies and new approaches that don't quite work out, are also a force for good. "Of course, it's important not to repeat mistakes and do our jobs well, but we also need to foster an environment where we can learn and are comfortable sharing what's gone wrong rather than hiding mistakes under the rug."

Sources of inspiration

Philomel reflects that she is constantly inspired by her colleagues. Not just her immediate seven-person treasury team, but the wider network of finance folks, people on campuses and those she interacts with every day. Much of that camaraderie derives from a shared mission. "It makes me feel positive; this purpose to support this organisation," she says. She is also inspired by the University of California's record on DEI, something it has been doing for decades. "It is not a new concept at the university," she says. It's a facet of the organisation and a sign of its culture and values that she notices draws younger people to join. "Individual work supports our mission through inclusion and belonging and values aligned."

Philomel is a mother of four children, including twins and all born within four years. She says she never shared much detail about her working life with her kids when they were young. "I just said I move money around," she recalls, laughing. Today it's a source of quiet inspiration that one of her sons, studying business, is actively interested in what she does. "He likes to sit down and talk about treasury," she says. "It warms my heart!"

> " My theme song as a working person is Fleetwood Mac's 'Don't stop thinking about tomorrow.'

It leads her to reflect how treasury as a profession is often overlooked and its interest and reach a source of surprise to the uninitiated. Something she attributes to few people realising it is such a multi-faceted career. "It requires building technology with analytical and soft skills," she lists. "Treasury is unpredictable, and anything can pop up in any given day."

She also attributes treasury's allure to its solution-driven focus, a facet of the job she notices is particularly sought out by the next generation. "Treasury is the backbone of a finance organisation, and it doesn't matter in what industry. I like to compare treasury people to engineers. Engineers are innovative, creative, solution driven and treasury is the same. There are no limits to learning, so you have to be a life learner."

She concludes by reflecting on her hope that she's given her daughter a yearning to carve out a dynamic career and taught her sons to respect and support women determined to develop their career. She also adds: "We must always look at what we've accomplished in any given day. And not what we haven't!" ■

Profile

Philomel Pena has been Director, UC Treasury at the University of California, her former alma mater, for the last eight years. She holds a Master's in Business Administration, Management, from San Diego State University, earned whilst working full time, and a Bachelor of Arts, Economics from the University of California. Her many professional affiliations include Women in Treasury initiatives, alongside a long list of community service. She loves the outdoors and playing the piano!

London's calling – but will corporates listen?

Research suggests that reports of the UK's demise as a listing venue may be premature – but New York is expected to prove more attractive in 2024.

PWC's Global IPO Watch report notes that IPO volumes were subdued in the US and Europe (particularly the UK, Germany and France) last year with no European market in the top ten globally. The firm suggests increasing economic confidence as the macroeconomic landscape stabilises, growth in equity indices and a backlog of demand for exits all point to potential re-opening of western IPO markets in 2024.

Shari Mager, US Capital Markets Readiness Leader at KPMG expects 2024 to be a much better year in the US on the back of stock markets touching record highs and expectations of three quarter-point rate cuts this year starting in June.

"The pipeline is full and it will just take a couple of well-recognised companies with a record of profitability to go first and perform well in the aftermarket for others to follow provided the current benign conditions persist," she says. "We do not expect the elections in the US to affect the IPO market much, except for a short pause in November around the week of the election itself."

According to NYSE Vice Chair, John Tuttle, there are several reasons why companies favour a US listing. In a speech at the World Economic Forum in Davos he noted that the US has the deepest pool of liquidity and capital in the world as well as analysts and investors that are focused on growth, not just dividends and value. In addition, a US listing also exposes companies to a wider range of indices.

Data from EY indicates that IPO activity on the London stock markets fell 40% in terms of proceeds and 49% by number of listings in 2023, making it the quietest since 2010 when the firm first started collating this information.

Although inflation and interest rate pressures may ease in the first half of this year, the firm reckons upcoming UK and US elections might delay significant IPO activities until 2025.

Ledgy's State of Equity and Ownership 2024 report presents a more nuanced perspective on London as an IPO location. While acknowledging that there were fewer companies listed on the London Stock Exchange at the end of last year than at any time since the 2009 financial crisis, more than a quarter of the companies surveyed for the report said the presence of new routes to liquidity – such as secondary share sales – rather than concerns about listing in the UK was the main factor making a future IPO less likely.

Indeed, almost three quarters (72%) of UK-based respondents said that they would choose to IPO in London over any other location.

Research published by KPMG UK in January found that 86% of European and UK equity capital markets leaders would consider listing in London – behind New York (94%) but well ahead of Amsterdam (50%). The survey also found that 91% of respondents expect the UK IPO market to return to normal activity levels in 2025.

But there is no denying that the early months of 2024 have been a mixed bag for London as a listing venue, with one of the highlights being Kazakhstan airline Air Astana's raising of approximately US$370m from a listing in mid-February.

"Once we decided to proceed with a dual listing there was never any question we would list in London," explains a company spokesperson. "The London Stock Exchange has strong regulatory and corporate governance standards as well as deep pools of capital to support our growth. In addition, investors already understand the potential of the region as several companies from Kazakhstan have successfully listed in London in the past."

There is also optimism that after false starts in 2021 and last year, computer company Raspberry Pi is moving towards a London IPO having appointed an investment bank to prepare documentation.

On the downside, it has been widely reported that UK-based life sciences start-up Nuclera favours New York for a future public listing and the reputation of the London Stock Exchange has not been helped by technical difficulties. Small cap trading was halted on 5th December 2023 due to outages, following a similar incident on 19th October.

The wider European IPO market took a hit when Renault announced at the end of January that it was cancelling the planned list of its electric vehicle business Ampere scheduled for the first half of this year. The company stated that 'current equity market conditions are not met to optimally pursue the IPO process in the best interests of Renault Group, its shareholders and Ampere'.

There was better news in February with three companies (Athens International Airport, Renk and Theon International) making their debuts on the Athens, Frankfurt Stock and Euronext Amsterdam exchanges with a cumulative initial market capitalisation of €4.66bn.

With the major US indices trading at or near all-time highs – and those of France and Germany doing the same – it would be no surprise if would-be sellers were to try and chance their arm suggests Russ Mould, Investment Director at AJ Bell.

"A run of successful deals where pricing is firm, the syndicates' books are full and after-market volumes are strong enough to drive share price gains could persuade others to follow," he says. "The danger then is a slew of copycat deals where the quality gets progressively lower even as the valuations get higher, but we are too early in the cycle to see

that just yet – although it will be interesting to see if AI and biotechnology in particular start to see this trend in 2024."

George Chan, EY Global IPO Leader notes that the US saw a surge in IPO proceeds in the first three quarters of last year before momentum was undermined by the weak after-market performance of September technology debuts.

"The market has made an optimistic start to 2024 with a slew of sizeable domestic listings along with a mega cross-border debut and some small international deals signalling renewed issuer enthusiasm," he says. "Building on last year's overall upward trajectory plus more stocks trading above their IPO prices this year, we could expect a larger wave of high-profile US offerings to emerge over the coming months, especially once the Fed starts to ease monetary policy."

Assuming interest rate relief takes place from mid-year, Grant Humphrey, EY UK Partner, Strategy & Transactions reckons Europe's early 2024 listing momentum could come more from advancing regional economies.

"In the first six weeks of the year we have seen several sizeable listings from Greece, Kazakhstan and Cyprus, plus a notable offering in Germany," he says. "Listing enthusiasm across developed European economies may pick up in the second half of the year as directions of monetary policy, regulatory reforms, and geopolitical dynamics become more foreseeable for issuers and investors alike."

It is widely accepted that losing Ferguson, CRH, Flutter and TUI among others has created a bad impression of the London Stock Exchange – and CRH's subsequent share price surge will not have gone unnoticed by boardrooms and investors alike.

"ARM's decision to list in the US and its initially highly successful IPO will also rankle, although the very limited free float in this stock means it is not quite the perfect test case for the relative credentials of New York and London that it may first seem," says Mould.

He suggests the issue is largely one of valuation given the historically wide valuation gap between the UK and US equity markets, although the US undeniably offers deeper pools of investment capital and (currently) superior economic momentum.

"How much of that momentum rests upon rampant – and unsustainable – government spending is an issue that must be monitored, while the UK's lowly valuation should really be something in its favour so far as investors are concerned," says Mould.

"Even if financial buyers continue to show relatively little interest, trade buyers are paying attention – especially overseas buyers given how sterling has failed to recapture the ground lost in the wake of the Brexit referendum. More than 40 UK quoted firms were the subject of successful takeover bids in 2023 and the average premium paid was near 50%. Perhaps investors might like to start taking this hint."

An FCA consultation on proposals to simplify the UK's listing regime through the creation of a single listing category move to a disclosure-based regime closes on 22nd March, with the regulator aiming to publish final rules in the second half of the year.

In addition to consolidating the existing 'standard' and 'premium' listing share categories into a single segment with streamlined requirements, the FCA proposes to ease eligibility criteria, benefiting younger firms and those with a non-conventional structure.

The new rules would also enable more flexible dual class share structures and reduce friction for corporate strategy through fewer mandatory shareholder votes in an attempt to rebalance the regulatory burden on issuers and investors willing to define their own risk appetite.

"If implemented, the overhauled regime could eliminate some concerns from earlier stage issuers such as technology firms as well as international firms," says Scott McCubbin, EY UK & Ireland IPO Leader. "Though the reforms may not spur an IPO surge in the near term as many factors shape listing decisions and IPO preparation takes time, they may drive visible outcomes from 2025 and beyond."

