



## Closing the trade finance gap

The problem with trade finance is the sizeable gap between demand and availability. Which initiatives and projects that are currently aimed at closing this gap should treasurers tap into?



### The Corporate View

Himanshu Kher

Group Treasurer  
LMAX Exchange



### Women in Treasury

Yang Xu

VP & Global Treasurer  
Kraft Heinz

### Treasury Practice

Stepping up: proving treasury's strategic value

### Technology

Cutting-edge technology – do you really need it?

### Regulation

Corporate life under IFRS 16

### Back to Basics

Measuring success



YOUR BUSINESS IS  
GLOBAL. YOUR BANK  
SHOULD BE TOO.

Businesses take considerable risks to enter or expand into new markets. This is why we take considerable care to provide the right support they need to make progress. However far from home that next big opportunity might be, it's our meticulous work around the world that enables our clients to transact with confidence wherever they aspire to succeed.



Welcome what's next

# An island of cooperation in a sea of disquiet

**Publishers**

Meg Coates &amp; Sophie Jackson

EA to the Publishers

Sarah Arter

Chief Financial Officer

John Nicholas

Editorial Manager

Kam Patel

Editorial

Tom Alford

Head of Production &amp; Client Delivery

Samantha Collings

Global Head of Events

Lisa Bigley

Circulation Manager

Sophie Friend

Circulation Assistant

Tracey Iveson

Digital Content Manager

Joanna Smith-Burchell

Creative Designer

Robert Murray

Founder &amp; Director

Angela Berry

Chair

Richard Parkinson

Switchboard	+44 (0)13 0462 9000
Publishing	+44 (0)13 0462 9017
	+44 (0)79 3943 6343
Memberships	+44 (0)13 0462 9013
Advertising	+44 (0)13 0462 9018
Editorial	+44 (0)13 0462 9003
Production	+44 (0)13 0462 9019

Annual Membership Rate £285  
memberservices@treasurytoday.com

© Treasury Today ISSN 1466-4224

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

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

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

The 2019 US annual subscription price is \$588.00. Airfreight and mailing in the USA by agent named Air Business Ltd, c/o Worldnet Shipping Inc., 156-15, 146<sup>th</sup> Avenue, 2<sup>nd</sup> Floor, Jamaica, NY 11434, USA.

Periodicals postage paid at Jamaica NY 11434.

US Postmaster: Send address changes to  
Treasury Today, Air Business Ltd,  
c/o Worldnet Shipping Inc.,  
156-15, 146<sup>th</sup> Avenue, 2<sup>nd</sup> Floor,  
Jamaica, NY 11434, USA.Subscription records are maintained at  
Treasury Today Limited, Courtyard Offices,  
Harnet Street, Sandwich, CT13 9ES.

Air Business Ltd is acting as our mailing agent.

In a recent FT interview, Vladimir Putin said that "the liberal idea" has "outlived its purpose". With the rise of anti-immigration sentiment, the will to shut down borders and end multiculturalism, it has certainly been tested.

In response, Donald Tusk, the European Council president, "strongly disagreed" with the Russian president, saying that "what I find really obsolete is authoritarianism, personality cults and the rule of oligarchs". We all know what President Trump says about such matters.

So there you have it. Some of the world's most powerful voices in polar disagreement, and presumably never the twain shall meet.

Isn't it good news then that in the world of corporate treasury, we have representatives of some of the world's largest and most powerful businesses coming together to celebrate the ingenuity and openness of the profession.

The 2019 Treasury Today Adam Smith Awards event is featured in this edition, describing a haven of sense and sensibility, where the incumbents are keen exponents of just getting on with it. In a world where contrariness seems to be the order of the day, feel the positive glow!

We then take a closer look at treasurers 'getting on with it', considering the role that this most proactive of professions plays in ensuring organisational growth. We also consider the role of treasury technology, asking if treasurers really need the kind of high-end tools now emerging to do their work.

In our Insight & Analysis piece, the question of borders comes up again, this time with trade finance under scrutiny. Every business knows it's critical for cross-border trading but, since the financial crisis, the banks have become more risk averse, creating a trade finance gap. We ask how that gap can be plugged.

Global politics can be very wearisome so it's always interesting to bring things down to a personal level. In our Corporate View this time round we meet LMAX Exchange's Group Treasurer, Himanshu Kher. Coming at the role from a different angle, he is able to head off challenges with the fast-thinking structured approach of a formally-qualified engineer, inflecting his response with the intuitive mind of the trained Indian percussionist. The meeting of two quite distinct worlds seems to create a natural harmony.

Finally, wherever treasurers are located there will always be regulations with which to contend. The IFRS 16 lease accounting standard may bring transparency to the balance sheet but for most finance functions, it is also a source of a lot of extra work. We look at what can be done to alleviate the pressure. At the very least though it draws the focus away from bickering world leaders for a while!



### WOMEN IN TREASURY

8

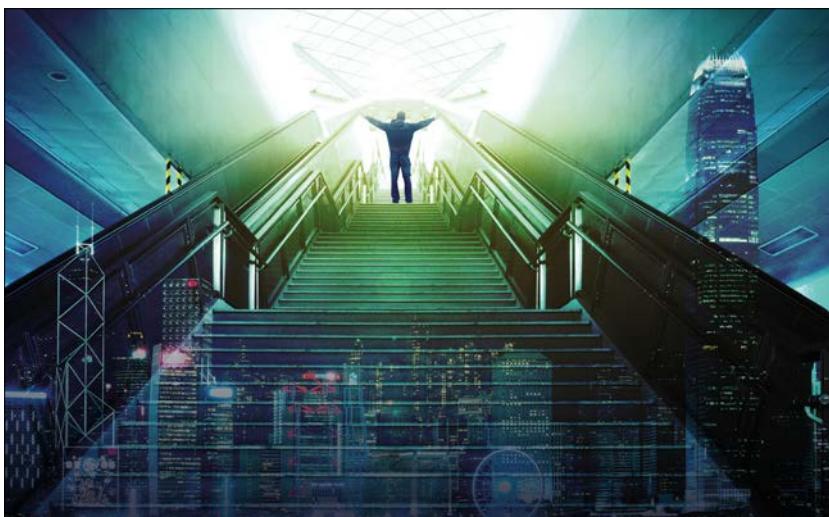


**Yang Xu**  
VP & Global Treasurer  
**Kraft Heinz**

Yang Xu, VP & Global Treasurer at Kraft Heinz explains to Treasury Today why it's so important to opt for the harder career choices and have a set of values to define one's personal and professional life.

### TREASURY PRACTICE

20



### Stepping up

Beyond day-to-day activities, proactive treasurers are seeking out opportunities to step up and support the growth of their organisations.

## Closing the trade finance gap

A number of initiatives are under way which could help to close up the US\$1.5trn trade finance gap – and fintech will also have a role to play in solving this problem.

### ADAM SMITH AWARDS

11

### Borders? What borders?

Like the professionals it honours, Treasury Today Adam Smith Awards refuses to stand still. This truly international event took the opportunity this year to celebrate a profession without borders, establishing some hotly contested new categories amongst the classics.

### SECTOR SPOTLIGHT

14

### How the impact of digitisation cuts across industries

Improving operational efficiency is one of the keys to unlocking growth potential. Bank of America Merrill Lynch experts cast their professional eyes across three very different sectors, revealing how innovation, expertise and banking partnerships are adding more value for corporates.

**Bank of America**   
**Merrill Lynch**

**TECHNOLOGY****27****Do you need all this technology?**

When it comes to sophisticated technology, there's plenty to choose from. But do treasurers really need to harness the latest developments?

**REGULATION****30****Making work for busy hands? IFRS 16 and the treasurer**

The new accounting standard IFRS 16 requires companies to include operating leases on their balance sheets. What has been its impact since it came into force on 1<sup>st</sup> January and how have treasurers dealt with it?

**TREASURY ESSENTIALS**

Treasury Insights

7

Question Answered

37

Market View

39



## 24 The Corporate View

**Himanshu Kher**  
Group Treasurer

**LMAX**  
EXCHANGE

Fast-thinking former engineer and trained Indian percussionist Himanshu Kher explains why he sees his rapid rise to become Group Treasurer at LMAX Exchange as part accident and part destiny.

**WEBINAR REPORT****33****Supply chain finance to the rescue for private equity owned companies**

Private equity owned companies are coming under increasing pressure to deliver on behalf of their equity owners. In a recent webinar experts explained how portfolio firms are turning to supply chain finance for support.

**PR** PrimeRevenue

**BACK TO BASICS****34****Making the most of performance metrics**

KPIs have become increasingly prevalent for treasury operations not least because finance departments have become more integrated with the wider business.





# Closing the trade finance gap

*Trade finance plays an essential role in supporting cross-border trade. But research shows there is a sizeable gap between demand for trade finance and availability, particularly for smaller firms. What initiatives and projects are currently seeking to close up this gap – and what role can new technology play in helping to address the issue?*

Trade finance plays a vital role in supporting business expansion, economic growth and financial inclusion. But it's no secret that at a global level, there continues to be a significant gap between demand and availability.

"The market gap for trade finance is serious," says Steven Beck, Head of Trade Finance at the Asian Development Bank (ADB). "It is large and has a major impact on our ability to create the growth and jobs that improve living standards and lift people from poverty." He points out that the UN's Addis Ababa Declaration on Financing for Development identified short-term trade finance as important to achieving the Sustainable Development Goals (SDGs).

"Yet ADB's Trade Finance Gaps, Growth, and Jobs study of 2017 identified a US\$1.5trn global market gap, 40% of which was in Asia," says Beck, noting it is "no surprise" that most of the gap is concentrated in the small and medium sized company segment.

Indeed, banks reported that 74% of rejected trade finance transactions came from micro, small and medium-sized enterprises (MSMEs) and midcap firms, according to the 2017 survey. The research also found that female-owned firms "were 2.5 times more likely to have 100% of their proposals rejected by banks than male-owned firms."

In addition, the ADB report shed some light on the reasons why banks reject trade finance applications. These included KYC concerns (29%), the need for more collateral or information (21%) and low bank profits (15%). The report noted that around 36% of the rejected trade finance transactions were considered viable.

Since the 2017 report, access to trade finance has continued to be constrained for many companies. A 2019 Global Survey by BNY Mellon found that trade finance transaction rejection rates had accelerated in the last 12 months for a third of participants. Compliance constraints and an inability to provide quality KYC constituted the leading reason for trade finance rejections, cited by 34% of respondents. A further 21% said rejections were caused by the poor credit quality of applicants/the inability for applicants to provide financial statements.

## Solutions and initiatives

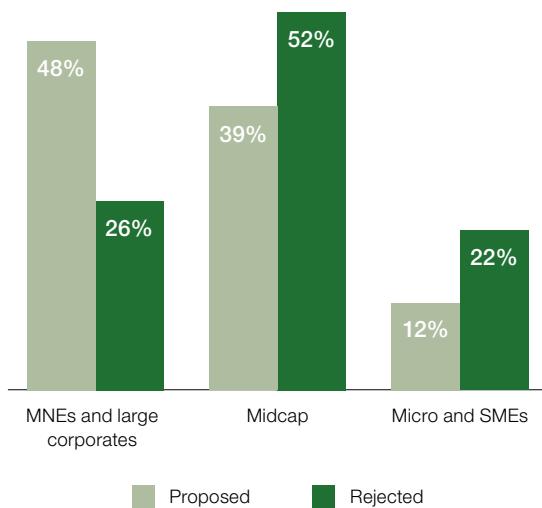
Finance supports growth – and it's clear that the trade finance gap has implications for businesses, trade and economies. The ADB's report found that 86% of firms said more trade finance would allow their businesses to grow and generate more employment. The report also noted that a 10% increase in trade finance "is associated with a 1% increase in the number of workers employed."

Addressing the trade finance shortfall is therefore an important goal – and around the world, numerous efforts and initiatives are focused on closing the gap.

## The Trade Finance Program

Beck explains that ADB's trade finance business, the Trade Finance Program (TFP), provides guarantees and loans to banks to support trade and "helps close market gaps." He adds that the business grew nearly 40% in both 2017 and 2018, with last year seeing 4,500 transactions valued at US\$6.2bn.

## Proposed and rejected trade finance transactions (by firm size)



MNEs = multinational enterprises  
SMEs = small and medium sized enterprises

Source: ADB, 2017 Trade Finance Gaps, Growth and Jobs Survey

"TFP focuses on more challenging markets and does not assume risk in PRC, India or Thailand," Beck says. "Of the 21 markets where we operate, Vietnam, Bangladesh, Pakistan, Sri Lanka, Mongolia and Armenia are our most active. We've never had a default or loss in any of our transactions, never."

According to Beck, this "flawless default rate" begs questions about why there is a gap. "Limited country risk appetite among the private sector in the more challenging markets is one obvious answer," he says. "Costs and concerns about anti money-laundering (AML) and counter terrorist financing (CFT) is another."

In the meantime, Beck says that ADB's TFP is closing market gaps through loans and guarantees, which also mobilise private sector resources to these markets. "We have strong partnerships with banks and insurance," he says. "But TFP also closes market gaps through non-transactional initiatives."

In March, TFP convened a meeting of bank regulators, industry associations and commercial banks in Singapore "to discuss how we can drive more transparency in trade and make the due diligence process for know your client (KYC) more efficient, less onerous," Beck notes. "There are a number of initiatives that came out of this meeting which we hope to get done by the end of the year, including an effort to standardise 'suspicious transactions reporting'. Progress on these initiatives would help close more of the gap."

### Gathering data

While the ADB is focusing closely on this topic, other initiatives may also play a role in helping to close the gap. One is the ICC Banking Commission's Trade Register project, which illustrates the low-risk nature of trade finance.

"Banks contribute to the ICC Trade Register, which can then demonstrate in a quantitative manner how low the default

ratios are in trade finance," explains Surath Sengupta, Head of Trade Portfolio Management and Distribution at HSBC. "It's a big thing for banks to share data which gives more transparency and allows both banks and investors to be more comfortable financing trade," he adds.

### Making trade finance an investible asset class

At the same time, Sengupta says there is growing interest in trade finance from non-bank firms, such as funds, asset managers and insurance companies. He explains that over a long period of time, banks have created the infrastructure needed to on-board and serve this asset class – making it difficult for other parties in the financial industry to achieve something similar. "However, now they are interested in this asset class because it allows them to invest in a short-term, low-risk real economy asset," he says. "So the question is, how can banks partner with these investors to make this asset class more investible?"

As a step in this direction, HSBC has recently announced a partnership with Allianz Global Investors which involves converting trade finance assets into a securities format. "It's a format which is very conversant with investors, and allows them to invest in trade finance assets more easily," says Sengupta. "And it's also a way for us to access that liquidity. So this is a big move forward in terms of turning trade finance into an investible asset class." He adds that there has been considerable interest from non-bank investors in this asset class and the ability to access trade finance assets.

Geoff Brady, Head of Global Trade and Supply Chain Finance at Bank of America Merrill Lynch (BofAML), agrees that there is growing interest among the investor community in "getting investment dollars into trade finance." He cites the rise of buyer-led supply chain finance programmes – a structure "that is becoming more and more ubiquitous in the US and abroad."

According to Brady, this type of short-term, self-liquidating funding can generate better returns than other types of credit that banks can use on behalf of a client. "Insurance companies have become interested in supply chain finance as an investment, and we're starting to see funds showcasing supply chain finance paper," he says.

However, Brady also notes that supply chain finance paper has a few key characteristics that make it a little more challenging for investment. "Most prominently, it's not publicly rated and it's not publicly traded on an exchange," he says. "So you have to be comfortable that you understand it, and it also has to be inside your investment parameters."

### The role of technology

Technology is a particular area of interest when it comes to tackling the trade finance gap. When asked what would help address this, respondents to BNY Mellon's survey placed enhanced technology solutions joint first with revising the regulatory environment. But questions remain about the extent to which technology can really make a difference, and whether this is happening yet.

"We're convinced fintech can help close gaps," says ADB's Beck. "But there is no evidence at this point that tech is reducing gaps – only cutting banks' operational costs." To realise the full potential for technology in closing gaps, Beck says progress is needed on three fronts:

- Global adoption of UNCITRAL (United Nations Commission on International Trade Law) draft laws, so that digital bills of lading and other basic documents in trade have legal standing.
- Creation and adoption of global technical protocols and standards to drive inter-operability between fintech (including distributed ledger and blockchain) pilots.
- Global adoption of the Legal Entity Identifier, “an eight-digit unique globally harmonised identifier that verifies who’s who, who owns whom.”

Meanwhile, Brady cites supply chain finance as an area where technology can play a role in closing the supply chain finance gap. He explains that in the past, large buying organisations have tended to exclude their smallest suppliers from supply chain finance programmes, because the level of spend is not enough to justify the resources required to onboard them.