Simon Olsen, Equity Capital Markets Partner at Deloitte reckons the work undertaken by the FCA (as well as the Capital Markets Industry Taskforce and others in the city) to improve London's competitiveness and make changes to UK regulation should remove certain barriers that were previously causing companies to lean towards other international exchanges.

"However, in the short term, IPO activity is more likely to be driven by the underlying macroeconomic and geopolitical fundamentals including higher interest rates – and therefore debt costs – making equity a more significant part of businesses' capital structures and investors' exit strategies, lengthening private equity hold periods, and pent-up demand from two years of poor IPO market conditions," he says.

Another important factor will be companies recalibrating their price expectations following the valuation bubble that was created during the pandemic. A return to more realistic pricing at listing will also improve after-market share price performance.

"In the medium to long-term, whilst regulatory reform should be beneficial to London both at IPO and as a market to remain on, this is just part of a broader package of measures needed," adds Olsen. "Other measures include greater investment into UK equities by pension funds and other UK asset managers, greater incentives to invest in UK equities, and further discussions around topics such as executive remuneration."

Mould reckons London is still a good home for any firm that wishes to list, especially one that is looking to build a loyal, long-term shareholder base rather than provide a quick-kill by chasing the highest valuation it can get on another exchange. "The UK excels in so many areas, including technology, media and biotechnology, and a few successful listings would be a timely reminder of that," he concludes. ■

Treasurers turn to basics with data monetisation

Opportunities abound for corporates – and their banks – to monetise payments data. For most treasury teams, however, there is a need to turn to the basics and focus on efficiencies and cost savings.

Sometimes it seems that Amazon knows more about you than you do; its analysis of previous purchases can now anticipate your future needs – and wants. Meanwhile, ads on Facebook have become more relevant, Netflix knows what you should watch, and Spotify has the best music you have never heard. Big Tech companies like these have become well-versed in putting customer data to use. And when it comes to payments data, merchants have long been analysing transaction data to reward, and increase, their customers' loyalty. For corporate treasuries, given the volume of transactions they – and their banks – have access to, surely they are also sitting on a treasure trove of data that can be monetised?

With the rise of artificial intelligence (AI) tools, the ISO 20022 payment format, as well as open banking, it is now possible to do a lot more with transaction data. However, the degree to which corporates are able to monetise payments data really depends on the kind of business they are in, says Toine van Beusekom, Strategy Director at Icon Solutions. If, for example, they are data-driven businesses – as with Big Tech companies like Google and Facebook – it is more likely they will be able to monetise their data effectively. "They can monetise data because their business model is selling advertising," Van Beusekom says of Facebook.

Also, Big Tech has been encroaching the space of traditional financial institutions and has been getting into the payments business itself. The approach towards payments, however, doesn't necessarily mean that the transactions will be directly monetised. Alistair Brown, Vice President, Global Head of Open Banking and Payments, at technology provider EPAM, highlights this in a blog about Apple's move into buy now pay later (BNPL) with its Apple Pay Later solution. Apple has also been moving into other financial services, but its motivations are different from traditional banks. With a company like Apple, Brown notes, payments are not a product to be monetised directly but rather a feature of its ecosystem. With payments, the main goal is to increase the reliance on Apple's other products and services and increase users' loyalty. The same goes for Google, where a payment via Google Pay may not directly bring revenue to the company, but if a purchase is made after using the search engine and finding a business on Google Maps, it reinforces the need for those companies to be part of Google's ecosystem and advertise on its platform.

This is just one approach that companies – particularly those that deal directly with consumers – can take with their payments data. For most treasurers, however, the priorities with payments are not what can be done with customer experience and making improvements on the front-end. Rather, the goal is to create efficiencies and make cash and liquidity management more effective.

When it comes to making use of payments data, Kieran Hines, Principal Analyst at Celent, comments that a priority for many corporates is operational efficiency and having visibility of cash. "You can make a lot of improvements with efficiency and managing payment flows if you know where the money is and where it is going to be required. It is far more efficient to have the right amount of money in the right currency, in the right country, when you need it rather than shuttling it around," says Hines.

Sending money across borders or short-term borrowing are not cost-effective ways to cover outgoing payments, especially if data analysis shows it is unnecessary. Take, for example, a treasurer who needs to pay a supplier in Toronto in Canadian dollars. If they have visibility of a Canadian dollar payment that is due soon, they can use these funds instead and avoid the more expensive options.

These issues were covered in a 2021 Celent report, which Hines authored, entitled 'Expectations Versus Reality for Payments Data Monetisation'. A survey of 217 treasurers and chief financial officers in Europe, North America and Asia showed the greatest pain points were the need for accuracy with cash balances and forecasting. Also, treasurers were often having to make decisions based on an incomplete, or out-of-date, picture.

The report showed that the greatest data opportunities for banks wishing to enhance their services to corporate clients lie in providing real-time balances, forecasts, improved security and visibility across bank providers. Rationalising the number of banking partners remains a priority for treasurers, although the average number still remains relatively high. According to Celent, the average number of bank relationships is 9.5, and this figure rises to 13 for corporates with group revenues of between US$5bn and US$10bn. "This creates complications, and it can be hard to manage in real-time how much cash the business has at any point in time," says Hines. Although multi-bank dashboards that provide a consolidated view are available, doing this in real time remains a challenge.

Van Beusekom tells Treasury Today that many of these challenges for treasurers are persistent and many are still focused on getting visibility of their current positions and managing reconciliations more effectively. Some corporates – as Treasury Today's readers will know – have undergone varying degrees of digital transformation, but many are still using Excel spreadsheets and spending their time on manual processes. There has been a lot of focus in the banking

> A corporate does not want an API for this and an API for that.
>
> Toine van Beusekom, Strategy Director, Icon Solutions

industry on real-time payments, notes Van Beusekom. However, what treasurers really want is real-time data.

This echoes what Treasury Today often hears from the treasury community. In a previous interview, Mark Sutton, Senior Manager at treasury and risk consulting firm Zanders, commented that having data-driven real-time vision is a key pillar of the digital transformation that many corporate treasuries are undergoing. Alexander Seelmann-Eggebert, Deputy Regional Treasurer, Asia Pacific at Nestlé commented that his digital aspirations were to reduce operational workflows, increase efficiencies and create data visibility. Meanwhile, Jason Teo, Head of Treasury, Southeast Asia (including Ventures in Korea, Data Centre and Renewables) has spoken of his desire to reduce manual processes and also to bring the treasury onto a single platform for cash visibility and forecasting.

Many banks are clamouring to support corporates in these goals, but when it comes to monetising payments data many financial institutions struggle. In fact, a 2019 report by Aite entitled 'The Payments Transformation Race: Criteria for Success' noted that only 9% of banks were able to monetise transaction data effectively. The report noted that the shift to open banking – where banking services are provided in partnership with others – and real-time payments were drivers of change for banks, and monetising payments data provides them with an opportunity to cement their relationship with their customers, or create new revenue streams.

The use of payments data has moved up the agenda, says Celent's Hines, because of the current migration to ISO 20022 and Swift's drive to adopt the new format. With this messaging format, there is an opportunity to do more with the richer data, says Hines.

With more financial institutions sending and receiving payment messages in the ISO 20022 format, more data can be included with a payment. Invoices can be batched and paid in a single payment, credit notes can be included in a transaction, purchase orders referred to and so on. And for sanctions and anti-money laundering screening, documents can be referred to that show a payment is for a legitimate transaction, for example. The opportunities are endless and corporates are expecting their financial institutions to help them navigate the possibilities. For many banks, providing ISO 20022 solutions is not necessarily a means for them to generate new revenue streams from payments. Rather, providing services related to ISO 20022 will become table stakes for banks, says Van Beusekom, and not doing so is a churn risk. If they don't do it, their competitors will.

There are many opportunities for banks to provide new solutions to corporates based on their transaction data, which in turn will give them a competitive advantage. If they don't make moves to monetise their payments data, they risk losing out. Christian Löw, Partner, Financial Services – Payments, EY-Parthenon Financial Services, in an article writes, "Payment providers that find ways to monetise their vast wealth of transaction data can seize a powerful opportunity to differentiate." He gives some examples, such as an online retailer credit scoring its customers based on payment data and using this to offer services such as BNPL. There are other opportunities for those who don't sell to consumers directly, as Andy Schmidt, Vice President and Global Industry Lead for Banking at CGI notes. He writes in a blog that much of the transaction data that banks have is left idle and could be used to serve customers better. For example, a corporate that is making certain cross-border payments may be overpaying for their foreign exchange. A bank could identify this from the data and alert the customer, offering them a cheaper alternative, for example.

Also, Celent's Hines comments, a closer analysis of transaction data can reveal where a corporate is exposed to certain countries that now carry a geopolitical risk, or the risk may be concentrated with certain banks. "The data is not just useful for cash management and payments – there might be other issues it can highlight such as risk and business continuity," Hines says.

How far corporates rely on banks to help them with their data depends on the size of the corporate. The largest, with around US$10bn in revenues are likely to develop their own solutions so they can access their payments data through APIs [application programming interfaces] offered by their bank partners. For these corporates, the Celent report notes, real-time cash forecasting and real-time cash balances are the greatest needs. For smaller corporates – with US$500m to US$1bn in revenue – they are more likely to expect their bank to provide the services, such as a real-time consolidated view across their accounts and positions.

In an era of open banking, where solutions are available via different parties, the integration of APIs is important, but even managing this can be complex and banks need to make it as simple as possible. "A corporate does not want an API for this and an API for that – it needs to be simplified – otherwise they will do it for themselves," says Van Beusekom.

Looking to the future, as the use of AI and analytics tools are on the rise, other areas also need to be simplified. This is one of the challenges that Zander's Sutton previously pointed to: "Data is the fuel that powers AI. However, most organisations remain heavily siloed, from a system, data and process perspective," he says. This view aligns with Van Beusekom's, who comments that corporates need to get their 'ducks in a row' when it comes to managing their data and have it in a single place. If the data is not well managed, he says, there is only so much that an AI mechanism on top of it can do. ■

Agile treasury

Steffen Diel

Senior Vice President, Head of Global Treasury

Headquartered in Walldorf, Baden-Württemberg, Germany, SAP is the world's largest provider of enterprise resource planning (ERP) software systems, with over 400,000 customers globally and more than 280 million cloud user base subscribers.

SAP employs over 105,000 employees across over 157 countries and reported annual revenues of over €30bn in FY 2023. The company recently announced plans to implement a transformation programme in 2024, focusing on the scalability of operations and key strategic growth areas including Business AI.

Steffen Diel, Senior Vice President, Head of Global Treasury at SAP, shares his views on agile transformation, technological innovation and the importance of intelligent decision making. He also explains the unique role that the company's treasury team plays in the software development and sales support process.

For Steffen Diel, Senior Vice President, Head of Global Treasury at software giant SAP, there is much to enjoy about a career in treasury – but above all, he values the experience of working with people who are drawn to the profession.

"People are so passionate about treasury when they work in the function," he observes. "They really like to solve business problems jointly with other finance functions. It's always very rewarding when you work with passionate people who put the health of the company as their first priority."

Likewise, Diel values the experience of working with the other professionals that have contact with treasury. "You work with a whole plethora of internal stakeholders," he says. "You have dealings with legal colleagues, those responsible for corporate financial reporting, investor relations and all those

that you are involved with in joint projects. At the same time, you have an exposure to the external stakeholders, the banks, the rating agencies and debt investors. It is a really interesting combination and gives every day a different flavour."

On another note, Diel believes that having to face unexpected developments in the capital markets – and therefore having to constantly question existing strategies – is what makes treasury particularly exciting. "Not everything is plannable," he says. "And that applies to treasury to a very large extent. I think that's also the reason why so many people usually work for a long time in treasury and do not move on after two or three years."

Career path

Nevertheless, as for many finance professionals, treasury was not the first port of call on Diel's career journey. Starting with a bank apprenticeship at Deutsche Bank after leaving school, he went on to study for his Master of International Business Administration, continuing to work for the bank during semester breaks.

Although Diel returned to the bank after his studies, he developed a strong interest in treasury and finance, and it wasn't long before he took the decision to join the corporate world. "I was much more interested in looking at business problems and working out solutions than in providing tools and ready-made solutions," he recalls.

In 1997, Diel stepped into the treasurer's role at KUKA, a leading automation and industrial robot provider in the automotive and aerospace industries. Solely responsible for the treasury function in the first instance, he was able to shape its development as he built a treasury team at the company. "It was a great experience," he remembers. "I was able to define the processes and establish the treasury guidelines and the interfaces to other departments."

Diel subsequently joined SAP in 2006 as Head of Treasury Finance, just as the company was embarking on a major mergers and acquisitions programme. "It was a very exciting time," he says. "I was responsible for the external funding of all these large M&A transactions and the related hedging strategies. I was also fortunate to lead the external rating process with Moody's and S&P. Since most large organisations already have a rating, that's a rare experience."

Leadership role

In October 2014, Diel became the company's Head of Global Treasury. As part of the leadership team in Finance and Administration, he reports directly to the group CFO, with responsibilities that include global cash management and risk management, external and internal funding, capital market strategy and M&A financing, as well as treasury reporting and accounting and managing relationships with banks and rating agencies. Diel is also a board member of Taulia, the working capital management solutions provider which was acquired by SAP in 2022.

Geographically, SAP's treasury has a central team based in the company's headquarters in Walldorf in Germany, with a further large team based in the US. Additionally, the company has regional treasurers who manage the countries in their respective regions.

"From an organisational perspective, we are divided in a traditional way," says Diel. "The front office takes care of the trading and trading strategies, with the middle office – Treasury Finance – dealing with financial risk management and aspects of the business such as internal and external funding and the management of the relationship with rating agencies and debt investors."

In addition, the Treasury Operations and Processes team has responsibility for global cash management and the running of SAP's payment factory. "And then we have our financing entity in Ireland," adds Diel, "which is responsible for intercompany loans, and which in the past has provided additional liquidity for M&A transactions in the US."

Alongside these responsibilities, Diel is keen to mentor younger colleagues when he can. As a leader in the finance organisation, he believes he is well placed to share his career experiences. "As well as contributing to their careers, and talking to them about the various situations they might face, I can also learn a lot from them and their experiences," he adds.

Innovation and agility

As a member of the leadership team, Diel is also heavily involved in many of the changes being implemented at SAP, especially in the treasury and finance areas. These involve not only digitalisation projects, but also the adoption of agile methods of working and of developing products. "We started a couple of years ago by looking at the first elements of agile transformation, such as psychological safety," he comments. "We also had our first so-called 'screw-up nights', where we talked about failure and what we can learn from that. So that's an interesting journey as well."

Sometimes the boundaries between responsibilities can become blurred, especially given the large degree of collaboration across the team. "So we have quite a few cross-team functions, such as our innovation layer," says Diel. "As the treasury of a software company, we are able to contribute heavily to enhance the functionality of our own treasury solutions."

Indeed, working for one of the world's largest business software companies puts members of the treasury team in a unique position. With agile working embedded into the company's development process, treasury has a direct link to software development via the 'product owner' structure adopted by the company. "So, we have product owners in my organisation that work continuously together with software development, with IT and with our analytics colleagues to really drive new solutions and enhance the functionality of existing solutions," Diel says.

What makes being in SAP's treasury organisation so exciting, he adds, "is that we are fully embedded in the process of working continuously with our development colleagues. We are able to influence how the software works. In treasury we have our own ideas of what is needed, and we can bring those to the development process."

Where cash flow forecasting is concerned, for example, the treasury seeks to combine the indirect calculation method for cash flow – estimating future cash flows by analysing financial results in the past – with a more direct approach using SAP's own treasury solution. "This should give us a more

transparent and accurate picture of what is happening," Diel notes.

As part of the development process, Diel and his colleagues also seek out the opinions of those who work in other treasuries. "We talk a lot to our peers in other organisations and we try to get their input on how we can best develop our solutions," he notes. "And we are heavily engaged in sales support, which is something that gives our younger colleagues an early exposure to our existing and potential customers."

Mobilising technology

In a constantly evolving world, and with new business models emerging, the treasury must always be prepared to adapt – and this is certainly the case at SAP, which is in the midst of a multi-year transformation process. For treasury, says Diel, this means understanding not only what new consumption-oriented business models mean for the business from a P&L perspective, "but also what this means for cash flow patterns."

When it comes to applying new technologies, Diel observes that this is a two-stage process. In the first stage, he says, treasury teams have been working to gain a real-time view of liquidity and financial risk. "This can give a clearer picture of what is happening in treasury at the present moment and the current state of our finances," he says.

In addition, Diel says there is a "second wave" of adoption, in which treasurers harness newer technologies in order to make more intelligent decisions. "For example, we can have greater transparency about what is happening in working capital, and we can gain more insight into what is driving cash flow," he explains. "From there, we work directly with our colleagues in controlling to come up with value driver trees that would impact not just P&L, but also cash flow."

Solving business problems

Diel notes that it can be challenging to understand the implications of technologies such as artificial intelligence (AI), advanced analytics, cryptocurrency and distributed ledger technology – and that real value can only be achieved by focusing on real use case scenarios, rather than the theoretical benefits that technologies can bring. "So, our goal is to understand the technology first, and then try to combine it with real business problems in order to decide which mix of technologies can help to solve those problems."

One example is in the area of software solutions that employ embedded intelligence, whereby algorithms incorporate AI and machine learning (ML) in order to adapt to new situations, make decisions and independently execute tasks.

"For example, we have come up with an automated hedge proposal," Diel explains. "For the planned license payments that we will receive from subsidiaries, the system provides an automated foreign exchange hedge proposal based on the hedging strategy and the underlying data. The trader just looks at that and can sign it off, and then it's automatically routed to 360T."

Rising to the challenge

Turning to the current issues facing treasury, Diel notes that one particular challenge lies in the potential combination of pure financial risks, such as interest rate movements, together with the threat of geopolitical events which could have a significant impact on capital markets and loan markets.

In addition, Diel highlights the challenges that come with operating in a complex global environment, not least because different regulatory frameworks in different countries can make it difficult to repatriate profits from certain geographies. "You need to centralise your liquidity to be able to pay dividends or give money back to your shareholder via share buyback," he reflects.

Bank account management is also rife with complexity, not least because of KYC processes and the challenges that come with changing bank account signatories. "It is incredible what we have to invest there in terms of manual effort," Diel comments. "We try to simplify processes and simplify tasks, but it's incredibly difficult in a world with so many different regulatory environments. So that's also a big challenge."

Driving improvements

Looking ahead, Diel believes the most important area of development for treasury is the continuing drive towards automation as a means of increasing efficiency, allowing greater insight and improving decision making. "Wherever possible, we try to leverage technology in order to automate processes and remove the manual steps in an end-to-end finance process, as well as reducing errors and compliance risk," he adds.

This increased drive towards efficiency also extends to the company's payment factory. "The tools that we use there can also be applied to the shared service centre," says Diel. "For example, we can reduce complexity in the procure-to-pay processes by limiting the number of electronic banking devices used for payment processes."