“Some of this gap has been filled by some of the fintechs that have come in and partnered with banks,” he says. “In some cases they are able to onboard suppliers more easily, which gives them the scale to onboard the long tail of the supplier base. We’re seeing more clients saying they want to fund the entirety of their supply chains, and not just the top 80%.” Brady adds that together with the increased investor appetite in supply chain finance, “this is helping to drive capital towards the trade finance gap.”

### What about blockchain?

Blockchain and distributed ledger continues to be a hot topic in this space. Historically, trade finance has been heavily dependent on paper documentation – meaning there is plenty of room for improvement. “Trade finance is a brilliant use case for the ability to have multiple parties transacting with each other on one secure platform,” says HSBC’s Sengupta. “That will allow for more efficient end-to-end trade finance transactions – which will again help to clear one of the barriers for entry.”

In recent years, a number of international consortia have formed to explore the use of distributed ledger technology in trade finance. Notable initiatives include:

- **we.trade** – supports collaboration between businesses and banks in Europe; is built on the IBM Blockchain Platform using Hyperledger Fabric.
- **Marco Polo** – launched by TradeIX and R3; provides an open enterprise software platform for trade and working capital finance and a distributed, blockchain-powered solution.
- **Voltron** – built on Corda; aims to provide a digital, end-to-end documentary trade solution for banks and corporates.

The goals of these consortia include reducing operational costs, mitigating risks and expediting financing decisions. By nature, these platforms are being developed on a collaborative rather than a competitive basis.

### The power of collaboration

Indeed, Sengupta notes that initiatives in this area are also helping to bring the whole community closer. “Given there is such a healthy buzz around distributed ledger and blockchain, it’s really encouraged banks to get together,” he says.

In this vein, he says that HSBC is a founding member of the Trade Finance Distribution (TFD) initiative, which incorporates banks, funds, fintechs and technology partners seeking to make trade finance more investible. Other participants include ANZ, Crédit Agricole, Deutsche Bank, ING, Lloyds Bank, Rabobank, Standard Bank, Standard Chartered and SMBC. The International Chamber of Commerce (ICC) UK and the International Trade and Forfaiting Association (IFTA) have also joined as observers.

According to a press release, the initiative “is an industry-wide drive to use technology and standardisation for the wider distribution of trade finance assets.” Aspirations of the initiative include developing “common data standards and definitions to address operational inefficiencies, transparency issues, and risks.”

### Breaking down siloes

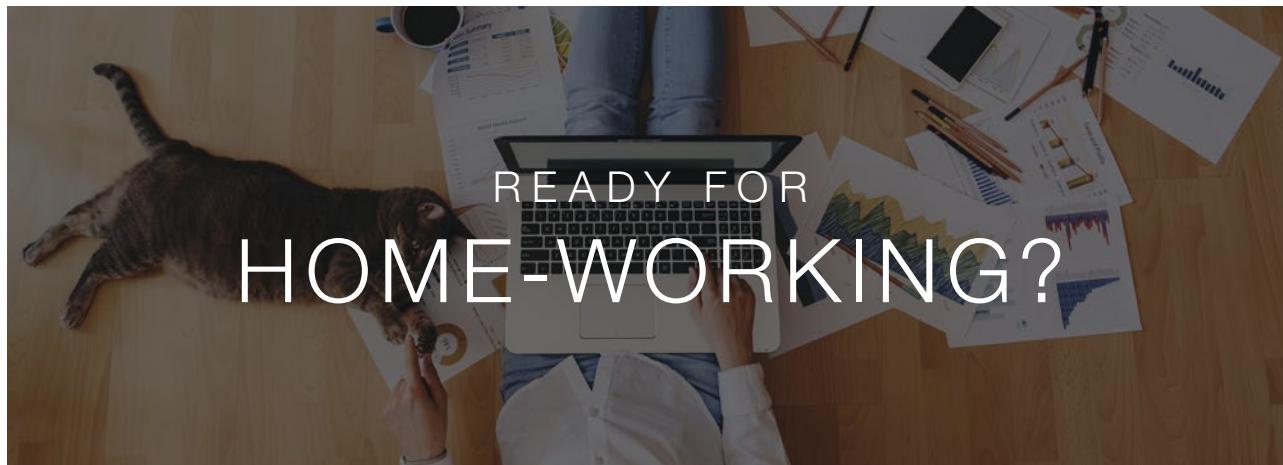
Collaboration is also at the heart of the Universal Trade Network (UTN), which was set up by the banks participating in Marco Polo project, together with TradeIX and R3, but now includes additional banks. According to the Marco Polo website, the UTN aims to “tackle the issue of separate systems of digital silos that cannot communicate or share information between each other”, allowing trading parties and financial institutions to “exchange data, and transact peer-to-peer and in real-time through an open, standard technology infrastructure powered by blockchain technology.” The UTN also aims to promote interoperability between different blockchain protocols.

“There’s some agreement that the first stop is to have standards and regulations around what we all agree to be the rules,” comments Brady. “For years we’ve had uniform customs and standards that have governed trade transactions, because they’re so international that you don’t want to be tied down to one jurisdiction. That’s part of what UTN is hoping to solve from a digital perspective – that we all agree on the rules of the road, so we can use those to plug into the same ecosystem when it comes to moving forward with the next generation of DLT or blockchain.”

### The way forward

Could all these initiatives be enough to make a difference to the trade finance gap? ADB’s Beck says that while the trade finance gap is real, and has a major impact on the global community and its ability to achieve the SDGs, “What’s heartening is that the public and private sector are working together to close the gap. Certainly lots more work to be done, but there are a number of exciting gap-closing initiatives well under way that should deliver results.” He adds that the ADB plans to launch an updated market gap study in September.

It seems clear that collaboration will play a central role in addressing the shortfall. Promisingly, there is much evidence that the community is embracing a more collaborative approach. Brady points out that banks have historically moved relatively slowly towards change – and that while technology and blockchain may be the more exciting topics, the work being done to address documentation and standards is the most encouraging aspect of the efforts under way. “I’ve seen more collaboration between banks in the last four years than I have in the previous 25 years,” he says. “That’s the encouraging thing – and that’s what’s going to drive most of the change.”



Around 70% of professionals work remotely – a phenomenon known as telecommuting – at least one day a week. Some 53% work remotely for at least half of the week. These figures, drawn from a survey of 18,000 business professionals across 96 international companies by Switzerland-based serviced office provider IWG, demonstrate an interesting shift in workplace attitudes.

The idea that coming into the office day after day is somehow beneficial to all parties seems to be losing its grip on a workforce that is ready and able to be somewhere else.

The notion of flexibility is supported by another recent survey, this time by US business advisory service, Fundera. It indicates that two-thirds of managers who offer telecommuting flexibility say employees who work from home are overall more productive. It noted too that 86% of employees claim that they're most productive when they work alone, being able to avoid distractions like unproductive meetings, office gossip and loud office spaces.

Home-working statistics in the US also show that 82% of telecommuters report lower stress levels. The positive effect is to everyone's benefit – a Stanford University study highlighting that employers offering a work from home option saw staff turnover rates fall by over 50%.

Companies that do not favour a shift to employee flexibility should be wary: 68% of millennial job seekers say a work from home option would greatly influence their interest in working for a company.

## Advantages

For Dr Mark Winwood, Clinical Director for Psychological Health at AXA PP Healthcare's Health Services division, enabling employees to work flexibly is advantageous in many ways. Writing on the UK private medical insurer's website, he says that remote working can decrease overheads and the need for office space, positively affecting operating costs.

"Perhaps more importantly, flexible arrangements can help retain valuable staff, who otherwise might be forced to leave for practical reasons, as well as attracting a wider talent pool of people who may not have considered working for the company otherwise."

Where flexible working patterns are in place, Winwood adds that businesses are better positioned to operate outside conventional office hours. In terms of hours worked, employees can choose to operate when they feel most productive. In a typical treasury, where there is a need to work across different time zones, that flexibility can help employees recover work-related sleep-loss, helping to preserve employee wellbeing.

"Employers offering flexible working arrangements are likely to see an increase in productivity, engagement and commitment from employees who are given more control of their working life and style of working," notes Winwood.

## Disadvantages

However, there is a downside to home-working that must be managed, he warns. "Managers need to be mindful that flexible working could mean their staff do not stop working. Removing the need to physically leave the workplace at the end of the day can tempt workers into working overtime, which managers may not be aware of when their staff are working remotely."

There is also a risk of increasing 'presenteeism', where employees strive to do more hours than necessary, despite perhaps feeling tired or unwell. Winwood advises managers to monitor the time-keeping of employees who are working remotely, ensuring that suitable boundaries between working time and non-working time are put in place.

Working from home can be a lonely pursuit and can mean employees missing out on important interactions with colleagues. There is a risk of home-workers feeling more isolated in general and communicating less with their managers. As a consequence, managers may be less able to identify potential health and wellbeing issues.

"It is therefore important to invite them to company events and briefings and, if practicable, make provision to include them via remote media if it is not possible for them to attend," advises Winwood.

# This much I know

Yang Xu

VP & Global Treasurer

**KraftHeinz**

## How did you arrive in your current position?

I studied finance for many years. After my MBA, I started my career with Whirlpool as an analyst in a treasury centre for Europe and Asia, based in Belgium at that time. I was working on cash management and FX. It's a fascinating area to apply financial market knowledge and to understand business fundamentals. After a couple of years, I was transferred to the US for pension/401(k) redesign after a transformational M&A.

Following my debut in treasury, I asked for and was given many different roles in general finance including M&A and FP&A in different functions in the US. Thereafter, I was further assigned with overseas positions in the EMEA headquarters in Italy, sales and marketing roles in China, and operations roles in Hong Kong and Taiwan. I returned to the global treasury function back in the US, and a couple of years later I decided to make a big jump and joined Kraft Heinz to take on my current role, which focuses heavily on strategy and leadership. I deeply appreciate the intellectual challenges of leading our global treasury function.

## What is the biggest challenge you are facing now as a corporate treasurer?

My passion resides in joining the force to shape the future of Kraft Heinz. I love the company's speed of decision-making and the culture of ownership, which means that employees at all levels feel empowered to make meaningful contributions.

I love being able to discuss and plan capital structure and allocation with senior executives and the board of directors. This requires deeper understanding of the industry, business trajectory, cash projections, and optimal cost of capital structure. Once those directions are set, it's fulfilling to see the effects unfold.

All industries and companies today have phases, and the macroeconomy is constantly evolving. It requires clear direction, alignment and fine tuning of the plan, as well as constant communication with the rating agencies and investors.

I also define and drive major transactions. Billion-dollar transactions require collaboration with tax, accounting, legal, and various business functions. They enable learning and understanding far beyond the treasury function.

## What is the best piece of advice that you have been given in your career?

To give less than your best is a waste of talent. When you have multiple career choices, choose the harder one that pushes you out of your comfort zone. It's important to build a set of values because that's what ultimately defines you. My own maxim for life is 'never stop learning'.

“When you have multiple career choices, choose the harder one that pushes you out of your comfort zone. It's important to build a set of values because that's what ultimately defines you. My own maxim for life is 'never stop learning'.”

## ONLINE

To read all the interviews in this series go to [treasurytoday.com/women-in-treasury](http://treasurytoday.com/women-in-treasury)



## Team builder

One of the major objectives for Yang is to continuously build a stronger team and improve processes. In the past, she says treasury has been characterised by its technical expertise. This will remain the foundation of the function. But she also wants to balance this, serving the business more effectively by encouraging a broader outlook.

“Connecting the dots,” she says, can be achieved either by bringing in people who have “lived in the business”, or by rotating treasury professionals out to the business, using cross-functional initiatives as a platform, building on their organisational understanding and experience, and developing a wider set of contacts.

“It’s good to be proud of our function but sometimes we can be so focused on what we do that we build barriers,” she comments. “I tell people that first we serve the good of the whole company but then our key stakeholders are the other functions.” Engaging in open discussion is vital in any cross-functional initiative because taking the narrowed view of one function can have unintended up- and downstream consequences. Yang believes treasurers with wide exposure to their business will be better positioned to examine the potential wider consequences of their actions, and better serve the organisation.

This willingness to learn is part of what makes Yang successful – and no source of learning is off limits. Throughout her career, she has carried with her a notebook. She has populated these (she’s on her third now) with the wisdom of others and also with her own thoughts, and those of her colleagues. As each role within her career draws to a close, she puts aside a page for reflection. Likes and dislikes, points for improvement and personal successes have all found their way into this review. Yang uses this to help direct her next steps.

## Strength in people

Yang has a talent for making connections and better understanding the motivations of her colleagues. It helps her management style and, at the junior end of the spectrum, has helped her “take a risk on talent” to great effect.

Indeed, in her view of millennials as “more vocal, more open to learning, and more willing to challenge” than her own generation, she recognises in them the need for encouragement, offering it in the form of genuine ownership and independence. But she also knows to set clear parameters to offset their lack of experience.

Yang recognises vaulting ambition in herself and admits that in a previous role, she wasn’t quite ready. Although recognised as an emerging talent, she felt she lacked the “maturity and experience”. Surrounded by vastly more experienced people, she found the environment slightly intimidating.

As an Asian woman moving into Europe, where experience and longevity is highly valued and difficult to relinquish, “it was a struggle,” she confesses. “At times I was not assertive or artful enough. I didn’t push back or properly prioritise.” Nonetheless, she sought out opportunities and brought much-needed clarity to a complex environment. This was appreciated at head office.

Fortitude is a characteristic in which Yang excels. Having been born and brought up in China, in the one-child policy era, where almost 80% of women participated in the workforce, she “always had the impression that women were at least equal to men”.

However, in her transition to Western culture, she was “shocked” by the realisation that many women did not work. She rails against socially- or self-imposed ideas that women and men may not be equals, yet having toured many countries, she identifies a problem. “When I was expecting, the conversation always turned to my personal rather than professional life. Having had my daughter, I felt pressure to return to work early and then needed to work so much harder to prove myself.”

Yang was fortunate in having a couple of strong senior role models to demonstrate the reality of working motherhood. “They taught me not to judge by presence in the office but by the level of engagement and quality of work. It forced me to make better choices and to be flexible.”

Yang is understandably keen to impart her view to new talent that a work/life balance is possible. “It requires more prioritisation, advanced planning and higher efficiency, but it can be done. It’s not a single choice question.”



Yang Xu is the Vice President and Global Treasurer of Kraft Heinz, a US\$26bn publicly listed global food company. Having worked in various roles across treasury, M&A, strategy, finance, sales and marketing and operations in many different countries, Yang believes the best treasury professionals drive value through business partnership and cross functional acumen, and differentiate by defining and delivering the optimal capital structure of a company. Yang holds a Masters degree of Business Administration from HEC School of Paris and London Business School, and is a native of China.



# Borders? What borders?

*The splendour of the City of London's Plasterers' Hall played host once more to the deserved winners of categories new and old at this year's Treasury Today Adam Smith Awards. Here's how it looked on the day.*

Just as the winners of this year's Treasury Today Adam Smith Awards refuse to stand still, so the awards themselves are changing to reflect the dynamic nature of the profession. In a truly international event, celebrating a profession without borders seems appropriate.

In an occupation that keeps one eye on the future, and one on the here and now, looking out for opportunities and challenges makes for a rather dynamic environment. Treasury Today's Adam Smith Awards takes pride in celebrating the reality of the 'restless treasurer', shaping this prestigious event in the likeness of its worthy recipients.

Amongst the now classic categories, such as Best Cash Management Solution and Best Working Capital Management Solution, winners stepped up in this, the 12<sup>th</sup> year of the awards, to receive accolades in several new categories. These included Best Fintech Solution, Best Cyber-Security Solution, Best Sustainable Finance Solution and Best in Class Treasury Solution in Latin America/Caribbean.

These awards are first and foremost a celebration of international cooperation and success. With 244 submissions from 30 different countries – from as far afield as Peru, Colombia, Canada, Ethiopia, the US, Algeria, Saudi Arabia and Nigeria – it is clear that when it comes to achieving amazing results, borders are an irrelevance.

As Angela Berry, Founder and Director at Treasury Today Group remarked in her opening address, "The levels of co-creation and collaboration that we now observe as best practice are unprecedented."

## Talent pool

Winning an Adam Smith Award is not about being a big name, but being a big talent. The event consistently draws entrants from some of the world's biggest organisations. But even with teams representing household names



"We now form fluid teams that come together in workshops to look at the problems and solutions holistically. In the future, I see treasury as the organisation that will be the stewards of data and insight, and the glue that will bring all the other organisations together to drive strategic decision making."

---

Anita Bubna  
Senior Director of Treasury  
Flex

Highly Commended Winner  
Woman of the Year



"Winning this award gives us another reason to shout about sustainability, which is fundamentally what Renewi is all about. Anything that adds to that corporate narrative is welcome. It's also great recognition for a lot of hard work that will hopefully encourage other treasurers to follow this path."

---

Adam Richford  
Group Treasurer  
Renewi

Overall Winner  
Best Sustainable  
Finance Solution

such as Microsoft, Honeywell, Harley-Davidson and Shell, intense competition comes from smaller organisations.