Diel is particularly enthusiastic about the importance of gaining greater insights in order to facilitate better decision making. "A few years ago, we came up with an interactive and real-time treasury dashboard, and every year we have added more functionality," he explains. Scenario analysis, for example, has made it easier to understand what might happen in scenarios such as a downgrade of one of the company's banks, and how this might affect counterparty limits. "As well as providing information that we use ourselves, we try to give our group CFO better insights into what would happen in terms of financial risk and liquidity," he adds.

Diel is also keen on further automation and increased accuracy in the area of cash flow planning. "It's about getting more insight into what happens in the working capital area, which is always a bit of a black box," he says. "That's also a big focus area for 2024."

Time out

While much of his time is taken up by a job that by any measure is both challenging and time-consuming, Diel recognises the importance of the work life-balance. In his spare time, he enjoys spending time with his family and keeping up with his adult sons via regular virtual brunch meetings and WhatsApp.

As well as meeting up with friends and going to music concerts, Diel has a passion for reading novels, as well as specialist books about history and politics. When time permits, he also enjoys swimming and going to the gym. ■

SHOEMAKER'S TREASURY TEAM HIT THEIR STRIDE

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Christian Louboutin has taken major steps to improve the efficiency of its treasury operations by centrally managing intercompany transactions.

With more than 150 boutiques in 30 countries across Europe, North America and Asia, Christian Louboutin has become synonymous with high-end women's and men's shoes as well as bags and other accessories over the last three decades.

Primary shipment flows are completed by the company's master distribution entity. That follows a specific process, but merchandise can be transferred between locations to meet customer demand, resulting in a web of intercompany invoices to account for the movement of goods.

As the company continued to expand, tracking the financial impact of these transfers manually became increasingly time-consuming. With each transfer, the sending entity would invoice the receiving entity and then wait to be paid. There were no standardised processes or procedures to manage intercompany settlements or to resolve (or escalate) disputes between the two parties and the treasury team didn't have sufficient visibility into the exact number and scale of all the transfers taking place each month.

"The time had come for us to gain more control over the impact of intercompany transfers," explains Annabella Lopes, Senior Treasury Manager Credit Risk & Netting. "With 150-plus stores it had become too inefficient to try to centralise – and rationalise – all these flows using manual systems."

Key objectives included implementing an automated reconciliation and settlement solution to alleviate friction and manual effort, eliminate neglected transactions, and gain full visibility into those processes.

The ability to implement an API interface with the company's ERP system was a strong factor in the solution selection process. The data is now automatically uploaded via an API for reconciliation and settlement for affiliates using the ERP system (for some entities not using this system, the upload is completed via CSV file).

"Even though we run monthly AR-driven netting, both AR and AP invoices are imported into the netting solution to facilitate the matching and reconciliation of intercompany transactions," says Lopes. "The treasury team defines a calendar at the beginning of each year that specifies cut-off dates for every step in the process from upload to discussion and dispute to settlement."

The automatic interface runs on these specific dates so everyone understands invoices need to be entered within that timeframe, or they will wait until the next cycle to be paid.

"In addition to matching virtually every invoice for quick and easy settlement, this modernisation has helped us save hundreds of thousands of euros for financial year 2023," says Lopes. "These savings are a result of a reduction in FX transactions, bank transaction fees and float – with a precise settlement schedule, float is no longer a factor in intercompany payments. On average, we are now converting more than 120 monthly gross flows into fewer than 25 net flows."

To date, 31 Christian Louboutin entities across the Americas and Europe are using the system to enter more than 3,500 invoices per month in eight different currencies, observes Emeline Marchand, Netting and Credit Manager. "Throughout this transformation and after a lot of clean-up of transactions backlog, we are now at nearly 100% matching during each settlement cycle," she adds.

The various accounting teams refer to how easy the system is to use, allowing precise prediction of settlement dates and easy reconciliation if there is a mismatch between entities.

"Coming from a manual process with a lack of visibility, we are now in a system where we have complete control," says Marchand. "We will be expanding it to Asian countries and adapting to local regulations and constraints to achieve even greater visibility of intercompany flows." ■

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Navigating treasury in the Middle East

For treasurers in the Middle East, cash management continues to be high on the agenda. At the same time, budgetary constraints arising from geopolitical tensions are making it more critical for treasurers to be able to demonstrate the ROI on technology solutions.

Located at the intersection of Europe, Asia and Africa, the Middle East has a population of over 370 million people, with its largest economies including Saudi Arabia, UAE and Turkey. The region is famed for its rich cultural history, as well as for its modern architecture, low taxes and abundant oil and gas reserves.

In recent years, significant efforts have been made to diversify the region's economies away from hydrocarbons. In 2016, for example, Saudi Arabia launched its Saudi Vision 2030 roadmap, the goals of which include diversifying revenues and establishing Saudi Arabia as a global hub connecting three continents.

Meanwhile, the Middle East continues to be affected by geopolitical tensions and upheaval, including the Israel-Hamas war. Despite this, tourism in the Gulf Cooperation Council (GCC) – a political and economic alliance of six countries in the region – is experiencing robust growth, led by the UAE and Saudi Arabia.

Treasury landscape

For treasurers operating in the region, the region presents both challenges and opportunities. For one thing, the maturity level of treasury practices varies between countries, explains Irwin Medford, Director, Treasury Advisory at PwC in the Middle East.

"For example, in the UAE, and particularly in Dubai and Abu Dhabi, the markets are more mature," he says. "As well as focusing on cash and liquidity management, treasurers are becoming more sophisticated and are looking at centralisation structures such as payment factories. Many also have treasury systems in place."

In other countries, including Saudi Arabia and Oman, Medford observes that treasury practices are often in earlier stages of development. "Again, cash management is still high on the agenda, and some entities have dedicated treasury functions. But in some places, you see finance doing some treasury work."

The Middle East is also characterised by the variety of client profiles that can be found there, adds Sleiman El Homsi, Director – Treasury at PwC. On the one hand, the region has numerous family businesses across different sectors, which may be focusing on opportunities for centralisation and rationalisation. "Then in Saudi, specifically, there are 'giga-projects' that are in building mode, striving towards a self-sufficient model, but currently still under the auspices of the KSA central government and its leading sovereign wealth fund."

El Homsi says the relationship between holding companies and subsidiaries is not necessarily akin to a parent/child set up, "but more of a spousal relationship." Medford adds: "In family businesses, you find that some of the subsidiaries are more autonomous than you would probably see in a more international company with a high degree of centralisation."

Growing sophistication

As companies ramp up their activities, says El Homsi, "the sophistication of treasury grows, because it needs to cater not just for cash management, but also for improved bank connectivity, process automation, more effective internal business partnering, and coverage of ancillary activities like trade finance."

For capital intensive clients looking to execute their ambitious investment plans, he adds, "the right competencies need to be sourced or built internally to drive asset-backed financing, which entails more complexity."

Alongside family businesses and government-related entities, El Homsi notes the region also includes many international players, which often choose to set up their treasury operations in the region's two main free zones: Abu Dhabi Global Market (ADGM), and the Dubai International Financial Centre (DIFC).

"We're seeing a trend towards using places like Dubai and Abu Dhabi as regional centres," comments Medford. "The free trade zones are a key driver for companies setting up as regional treasury centres, because they can be a bit more sophisticated in terms of the work they do and the scale of their operations."

Treasury in the Middle East: challenges and opportunities

Nabeel Albloushi, Head of Markets & Securities Services, Middle East, North Africa and Türkiye (MENAT), HSBC Bank Middle East

How would you describe the landscape for corporate treasury in the Middle East?

As a region, the Middle East is witnessing more and more corporates focused on growing their footprint. We continue to see growth in the non-oil sector and positive demographics thanks to the youthful, regional population. Optimism remains strong that the region will continue to perform well in the medium and long-term which, in turn, provides abundant opportunities for corporates to expand or establish their treasury operations in the region.

What do you see as the most significant challenges for treasurers in the region?

Clearly one of the biggest challenges is managing the impact of geopolitical challenges. This variable is something to be aware of and prepared for. Other challenges include liquidity constraints as well as regulatory pressures in some countries in the region. Whilst these produce difficulties for treasurers, the complexity required in tackling them is something specialist treasurers understand.

What are treasurers in the Middle East doing to improve the efficiency of their cash management activities?

Treasurers have an abundance of options these days with regards to making the most of their cash. It could be through crystalising higher yields with excess cash or implementing effective, yet simple-to-use cash pooling structures across their regional entities. Investment in technology in this space is ever-increasing and treasurers will continue to gain access to new solutions that match their requirements and make their cash management activities more seamless. Full automation of their FX transactions can now even be applied to their payments and receivables flow, minimising the need for manual input and, therefore, the associated risk of human error.

Cash management and the role of technology

El Homsi says that while different clients have different levels of maturity, a major focus on cash and liquidity management is a common theme. The use of cash pooling is not often maximised, with structures such as cross-border pooling and notional pooling relatively uncommon. Nevertheless, different companies will have different ways of centralising cash.

"For example, we've seen one enterprise that has a regional treasury centre in the Netherlands, and an operating company in Saudi Arabia," he comments. "They include cash in the European cash pool by having that cash go to a local correspondent bank."

With many companies focusing specifically on cash and liquidity management, El Homsi says the way that treasuries approach system enablement "is increasingly becoming modular. They prefer a cost-effective, building block approach, ramping up capabilities in tandem with business requirements, allowing them to simultaneously de-risk the project while also showing some tangible wins along the way."

Indeed, there is a clear realisation that technology will drive significant gains, observes Rahul Daswani, founder of LHD Research in Dubai, who has previously held treasury roles at Microsoft and Nokia. "The challenge is being able to showcase the ROI, as currently budgets are being cut back due to conflict and the wider risk of geopolitical issues spilling over," he adds.

Challenges and risks

Treasurers operating in the Middle East also need to navigate a number of obstacles. For one thing, the availability of trained resources continues to be a challenge for treasurers, notes Daswani. At the same time, he argues that the greater complexity of technology systems and the rapid pace of change "is making it very difficult to make longer-term decisions."

Where financial risks are concerned, El Homsi says that foreign exchange (FX) risk management doesn't tend to be a major consideration, as many companies in the region operate domestically. He notes that the focus tends to be on plain vanilla forward hedging, and not so much on the use of options or other structured products. "It is not uncommon for formal policies on financial counterparty risk management to be absent," El Homsi adds, "while treasury involvement in managing commercial counterparty credit risk is a rarity."

Meanwhile, geopolitical tensions have brought interest rate risk management to the forefront for some companies, "particularly more heavily levered entities, or entities that have ambitious expansion or capex plans." But generally speaking, El Homsi says the decision to hedge interest rate risk is done on an ad hoc basis.

"For most companies, the typical approach is to have around 50-50 fixed to floating," he comments. "If you were to dig down and see how they manage interest rate risk – for example, whether they do the required sensitivities, and look at the impact on debt servicing – these things might be done, but probably not as rigorously as one would want." Likewise, he says that companies tend to focus on the impact of interest rates on debt, without placing much emphasis on the implications for commercial cash flows.

Growth vs efficiency

Despite the challenges presented by the region, Daswani notes that there is nevertheless a significant opportunity for growth. "Most companies are now busy with corporate governance, considering the strong growth seen in the last two years, and this requires them to organise the finance function and set up a dedicated treasury team that is equipped with systems and tools. This requires a lot of investment in treasury management systems (TMSs)."

Daswani says the addition of tax rules has made this even more important, "as intergroup financing now needs to be looked at from an arm's length perspective, and thus in-house bank capabilities become critical." But alongside the growth opportunity, Daswani notes that conflict in the Middle East is resulting in a significant sales impact for many consumer-facing companies, as spend has been pulled back.

"This has led to budgets being recalibrated, and 2024 is expected to be more of a year of efficiency vs growth," he says. "Thus the corporate treasurer and CFO's roles are becoming much harder, as they have to make tough decisions on investing." ■

Sustainability in the cloud: how data centres are trying to cut their emissions

Data centre industry executives say economies of scale plugging into renewable energy sources and equipment efficiencies will increasingly drive down ballooning energy consumption in the sector. But exponential growth, a lack of awareness of the industry's carbon footprint and poor emissions reporting is hindering progress.

Remember the days when research involved going to the library to thumb through heavy tomes? Or you put photographs in an album instead of on Facebook – or didn't stream a movie? In a digital world, content is at our – and treasury's – fingertips, increasingly stored in outsourced data centres since the explosive growth of cloud computing. Add to this the fact AI means companies want even more data to crunch to provide the business insights of the future, and our digital footprint grows by the day.

Data centres have transformed productivity. But these giant buildings, densely packed with humming computers on racks, also have a high energy and water use. The IEA estimates that around 1-1.5% of global electricity production supplies data centres and data transmission networks. Other estimates are more worrying. Like energy consultants Baringa's prediction that Ireland's data centres, 75 and counting, could soak up 27% of the national electricity output by 2029.

The data centre ecosystem comprises different players spanning on-premises data centres that house companies own IT systems and hyperscalers, the giant cloud providers like Amazon Web Services (AWS) and Microsoft. Others include colocation facilities (colos) owned and operated by independent providers offering equipment, space and bandwidth for rent and off which cloud storage service providers can piggyback. Efforts are underway to shift the

industry onto a sustainable footing, but critics warn many people don't realise it's a sector which uses so much energy.

"People are not aware of the detail," says Prof. Gordon Blair, Head of Environmental Digital Strategy at UKCEH and Distinguished Professor of Distributed Systems at Lancaster University. "From members of the public to captains of industry, they don't realise. When a plane takes off, we hear the roar and know it involves carbon emissions, but technology is ephemeral, and the metaphor of the cloud enhances that."

Sustainability in scale

Treasury Today interviewees argue that large data centres create an economy of scale that is making the industry more sustainable. Data centres use the metric Power Usage Effectiveness, PUE, to calculate the percentage of energy used to cool buildings and run the machines. It shows that most of the energy going into the buildings goes on running the IT. That means opportunities to save energy come from optimising IT infrastructure and the performance of servers, storage and network equipment.

"The best energy performance gains are achieved by consolidation of workload and operating the equipment at higher utilisation levels more of the time," explains Jay Dietrich, Research Director, Sustainability at Uptime Institute in Wisconsin, US. He says much of the growth in data centres is coming from companies moving their IT operations to the cloud and colocation facilities. These companies have typically run their own data centres and are migrating to cloud or colocation facilities because they can't reduce their PUE or they want to minimise capital expenditures.

One beneficiary of that trend is Boston-headquartered Wasabi Technologies, a leading provider of outsourced cloud storage to businesses and governments as well as distributors or channel partners, in turn with thousands of customers of their own. Because cloud systems pool resources, they can use every inch of slack in the system. Data centres pack in the storage and network equipment in efficiently designed cages that stops duplication and increases sustainability, explains Wasabi CFO Michael Bayer.

"It's better to share resources," he says. "Companies are increasingly aware of the costs around IT and systems infrastructure. It's not easy pushing IT out to the cloud, but it is easier than buying new boxes and keeping up investment in-house."

He says the cost of power is a pass through to customers and the benefits of economy of scale are instantly visible in lower bills. "People are thinking about their sustainability footprint," he continues. "Sustainability saves money and being more sustainable can help your bottom line."

Green energy

Singapore-headquartered ST Telemedia Global Data Centres, one of the world's fastest growing data centre providers, currently draws over 50% of its energy use from renewable sources, targeting 100% by 2030. Strategies include investing directly in renewable energy projects. For example, the company has invested in renewable projects in India, benefiting from a regulatory framework that allows it to draw cheap electricity from projects it has invested in. In another project in Berlin, the operator is located directly adjacent to a significant renewable energy project. "As data centres continue to expand, closer integration with green power generation and collaboration with other industries will undoubtedly gain momentum," predicts Jonathan King, Group Chief Strategy and Investment Officer at STT GDC.

Dietrich observers more data centre operators are developing inhouse energy buying teams who have the skills to evaluate energy contracts and are also working with consultants. "There has been an expansion of interest around this," he says. Strategies include operators buying renewable energy in one market and using the guarantee of origin to offset power from fossil fuels in another.

But as data centres become increasingly significant buyers of renewable energy, they are also attracting criticism for reducing the availability of renewable energy for others. Facebook is one of the largest corporate buyers of renewable energy, with contracts in place for more than six gigawatts (GW) of wind and solar energy located on the same electrical grids as the data centres they support.

Moreover, accounting and reporting emissions is challenging. Positively, King observes an increasing awareness amongst STT GDC's customers regarding what they are drawing from the grid versus actual utilisation, driven both by cost efficiency and the need to account for carbon emissions. However, he says the carbon accounting industry is still developing, and further, industry-wide progress will be an important step forward to effectively managing emissions in the data centre industry.

Identifying where the energy is coming from is a complex business for companies like Wasabi that don't own or operate their own premises. "We don't have visibility on the level of renewables in their energy mix because sourcing power is the remit of the co-lo. We can get some visibility, but it's hard to measure, and changes through the course of the day."

It reflects wider challenges for treasury teams that have outsourced their IT systems and data strategy, trying to get a handle on their Scope 3 cloud operations. Although regions like the EU are tightening reporting on Scope 3, it is complex and characterised by poor levels of reporting and transparency.

"One of the biggest challenges to reducing emissions from the cloud is the lack of transparency. Few companies properly count Scope 3, and the lack of transparency allows companies to make it up," says Blair who calls for speeding up the introduction of legislation that will standardise rules on the accounting and methodologies to assess carbon footprints as part of a company's accounts. "Every single large company has pledged net zero but are they confident they will achieve it or is it just a marketing slogan? We don't know because we don't have the numbers."

Sustainable investors

Wasabi's lender cohort are increasingly pushing sustainability. In 2022, the company completed its fourth round of capital raising, expanding its funding base from primarily family offices to more institutional finance and regulated lenders that are hiring consultants to ask deeper questions on sustainability, and Wasabi's carbon footprint.

Like requests for a breakdown in the energy bills the company is charged by the co-lo's it uses to get more visibility on emissions. Or investor requests to separate power bills,

space bills and networking bills. "We've definitely started to get more questions. Carbon emissions are now part of the dialogue; it wasn't five years ago," says Bayer.

STT GDC has committed to be carbon neutral by 2030 and has developed a Sustainability-Linked Financing Framework allowing it to access green financing linked to KPIs like renewable energy usage, carbon intensity reduction and increasing the number of Green Data Centres.

To date, the company has raised US$500m through this facility, but King flags room for further growth in the green financing market. "While the industry is progressively embracing green finance, it has yet to reach its full potential. The market's evolution is ongoing; it entails more than just meeting key performance indicators to attract green funds at a lower cost," he says.

Dealing with waste

No conversation about a sustainable data industry can ignore the issue of waste. Data is the new gold and companies are afraid to throw it away. AI has made data more valuable on the premise it will feed the models that will drive innovation in the future. It means companies are holding onto data they were previously dropping on the floor, even if they have to pay to store it.