It's not just about beating the competition (although that's evidently very satisfying); it's also about enriching the profession by sharing experiences with a peer group that, judging by the volume and flow of conversation at this year's event, is only too happy to reciprocate.

It was the first time that Varun Wadhwa, Assistant Treasurer, Integration & Projects at Baker Hughes, a GE Company (Highly Commended Winner, Best Liquidity Management Solution) had attended the event. "It was good to meet treasurers from different companies and share experiences and success stories," he said. Wadhwa's colleague, Senior Liquidity Manager, Moda Abhisek, agreed. "It's reassuring that the things we do are adding value and all the amazing things that treasurers are doing in different companies is very inspiring."

Proving it wasn't just a Baker Hughes phenomenon, another first-timer, Gianluca Gubbini, Director, International Treasury, Viacom (Overall Winner, Best Working Capital Management Solution) said "it was great to meet and share ideas with a lot of my peers who are working on similar projects".

There is of course value in treasury being able to demonstrate its successes to other parts of the business. This is not about bragging rights but about creating awareness of what treasury can do for other functions, and how the whole is greater than the sum of the parts.

Overall Winner of Best Trade Solution was GE, led by Lynda McGahey, Managing Director, Global Head of Trade Finance. She told us that aside from the award being "an absolute honour", it serves to highlight the importance of the global trade finance team, "our work is not always as readily understood" as some more visible treasury activities. With the win having been "communicated and celebrated" throughout GE by the Senior VP of Treasury, she reported a sense of corporate pride.

For Royston Da Costa, Assistant Group Treasurer at Ferguson, it too was "a great privilege" to accept the inaugural award for Best Cyber-Security Solution on behalf of Ferguson. He added that it was "a great honour to be recognised for the work that has been put into this extremely important area in the midst of peers from companies that are setting the pace in treasury".

## Sharing new ground

Of course, every winner has something inspiring to offer. In 2019's new Best Sustainable Finance Solution category, the winning team from Renewi, led by Group Treasurer Adam Richford, is taking the lead on what is a vital matter for us all.

Lauded for converting its main €550m banking facilities into a green loan using a green finance framework, it managed to link its loan rates to the ESG performance of the Group via five KPIs and a series of targets for each outstanding year.

"Winning this award gives us another reason to shout about sustainability, which is fundamentally what Renewi is all about," said Richford. "Anything that adds to that corporate narrative is welcome. It's also great recognition for a lot of hard work that will hopefully encourage other treasurers to follow this path."

With sustainability gathering a huge ground-swell of support, it was a hard choice in this hotly contested category. Highly Commended Winner was Republic of Seychelles. Patrick Payet, Secretary of State for Finance, Trade, Investment and Economic Planning, explained how the country went to the



capital markets with a US\$15m ten-year 'Blue Bond'. With 100% of the proceeds earmarked for supporting the regional development of a sustainable marine economy, this a truly unique project of consequence.

"Seychelles is the first issuer of a Blue Bond; we are setting the example to the rest of the world," commented Payet. "As a small island economy, we can develop our programme with other countries and they will see that if we can do it, so can they."

Traditional categories continue to reveal imaginative approaches to treasury too. As leader of this year's Highly Commended Winner, Top Treasury Team, James Kelly, Group Treasurer at Pearson, explained the scale of its ambition.

Within one year, it formed an in-house bank, including all internal funding, netting and FX management, launched SWIFT connectivity, designed a strategic FX policy, launched an innovative and effective hedging strategy, arranged the complete re-financing of its central RCF, and consolidated its banks. Oh, and the team also devised, created and launched the first ever sustainable lending facility linked to UN educational targets. As Kelly said, there has been "a lot of blood, sweat and tears" invested by the team throughout.

This year's Highly Commended Winner, Best Funding Solution accolade was collected by Ethiopian Airlines' Group Treasurer, Temesgen Getaye. He told us that traditional and less-costly financing options were proving problematic. Having opted for a Japanese Operating Lease with Call Option, a first in West Africa, the airline was able to close deals on its original delivery dates. "We're often so busy caught up in day-to-day life, it's easy to forget to celebrate the successes that the team achieves," he commented. "Winning this award, which is the highest accolade in the profession, means recognition for our hard work."

Treasury Today has for many years committed to raising issues of equality. The Women in Treasury movement is complemented by the Adam Smith Awards Woman of the Year award. Catherine Portman, Head of Global Treasury at Uber and Overall Winner 2019, told us that this accolade is up there with her proudest achievements, helping her "validate all the work I have done throughout my career within treasury".

As a female in this profession she noted that "it sometimes takes a bit more effort to make our voice heard and to show value beyond the traditional functions". It is, she added, "important for female leaders to be able to express those ideas". She hopes the award will "motivate and inspire others to think about how they can achieve greater recognition within their roles and companies".

Anita Bubna, Senior Director of Treasury at Flex and this year's Highly Commended Winner, Woman of the Year, believes in the power of co-operation. "We now form fluid teams that come together in workshops to look at the problems and solutions holistically. In the future, I see treasury as the organisation that will be the stewards of data and insight, and the glue that will bring all the other organisations together to drive strategic decision making."

Indeed, Adam Smith Awards winners evidently care little for boundaries. Just as teams cross geographic borders to achieve success, so they cross functional, gender and any other restrictions that others may erect, ensuring they leverage insight and knowledge. And, as Richard Parkinson, Chair of Treasury Today Group said throughout this year's presentation ceremony, "the results speak for themselves".

The full set of case studies for 2019 are now available.

# How the impact of digitisation cuts across industries

*If there is one element that unites most companies across sectors and regions it is the innate desire to improve operational efficiency. This series with Bank of America Merrill Lynch looks at how different sectors are using technology to achieve their goals. It reveals how lessons can be drawn from across the sectors, and how, by bringing together data and expertise, banking partnerships are adding more value for corporate clients.*



**Chris Jameson**

head of Financial Institutions Sales,  
GTS EMEA  
Bank of America Merrill Lynch

## Financial institutions: different needs, same goals

The financial institutions (FI) sector, formed of banks and non-banks, is characterised by an extensive subset of sectors, including banks, insurers, asset managers, aircraft leasing companies, card schemes, central counterparties and governmental agencies.

Whilst it may appear difficult to pinpoint a consistent need across this broad sectoral remit, it does in fact harbour many shared elements, says Chris Jameson, head of Financial Institutions Sales, GTS EMEA, Bank of America Merrill Lynch.

Indeed, there are common challenges and opportunities across the FI space – and technology can be the unifying factor. Principal amongst opportunities, he notes, is the real-time sharing of rich data. Where speed and efficiency may not always have been part of FI payment flows, technology can deliver impressive results for bank and non-bank FIs alike.

### Keeping it real-time

With around 28 countries having implemented the necessary infrastructure, real-time payments are becoming the de facto norm. For FI players seeking greater process efficiencies, Jameson believes that connectivity into these mechanisms is essential. And with SWIFT gpi uptake gathering momentum, the richness of data shared in the bank space is taking a major

step forward too, as participants begin leveraging a real-time, end-to-end view of payment status.

Another opportunity for FIs is around KYC streamlining. In banking, KYC has long been a challenge from a regulatory compliance, legal and technical perspective. However, notes Jameson, the results of The Wolfsberg Correspondent Banking Due Diligence Questionnaire (a 2018 revision of its 2004 Anti Money Laundering Questionnaire for Correspondent Banks) demonstrates how the sector is cooperating to achieve KYC process standardisation and simplification.

This collaborative stance is strongly supported by technology, with a number of central KYC repositories facilitating inter-usability of KYC records across the sector. Again, SWIFT, which has the broadest reach of all providers, is becoming the leading service provider.

With this clear willingness to cooperate and standardise, the next step is to digitise KYC documentation, says Jameson. E-signatures and document exchange via web portals is something that Bank of America Merrill Lynch is already offering clients in the US, he explains. "There are still challenges around the legal acceptance of digital signatures in some jurisdictions but extending their use across the banking landscape is an important part of simplifying and enhancing the KYC process."

One of the main threats in a digitised FI world – and indeed most others – is that of cybercrime. Jameson cites SWIFT's Customer Security Programme (CSP) as a significant step forwards in the reinforcement of global banking system security. By strengthening the links in that system, and helping the weakest links to protect against incursion, it reinforces the message that the sector is working as one in the face of pernicious cybercriminals.

### Treasury to the fore

At the highest level, the FI sector is making bold strides towards efficiency. The role of the treasurer in facilitating positive change is extensive, says Jameson. At this level, the treasurer

often acts as the crucial interface between operational teams, business unit owners and client relationships. But in the last decade, the scope and responsibility of treasury has grown even more in importance, he notes. "It has become an area for significant efficiency gains, cost reduction and innovation."

This evolution has seen the need for treasury to be at the forefront of available technology, including the emergence of innovations from the fintech community and banking sector, increasingly in partnership. Being at the cutting edge is potentially a means of enabling success, not just for treasury but for their business as a whole, notes Jameson. "Efficiencies delivered by the right tools can have a positive knock-on effect, right across the business lines that treasury is supporting."

## **Virtual success**

Success stories are often found where a well-resourced treasury has secured senior executive buy-in for efficiency-focused projects. Where industrial sectors have made huge leaps forward in this respect, a transaction-heavy sector such as insurance is only now beginning to leverage technology towards this end, notes Jameson.

In this setting, a solution such as virtual cards uses traditional card payment rails but diverts those payments through an alternate channel to gain advantage. The structure enables companies to extend payments terms, as before, but then improve business processes and exert tighter control over their payments. Indeed, it is the richness of data now made available that affords them far greater transactional transparency and understanding, explains Jameson.

A case in point is Amazon Business which is partnering with Mastercard and Bank of America Merrill Lynch to enable procurement teams to acquire invoice-level data about their purchases through the bank's online portal. In this context, treasury will often be the bridge to the bank, further heightening the importance of the role.

Continuing the virtual theme, Bank of America Merrill Lynch virtual accounts have been facilitating improved collections and reconciliations for longer than most providers. "We have a strong understanding of how to structure and generate benefit from virtual accounts," says Jameson.

Virtual accounts are beginning to progress from manufacturing into the non-bank FI space. Here, the ability to match receivables based on a unique virtual account number that each client is given "makes the reconciliation process so much more efficient".

In a non-FI context, virtual accounts are often deployed in an in-house bank armed with a 'payment of behalf of' structure. However, Jameson notes, in the FI space, for major consumer-based players such as insurers, it is likely to be reconciliations of receipts where the virtual format "really comes into its own".

## **Cutting edge**

Whilst many non-bank FIs may not have had the time nor capacity to focus on innovative solutions, Jameson notes that

as their core systems – ERPs or TMSs – are upgraded, the technological platform from which they can build out new efficiencies emerges. It is then the role of the relationship bank to understand the challenges of the client, introducing innovation where it is an appropriate means of solving each pain point.

There is a persistent conversation around AI, robotics and blockchain in the FI context. Blockchain is still some way off, he believes, but AI is "very real". There is an opportunity here for banks such as Bank of America Merrill Lynch to use AI as a way of simplifying and improving its back office functions, with robotics already in place to support some of that activity.

As the technology extends to client-facing solutions, Bank of America Merrill Lynch, in partnership with a fintech, has created intelligent receivables (IR). This uses AI, machine learning and optical character recognition to match incoming payments with disparate remittance data.

IR identifies payers, associating their payments with remittances that are received separately. It then scans the remittance email inbox for information, enabling it to match payments to open receivables using the enriched remittance data. IR can read free-formatted emails, attachments and even access web portals using its Web Crawler feature. Payments that are matched are posted to the ERP on a straight through basis; those that can't are shifted to an exception portal to be manually matched.

When an operative manually matches the payments and remittance information in the exception portal, the solution uses machine learning to analyse and follow the steps taken. Next time a payment is made, it will replicate those corrective steps, attempting to post it straight through, ultimately removing most of the manual reconciliations work.

## **Journey ahead**

Clearly not all treasuries are using these innovative solutions but many are in a position to learn from the early adopters across the sectors. In the FI space, insurers are making encouraging noises in this respect; there may be a longer journey ahead than perhaps those in the consumer, retail and healthcare industries but, as Jameson has said, the banks have a responsibility to bring every client up to speed.

The banks themselves are constantly working on platform upgrades. Some have embraced the opportunity to partner with the fintech community (Bank of America Merrill Lynch's IR is a prime example). Arguably, the discovery of "viable and relevant" innovations via this route is necessary to meet the rapidly evolving needs of business. "We can then offer guidance to our FI clients on what we are doing, sharing the innovation process and exploring the build-versus-buy or partner pathways," says Jameson.

Every innovative project requires a strong set of drivers. Where efficiency is targeted, cost savings are often at the helm. In a sector such as transaction banking or insurance, the essence of success is partly defined by volumes processed. Improving

processes supporting the volumes can deliver significant benefits. But using the right tools can deliver enhanced visibility too, empowering more timely decisions.

"In a world where market events can rapidly force industry change, access to real-time information and payment capabilities is giving treasurers the opportunity to be more agile on behalf of the lines of business they are supporting. Bank of America Merrill Lynch refers to this as Intelligent Treasury which is Powered by People, Driven by Technology," says Jameson.

Bank of America Merrill Lynch undertakes to help and support such clients, raising awareness of what it sees across the sectors, and discussing what it has achieved itself and with its partners. "In this sector, there is considerable difference between the requirements of a bank, an insurance company and an aircraft leasing firm, but all are looking for efficiency. As advocates for our clients, we are there to support their broader enterprise-wide goals."



**Jay Norris**

Global Transaction Services C&R  
Corporate Sales Executive  
Bank of America Merrill Lynch

## Consumer and retail: ensuring the customer is always right

Consumer and retail (C&R) is in the midst of a rapidly changing environment. For Jay Norris, Global Transaction Services C&R Corporate Sales Executive, Bank of America Merrill Lynch, this transformational period should be embraced by both corporate and bank stakeholders alike.

With a blend of common and specific impact points across C&R, where multiple sub-sectors are operating, the needs of all stakeholders harbour complexity and, given the speed of change across the board, urgency.

Bank of America Merrill Lynch, with its own vast direct retail experience, has first-hand experience of meeting the wants and needs of clients in this sector. On the premise that 'the customer is always right', delivering the most appropriate platforms and experience is essential to retain the competitive edge.

In the banking sector that serves both retail customers and corporates operating in the C&R sector, this necessarily translates into major platform migrations and integration work, notes Norris. It is an imperative equally true for many corporates in the C&R space.

The reason in both cases is simple. A typically disparate combination of core systems (ERPs and, for corporates, TMSs) often lacks useful connectivity. This lack can present a serious

challenge to achieving visibility over data, and subsequently, the flexibility and optimal performance that this facilitates.

The issue is only amplified by the need for a rapid response created by the current pressured trading environment. The ability to facilitate true visibility in cash forecasting, in particular, is inhibited by disparate platforms. Leveraging data, market intelligence and innovative technology has become an essential part of securing visibility, process fluidity and agility, especially given the limited resources typically available to treasury, says Norris.

## Digital drivers

But there is a strong external pressure on C&R sector treasuries to become more agile too. This is being driven by major changes in customer buying behaviour. Preferences are shifting in terms of the nature of preferred goods and services (with health and experience-based products, for example, on a steep upward curve). Digital touchpoints are also becoming the norm in most markets, with the prevalence of mobile devices and reliable infrastructure enabling e-commerce to flourish.

Indeed, the C&R sector has become a story characterised by digitisation. And just as financial institutions have had to repurpose, and in some cases reinvent, their organisational structures to meet these new demands, so traditional C&R players are also being drawn towards the advantages of digitisation. "In this rapidly evolving environment, there are new and disruptive entrants in the markets; existing players are seeing these as both a threat and an opportunity," says Norris.

He sees the perceptive traditional retailers analysing their marketplaces and expanding into e-commerce to combat the major online retailers. To be able to do this with sufficient speed, some traditional players have made strategic acquisitions, enabling them to build out their response to how customers want to shop now, and how and when they wish their purchases to be delivered.

## Treasury to the rescue

If within the C&R sector, technology is both driver and enabler, its treasury functions are perfectly poised to make sense of these changes, says Norris. At the root of this is a fundamental change in approach to technology.

In many cases, the retail experience that has been made easier through online and mobile is beginning to influence how shoppers' expectations are being translated into their roles as employees. There is an increasing desire to be able to use devices in a professional setting that offer the same level of user experience that is often found in the domestic context: simplicity, clarity and fluidity.

This, he feels, is bringing treasurers and banking partners together in the quest to deliver that experience. In doing so, the advantages of optimisation through digitisation are beginning to infiltrate and reshape a host of corporate processes and channels, from payments and collections, to forecasting and risk management – and many points in between.

As partners in delivering the response to this changing environment, treasurers have earned a seat at the table – and a broader set of responsibilities – notes Norris. “They are now looking at how to support the growth of the company, not just deliver a solid back office function.” Treasury is now so much more of a collaborative function with a common aim. Indeed, working with marketing teams and suppliers, treasurers are helping to analyse data and model customer behaviours with the aim of forming a targeted growth strategy.

Given that C&R customers have increasingly demanding expectations, any technological response will have to address their needs at an ever more localised level; for a far-reaching international business this can be challenging, says Norris. Solutions must also be future-proofed as far as possible, placing the emphasis on engaging with the right technology from the outset.

In this setting, he sees forward-looking treasurers in C&R “taking the lead in their organisations and helping other functions to realise their goals through appropriate solutions”. With treasury being tasked to do ‘more with less’ – continuing to manage the fundamentals whilst keeping up with rapid change – it requires acceptance and understanding of new digital models.

The successful treasurer, in an equally successful organisation, will therefore have to be proactive in their approach. Undertaking research and pushing their banks and other partners to provide answers, and developing a consultative relationship, should now be par for the course. “The more informed the treasurer,” notes Norris, “the more able they are to push their providers into developing their solutions in the ways that suit their business needs.”

## Sector solutions

In the C&R sector, the kind of products that Bank of America Merrill Lynch delivers have a strong focus on trade and supply chain finance (SCF), says Norris. “What’s really important for this sector is to ensure there is no disruption in the supply chain; the right product in the right place at the right time is critical.”

The current geopolitical environment featuring, for example, the trade relations between the US and China, and Brexit uncertainties, unsettles supply chain optimisation. Foresight and planning aid the ability to be proactive but businesses also need to be able to respond rapidly to challenges or opportunities as they arise.

With Bank of America Merrill Lynch continuing to develop its SCF programme, it has invested in the ‘distribute’ model, enabling sponsor and investment bank partners to widen the opportunity for clients to benefit from this form of funding. By leveraging the availability of capital outside of the traditional bank market, its distribution model of supply chain finance means businesses that otherwise might not have access to funding – particularly SMEs – now have that available to them.

SCF is seeing something of a resurgence in the current environment, notes Norris. With around 60% of Bank of

America Merrill Lynch’s major C&R clients having adopted some form of SCF programme, and many of the remainder in discussion, it has clearly benefitted from heightened market awareness.

SCF traditionally enables major buyers to improve their working capital metrics by extending DPO, yet still enhance relationships with smaller suppliers by providing them with earlier payment and lower cost of funds based on that buyer’s stronger credit rating.

There is a technology play here too, says Norris. Bank of America Merrill Lynch is enhancing its SCF offering by leveraging Optical Character Recognition (OCR) and artificial intelligence (AI). This, he explains, helps clients reduce operational risk by enabling far greater visibility and deeper analytics around their trade-related data. Bank of America Merrill Lynch is a notable early adopter of blockchain and digitisation in this space too, facilitating Smart Document exchange to expedite the flow of goods.

The bank is also currently engaging with the concept of using supply chain financing to support inventory management, working with a large C&R client to investigate new ways of tracking inventory, controlling stock and streamlining relevant data. Furthermore, its export and agency finance unit is exploring ways of leveraging its work with the world’s export credit agencies, aiming to give clients more opportunities to expand into new (and perhaps higher risk) markets, or perhaps provide bespoke short-term trade finance to mitigate exporter-client risk.

## Shaping the future

These new tools could benefit many businesses in the C&R space, but some are still on the lower end of the adoption curve, notes Norris. The challenges of harnessing such technologies must be overcome before meaningful progress is made, he comments. “With multiple factors impacting development, it’s going to take a holistic strategy to bring it all together.”

Clearly not all current C&R players will be able to adjust to changing market conditions and the demands of the consumer. There have already been some notable casualties, where certain large corporates failed to recognise in time that they were under attack. Some have paid a heavy price. For those that remain alert to market change, Norris believes that the “continued buzz around harnessing technology” will steer the market to a point where many more are able to climb the curve and begin operating “in a more flexible and nimble way”.

Those that are on the low end of the curve, who feel they are nonetheless achieving good results, can take an even more positive stance if they realise that, whilst they have a long journey ahead of them, they have considerable opportunity to grow their business into something far more powerful. “For treasurers, the ones that will be successful will be the ones who understand this and can articulate it within their organisation, to the point where they can influence buy-in from senior executives, helping to shape strategy.”



## Mark Sims

Managing Director  
Bank of America Merrill Lynch



## Lynn Wiatrowski

Executive Vice President  
Bank of America Merrill Lynch

## Healthcare: industry upheaval creates transformational opportunities for treasurers

The healthcare industry is undergoing massive changes presenting numerous challenges for the sectors treasurers. Experts from Bank of America Merrill Lynch explain how they can meet them successfully.

There aren't many sectors at present that are as complex and, at the same time, in the throes of as much upheaval as healthcare, with strong M&A activity across the space an accurate indicator of the profound transformation taking place across the industry.

Law firm Baker McKenzie, for instance, predicts that M&A volume in the healthcare sector will increase to US\$331bn in 2019, up 7% on year, and mark a solid recovery from last year's 5% drop. The report predicts deal-making activity is likely to be the most intense in the US and Asia as companies look to respond to a fast-changing healthcare market.

It's certainly an outlook that chimes with what Mark Sims, Managing Director, Bank of America Merrill Lynch, is seeing: "There continues to be a high degree of M&A activity across the sector. It is against a backdrop of; patent expirations, growing political uncertainty, evolving consumer demands, and mounting regulatory pressures such as those centered around protecting patient data." As a result, he says, firms at the sharp end of the shakeout face numerous challenges including in cost containment; better management and forecasting of cash and liquidity; efficient integration of acquisitions; effective interaction with consumers; proliferating payment mechanisms; and making best use of new technology.

Sims adds: "Digitalisation is especially pervasive. It is not just associated with the different types of payment methods that are coming through. It's about how people, consumers, now basically want to use mobile devices to transact. Digitalisation is a great opportunity to drive efficiencies, remove manual processes, as well as get visibility, whether its account management or global liquidity."

Lynn Wiatrowski, Executive Vice President at Bank of America Merrill Lynch, echoes Sims, adding: "Innovation is disrupting the way payers and providers do business, but also creating new opportunities. There's now an intense focus on gaining market share with consumers and employer groups, not just via consolidation but through innovation focused on the patient experience. This innovation isn't just limited to the clinical experience – for example retail clinics or telemedicine. Innovation in the patient financial experience is occurring as well with improved price transparency, patient billing and collections processes, and new financial tools for consumers. We know that treasurers in our clients' firms are partnering with other internal stakeholders to improve the patient's or member's financial experience."

At the same time this shift to "consumerism" is occurring, efforts to move to "value-based" healthcare continue. In this delivery model providers, including hospitals and physicians, are paid based on patient health outcomes rather than procedures. "Payment models between providers, patients and their health plans are changing very significantly, often in ways that threaten fee for service revenue streams. Providers are challenged to make this transition while still maintaining financial health."

## Changing roles

More broadly, with governments increasingly alarmed by the ever-increasing cost of healthcare, firms globally are under huge pressure to reduce costs and that is squeezing margins. For Wiatrowski this particular challenge demands that healthcare organisations redesign their processes and increase automation across back and front office functions: "The banking industry has undergone its own digital transformation and has a lot to offer providers and payers."

As transformation across the sector picks up pace, Sims has also noticed treasurers reviewing their role, with technology in particular provoking a change in their mindset: "In the past the treasurer's focus was very much on the basic requirements – looking at capital markets for debt issuance, looking at hedging tools and so on. Now the whole focus is on how they can create a digitalised platform to secure all those benefits."

Wiatrowski is equally emphatic about the need for healthcare treasurers to reinvent themselves: "They need to really think differently about their role and the value they bring to the organisation. The forward thinking treasurer is setting the example to inspire change and innovation. As a result of mergers and acquisitions, many find themselves running disparate, often antiquated systems. Often focused attention and investment is needed to redesign the operating approach and integrate or replace systems to become more efficient, create more centralised, digitalised, platform-driven models."

There are already successful examples of treasurers using technology to manage cash and control costs more effectively: "Our CashPro corporate treasury platform allows treasurers to access all of their banking information, even via mobile. And our clients are continuing to integrate their financial systems directly with our platform through traditional means as well as our APIs. As processes are increasingly automated, treasurers

are freed up to focus on more strategic activities. Focusing on automation and working with like-minded partners helps healthcare organisations build more efficient front, middle, and back office operations."

Sims is sympathetic to the view that when it comes to digitalisation, treasurers are currently swamped with potential solutions and technologies like API's, blockchain, AI, robotics and big data. "It's all developing so rapidly and it's a lot to take on for many. Certainly, we are a great source of information for our clients about what's happening in the space so my recommendation to treasurers is leverage your bank relationships."

One area Wiatrowski believes banks are supremely well placed to help healthcare organisations is cyber-security. The sector has traditionally been very protective of its patient and member data, but the increasing pace of M&A, and changes in the relationship between provider and payer, and increases in third-party relationships are exacerbating cyber-security risks: "It's the number one priority across the sector. Healthcare firms are realising that their extensive third-party relationships are opening them up to more cyber risk. High profile breaches and ransomware attacks have made cyber-security top-of mind."

She strongly advises healthcare treasurers troubled by their organisation's exposure to cyber attack to seek advice and help from their bankers. "We for instance have an abundance of educational opportunities for clients focused on protection against various cyber threats, ways to organise their companies to be better protected. As a major global player defending against cyber attacks and fraud is mission critical for us."

## Leveraging technology

Bank of America Merrill Lynch is also seeing a lot of demand from treasurers looking for solutions that enable consumer to business payments to be digitised. Wiatrowski says: "Payment models are amazingly complex in US healthcare, creating multiple impediments to upfront collections. Providers especially struggle to determine what a patient owes and collect at time of service. This and other factors drive a high volume of paper based payments in healthcare. And payers and providers both end up over-collecting and needing to issue refunds back to their patients or members."

While cheques are still the dominant form of payments from healthcare businesses to consumers – such as refunds and payments for participation in clinical trials – organisations do have a growing number of choices. "Patients can get a prepaid card, which isn't a digital transaction, but it's certainly more efficient than a paper check. Or they can receive digital disbursements whereby payments can be made electronically without the need for the consumer to provide their personal bank account information. And payers and providers are both rapidly adopting solutions to collect from consumers electronically. Patients and members increasingly have the option of paying online by card or direct bank account debit. In a consumer-centric health care environment, providing convenient payment options is critical to the patient or member experience."

Bank of America Merrill Lynch is also investing heavily in exploiting leading edge technology to develop solutions to help healthcare firms and their treasurers. Machine learning is currently a major focus for application in receivables processes and predictive analysis to the benefit of Bank of America Merrill Lynch's corporate treasury platform CashPro, while robotics is being implemented in its Lockbox solutions.

AI has found application in Bank of America Merrill Lynch's "Intelligent Receivables" product, a matching solution that helps to take the manual work out of reconciling receipts. Sims explains that by using AI and various web scanning techniques, IR scans all remittances for critical information and then enriches the payments with that data and matches them to open invoice files. It promises nearly 100% data capture and straight through reconciliation levels that may reach up to 90% or even more.

"Such technology helps to take people who were previously manually reconciling and better deploy them elsewhere for more value-added exercises. Everybody's talking about virtual accounts and virtual account management. That's great but what we are finding is that reconciliation is even more important. So, having virtual accounts and IR layered onto that is a real advantage."

More specifically focused on healthcare is Bank of America Merrill Lynch's HealthLogic platform which automates the historically paper-intensive flow of dollars and data from health plans to providers. "With very large health systems there could be hundreds of people involved in posting and reconciling payments, handling various correspondence from payers and consumers, and digitising documents," Wiatrowski explains. "By combining HealthLogic with our patented Lockbox process we have created a highly automated solution for collecting these paper-based payment volumes. We are able to automate the posting of the complicated remittance advices that accompany healthcare payments and manage the ever-growing volume of correspondence, allowing for the redeployment of personnel to higher value-added opportunities."

As healthcare organisations look to navigate the many challenges confronting them, Wiatrowski believes it more important than ever they look to examples of success across the sector: "What we're seeing in the industry is that there are more "shiny objects" being offered to the healthcare industry than you could possibly imagine. What the most successful healthcare companies are finding is that partnering with someone who can be an end-to-end partner versus a bolt on here, a bolt on there, is a more successful strategy whether it's to address cyber-security, or broader organisational and treasury digitalisation. It's a more streamlined strategy, a more efficient way to deal with partners, and it doesn't open up as many potential windows for cyber-attack or fraud."

"And I do think we're seeing organisations taking that long view, and being very thoughtful and strategic about the partnerships they create. It is a lot of effort. It's one of the reasons we created a consulting team whose role is to go into an organisation and help treasurers identify key opportunities for changes, begin prioritising and implementing them."

# Stepping up

*Treasurers may not historically have played much of a role in supporting business growth. But in 2019, proactive treasurers are stepping up and taking on a more strategic role within their organisations.*

Business growth is a goal for many organisations – but companies have plenty of challenges to overcome when contemplating growth in the current market. The Gartner 2019 CEO and Business Executive Survey found that 53% of respondents mentioned growth as a top three business priority, up from 40% in the 2018 survey. But CEOs also referenced the challenges that can arise when expanding internationally, with 23% citing the impact of tariffs, quotas and other trade controls.

While treasurers may not be at the forefront of the company's growth strategy, they will nevertheless be affected by it. "Growth is driven by investor expectations around margin growth, and that obviously cascades to the CFO and ultimately finds its way – perhaps through a different set of key performance indicators – to the treasury," says Peter Cunningham, EMEA Head of Consumer & Healthcare Sector, Treasury and Trade Solutions at Citi. "But it's an ongoing challenge to pursue growth strategies while doing the day job. And that day job has become a bit more complicated in the current environment – it's certainly a more volatile outlook in light of factors like geopolitical pressures, trade wars and Brexit."

Treasury may traditionally have focused on bread-and-butter activities such as cash management, funding and investments. In today's environment, however, the role of the treasurer has taken on a much more strategic focus – at least for some companies. For example, the ACT's 2018 report, The Business of Treasury, found that 87% of respondents saw treasury as a strategic business partner in their organisations.

## Evolving role of the treasurer

While treasurers have not historically played much of a role in identifying and harnessing opportunities for growth, this is now changing, says Deepali Pendse, head of South East Asia

Corporate Sales, Global Transaction Services at Bank of America Merrill Lynch (BofAML).

Pendse outlines the traditional role of the treasurer as one which has "little autonomy" and is limited to asset liability management and liquidity. Under this model, Pendse says that treasurers tend to focus on activities such as ensuring optimal use of cash, managing financial risk and cash flow forecasting – adding that this role is overall "more operational centric".

Today, in contrast, Pendse notes that treasurers now have greater autonomy, coupled with local decision-making power. "They are involved in the impact of regulatory changes, implications of capital adequacy and risk management," she adds. "They are also required to collaborate with various units within the business and advise senior management – and they are heavily involved in capital allocation decisions."

## Commercial treasury

Cunningham says that "the treasurer is not the first person you'd think of as enabling growth within the treasury" – but he also notes that the treasury's role in supporting growth is changing. "In the last five years I've seen the emergence of new roles and titles within treasury, such as 'treasury advisory' or 'commercial treasury,'" he explains. "Effectively, the remit of these roles is to come out of the silo of treasury and engage with the business."

He adds this can also be achieved via senior secondments between different departments. "So a treasury person might sit and work in the procurement division or the credit control department for 12 months. While the focus of these exercises may not be specifically on growth, it's certainly about looking at what value-add treasury can generate for the business, and what it can contribute to the company beyond risk mitigation and optimal funding models."

## Supporting growth at Wolters Kluwer



Wolters Kluwer

George Dessing is Senior Vice President Treasury & Risk at Wolters Kluwer, which provides professional information, software solutions and services for a number of sectors, including tax and accounting, risk and compliance, and legal and regulatory.

As Dessing explains, the treasury plays a business partner role when it comes to supporting the company's new 2019-2021 strategy, 'Accelerating Our Value'. He comments, "Treasurers need to support growth by freeing up business unit finance directors to move away from day-to-day cash management and banking related issues, and focus on their organic growth and driving the business."

He says that with increasing pressure to operate efficiently, it's critical for treasury to "identify opportunities that will drive operational and financial agility", therefore supporting more investment into innovation and product development.

According to Dessing, treasury can do this in three ways: "Be the knowledge centre; be the enabler for cost saving; be the arranger for alignment of the finance terms and conditions."

Dessing says he supports business growth at Wolters Kluwer in a number of different ways. These include centralising and optimising cash management and treasury processes, as well as rationalising banks and banking fees. In addition, he says that treasury is playing a role in streamlining e-commerce by aligning and optimising the company's credit card programme and rolling out new cards in order to increase standardisation. Other practical measures include driving fraud prevention and being the 'go-to' department "for funding to execute the strategic plans supporting our growth".