Executives say their job is to provide the efficient resources to drive our digital lives in the most sustainable way possible, not get behind the veil of what their customers choose to store. Like a car salesman asking a customer if they really want to buy a car, they say it's not their job to question how much data a client wants to store.

But it's possible we are storing far more data than we need, and this will increase in the future, warns Blair. "A lot of it may never be utilised," he says, citing the reams of satellite data that is being captured by the scientific and defence community that might never be used. "Most data that is accumulated will never be looked at. It's the same as keeping all this stuff in our cupboards that we don't need," he says.

Still, one area data centres are addressing the waste question is via recycling equipment when it is replaced at points in the cycle. This process also benefits from economies of scale, says Bayer who says Wasabi's hundreds and thousands of servers with a five-to-seven-year life can be recycled easier than a company with say, five servers. "It is much easier to work with vendors to retire that volume of equipment. We can do it more thoughtfully than just put it in landfill."

Innovations

Innovation in the industry is also set to improve sustainability. For example, King notes that the design of buildings can help limit water use, for example a closed loop system means it doesn't constantly draw water but uses a fixed volume that recirculates. "It is essential to recognise the water scarcity, which may be even more pronounced," he says. "We're also implementing liquid cooling strategies, including immersion cooling, to allow our data centres to support the increasing power density (and heat emissions) from AI/High Performance Computing workloads. These strategies are critical to deliver responsible digital infrastructure in a highly sustainable manner," explains King.

STT GDC is also using AI in its data centre operations to optimise cooling infrastructure and manage the heat generated from the servers. The smart processes include automatically adjusting the cooling infrastructure based on environmental factors to further improve PUE. "We have established an R&D team in Singapore exclusively dedicated to initiatives like this, ensuring that every precious kilowatt drawn from the grid is utilised with utmost efficiency."

Industry protagonists argue that data centres will get more efficient with every year of progress. Older generations of data centre assets operate at a PUE of around 2-2.5. "For every 1 MW of power required to power IT servers in a data centre, approximately 2.5 MW needs to be sourced from the grid for these older, less efficient assets," explains King. In a sign of increasing efficiencies, STT GDC has been continuing to lower its PUE even in more challenging climate markets like Singapore, achieving PUE factors in the 1.2-1.3 range.

They argue that the growth curve will flatten, driven particularly by ever more efficient equipment. The industry releases a new generation of products on average every three years that is steadily improving the work delivered per unit of energy consumed. "When these companies buy a new server, they can hopefully consolidate two to 12 existing servers into one new one. Best case, that means taking 11 machines off the floor and dropping the energy use by half or more to do the same amount of work," says Dietrich.

He also believes the gap between facilities groups that buy the power and pay for it, and the IT groups that plugs in and run, is closing. This disconnect, where IT groups have historically focused on reliability, resilience and availability rather than energy use is changing as operators realise they need to be more efficient with their equipment, and save on capital investment if they have to buy fewer servers, in an environmental and business win.

"The case for running systems at optimal levels and streamlining the amount of equipment needed has become a central sustainability. It's carbon emissions you don't have to account for," he says.

Still efficiency drives are also proving challenging. Like the fact servers have a power management capability whereby it's possible to idle parts or turn it off to reduce power. Dietrich notes a trade off with this approach because when operators begin turning off functions, it takes longer for the system to communicate at the speed it's meant to, impacting a variety of workloads.

And for all the efficiencies, Blair remains concerned about the 'Rebound Effect' where history tells us that continued efficiencies just continue to drive growth. "As soon as we save, we do more. We save, we invest, and the industry gets bigger. If you look at the statistics, carbon emissions from technology are not dropping. The world needs to slash carbon emissions over the next couple of decades and a gradual decrease won't halt the climate emergency," he concludes. ■

ACCENTURE’S AI JOURNEY

Onkar Liddar, Assistant Treasurer & Managing Director at Accenture explains how the consulting group is integrating AI in its treasury function in step-by-step process.

Accenture’s treasury is based on SAP which runs alongside the ERP of the organisation. This has been an important baseline in the company’s digital journey because it has created a single instance data lake or source of truth the team can trust and has enabled it to leapfrog into using advanced technologies.

Accenture has begun by developing what it calls intelligent cash. This has three components, the first of which is a comprehensive dashboard, easily available to everyone in the finance function, which lays out where its cash is and in which currency; with which counterparty or if treasury has a cash holding that doesn’t align with its guardrails.

The second element comprises forecasting. In the past, forecasting would involve taking historical data and streamlining it.

“Now we use sophisticated algorithms developed by our own data scientists and consultants applied to each individual cash flow around, say, accounts payable, receivables or tax. The machine learns and evolves its algorithms, and our latest GBP forecast was spot on for the short and medium term – it forecast what actually happened. The machine is so sophisticated it can forecast better than our people have historically been able to do,” he says.

Forecasts lead to the third component where the technology is helping Accenture take business decisions and decide the best course of action. “For example, it tells us whether to reduce our holding in a particular currency, taking into consideration its own forecasts and external data sources like the FX rate. The machine does the grunt work and people can spend less time on operations and more on thinking about risks that could happen. It also speeds up the velocity of our cash, and treasurers always need money to move quickly and without friction,” he explains.

There are already many companies that profess to sell the perfect intelligent cash tool but Liddar says he hasn’t seen a fintech out there yet that can really do this.

“Tools like SAP can facilitate it, but the risk with using fintech is that treasury ends up tailoring its process to fit their model, rather than the other way around. Treasurers are also mindful of how much data they send to a third party to process on their behalf because fintech and technology like ChatGPT requires putting data in the public domain and this is not the right approach for a corporate treasurer. The technology is also developing so fast, tools are unlikely to keep pace with changes in the market. Still, treasurers can’t integrate AI internally and in isolation because it is complex and they have such a busy day job, so the best approach is to use trusted advisors with a proven track record.”

Treasury can’t operate on systems alone; it is a context-based discipline and experts will always be required to make final decisions, he continues. What AI gives treasury is an opportunity to upskill people in an environment that is becoming increasingly challenging. “Take our growth for example, as the business grows, our exposure to currencies, bank accounts, partners and integration work (Accenture is very acquisitive) makes having the right money in the right place at the right time increasingly challenging.”

Liddar says he envisages a point in time where the team can engage with the technology using prose. The machine will suggest courses of action and identify issues, and treasury will also be able to instruct it. “Once we have identified risk and interacted with it, we will be able to instruct it to exchange this currency; issue a bank guarantee, downsize debt, or increase a bond offering. The tool will carry out the transaction and manage the accounting in the background in a utopia for busy corporate treasurers.”

He says treasurers need to determine where they stand in terms of technology, conscious it is fluid and changing so fast that they don’t tie themselves in. “My advice is to set out a clear roadmap for how you want to operate in the future and start building towards that goal. AI is a fast-moving space; it will be as impactful to how we operate today as was the loom in the industrial revolution. It is transforming our industry,” he concludes. ■

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More to come from netting and pooling

Despite neither being a new concept, there is significant untapped potential for cash pooling and intercompany netting implementation among corporate treasurers.

Intercompany netting has been described as a relatively underappreciated treasury solution, particularly by international corporates who do a lot of business between linked entities in different locations.

Corporates that already have an in-house bank in place are fully aware of the possibility of using a netting process settled in the intercompany account and/or in a bank account, suggests Eric Aillet, Product Manager Enterprise Solutions at Finastra.

"Typically, those corporates that have not implemented cash pooling are less aware of the potential of an in-house bank because there has not been a history of structuring payment flows in this way within the group, or they are less sensitive to needing to centralise cash," he says.

Erik Smolders, a Deloitte Risk & Financial Advisory Managing Director in Treasury Management refers to significant interest in netting from smaller global companies, but acknowledges that the tools are not always in place to allow them to fully benefit from netting for a variety of reasons – including competing priorities and costs.

"The most successful netting implementations occur at organisations where the treasury and accounting teams are fully aligned on the benefits," he says.

Awareness is not a challenge, but rather internal buy-in from other finance teams – including tax – to commit to implementing a global netting structure. That is the view of Bob Stark, Head of Market Strategy at Kyriba, who cautions that netting programmes are not simple to construct as they require a dedicated effort, often originating from the CFO.

According to Justin Callaghan, CEO of FTI Treasury the financial benefits are generally well understood but often not well quantified at the business evaluation stage of implementing a netting process. Whilst these financial benefits are often the catalyst for introducing intercompany netting, the additional softer and knock on benefits are often only really understood after implementation.

These include the impact of balance sheet deflation by removing intercompany balances, systematic reduction of FX noise caused by these balances, the ability to settle third-party FX payments, and the dovetailing of the netting process with an internal FX hedging strategy.

"Besides the obvious benefits of saving on currency spreads, the main benefit that implementing an internal FX netting process brings is the structure and regiment imposed by such a process," he explains. "In a centralised ERP environment an automated process can be implemented. In a more decentralised environment the requirement to hedge exposures internally within agreed parameters and timelines can provide a focus for subsidiaries that may otherwise be less concerned with FX exposures."

Enterprise cloud communications company Bandwidth has derived numerous benefits from netting of FX and intercompany transactions, explains Treasurer, Scott Taylor.

"We have a large number of cross-border, cross-currency transactions and prior to netting we were settling these bilaterally," he says. "The first step in that process was similar to piecing together a puzzle where we would determine which subsidiaries had enough cash to settle their open payables balances. Then once subsidiary 'A' paid subsidiary 'B', we could proceed to 'B' paying 'C' and so forth."

This turned into three phases of settlements as the treasury team would enter the trades in its bank's FX portal and wait for settlement before moving on to the next group of transactions. Once all of that was finalised, the team made manual journal entries to record all the settlements.

Netting these transactions has reduced the processing time from weeks to days, reduced the notional amount of cross-currency trades by 90% and eliminated hundreds of manual journal entries, while the speed of settlement limits Bandwidth's exposure to FX volatility.

"The integration process was extremely easy," says Taylor. "Implementation only took a few weeks and most of the work was formatting the input file so that we could get the information back in a way that could be easily uploaded to our ERP system. We were able to get the process up and running with very little IT systems support."

Andy Schmidt, Vice-President & Global Industry Lead for Banking at CGI refers to two primary cost benefits from netting foreign currency exposure – lower transaction costs, and lower foreign exchange costs. "The transaction cost benefit will be easy to calculate because these transactions typically have a fixed fee, while the foreign exchange cost will vary depending on the currency pairs involved," he says.

Some corporates may not be fully aware of the potential benefits of intercompany netting, while others may face challenges in implementing it effectively due to internal complexities or limitations, suggests Jim Kessler, Vice President Global Treasury Solutions at Corpay.

"These challenges can include organisational silos, disparate systems and processes across subsidiaries, legal and tax complexities, and resistance to change from stakeholders accustomed to traditional payment practices," he continues.

Daniel Cugni, Manager Director GTreasury Netting observes that corporates without a cash flow hedging programme often don't have any visibility on intercompany flows.

"Intercompany payments are prepared by the accounts payable department and included (and hidden) in third-party payment runs," he explains. "Foreign currency payments are often settled from the main EUR or USD bank account with a very high spread. Intercompany reconciliation is done by accounting, and they don't always talk to their treasury colleagues."

In terms of numbers, Stark reckons that reducing the number of FX hedges needed to hedge intercompany exposures can lead to a reduction of up to 75% in trades and related costs – which for a multilateral netting programme could easily equate to a seven figure saving annually for larger treasury teams.

There are other advantages that are less visible, but also contribute to reducing the overall hedging cost. Having a single entity that is allowed to hedge on financial markets improves control, ensuring that all legal entities within the group are following the same hedging policy. Concentrating the bank relationship with a more restricted number of counterparties – and setting up forecasting processes to better predict future exposures – also helps ensure compliance with financial regulations and standards such as IFRS 9.

In addition, netting foreign currency exposures can help protect businesses from 'trading against themselves' by reducing trade volumes and managing staff costs, bank fees, hedging errors, and even the counterparty risk inherent to foreign exchange trading.

"However, it is important to remember that while the netting of corporate exposures prior to hedging those exposures can yield substantial advantages, any cost savings opportunities from netting should be evaluated on an after-tax basis as there could be tax or statutory reasons that would make this type of netting unattractive or impossible for some organisations," says Smolders.

The answer to the question of whether physical or notional pooling is the best option for the business depends on the liquidity structure of the business and local regulations. For example, some governments believe that notional pooling is co-mingling of funds from different entities.

"The physical pooling structure is a straightforward one and the concentration and management of cash centrally provides a feeling of control and security," says Callaghan. "The downside is that you then need to manage all of the resulting intercompany loans."

Notional pooling can allow for easily managed structures with no intercompany loan management required. However, it can also lead to over-inflated balance sheets, potential issues with net debt covenants, and credit issues with banks.

Banks are obviously keen to improve corporate access to services that can improve business performance by increasing the efficiency of internal liquidity management and the cash conversion cycle – services that include cash pooling programmes.

One of the most interesting aspects of demand for cash pooling is the extent to which it has been affected by higher interest rates. "CFOs recognise the opportunity cost of trapped cash and welcome programmes that increase cash utilisation while minimising the percentage of cash allocated for working capital," says Stark. "Cash forecasting has also increased in importance to help finance teams be more confident in investing cash for longer, within cash pools or externally."

There is no doubt that that there has been a much keener focus at board level on cash levels and visibility driven by both increased governance requirements and the higher cost of capital. Those organisations that have good liquidity structures can maximise yield on available cash and have also focused on finessing these structures by adding structures like multi-currency notional pools and intra bank sweeps, suggests Callaghan.

"Organisations which were a little bit behind the curve in terms of efficient pooling structures have had to react quickly to the increasing rate environment to ensure adequate control over non-earning cash assets that could achieve a good yield elsewhere," he adds.

Concentrating cash within an organisation provides similar benefits to netting foreign currency exposures. This becomes increasingly important in a higher interest rate environment, not only because of the savings inherent when balances in opposite directions are netted or when aggregation gives better conditions, but also for the improved monitoring and control it offers. "Large, listed corporates are used to working with a high degree of centralisation so for them the demand for cash pooling services is not interest rate sensitive," explains Aillet. "However, for medium sized corporates this is an area where demand has likely increased."

Cugni reckons demand for cash pooling has increased as decentralised companies started to realise that some of their subsidiaries were borrowing funds at a very high cost, while others had excess cash poorly invested. "Many companies have taken this opportunity to improve their liquidity structures and have started to centralise their treasury activities with physical or notional cash pooling by region and currency," he says.

Higher interest rates have clearly highlighted the opportunity cost of inefficient bank account and liquidity structures. In a near zero-rate environment it is difficult for many treasury organisations to make a business case for implementing a cash pooling structure due to the lack of monetary benefit.

"But there are benefits of cash pooling that exist whether interest rate levels are at zero, 5% or any other level," suggests Smolders. "These include access to liquidity, global visibility of cash, and the possibility to provide intercompany liquidity using notional pooling without currency risk. For this reason, many treasurers have maintained and in some cases expanded their cash pools even when the interest benefit of cash pooling has not necessarily been present."

Corporates are keenly aware of the impact that using pricier working capital lines of credit can have on their margins and net income and have been asking their banks for more efficient ways to manage liquidity and forecast cash flow according to Schmidt.

"Better liquidity management and cash flow forecasting services provides corporate banks with an opportunity to create stickier relationships and gain greater insights into their corporate clients' cash management needs while also creating additional recurring revenue streams," he concludes. "This type of partnership gives treasurers more time to focus on bigger issues, making these types of services well worth the additional investment." ■

The right time to tap the bond market

How do treasurers view the bond market in 2024?

Todd Yoder
EVP & CFO
Shikun & Binui, USA

Corporate finance has seen a lot just in the past 20 years, so I think most are well prepared to ensure resilience and not over correct as has been the case during certain turbulent periods in the same time horizon – some companies have adopted more conservative liquidity strategies, such as maintaining higher cash reserves and/or securing additional lines of credit, to buffer against additional unforeseen shocks.

Regulatory changes or updates, such as amendments to liquidity risk management regulations or capital adequacy requirements, may necessitate adjustments to how the corporate side manages liquidity. We need to ensure all the core items are covered – noting changing regulatory guidelines, capital requirements, and standards to ensure sufficient liquidity buffers are there to mitigate regulatory risks.

As I have said many times over the past 15 years, "hope is not a strategy;" instead, we closely monitor credit conditions and lending standards, tightening credit markets or reduced access to financing can restrict options. Many corporates I know are proactively engaging with lenders to secure favourable terms and explore alternative financing sources to ensure adequate liquidity is there if needed. Running scenario analysis and stress testing to assess the resilience of the company's liquidity position under various economic scenarios. We model different outcomes and identify potential liquidity risks; we then develop contingency plans and adjust liquidity strategies accordingly to mitigate adverse effects on the business.

Capital allocation should always be top-of-mind not just when we see turbulence in the horizon, we weigh the trade-offs between deploying capital for growth initiatives, debt repayment, shareholder distributions and maintaining liquidity reserves. It's important to set up favourable credit agreements when you don't need them – ideally moving when opportunities in the market are present.

Many of the CFOs I've spoken with over the past few years (who were able to) pre-hedged and are seeing positions way in the money and also moved to renegotiate credit agreements when rates were far more favourable than what we see in the current market. Given what I know now, I think two scenarios could develop, one is we see the forecasted cuts much slower than the market has priced in for 2024, and the other is we see something break and rates come down much faster than the market has priced in – credit markets are smart, I think they are priced in the middle of each of those scenarios.

What I have seen in the market in the past couple of years is those that have needed to tap the capitals markets moved beyond traditional debt issuance to alternatives such as convertible bond offerings, equity issuance and structured financing transactions.

The best approach in the long run is to stay informed and when opportunities arise be agile and ready to layer into those opportunities, closely monitor developments in monetary policy, the regulatory environment (B3 endgame), and adapt and remain agile in navigating changing market conditions to effectively manage funding costs and maintain financial flexibility. I have had more colleagues from a variety of companies call me to ask about hedging IR risk in the past 18 months than my entire career combined – a lot of discussions about the risks – asset/liability alignment duration, repricing, spreads, slope change, liquidity, credit and regulatory. The only trend I've seen is an uptick in those getting more educated. I think we are in a wait-and-see while being prepared space right now, and if rates do begin to fall later this year, we see a lot layering into these opportunities.

Michael Booth
Portfolio Manager
Invesco

Treasurers time bond issuance by looking at value, especially market arbitrage opportunities around credit spreads and the all-in cost of financing on a currency hedge or a market hedge basis. UK businesses might find it cheaper to issue in sterling or euros after hedging back to sterling, for example. Treasury teams also look at natural hedging to offset assets in other geographies. This also allows corporates to open themselves up to different investors, prudent if one market is closed like sterling was during Truss's mini budget.

Large corporates and investment grade companies, have well established credit curves and a good ladder of maturities. This means they can diversify their refinancing across that curve. They might sell a new issue to fill a gap in that curve to keep the spread of maturities well maintained.