## Why step up?

There are many reasons why treasurers might want to embrace a more strategic role within their organisations.

Career progression is one compelling motivator. "What is the next role for the treasurer?" says David Stebbings, Director, Head of Treasury Advisory at PwC. "It's either another treasury role in another company, or to be CFO – or another financial management position with a wider remit. And if you want to be a CFO, you have to step up."

In other cases, external factors can facilitate a shift into a more strategic role. This can include market developments which underline the importance of the treasurer's expertise – such as the global financial crisis or, more recently, Brexit and the US-China trade war. The trajectory of an individual company can also demand greater input from the treasury.

"As companies become more global, foreign exchange becomes more important and banking arrangements can become more difficult – so the treasurer has a bigger role to play in all that," says Stebbings. "Of course, some don't want to. Some are quite happy to do the traditional treasurer role, and then potentially move into tax."

That said, Stebbings also observes that a traditional approach is more viable in some companies than in others. "It is much riskier now to be inward-looking and focused on technical treasury," he says. "In businesses that are growing internationally, you are more likely to succeed with a business-focused approach – but you still need to get the basic transactional and funding elements right as well."

## How can treasurers support growth?

What does this mean in practice? Stebbings highlights a number of areas in which treasurers can support business growth: "The treasurer has a significant role to play when it comes to expanding the global footprint of the business," he explains. "Not just by setting up cash management arrangements, but also by understanding the foreign exchange." He argues that FX is as much a business issue as

it is a treasury issue – and that treasurers increasingly need to get involved with issues such as the impact of FX risk on pricing contracts with contracts and suppliers.

Stebbins adds that treasurers can also support growth in other key areas, for example by negotiating arrangements for credit card receipts, or by supporting suppliers through the use of supply chain finance.

## Working capital and beyond

Working capital management is another notable component of supporting business growth, as Daniel Jefferies, Group Treasurer at Equiniti Group, explains. "This includes asking what the working capital requirements are for the business – are you cash generative? Do you have highly cyclical cash flows? What is the best way to support that in the business?" he says.

In addition, Jefferies includes activities such as capital structure and funding under the heading of supporting growth. "It's also about taking risk out of the business, and allowing the business to do what it does best," he says, citing a role at another company where he had used hedging and risk management to take away risk and volatility from the company's products.

But while there are many ways in which treasury can support growth and take on a more strategic role, this doesn't mean that treasury can or should be leading the company in this area. As Jefferies remarks, "You are not there to set the organisational strategy, but you are there to support it."

## Advising on e-commerce

Citi's Cunningham says another area of opportunity is the value that treasurers can provide when companies are developing their e-commerce strategies. While such strategies tend to be driven by the consumer payments team, with a focus on enabling the company to connect directly with consumers, Cunningham notes that there is much to be gained by looking at this topic through a treasury lens.

"When a consumer or FMCG company sells direct to the end consumer, there's theoretically more margin to capture because you are cutting out the middleman," says Cunningham. "But the big upside that isn't appreciated by many companies is that there's a huge working capital opportunity here."

He points out that FMCG companies may have a DSO of 50-60 days – "but when you collect at point of sale, that DSO becomes effectively zero. So there's a clear opportunity to be captured as you push more sales through that direct to consumer channel – but it also explodes the volumes of sales and collections you have, with the average transaction value coming down significantly."

As Cunningham explains, the higher volume of transactions can wreak havoc and create bottlenecks if processes are not fully automated "so there are some interesting opportunities and costs that need to be addressed. I feel that treasury should have a seat at the table here, but from the discussions I'm having, that's not really happening today."

Nevertheless, Cunningham says that there are some cases where treasury is becoming more engaged in this area. He cites the example of a company where the treasurer is working directly with web designers to incentivise desired consumer behaviour during the checkout process.

## Leveraging evolving technology

Meanwhile, BofAML's Pendse notes the importance of leveraging technology to drive treasury process automation and "free up staff to focus on strategic, value-added work". She adds that obstacles to this may include a lack of budget for treasury infrastructure, or for transitioning from process-based treasury to a more strategic approach, noting that some changes in staff may be needed.

Likewise, Pendse says that treasurers can support business growth by leveraging evolving technologies such as AI and API. "The future is data, and how to manage and leverage it for better commercial outcomes," she says. "What developing stories can a treasurer see from harnessing the data within treasury? Better forecasting, more efficient hedging strategies, lower cost funding." Nevertheless, she also points out that the obstacles to leveraging these technologies can be considerable, such as having data in multiple systems and issues around the consistency of data.

## Stepping up

Treasurers are busy people – and not everyone has the time or inclination to seek out a more active role in supporting business growth.

"It takes a certain type of treasurer who is able to reach out of his or her career domain and work with other business management for the benefit of the business," says Stebbings. "And this can be difficult to do – procurement might see supply chain finance as their area, for example. So you can get a certain amount of pushback when you are entering someone else's domain."

For treasurers who are looking to step up, Jefferies underlines the importance of taking a proactive approach. "You should definitely be prepared to offer your views to your line manager, or to the CFO, and ask, 'how do you see things progressing over time, and how best can I support you?'" he says. "This

might involve asking questions about the capital structure and proposed future actions, and then saying, 'in that case, do you want me to think about options for funding or risk management?' Or on a more basic level, it might mean making sure you have the right structure in place to support future activities. I would always encourage having that conversation."

Dessing, meanwhile, warns that treasurers cannot support growth simply by sitting behind the PC. He adds that treasurers need to have certain characteristics in order to play the part of a strategic partner, including some of the following:

- **Be prompt.** Dessing says that treasurers need to stay ahead of the curve, rather than waiting for the moment that cash is actually needed.
- **Be proactive.** This includes connecting with internal and external groups, such as business units, tax, accounting, legal, communication, IR, advisors, auditors and banks.
- **Be a team player.** Being a strategic partner means being open and connected, as well as an effective communicator.
- **Be the 'guardian of cash'.** Dessing notes that in today's digital environment, treasurers should drive "awareness of fraud risk and the associated proper behaviour".
- **Be open minded.** Rather than focusing narrowly on bank account management and cash, Dessing says treasurers should have a holistic role with a wide range of responsibilities and covering areas such as financial and operational risks, pensions and real estate.
- **Be passionate.** Last but not least, Dessing advises treasurers need a "best in class mentality" so they can "deliver the value-add" – and he also emphasises the importance of being supportive of others' ideas.

## Supporting high-growth companies

Supporting growth is one thing – but what challenges might treasurers face when supporting high-growth companies? Cunningham notes that in such cases, there can be a lot of pressure to be first to market and build sticky relationships – particularly if the company is offering a unique proposition.

"From a treasury and finance perspective, that focus on speed can trump safety and soundness – and there are a lot of areas that treasury would traditionally look at when the company enters a new market, such as currency controls, banking regulations and the due diligence that treasury would undertake in a slower life cycle," he says. "Then there's the need to choose the right cash management or treasury infrastructure to support the underlying business model in that market."

In a fast-growing company, Cunningham says that treasurers may not have the luxury of going through the same level of due diligence – and this may force treasurers to approach the exercise slightly differently. "So it might mean you don't establish local legal entities in that market, or a resident bank account, or a local currency account. Within the confines of local regulations, there may be easier, lighter ways to enter a market that might not be 100% optimised from a cost and risk management perspective – but they can enable you to plant that flag in the market very quickly, and potentially review the infrastructure at a later date."

# 2019 CORPORATE TREASURY & CASH MANAGEMENT CONFERENCE

WEDNESDAY 20TH NOVEMBER  
CROKE PARK STADIUM | DUBLIN | IRELAND



**J.P.Morgan**  
Asset Management

**REFINITIV**<sup>TM</sup>  
DATA IS JUST  
THE BEGINNING 

**REGISTER NOW** [corporatetreasury.ie](http://corporatetreasury.ie)

## SPEAKERS



**NIALL KELLY**  
Treasurer  
DCC plc



**NAOMI HOLLAND**  
International Treasurer  
Intel Corporation



**NOEL BRADY**  
Capital Markets Director  
Takeda Pharmaceuticals



**STEFAN KUHNERT**  
Deputy Head  
Economic & Financial Affairs  
European Commission



## Engineering success

**Himanshu Kher**  
Group Treasurer



With almost two decades of professional experience under his belt, Himanshu Kher is steeped in the world of global brokerages, banks and consulting organisations. But he tackles complex treasury problems with the fast-thinking structured approach of a formally-qualified engineer and the intuitive mind of a trained Indian percussionist.

---

*LMAX Exchange Group (LMAX Exchange) is a leading player in the global capital markets and the only independent operator of institutional exchanges for electronic FX trading and crypto currencies. Servicing funds, banks, brokerages, asset managers and proprietary trading firms, the company has a global client base and matching engines in London, New York and Tokyo. Over US\$3trn is traded annually across all LMAX Exchange execution venues. In 2018, it racked up gross revenues of US\$50m, up 27% from 2017.*

“Part-accident and part destiny.” This is how Kher describes his journey to the top. With treasury, corporate finance, risk management and stakeholder management at the heart of his career for almost two decades, having recently been appointed to the newly-created role of Group Treasurer at

LMAX Exchange, it seems like he has been gifted the kind of professional scenario to which most treasurers aspire.

It’s been a progressive ascent, Kher arriving at LMAX Exchange from the Group Treasury role at FTSE 250-listed

“

I was able to draw upon my strong financial services background and years of experience and, ultimately, it turned out to be a great opportunity that enabled me to grow as a professional and reach the next level of my chosen career.

international financial derivatives trader, IG Group. Prior to this, he was a Director within Group Treasury at Barclays. He also previously occupied senior risk management consulting roles at Boston Consulting Group and PwC LLP, having started his career as an M&A banker with Nomura Securities in Hong Kong.

## Stepping up

Kher joined LMAX Exchange Group at the start of 2019, where he assumed responsibility for funding management, liquidity management, risk management, and providing advice to senior management on risk management strategies for foreign exchange.

Indeed, having started his professional life in banking before moving through trading and consultancy positions, Kher's transition to treasury was the result of some rapid thinking on his part. In somewhat understated fashion, he declares of his switch to treasury "there was some luck involved".

Following on from his tenure at Nomura, he took on a role as an index options trader at BNP Paribas in London. Then, the 2008 financial crisis happened. The impact this had on all the major investment banks cannot be overstated. Sensing a major change in the air, Kher decided it was time for a career transformation.

His first step was to take on treasury advisory roles at consultancy companies, first with PwC and then the Boston Consulting Group. The experience gained here evidently signalled the right direction for him. "Through my years of advising treasurers and chief risk officers as a consultant, it became clear to me that the real action was in being a treasurer rather than a consultant," he recalls. "When the opportunity arose to become group treasurer of IG, I immediately said yes."

## Challenging roles

There were some serious tests coming Kher's way as part of that transition. However, determined to drive his career forwards, his sense of purpose enabled him to call upon his entire breadth and depth of prior experience to bear on his new direction. "As Group Treasurer, you are entrusted with a much higher level of responsibility than a consultant, and just having a big picture view of treasury doesn't work," he notes.

In making the transition, he recollects that one of the main challenges for him was in picking up the complexities and nuances of a new industry – retail leveraged trading – as well as understanding the underlying processes that made the treasury function work in that context. "I was able to draw upon my strong financial services background and years of experience and, ultimately, it turned out to be a great

opportunity that enabled me to grow as a professional and reach the next level of my chosen career."

## A different route

Kher was not always set on a finance and treasury career pathway. In fact, he trained as an engineer before moving into financial services, graduating with First Class Honours in Manufacturing Science and Engineering. As a Member of the governing body of the Society of Mechanical Engineers, he has even published papers on truly specialist subjects such as 'Selective Laser Sintering (SLS) of Pure Metal Powders' (for the curious, SLS is one of the technologies used in 3D printing).

Despite the seemingly 'at-odds' professions, Kher recognises that there are a number of similarities and transferrable skills at play here. "Engineering is all about developing structured solutions to complex problems. That is an essential skill for anyone in a financial services role," he states. In addition to this, he says the successful treasury professional needs abundant technical skills, a well-honed ability to work under pressure, boundless creativity and a highly developed team-working spirit.

With this in mind then, the direction of travel taken by Kher is perhaps not so unexpected after all. Indeed, it is his structured approach to his work, and his desire to learn, that has also seen him undertake a Masters in Finance at the London Business School, and the MCT Advanced Diploma of the Association of Corporate Treasurers that grants him Fellowship of that body.

However, it would be entirely justified to feel that the practice of treasury in financial services differs from that of industry. Kher concurs, noting that the main differentiator for the financial services industry is that it is more regulated than several other industries, resulting in "a greater level of constraints".

However, he adds, across all businesses and industries, treasurers "must strike the right balance between security of funds, and manage liquidity risk whilst trying to maximise returns made by the business given a set of constraints". Treasury, it seems, is in a permanent state of being what he refers to neatly as "constrained optimisation".

## New build

With the mindset very much to the fore that challenges are in fact opportunities, Kher brought all his previous experience to bear when he undertook the newly created role of Group Treasurer at LMAX Exchange. The opportunity to scale up a treasury function and pivot it to the next stage at a fast growing fintech company was the kind of offer he could not resist. "What excited me about LMAX Exchange was the opportunity it provided to shape the role and make a mark

“

I'm proud of my ability to have met challenges head-on in my career, and now I'm looking at taking on the new challenge of building up the group treasury function at LMAX Exchange. It's a high-growth business that's transforming global financial markets, and that makes it a very exciting prospect for me. I have no doubt there will be more successes to be enjoyed here in the coming months.

in a fast-growing, innovative and successful company," he says. "The high growth level of the business means the rate of change will be immense but I view this as an exciting challenge."

With the work ongoing, he is currently focusing on automating a number of treasury processes to improve the quality of information, and how that information is communicated to management. This, he believes, will result in better-informed decision making and will also translate to greater visibility of cash and risks in the business, "bolstering our ability to manage the balance sheet". There is more: "As our Asia Pacific offering continues to expand, we will continue to find new and innovative ways of handling clients' funds in a frictionless way," he adds.

It's always an interesting decision as to why a company decides to hire a new Group Treasurer. Grant Pomeroy, LMAX Exchange's CFO, says that ultimately it was the rapid growth in the business that led to this position being created.

"We have a growing pool of liquid cash, held in multiple currencies which needed more efficient management," he explains. "Also, as the business matures and as the economy hopefully recovers from a long period of low interest rates, we will focus more effort on optimising returns from surplus funds."

## **Skill, judgement and more**

Barely a treasury article or conference presentation these days goes by without alluding in some way to the 'strategic role of the treasurer'. Kher recognises the increasing level of importance the role has at the higher organisational level, but he is also deeply mindful of the 'day job'.

Indeed, he notes that the strategic role of treasury in financial services can be particularly challenging due to the larger number of constraints imposed by the sector's regulators. To this end, he suggests that a strong understanding of markets, economics and politics and how these affect cash, capital, costs and controls, is the key to success at LMAX Exchange, as it allows the company to manage its day-to-day financing and its FX risk, both of which are growing in tandem as the business expands.

It is therefore the role of the treasurer to look at the short-medium- and long-term risks "and come up with solutions on how we can maximise creation of value for the business". This, for Kher, makes it both a strategic and very much hands-on position.

But it's not just technical skills that are needed to be effective in this arena, he says; the kind of personal skills a successful treasury professional needs are varied. When speaking with those taking the first steps on their career path, he always advises building an understanding of the wider context of treasury. "They need to look at and understand how treasury fits into finance, as well as across the whole organisation."

It perhaps goes without saying that every treasurer will have a love for numbers, but for Kher, those coming into the profession should ideally also have a formal treasury qualification. "This will give them a good understanding of the company's balance sheet and cash flow statements." Additionally, he says newcomers – and indeed everyone already in a treasury position – should be "excited to learn new things, understand what makes the business tick, and have an eye for detail". He also feels that "treasury professionals should be passionate about automation and technology".

## **Peaks of performance**

Having developed the key skills and immersed himself in the role, Kher can highlight a number of specific successes in his own career. His appointment as Group Treasurer of IG – his first senior role – is a prime example of how he has risen to the challenge and relished the opportunity.

"I'm proud of my ability to have met challenges head-on in my career, and now I'm looking at taking on the new challenge of building up the group treasury function at LMAX Exchange," he comments. "It's a high-growth business that's transforming global financial markets, and that makes it a very exciting prospect for me. I have no doubt there will be more successes to be enjoyed here in the coming months."

Of course, the excitement and, at times, pressure that characterises the group treasury role almost demands that the incumbent gets the work/life balance right. A break from the rarefied atmosphere of corporate life for Kher often involves his love of photography. "I am also trained in Indian percussion and want to try and develop my skills further on that front," he continues.

As anyone who has ever studied this artform will attest, the complexity of the Indian rhythmic system – the rhythmic structures, forms of improvisation and formulas for rhythmic composition – can be challenging. But, as Kher says, taking on a challenge is all in a day's work. And as far as his work/life balance is concerned, he concludes that "if you love your work, balance will come, and everything will sort itself out".

# Do you need all this technology?

*From AI to APIs, new technology is poised to transform treasury processes. But how can you decide which developments are really relevant for your organisation – and is there still an argument for a spreadsheet-based approach to treasury?*

Choosing the right technology has long been part and parcel of the treasurer's job. But with the technologies available becoming increasingly sophisticated and diverse, some of the developments on the horizon may be more valuable than others. Given the pace of development, how can treasurers best identify which areas of innovation can provide real value for their organisations? And conversely, is there still scope for treasuries to operate effectively without embracing the adoption of sophisticated technology – or even by sticking with the humble spreadsheet?

## Rise of technology

Thomas Stahr, Interim Treasurer and Managing Partner of Stahr GmbH – Treasury Consulting, notes that the landscape for treasury technology has evolved considerably in recent years. While the market for ERP is large, he says, “the market for treasury technology was dominated for many years by just a few market players, with solutions for large and very large corporates.” Even today, Stahr says, “there are just about 50-60 vendors of professional treasury software – and just a handful of them are real market players with global distributed customers.”

At the same time, treasurers themselves have become increasingly focused on technology. “Treasury as a whole is facing a revolution in terms of technology,” says Leonardo Orlando, an executive in Accenture’s Finance and Risk practice. He notes that while this applies to both the corporate world and to financial services, the two areas are moving at different speeds, not least because of the regulatory pressure applied to banks. “In the corporate world, the focus is more on how organisations can embed technology to become more efficient,” he adds.

And Erik Åkerlund, Head of Sales at Treasury Systems, argues that there is a bigger emphasis than ever on the role of technology in treasury. “Technology is essentially solving the same kind of problems as 20 years ago, but it’s much more autonomous and easy to use today,” he says.

## Areas of opportunity

So where are the most interesting areas of development? Research carried out last year by the Economist Intelligence Unit (EIU) on behalf of Deutsche Bank asked treasurers which technologies they believed would be most beneficial for their organisations moving forward. In first place was big data

analytics systems (56%), followed by AI/ML systems (42%) and instant payments (34%). At the other end of the scale, blockchain and open APIs were cited by only 13% and 8% of respondents respectively.

That’s not to say these developments lack promise. Nick Armstrong, CEO of Identiti, outlines some of the benefits arising from developments in blockchain and tokenisation. “The benefits of blockchain have been proven – unalterable, completely auditable and time-stamped,” he says. “What treasurer wouldn’t want a completely auditable record of all activities, payments and documents at the push of a button?”

Armstrong also says that tokenisation – in the form of “unique identifiers that can collect, connect, reconcile and report on payables and receivables” – offers numerous benefits, such as reconciling incoming payments more rapidly and simplifying reporting by providing regulators “with secure access to parts of those records on the blockchain.”

Likewise, Armstrong notes the opportunities arising from open banking. “Platforms that enable settlement data to travel along with clearing, remittance and regulatory reporting data are now able to link into payment engines, banks and networks,” he says, noting that this can “improve data integrity and create direct sharing of information between buyers, sellers, banks, regulators and payment networks.”

## What problem are you trying to solve?

Of course, any new technology has to have a purpose. Aurélien Viry, Global Head of Cash Management at Societe Generale, says that when seeking out new technology, treasurers typically focus on achieving specific business objectives. He adds, “Nobody embraces technology for technology’s sake.”

According to Viry, the goals that treasurers are focusing on have evolved considerably in recent years. “At a recent industry event, everyone was talking about change – and treasurers increasingly see change management as the centrepiece of their jobs,” he says.

Consequently, he says that the goals treasurers are looking to meet with new technologies include addressing areas such as fraud and security, which might be tackled using developments in data analytics or biometrics. But he says treasurers are also looking to leverage developments like SWIFT gpi to gain more transparency over their international payments.

“

The benefits of blockchain have been proven – unalterable, completely auditable and time-stamped. What treasurer wouldn't want a completely auditable record of all activities, payments and documents at the push of a button?

Nick Armstrong, CEO, Identitii

## Barriers to adoption

While the benefits can be attractive, treasurers aren't always in a position to embrace technology wholeheartedly. Åkerlund points out that the need to change routines and processes to fit a standard technology can lead to some resistance. He adds, "There is also a fear amongst the treasurer's team colleagues that technology is rationalising their job away, when in fact it should be appreciated as a better way of working and not necessarily taking jobs away."

Other barriers to adoption include cost – as Stahr notes, not every treasurer has the budget for a system that could range from €20,000 for implementing a small tool to over €1m for a comprehensive system. "Even treasurers have to show the return of every investment before they get the budget," he says. "Fortunately, it is easier for treasurers to calculate such a return than it is for other departments, such as accounting."

A further barrier that may need to be overcome is that of internal resistance from elsewhere in the organisation. "Treasurers have to convince and sell the technology investments in-house and are probably still facing a lot of resistance," says Åkerlund. "They may get push back, with people asking: 'Can't you do this routine in Excel?' or 'Can't we use existing tools to accomplish the same thing?'"

## Sticking with spreadsheets?

Despite all these benefits, is there still an argument for a spreadsheet-based approach to treasury? "No," says Armstrong, explaining that "reporting requirements alone make this untenable." In addition, he says that spreadsheets inject too much operational risk in the form of human error or 'fat fingered' mistakes – and he notes that spreadsheets also lack automation, needing manual input "at almost every level."

Others may be less emphatic when ruling out the possibility of a spreadsheet-based treasury. But while Orlando says that a spreadsheet-based approach to treasury "is always an option", he also says the question is to what extent a treasurer can rely on their spreadsheets at a time when there is a growing need for real-time information.

"If you don't have any FX risk because you are just trading your own currency, and you don't have any interest rate risk because you don't have any variable interest rate debt or investments – do you really need to be at the very top end of technology?" says Orlando. "Maybe you really don't need that, and can still rely on your spreadsheets for cash management, or even outsource cash management to an external provider."

Nevertheless, Orlando also notes that this is an extreme example, adding that a purely spreadsheet-based approach is unlikely to be the best option. "The ultimate driver must be competitiveness – in other words, how competitive you can make your business," he says. "To be seen as an enabler of this, treasury needs to work in an efficient manner, and in a way that is optimal for the business."

## What about smaller treasuries?

Åkerlund does say there might be room for a spreadsheet-based approach in really small corporate treasuries – but he adds that this is slowly diminishing. "Even though the operation is small, the risks aren't – and that calls for technology to manage the operational risks that come with using spreadsheets."

But that's not to say that spreadsheets are likely to die out any time soon. Stahr argues that spreadsheets are "still the number one tool in nearly all treasury departments", other than insurance companies and banks.

He notes that even companies with a dedicated treasury management system often use spreadsheets for reporting purposes: "In larger corporates with big databases it is still a kind of 'last mile', making information visible, for instance, with power pivots out of very large SQLs." He also says that adoption of a fully-fledged TMS is still rare in small and medium sized corporates, which still tend to use Excel as their "one and only database and calculating tool."

## Making the most of technology

While most would argue that technology has much more to offer than spreadsheets, it's also important to note that simply purchasing a new system may not be enough to achieve the intended benefits. Åkerlund says that new technology has to be easy to set up and use on a day-to-day basis – otherwise treasurers may find they end up with the same output as with older technology. "I would bet that there are so many corporates out there sitting on great existing technology today which may not be the latest – but they haven't bothered to investigate the possibilities and benefits of starting to use it," he adds.

And of course, the technologies available are becoming increasingly diverse. How, then, can treasurers weigh up the available options and choose the approach that is the best fit for their organisations? The experts have some suggestions to offer:

- **Identify business goals.** Pinning down the specific problems that need to be addressed is a prerequisite. "Treasurers first need to understand and prioritise their business goals – whether those relate to cost, fraud prevention, cash concentration or optimising payments," says Viry. "They can then look for the right technology and the right innovations that will best serve their priorities. This includes being able to identify which

technologies can further their goals – and which ones are more of a diversion.”

- **Consider best-of-breed solutions.** Likewise, Åkerlund recommends that treasurers should be open to the new API landscape and define exactly what kind of problems they need to solve. “Then look out for specific point solutions and their respective partners on what they can offer, since it will probably be the most cost-effective way to go. Basically I think you should consider best-of-breed over all-in-one.”
- **Weigh up the benefits of the technology under consideration.** Stahr advises that treasury “should carefully qualify and then quantify the benefits of treasury technology.” He adds that from a treasury perspective, these benefits may include having the various exposures and liquidity under control, reducing the risks of inaccurate reporting and reducing costs by introducing better efficiency.
- **Get buy-in.** Viry also notes the importance of getting buy-in from stakeholders and top management. “When I talk to treasurers, they always say this is an important task

– and sometimes it’s more challenging than the implementation itself. So getting everyone on board should be a priority.”

- **Minimise the impact on existing systems.** Armstrong says that as well as focusing on the business benefit, companies also need to minimise the impact of new technology on existing systems. However, he notes that this isn’t always easy, with existing systems often interlinked with multiple other systems. “There are technologies and companies out there that are working to enhance the systems already in place for treasurers,” he says.

In conclusion, few would argue in favour of a spreadsheet-based approach to treasury. With many treasuries now having to get more done with fewer resources, technology has much to offer when it comes to efficiency and the ability to generate greater insights from data. And while the evolving technology landscape can be challenging to navigate, many treasurers will relish the opportunity. As Viry concludes, “I would tend to think that treasurers who are reluctant to embrace change will have long since made a career change.”

## Harnessing technology



Richard Shaw  
Director, Treasury, Prudential Corporation Asia



When Richard Shaw joined Prudential Corporation Asia in 2014, the company’s decentralised treasury operations were reliant on spreadsheets and manual processes, with a degree of inconsistency between the models used by different business units. The company has over 1,000 bank accounts – and as Shaw observes, keeping track of cash using spreadsheets was a complicated manual process.

In a project that was highly commended in the 2018 Adam Smith Awards Asia, Shaw led treasury through the adoption of a cloud-based solution provided by Reval. As a result, the company has been able to automate processes and standardise best practice controls across the region. While each business unit manages its own daily cash, the new tools optimise liquidity and automate the creation, approval and transmission of payments via SWIFT. The benefits of the project also included releasing material levels of liquidity to be invested in higher yielding assets and automating daily cash visibility across Asia.

Given these achievements, Shaw is a firm believer in the importance of technology to the treasurer’s role. “When we were using spreadsheets, we only received high level data from our business units once a month. In contrast, the treasury now receives detailed data and on a daily basis. “Under the old operating model this would have been very difficult to achieve,” Shaw says. “The only option would have been to apply more resource in our business units to produce and submit detailed daily reports, with central resource required to write and maintain macros to consolidate the information. This would not have been as cost-effective, robust or scalable as a systemised solution.”

Given the benefits that treasury has already gleaned by harnessing technology, Shaw is keeping an eye on developments that could bring new opportunities in the coming years. For one thing, he’s interested in the potential benefits of using robots to automate repetitive daily processes, although at this stage he argues this is not a cost-effective option for some treasuries. Other areas of interest include using APIs for bank connectivity, as well as the use of data visualisation tools for reporting purposes.

Shaw also notes the importance of taking the time to evaluate which technologies can really benefit treasury. “What we’ve done is really quite leading edge, but we’re pretty measured in what we’re doing,” he says. “We’re aware of these new developments, and it’s in our plan to consider them – however at the same time, you need to make sure that what you’re adopting will add tangible value to your operations and has longevity. The world is rapidly changing, so you need a good sense that you’re going to get a sufficient return on your investment before adopting new technology.”

# Making work for busy hands? IFRS 16 and the treasurer

*IFRS 16 is the new accounting standard that requires companies to include operating leases on their balance sheets. Since it came into force on 1<sup>st</sup> January this year, what has been its impact and how have treasurers been getting involved?*

There can be few regulations that don't have at least one downside. The IFRS 16 lease accounting standard brings transparency to the balance sheet but, for most finance functions, is a source of rather a lot of extra work.

The underlying assets of finance leases have always been reported on balance sheet. The new regulation, which applies to all listed firms with accounting periods ending on or after 1<sup>st</sup> January 2019, requires operating leases to now be recorded on balance sheet. The statistics in 2016 showed that listed companies had US\$3.3trn of lease commitments of which 85% or US\$2.8trn were probably off balance sheet then.

Previously, under IAS 17, operating leases could be reported in notes to the accounts of the financial statement as 'lease commitments', and even then, only as an imprecise contractual amount; future exercised lease options, for example, were excluded.

The main rating agencies have been incorporating adjusted lease impact for many years, treating off balance sheet operating leases as if they were on balance sheet. However, most other stakeholders could not accurately assess a company's debt if it was not on the balance sheet. IFRS 16 effectively eliminates the difference between operating leases and finance leases for lessees (though not lessors). It is a rule intended to create transparency for investors, lenders and analysts, giving them greater precision when comparing companies in the same industry or rating category.

## Impact

The annual Corporate Debt and Treasury Report issued by international law firm, Herbert Smith Freehills, notes that where IFRS 16 applies, even though it has no cash impact on companies, the effect is that "lessees will appear to have more assets but also more debt".

Although in the financial services sector it does not necessarily form a material balance (one that could influence the economic decisions of report users), the same cannot be said in the corporate space, where lease numbers can be immense.

Indeed, as a result of that vastness, some corporates chose to be early adopters of the IFRS 16 full retrospective model. This requires them to calculate every single lease to try to reduce the P&L impact. They are effectively restating figures at year-end, as if IFRS 16 had always been applied; the other option – the modified retrospective approach – means comparative figures are not restated to reflect the adoption of IFRS 16, but then the figures appear massively skewed.

IFRS 16 is far-reaching. Approximately 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies. Of these, around 90 countries have fully conformed with IFRS requirements. Where IFRS 16 has not been directly adopted (in the US, for example), a version that follows it closely will usually have been subsumed into domestic GAAP (US GAAP is broadly the same but does have some key differences with IFRS, particularly in relation to the application of discount rate and the exclusion of the low value exemption in the US).

Obviously, the sectors that have depended more on operating leases, will be most affected by IFRS 16, especially where price of debt is linked to amount of debt. The likes of consumer and retail, telecommunications, transportation, and energy (especially oil and gas) now have their work cut out to maintain compliance. With a retailer such as UK supermarket Tesco citing upwards of 9,000 leases, that effort is significant.

Some corporates have retained pre-IFRS 16 treatment of operating leases in their bank facility agreements. This is the so-called 'frozen GAAP' provision that allows the use of accounting principles active when a facility was entered into, thus not requiring adherence to principles that follow, such as IFRS 16. These companies have a degree of protection for a while, but may have to reconcile pre- and post-IFRS 16 figures for covenant compliance purposes.

The challenge here, according to the Herbert Smith Freehills report, "will be for borrowers to agree with lenders the required flexibility for permissions baskets, ratios and related definitions in their bank financings as well as to solve the issue more generally for their floating GAAP financings".

The implication, in part, is that companies that are weaker on the ratings spectrum, or without frozen GAAP protection, will have less negotiating power with their banks around tweaking covenants. Indeed, with IFRS 16 in force, banks could start insisting that covenants are increased to include the operating leases now sitting on their clients' balance sheets.

Where ladder pricing is used on loans (greater debt equals higher pricing), the sudden increase in booked debt could see pricing increase significantly, perhaps as much as threefold, notes Simon Lello, Managing Director UK Corporate Banking, MUFG.

However, because lease liabilities now have to be calculated precisely, with each and every lease modelled using a particular borrowing rate as an assumption, he adds that there have been "some happy outcomes" in terms of that

“

What's also particularly interesting to CFOs and CEOs – and shareholders – is the impact that the implementation of IFRS 16 has on EPS too; it is dilutive for EPS because interest charges on leases tend to be higher in the early years, hitting earnings per share initially but becoming EPS accretive at the end of a lease when interest charges are less.

Simon Lello, Managing Director UK Corporate Banking, MUFG

liability being a little bit less than expected. For others though, it has gone the wrong way.

Typically, a company will have to compute an incremental borrowing rate (IBR), being the rate of interest that a lessee would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of similar value to the right-of-use assets in a similar economic environment. Alternatively, lease payments can be discounted using the interest rate implicit in the lease, if that rate can be readily determined. Treasurers are well placed to opine and advise on all this within their companies.

## Treasury role

As part of the preparation for IFRS 16, treasury would have seen the need to put in place robust financial frameworks around the new measure. A basic principle of corporate governance is that companies are subject to restrictions in their memorandum and articles of association in terms of overall borrowing powers, says Lello. “Clearly there was need in every case to check that suddenly having a large number of leases coming onto the balance sheet would not breach that borrowing power.”

There was a lot of work done behind the scenes at most big users of lease debt as they sought to amend agreements, governance and build mechanisms to track compliance. The discussion now, notes Lello, is for any new leases to be evaluated in a similar light as for any other new debt obligation.