We've seen a fair bit of interest in long dated sterling issuance tied to demand from defined benefit pension funds derisking.

We are seeing treasury come in and take advantage of that. The ECB is running off its corporate bond buying programme and institutional money is filling demand. It's testimony to these yields being attractive. In the US we have seen issuance at the front end because corporates think rates will fall and are unwilling to lock in for ten years.

Still, infrequent users of the capital markets and issuers with a lower credit rating, say in the mid to BBB, should make sure they have a strong investors story and robust communications when they come to issue. It's only solid investment grade issuers that can announce a deal in the morning and build the book through the day. Its important corporate treasurers at lower rated/weaker companies give the market time to get comfortable on the credit risks.

These treasurers should also be prepared for questions around net zero and the regulatory backdrop. Questions will be around the business risk, balance sheet leverage and free cash flows visibility. Some companies that built their balance sheet during QE are struggling with higher rates. For example, a highly levered high-yield issuer refinancing all its debt at 10% likely won't generate enough free cash flows to service that balance sheet and we are seeing pockets of stress emerge.

Over the last couple of years, we saw a jump in sustainability linked bond issuance and treasury teams seeking to tap ESG flows, but the issue volume has dropped off slightly. We believe some investors are less willing to get involved in these structures. One of the challenges is that the corporate pays a price for not meeting its target, but as an ESG investor you don't want to benefit from a company not meeting its environmental target. The green bond market is a simpler way to isolate demand in the ESG market.

Giulio Baratta

Head of Investment
Grade Finance
Debt Capital Markets

Now is a good entry point into fixed income from an investor perspective. We are entering a cycle where interest rates are set to stabilise or decrease, and supply is tightening because more bonds are set to expire than be issued meaning investors are concerned about a shortage. This will also support performance. We believe the first part of 2024 will be accommodative of companies; there is an opportunity for treasurers to take advantage of capital markets, they will receive oversubscribed books and improved pricing conditions, especially for long-term maturities.

In recent years, corporate treasurers have had to navigate the rapid increase in interest rates and funding costs. Now companies with capex and investment plans are in a position to prefund; there is less uncertainty in the economy and investors still have cash to deploy.

Moreover, the outcome for equities remains uncertain; there is no clear route ahead for equity valuations which means M&A will remain muted. If treasury has to fund less M&A, they can focus on optimising refinancing costs as opposed to increasing debt stacks.

Credit spreads are currently very low compared to historic levels and the market is pricing credit risk very tightly. One reason is because central banks might lower interest rates to boost the economy. As soon as this happens, credit spreads will widen in a reflection of the increased risk for investors. It means the yield, or what treasurers pay on their debt, may not go down further.

This is triggering interesting corporate behaviour. For example, we are seeing more European corporates use the debt capital markets for three to four year funding. Some corporates are switching from using bank loans and bank products for their short-term funding needs to tap the markets instead. Companies are also arbitraging term loans against the debt capital markets and commercial paper. This is bringing more liquidity for institutional investors and is a trend first seen in the US.

We are seeing more appetite from investors for maturity extensions. The most liquid space in the bond market is between five to ten years or seven to 12 year buckets. In Europe, we expect to see the resurfacing of a liquid benchmark of 20-year funding for investment grade issuance. The sterling market is also buoyant for the longer end (12-15 20 years) where we have seen reverse enquiries from investors.

Of course, treasurers are loath to extend maturities when rates are still high. But we would argue that the marginal cost of issuing ten-year rather than seven-year paper is limited. ■

Next question:

"What are the do's and don'ts when it comes to integrating a TMS?"

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

Has the West fired all its fiscal and monetary guns?

Central banks have long been the 'only game in town' because markets danced to their tune, now they are in danger of being eclipsed by geopolitics. In the West, the chance of a populist surge is one of the most important political risks for financial markets.

The undermining of Europe from within: the populist right

The successes of populist-right-wing politicians such as Meloni, Orban and Wilders have been discussed at length in the media. But will the populist right achieve more electoral victories this year?

In order to answer this question, it is important to realise the following:

- The number of Europeans with views compatible with right-wing populist parties far exceeds the number of voters who have voted for them to date.
- The populist reservoir has remained largely unchanged for several decades. Conservative ideology and anti-immigrant sentiment are by far the main drivers of populist sentiment. Economic factors are far less prominent, surprisingly enough.
- Loyalty to traditional parties has been subject to severe erosion. In addition, said parties generally did not progress beyond offering old recipes for new/worsened problems, allowing populists to jump into this gap.
- News about populists generates many readers, listeners and viewers. Thus, populists quickly receive(d) disproportionate attention from media compared to their actual support, which creates a self-sustaining effect.
- People are less attached to democratic institutions than is widely assumed. People generally prioritise their day-to-day well-being. Expectations that voters will punish the undermining of the rule of law often prove unrealistic.
- In countries governed by coalitions, it is harder for the populist right to push its own agenda. Look at Meloni who is far more moderate as prime minister than when she was in opposition.
- Adverse conditions make it easier for politicians to fail. And when they fail, it feeds the discontent that the populist right can capitalise on.

In recent years, we have seen the effect of these mutually interacting forces in a host of European countries, including the Netherlands and Italy. This year will see national elections in Portugal, Belgium, Croatia and Austria, while several important regional elections will be held in Germany.

Apart from these votes, all eyes are on the elections for the European Parliament in early June. The success of the populist-right will likely remain relatively limited and the centre-right bloc will (once again) become the largest. The latter bloc is undertaking efforts to take the wind out of the populists' sails through, for example, stricter asylum policies and a brake on climate change control policies.

Scholars point out that no clear advice can be given on whether such a strategy works. Sometimes, voters see the partial adoption of the populist right's positions by centrist parties as a weakness, and the voter's view seems to be: why vote for the light version when I can also vote for the original? Other times, it does work to partially adopt programme items from the wings, as is evident in some Scandinavian countries.

We might see a surprising rise of the populist-right in the above-mentioned elections. This is due to this enormous potential reservoir of votes, while conditions for centrist parties are challenging, to say the least. Dissatisfaction with the approach to climate change, faltering housing markets, migration and the erosion of public services are examples of factors creating frustration with incumbent politicians.

Trump on victory course

The US shares many of the problems Europe is encountering. American voters will have their say in November. Currently, Donald Trump has decent odds of securing a second term as US president:

- Only exceptional circumstances – such as health problems or very surprising twists in his legal concerns, for example – could still keep Trump from the Republican nomination.
- The likelihood of any negative Trump-related surprises surfacing during this election year is low. The man has been put under a magnifying glass, to the point where any embarrassing skeletons in the closet would have long been exposed. Americans have long been familiar with his coarse ways.
- The vast majority of Americans currently feel that things are going in the wrong direction for their country, while a majority of Americans give the Biden administration a highly insufficient rating for its economic policies. Also,

ecr research

we believe the risk of economic surprises is greater to the downside.

- There are considerable doubts about Biden's mental and physical health (even among Democrats).
- The global geopolitical climate is unlikely to improve much in 2024. The Ukraine war will drag on (and possibly even more so in Russia's favour), relations with China will not improve substantially, and frictions between the West and the Global South will continue. If the global outlook grows more gloomy, this will contribute to Americans' already pessimistic view of developments in their own country. And the current government will be held responsible.
- In most major swing states, Trump is leading over Biden in the polls.
- Betting firms give Trump by far the best odds of victory and so-called prediction markets also give the challenger considerably more chance than the incumbent president.

The aforementioned tension between debt piles, fiscal spending desires and earning capacities will become a big factor in the US. According to US auditors, the budget deficit will average 6% of GDP over the next decade.

Such deficits are already cause for concern, especially in view of the already high US debt-to-GDP ratio. However, the underlying assumptions are almost certainly far too optimistic. For example, Trump's 2017 tax cuts are assumed to expire. This seems fairly unlikely, as does the assumption that so-called discretionary spending (including defence) will decline.

Over the last decade and a half, the monetary and fiscal purse strings could basically almost always be loosened to sweep problems under the rug/kick the can down the road. Under Biden, the results included mammoth investments in infrastructure and industry, ongoing stimulus programmes despite record low unemployment, the continuation of most of Trump's anti-China measures and student loan forgiveness.

Such 'solutions' assume there is fiscal scope and/or flexibility on the part of the Fed to ultimately finance deficits monetarily. To put it bluntly, it was possible to remain on good terms with everyone as long as vast amounts of money were offered. Ultimately, either a new credit crisis will threaten or the Fed will have to turn the monetary tap all the way on again.

Consequences for markets and economy

EUR/USD – public finances are more likely to spiral out of control in a Trump-led America than in Europe. This will exert downward pressure on the dollar in the longer term.

Interest rates – government spending hard to curb: spending on defence, climate change/energy transition policies, pensions and healthcare will rise, while debts are already soaring. As a result, bond markets will start pricing in that Western governments will want/need to raise vast amounts of capital and that inflationary policies will become an ever-greater risk.

Equities – the slightly longer-term outlook for European and US shares is not bright, given expectations of rising interest rates, deteriorating public finances and mounting geopolitical tensions. What merits a separate mention is the risk that Russia will see even more opportunities to destabilise the West if Trump returns to power.

The above may cause equities to struggle via various avenues:

- Unsustainable public deficits will lead to higher taxes on profits and capital gains.
- Geopolitical tensions make cross-border investments far more risky.
- Deglobalisation is making it harder for companies to produce more efficiently and tap into larger markets.
- Ageing populations lead to higher rather than lower labour costs.

Gold – gold will be in a strong uptrend over time, given the increasing geopolitical uncertainty, concerns about public finances as well as fears of inflationary policies being pursued. ■

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