Treasurers will also now be looking at the economics of lease transactions, rather than primarily as an accounting ‘solve’ for getting debt off the balance sheet. Indeed, notes Lello, some companies are now more closely comparing the cost of a lease debt with a bond issuance, private placements or bank loans.

A side effect of the new standard is that IFRS 16 is dilutive to EPS at the beginning of a lease and accretive to EPS at the end of a lease as interest charged is higher in the earlier years and reduces over time.

Anecdotal evidence from Lello suggests some treasurers have been “surprised” by some of the high costs of lease debt seen, particularly looking further down the curve in terms of lease size (for example for vehicles, plant and equipment). A silver lining of IFRS 16 is that it presents an opportunity for companies to explore, through the necessary high degree of precision and granularity required to compute IFRS 16 calculations, a data set capable of comparing the relative cost of lease obligations. There is a cost saving opportunity for treasurers who now cast a more critical eye over lease

contracts and can promote productive “internal discussions to optimise cost efficiency of now on balance sheet lease debt”.

Due to their skill sets and financing, treasurers have been key players in helping to communicate the balance sheet and profit impact of IFRS 16 both to internal and external stakeholders. Primarily treasurers have been interacting with banks and rating agencies but, they have also been “well-placed” to explain the recalculation of leases more widely, says Lello.

“Treasurers find themselves very much in the box-seat following the introduction of IFRS 16, and this has triggered more regular reporting,” he notes. Whereas before, lease liabilities were typically calculated at the time of the annual and semi report, there is now a continuous testing. Indeed, it is not just a question of increased debt now, it is also a matter of handling raised EBITDA metrics, used to measure a company's operating performance: this has to be assessed at least quarterly, explains Lello.

“What's also particularly interesting to CFOs and CEOs – and shareholders – is the impact that the implementation of IFRS 16 has on EPS too; it is dilutive for EPS because interest charges on leases tend to be higher in the early years, hitting earnings per share initially but becoming EPS accretive at the end of a lease when interest charges are less.” This has all had to be articulated carefully to shareholders. Some industries (airlines, retailers) are much more impacted than others.

## What's involved?

Calculations are not always straightforward. They are divided into two parts, with an interest expense and a depreciation charge; it is not something for the inexperienced. The role of the treasury is significant as both an advisor to the business, and as a source of information around new leases taken on and the existing portfolio.

In the calculation of IFRS 16, a discounting formula is used, explains Charlotte Lo, Director, Banking Accounting Advisory Services, KPMG UK. The recognition of assets and liabilities is based on the “relatively simple” idea of discounted cash flow (DCF). DCF calculates the present value of future cash flow, applying a discount because present value is always lower than the cash flow future value.

In this context, a discount rate determines the present value of a lease payment as a measure of the firm's lease liability. Lease payments can be discounted using either the interest rate implicit in the lease (IRIL) or, more likely, the firm's incremental borrowing rate (IBR).

Calculating the present value of DCF thus first requires collation of all lease details, including any intentions to

exercise options (such as an extension). A discount rate can then be generated, but because leases vary in tenor and the rate represents a specific period only (a ten-year rate cannot be used for a five-year lease calculation, for example) this has to be accounted for. Similarly, where different currencies are used across contracts – and large MNCs may use many – rate calculation requires considerably more work.

Where IBR is used to calculate the discount rate, a market rate such as LIBOR, or another risk free rate (such as SONIA), could be used, says Lo. But this then needs to be adjusted, taking into account the credit risk of the lessee, the lease tenor, the underlying value of the asset, the amount ‘borrowed’ by the lessee, and even the economic environment in which the lease is active (and this may include country and currency).

“It is not easy to come up with the discount rate, but the treasurer can help by providing the risk-free rate and the credit risk of the entity, and they can help source the borrowing rate,” she says. “For that, treasury may be considered one of the key functions to supply inputs of IFRS 16 calculations.”

Of course, every time a batch of new leases comes through, when a new contract is signed for example, a new rate must be secured. Some firms may refresh rates periodically, say every quarter, says Lo, “so it is important that the auditor accepts these rates”.

She believes that treasury can take a more proactive stance here, establishing a self-service model. “In the past, treasury did not necessarily make these rates available but I think there now needs to be a process where it publishes rates from which all internal group companies can source.”

However, Lo offers anecdotal evidence (from the banking sector) revealing that treasurers were initially surprised that IFRS 16 is their problem. “There has been an initial reluctance

to incorporate IFRS 16 as part of their processes and controls,” she recounts.

Furthermore, some have been unwilling to offer rates “other than for a few core currencies”. This is unhelpful if the finance department then has to agree with auditors how proxy rates are to be used. In its defence, Lo fully accepts that the additional burden on treasury has come as “an unpleasant shock” to some.

## Next steps

IFRS 16 demands a complex data exchange. For a business with thousands of leases to manage, it will need “more than a spreadsheet” to manage, suggests Lo. To create a useful system, many processes and data flows must be incorporated, including those of treasury.

Although third-party systems are available, allowing journal entries to be created at asset or contract level before uploading into a SAP or Oracle general ledger, it is evident to Lo that manual processes persist.

To overcome this (and many other issues), companies need to be aiming for data centralisation and process automation, with the treasurer a guiding force, looking at the different lease rates across the enterprise. From here, the outliers can more easily be called out – lease rates that seem high, for example – and replaced with other forms of debt, a more economical lease, or even purchase of equipment.

Post-IFRS 16 many companies still have work to do in resetting their covenant packages, notes Lello. The treasurer now has a key role to play, acting as “independent arbiter” to evaluate whether leasing is ultimately a cost-competitive source of ‘finance’. Indeed, he adds, IFRS 16 has ensured treasury now has an additional area in which to be the “expert advisor” to the business.

## The essence of IFRS 16 for treasurers

Michael Keeler, CEO of LeaseAccelerator, suggests some key IFRS 16 action points for treasurers:

**Expect increased auditor scrutiny.** The new rules will result in greater auditor scrutiny over companies’ leasing processes and controls, so companies will need to track their leases more closely than in the past.

**Monitor financial ratios.** IFRS 16 will impact financial ratios including the leverage ratio, return on assets, and current ratio which could impact agency ratings, existing debt covenants and future debt arrangements.

**Improve data management.** Leases will need to be tracked more closely under the new rules, so robust data management will be essential.

**Assist accounting** in determining the incremental borrowing rate or discount rate to use for calculating the present value of the lease payments. Also, accounting will need help in capturing key financial variables, including weighted average cost of capital (WACC).

**Advise on long-term processes, policies and controls.** Treasury can help develop sourcing policies to optimise capital use in the leasing programme. One control could be requiring a lease-versus-buy analysis for every asset request to ensure that the best acquisition decision is made.

**Develop long-term lessor relationships.** As the leasing process becomes more visible, relationships with a company’s vendors and landlords will become more important. Strong relationships with lessors will give advantages in the sourcing data and in the negotiation processes for equipment and real estate assets.

**Keep financial metrics up-to-date – and share them.** Treasurers can establish an internal process for their organisation to ensure that they keep financial metrics relevant to the leasing programme up-to-date in the organisation’s lease administration software. These data points include the company’s incremental borrowing rate and current market rates.

# Supply chain finance to the rescue for private equity owned companies

*Portfolio companies are turning to supply chain finance as they come under increasing pressure to deliver on behalf of their private equity owners. In a recent webinar Dominic Capolongo, EVP, PrimeRevenue, and former CFO of PE-owned firm Electrical Components International (ECI), Mitch Leonard, explained why it is attracting such interest.*



Dominic Capolongo  
EVP  
PrimeRevenue



Mitch Leonard  
Former CFO  
Electrical Components International

Private equity (PE) weathered the global financial crisis well and, indeed, the asset class has sparkled in recent years, delivering superior returns versus public markets in a low return environment.

Heavy competition across the sector over the last year, however, has driven deal multiples to historic highs, while growing jitters about an eventual economic downturn are affecting decision making across the sector, from diligence to exit planning.

Despite the challenging environment, the outlook for the sector remains promising, with continuing strong investor interest meaning private equity firms currently boast a record US\$2trn in cash waiting to be invested.

But as private equity backed buyouts continue to surge, so does the pressure for portfolio companies to become high performers post-buyout. Private equity groups now need a faster path to positive returns – and portfolio companies need to be able to respond.

That growing pressure on PE-owned companies has led to them becoming more willing to explore alternative financing solutions. Mitch Leonard, former CFO of Electrical Components International, and Dominic Capolongo, Executive Vice President and Global Head of Funding at PrimeRevenue, point to one working capital solution, supply chain finance (SCF), as being especially supportive for portfolio companies looking to fund growth, increase efficiency and meet value creation targets.

Having experienced PE ownership first-hand whilst at ECI, a global leader in the supply of wire harnessing to home appliance and specialty industrial manufacturers, Leonard is well placed to highlight the challenges faced by portfolio companies. Value creation is “priority number one”, he says, adding: “The real challenge here is financial agility. Whether it’s deleveraging, expanding through acquisition or investing in fixed assets, companies need access to material sums of cash in order to achieve these targets. And they must meet or exceed these targets regardless of market conditions. The economic climate can vary greatly between acquisition and exit, but the PE group’s objectives are firm.”

*If you missed the webinar and would like to hear the full recording this is available at [treasurytoday.com/webinars](http://treasurytoday.com/webinars)*

## Delivering on targets

Historically there have been a range of funding options for portfolio companies to consider including commercial lending, cost cutting and dynamic discounting. While overleveraging by many companies and the rising rate environment make commercial lending less attractive; the other options too have their drawbacks. Cost cutting is often ineffective; while dynamic discounting improves the cash position but doesn’t always deliver material improvements.

For Capolongo, the one proven alternative is SCF: “It offers a lower cost of funds than a revolving line of credit and a more material impact to cash flow.” Leonard, meanwhile, can point to direct experience of its efficacy: “During the recession of 2008, there weren’t many funding options at all for companies like ECI. SCF helped us survive much better than our competitors. Even outside of recessionary times, the value SCF brings suppliers and buyers is huge, while the multi-funder model makes sure we get the best financing rates for the business.”

As a global provider of working capital solutions, PrimeRevenue itself runs multi-funder SCF programmes. One such project involved a global caffeinated beverage manufacturer facing billions of dollars in leveraged buyout debt on its balance sheet. It turned to PrimeRevenue to pay off its debt faster. Within the first quarter of launching an SCF programme, the company generated US\$750m in cash flow gain, which was used to pay back 15% of its debt and increase the trailing-12-months debt/EBITDA ratio by around 20%.

Capolongo says the uncertain economic outlook, challenging operating environment for portfolio companies, and the increasingly demanding expectations of their owners means it’s crucial PE-owned firms recognise that “it’s not just about growth – it’s about value creation and expediency”.

He adds: “Companies need access to significant sums of cash, they need it quickly and they need to do it without taking on more debt. Looking beyond traditional funding options – to things like SCF, for example – should be part of their strategy to accomplish those objectives.”



# Making the most of performance metrics

*The evolution of treasury over recent decades has been accompanied by the rise of key performance indicators as vital measures of effectiveness not only in treasurers' own terms but, increasingly, in terms of their contribution to the wider business and its strategy. As such, KPIs are destined to become ever more important.*

Over the last few decades corporate treasury has matured considerably, with advances in IT notably supporting increased standardisation of operations and processing which, in turn, has led to greater integration of treasury practice with the core operations of the organisation.

Greater integration has meant greater awareness and appreciation of just how important the remit of corporate treasury is, not least among the C-suite, and has led to development for key performance indicators (KPIs) to measure and manage its operations from the group perspective. These KPIs have become increasingly sophisticated over time. Nowadays, good corporate practice demands that treasurers use a wide range of metrics and KPIs to measure key areas of treasury, from capital structure to risk management. But a company's needs can evolve over time – so it's important to

review those metrics on a regular basis and make sure they continue to support the overall business strategy.

But you can't manage what you don't measure, as the old management adage goes. And in the world of corporate treasury there is always much to measure. Indeed, research by KPMG found that almost two thirds (63%) of treasurers use a set of KPIs to measure the performance of their various treasury activities.

But while treasurers commonly use metrics and KPIs to assess the performance of treasury, there are different ways of approaching this task. Not all metrics will be applicable to every treasury – so it's important to make sure that the measures looked at are the ones that are most relevant to the company and its strategic direction.

Likewise, treasurers will sometimes need to review the metrics they use to make sure they continue to reflect the company's evolving strategy and remain fit for purpose. Fred Schacknies, Senior Vice President and Treasurer at global hospitality group Hilton, says that in doing so it's important for treasurers to remind themselves that KPIs should serve to focus attention at the highest levels of the organisation and drive results on what matters most: "to that end, KPIs need to increase visibility over the state of affairs with operations and accountability as to who is ultimately responsible for driving what. In most cases in finance, there may not be such a thing as an optimal or normal number as there is, for example, for human vision, blood pressure or temperature; there may only be a direction indicated, more or less. In such cases, setting targets may be arbitrary but that still helps to set a goal against which progress can be measured and motivated."

## Implement and communicate

If over recent decades IT played a critical role in helping with the development of the modern, integrated treasury and rise of KPIs, then new technology more broadly is helping to sustain that trend. Schacknies says new technology is not only driving the generation and proliferation of data but can also facilitate with its exploitation by organisations.

Automation in particular, he says, offers a number of benefits to treasury, not least helping to ensure the timeliness of data processing and the visualisation of data analysis for generating key performance metrics: "when that is done right, it gets the message across the organisation much faster and more clearly. In practice, therefore, KPIs should be getting easier and faster to produce and understand for firms".

Schacknies cautions, however, that there is a growing risk of firms struggling to cope with the volume of data that can be derived using technology nowadays: "Under such circumstances the bottleneck in the process of producing and analysing data becomes the end users themselves. Despite advances in automation and visualisation, we as managers can only concentrate on so many things at one time. So, in my view, the real benefit of technology will be the application of machine learning to identify drivers and optimisation paths for KPIs faster and across wider and more diverse sets of data than is possible by humans alone. Once KPIs are optimised, I imagine the next step will be to apply artificial intelligence to figure out which organisational KPIs should be optimised in order to maximise value drivers at the enterprise level."

In considering his top tips for treasurers looking to implement KPI policies, Schacknies advises:

**Start with why:** avoid the temptation to define KPIs based on what data is currently available or easy to produce. Imagine what questions you would want to be able to answer, in order to be the most effective treasurer possible for the CFO, if there was perfect access to all data, at all times. Define KPIs according to those questions, even if it means data can only be observed infrequently, informally or approximately at first. Then identify the gaps between that vision and the current state and create a plan to get there.

**Stay prioritised:** KPIs should inform treasurers' communications upward and outward within the organisation and should be the basis to motivate changes in behaviour within their team. There may be much more data that must be monitored (management metrics) or reported to outside

parties (compliance metrics) and available just in case (FYIs) but this shouldn't be confused with KPIs.

**Be consistent:** follow through with the production and assessment of KPIs to ensure their importance is understood, even if the production processes are still informal and the data still approximate.

**Be flexible:** KPIs should be tied to the long-term goals of the organisation, but even those goals may change. Furthermore, treasury understanding of how to best achieve those organisational goals may evolve over time. Hence, it must be prepared to adapt KPIs to change with the evolution of the organisation.

Ultimately, however, the impact of a KPI policy and process will be determined by how successfully the information gathered is communicated to the rest of the business. "It really does come down to making sure your message is level-appropriate for the intended audience," says Schacknies. "My own goal is to make sure that my boss – the CFO – and everyone else above him knows what they need to know, which is anything impacting those strategic KPIs. Everything else that happens operationally in support of that is part of the ordinary course of business and need not dilute the communication with senior leadership."

Schacknies says the same applies when his peers across the organisation have demands for information from treasury: "It's very much on a need to know basis – it's about respecting people's time and ability to process information, and giving them information that's most useful for them."

He adds: "KPIs are a useful tool in any application of management, but shouldn't be confused with purpose. Even for those working in finance and in corporate treasuries, there is more to our work than optimising a set of numbers. The success of any organisation, large or small, stems from the ability of people and teams to work together effectively. That means knowing how to communicate one's needs, to understand those of others, to build networks of supportive business partners and to lead change."

## Demonstrating value

Research on treasury KPIs by Nordic bank Nordea certainly paints a generally positive picture of how treasurers themselves feel about KPIs today. There is good news: the vast majority of the more than 160 large corporates surveyed for the study have a formal treasury policy, and about three quarters say they have an established set of KPIs. Around two thirds are satisfied that these KPIs are contributing to treasury effectiveness, and many expect their use of KPIs to grow.

Even better, says lead report author Johan Trocmé, is the finding that treasury performance is getting visibility at the highest levels of the business: for many corporates, the CEO and the board are directly involved in deciding treasury KPIs and monitoring outcomes. Thirty-eight percent of treasuries surveyed say that the board ultimately decides on their KPIs.

Trocmé says: "For treasurers that are looking to take a seat at the top table and demonstrate their potential to add value as a strategic adviser to the business, this is an unmissable opportunity. The select handful of KPIs should demonstrate, in no uncertain terms, that the treasury function is supporting the business in ways that really matter. On that particular score, most treasurers' KPIs are not achieving that goal yet."

“

The success of any organisation, large or small, stems from the ability of people and teams to work together effectively. That means knowing how to communicate one's needs, to understand those of others, to build networks of supportive business partners and to lead change.

Fred Schacknies, Senior Vice President and Treasurer, Hilton

Just 21% of corporates say their KPIs are “directly derived” from strategic company goals. Only 17% share KPIs with other business departments – despite the fact that important objectives, such as improving working capital management, must involve departments like sales and procurement.

In considering the steps corporate treasurers should take to become more closely aligned and supportive of the wider organisation, Trocmé first points out that more than nine out of ten treasuries have a written treasury policy. “The treasurers we spoke to are certain what their mission is, and are clear about their operational responsibilities. And these responsibilities – like optimising liquidity, ensuring the availability of funding, and protecting against financial risk – are undoubtedly critical to keeping the business afloat.

“But if you’re to build your profile and win recognition for your contributions, it’s not enough to be keeping the treasury engine running smoothly. You need to show the rest of the organisation, and senior leadership, that you are supporting their priorities, and have bought in to their goals.”

And the clearest way to do that, says Trocmé is to derive treasury objectives and associated KPIs directly from the corporate mission. “It’s not always easy to make the connection between what the treasury does on a daily basis and the CEO’s vision of innovation, market growth and profit – but the connection is there, and it’s certainly worth digging for.”

Another approach to ensure closer alignment with wider business is to forge closer relationships with other departments and mutually agree shared KPIs that all recognise are important: “For instance, it’s impossible to optimise working capital measures like DSO and DPO without support from other departments, such as local finance teams, sales and procurement. Yet only 17% of treasurers today have shared KPIs.”

## Number one metric

Treasurers also need to make stakeholder satisfaction their “number-one metric,” says Trocmé. During his research for the KPI report, he says many of the treasurers were puzzled when it was suggested to them that they should be measuring

other departments’ attitude to the treasury. “The general view is that the business expects the treasury, as a support function, to just get on with things in the background. That’s why only 40% of treasuries make any effort to measure stakeholder satisfaction. Even for those that do, only a few stakeholders are involved – only 30% talk to the board, and only 9% to procurement – and measurement is overwhelmingly ad hoc.”

Trocmé, however, is clear that measuring stakeholder satisfaction is important, pointing out that as a support function, and moving into advisory, proving customer satisfaction is key to demonstrating the treasury’s value to the board. “All that advice treasurers offer about currency risk, about project finance, about contract terms, about bank choices – shine a light on it. Show that you’re doing more than keeping the engine running.”

“The simple act by treasurers of conducting satisfaction surveys will also raise their profile not just with the CFO but around the business – opening dialogues that can help them all do a better job, identify good ideas, and show that treasury is committed to supporting the whole company. In fact, we believe that if you make stakeholder satisfaction a real priority, month after month, it’ll change the way you and all your team approach your role, encouraging you to be even more flexible and get different perspectives on the issues you’re working on.”

Lastly, Trocmé highlights the importance of focusing on team performance. He explains that although treasury’s traditional tasks have great potential to be automated or simplified through technology, much of the real value treasurers add today and in the future actually relates to people: “It’s about relationships, advice and complex decisions. This makes the team you run of critical importance. Our research has found that the average treasury is only around seven people, and that means every person counts. They need to be managed effectively.

“Yet only 44% of treasuries use KPIs to evaluate team performance, and only 8% benchmark against other treasuries. This is a missed opportunity: KPIs provide a vital input to guide training, development, recruitment and other aspects of people management, and peer benchmarks give you a real-world measure for comparisons.”

Interestingly, he says, almost 60% of treasuries surveyed by Nordea say that KPI outcomes “never” or “rarely” affect their team bonuses. “If treasurers are confident that their team is performing well, and that their KPIs are aligned to the right objectives, then that should be built into their compensation packages – to encourage the right behaviour across the team.”

Above all, says Trocmé, treasurers should always bear in mind that KPIs are “a great opportunity”. He adds: “Most treasurers believe that KPIs are already making a difference to their performance. But we’ve identified an untapped opportunity to use KPIs to accelerate your evolution into a strategic advisory function.”

“But there’s one more way that you can use KPIs to generate value for your team and your business: incorporate them into your briefings to your banking group. Your KPIs reveal what matters most to you, and that insight can help your banks suggest new approaches to helping you achieve your goals.”

# Sustainable finance, a treasury priority

“ Should sustainable finance be a treasury priority? ”



Inês Faden da Silva

Treasurer  
Tideway

Sustainable finance should definitely be a treasury priority and not just financing but all aspects of treasury should be assessed and challenged for their sustainability. This includes, in addition to financing, cash management and investments, choice of counterparties for treasury products, systems and suppliers in general.

We seek to demonstrate to our equity and debt investors our vision to not just clean up the Thames but to promote a change in the relationship between London (and Londoners) and their river and how the financing of such a large project can support that vision. Raising financing is at the core of the business and it made sense to align treasury activities to the business of the company. Tideway has issued six green bonds in the past two years for a total of £775m.

There is an increasing pool of investors with a sustainability mandate and environmental, social and governance (ESG) filters and all investors have an increased focus on integrating ESG factors into the investment process, which was facilitated by funding a green project like Tideway. Investors and other stakeholders also have greater transparency into a bond's use of proceeds and get more information and reporting.

The bonds received significant internal and external recognition. The internal story is very positive as it made an example of successful cross-company collaboration. This turned on its head the additional work required to issue sustainable finance by harnessing collaboration with other areas – both sides develop a better understanding of the business, which provides risk mitigation too. It brought more integrated reporting to investors and, in the process, provided greater awareness of finance and investors' requirements to colleagues in other areas. Finally, this collaborative process expanded the skill set of the treasury team and provided development opportunities.

Some of our shareholders have shown interest in using green bonds in their other projects. Externally, the bonds were covered by the specialised press and won a couple of awards. The government was delighted given its green financing strategy, added comments by two ministers to our press release and mentioned Tideway's green bonds in its January 2018 25-year Plan to Improve the Environment.

Sustainable financing is at the centre of delivering the Sustainable Development Goals and the Paris Climate Agreement, but other areas of treasury are also important and increasingly coming up for scrutiny. Cash management and investments is one example: we have been discussing with

our banks and money market funds how they apply ESG factors to their business as well as investigating sustainable product offering, an emergent topic. Equally, our analysis of counterparties takes into consideration their ESG strategies and performance.

Finally, the way we work matters too. Tideway's finance department has been developing sustainable and healthy initiatives for a few years now: paperless meetings, monthly reports on printing, month-long plastic challenge to encourage people to reduce the amount of single-use plastic used, volunteering litter-picking events to clean the river foreshore. As a team we have created a culture where the lack of recycling, use of plastic and unnecessary printing is frowned upon and we have recently won a Clean and Green Treasury4Good award for these efforts.



Adam Richford

Group Treasurer  
Renewi plc

Sustainability should be a personal and corporate imperative for all. It will take the collective actions of each of us, individually and corporately, to address the sustainability issues our societies face. This is for our own direct benefit now, and for future generations. It is simply the right thing to do.

Sustainability incorporates climate change, the Paris Accord 2oC target, CO<sub>2</sub> emission levels, but is also more holistic in terms of UN Sustainable Development Goals, and it encompasses actions such as the preservation of natural resources, reduction in pollutants, and social responsibility.

From a direct treasury perspective, there are lenders who want to put money to work for positive impact. This can also provide some flexibility in terms of relative return expectations from banks and institutional investors. There are governments, regulators and institutions who are looking to encourage society and the corporate world to invest sustainably. Directing capital for positive impact via debt financing is a potential route to encourage this.

LMA and ICMA-compliant green loans and green bonds have benefits to borrowers in terms of the pricing and volume available relatively. They are relatively approachable as the mechanisms by which the activities can be characterised as green are highly customised to the circumstances of the individual organisation. The green aspects are expertly reviewed and externally accredited. In addition, the banks have also started extending sustainability linked loans, incentivising further improvements in ESG impact, via ESG scores or KPIs, to support lower loan margins.

Beyond these potential immediate economic benefits to treasury budgets, there is also the opportunity to mitigate business risk and, therefore, credit risk/credit rating risk. This is achieved by having a strategy that minimises the idiosyncratic risks associated with a breach in ESG standards. Better still, some companies can gain competitive advantage by positioning themselves to benefit from the opportunities that come from the transition to a sustainable economy.

More broadly, equity investors are also seeking positive impact and investments with mitigated risks against sustainability, for example, via the UN Principles for Responsible Investing that many fund managers sign up to. Treasury can support this by drawing attention to the positive purpose of the company. So the benefits of a sustainability focused strategy extend beyond the treasury area to the board and corporate strategy.

There are also risks in the pursuit of a sustainability-focused treasury strategy, in terms of the complexity around its implementation and management. Implementation can be complicated, time consuming and has some additional costs. It will also probably necessitate support and input beyond finance, from the teams responsible for Corporate Social Responsibility and ESG. Once you do implement a sustainability focused treasury strategy, there are also further risks and issues to manage. These might include the reputation risk if commitments are not met, the additional reporting obligations, additional ratings and more complexity.



**Michael Wilkins**

Managing Director and Head of Sustainable Finance, S&P Global Ratings

Sustainable finance has taken a firm hold worldwide. As climate risk intensifies, and sustainability concerns rise to the fore, issuers and investors are increasingly integrating ESG factors into business and investment strategies.

Less clear, to date, is the extent to which treasurers should be prioritising sustainable finance in their corporate strategies. The value to treasurers becomes more apparent, however, when we consider the many elements inherent to sustainable finance – such as its forward-looking perspective, enhanced disclosure practices, and consideration of a possible reduction in the cost of capital.

Moreover, awareness around the material impacts that ESG risks (and opportunities) can have on an entity's finances is only rising. All this means that sustainability matters could well fall within the treasurer's remit in the near future.

By nature, to ensure that the intended sustainability objectives are being met, sustainable finance requires disclosure of investment factors that transcend direct capital returns. This more holistic level of disclosure is of obvious benefit for treasurers – allowing for greater oversight over finances. Indeed, it is already-established practice in green financings to ringfence funds to ensure that proceeds are only directed to projects that offer an environmental benefit.

Looking at risks through a sustainable lens also provides a more forward-looking perspective when compared to a traditional view, incorporating emerging and strategic risks that could materialise in the longer term. This affords treasurers enhanced visibility in their financial planning activities.

What's more, when we talk about risk in sustainable finance – and particularly in an ESG context – we look at the broad swathe of parties affected by success (or failure) of an entity's operations. This extends far beyond shareholders and lenders to incorporate an entity's suppliers and consumers, too – allowing treasurers a view of the ESG risks that are visible and material along the supply chain.

Finally, for those contemplating issuing green or sustainable bonds or loans, there is growing evidence that such instruments can provide a cost of debt advantage given the current imbalance between supply and demand for green financial instruments. Some recently-issued green-labelled bonds with external reviews have achieved up to three basis points advantage over non-green equivalents.

Although research is still in its early stages, some published data does link a strong ESG record with improved corporate financial performance and returns on investment. It suggests that those entities focusing on ESG issues have achieved reduced costs, improved worker productivity, mitigated risk potential and even revenue-generating opportunities.

Greater cognizance of such considerations is shifting sustainable finance into the mainstream. In fact, the Global Sustainable Investment Alliance estimates that US\$30trn worth of assets were invested in line with ESG-related strategies in 2018.

And we are already witnessing instances of banks realigning their investment strategies to achieve sustainability objectives. Some are even changing their mandates to restrict lending to entities with perceived weak sustainable credentials.

Clearly, lending institutions and corporates are embedding sustainability deeper into their long-term financial strategies. In turn, treasury departments will have an increasingly crucial role to play – to both aid this transition and help tap into the estimated (by the Business & Sustainable Development Commission) US\$12trn of new market opportunities for sustainable businesses.

## Next question:

"How much longer will banks have the monopoly on treasury services?"

Please send your comments and responses to [qa@treasurytoday.com](mailto:qa@treasurytoday.com)



## America: from safe haven to den of thieves?

*President Trump's protectionist tendencies and fondness for tariff wars are creating great uncertainties for global markets and corporates. With a number of major battles looming between the White House and Democrats, matters could become even more fraught.*

Concerns over the US economy are mounting, that much is clear. The main investment banks now think that there is a substantially higher chance of a US recession late this year or early next year.

And with various political issues on the runway for the coming month, it could turn out to be a hot summer in Washington. How the White House handles them could either cheer up the markets or plunge them into deeper gloom. One of them concerns the long running squabbling over a badly-needed act that is meant to boost the US infrastructure.

Also, the debt ceiling needs to be raised again in the autumn or will need to be temporarily suspended. Furthermore, Trump remains resolutely on the tariff warpath so there could well be more market moving events related to that.

### Drilling down into the potholes

One of Trump's election promises was to improve roads, ports, airports, and so on. But he has suddenly linked his preparedness to bolster infrastructure to the willingness of the Democrats to stop the investigations into his conduct. He says he is only prepared to be "constructive and cooperative" if they desist.

Congress and the White House also need to come to an agreement on a new (temporary) budget over the coming months. If they do not do so, the doors of US federal buildings and national parks will again be shut, as happened early this year for 35 days.

Since the Republican-dominated Congress enacted the Budget Control Act 2011, which was signed into law by Democratic president Obama to end the Debt Ceiling Crisis, negotiations on federal spending have also turned into an exercise to prevent enormous automatic 'conjoined' cutbacks on defence spending as well as non-defence discretionary federal spending.

The idea was to force the two parties to meet each other half way; the Republicans will throw a fit if defence spending is cut

substantially, whereas the Democrats will be apoplectic if other public spending goes down the drain. That is to say, the Act is not really intended to be executed but merely to serve as a 'ploy' to encourage both parties to come up with well-balanced measures that counteract a mushrooming budget deficit and national debt.

Nevertheless, the so-called sequestration did come into force in 2013. Consequently, spending on domestic programmes has been substantially reduced over the 2012-2015 period. Ever since, Congress has managed to raise the automatically imposed spending ceilings and to alleviate the sequester pain. And it has to act again in early October. And as we have seen in the past, the prospect of ill-considered cuts is no guarantee that politicians will go all-out to avoid them.

If the negotiations fail, the Pentagon's budget will be cut by US\$71bn from early 2020 onward. Simultaneously, social and similar spending will be reduced by US\$55bn. The White House and Congress have already indicated they would prefer to negotiate a deal that is valid for two years so as to avoid going through the same rigmarole during the 2020 election campaign.

We have the impression that an agreement will be reached on time. However, it is worth remembering most analysts had not expected the shutdown at the start of this year to become a reality, either.

### Through the debt ceiling

Roughly at the same time as the budget expires, the US will reach its legal borrowing limit. The debt ceiling was reinstated earlier this year – having been suspended for 12 months – and was tapped again straight away. Thanks to various special measures, the Treasury Department can still pay its bills, but it will run out of money in October/November.

So, unless the ceiling is raised, America might have to default on its public debt. We think there is a low chance that this will happen in reality although the debates on the debt ceiling and

budget have merged from time to time. The discussions around the debt ceiling should, however, be taken very seriously.

## Trade war hots up

There is a very real chance that the global trade tension will continue to mount. The world scratched its head again as Trump threw together import tariffs and immigration in order to ratchet up the pressure on Mexico to put a stop to illegal immigration across its borders.

Things appeared to be heading in the right direction for a while, as Washington decided to postpone for six months the introduction of import duties on cars from the EU and Japan while it cancelled tariffs on Canadian and Mexican aluminium and steel.

Next thing we knew – in early May – Trump again went all-out with tariff increases on Chinese products, the threat to expand levies to all Chinese imports, and a boycott of Huawei as he also put pressure on other countries to ban Huawei.

Congress has tried to rein in Trump earlier via a Resolution of Disapproval after he declared an emergency at the US-Mexican border. However, he vetoed the resolution and the Democrats did not manage to muster enough Republican votes to overturn the veto.

## Inflated ego or justified self-confidence?

Trump's policies are making more and more Republican politicians uneasy but a true tipping point is nowhere in sight. The ranks have remained closed and Trump clearly feels he has the upper hand vis-à-vis Mexico (and Canada). Trump also believes he can trump China. Based on the data he has a point. Twenty-five percent of Chinese exports go to the US whereas 8% of US exports end up in China. Plus, less than 1% of the US economy is linked to exports to China while 5% of the Chinese economy depends on sales to the Americans.

This does not take into account that international production chains are intertwined so much that the US is connected with China in far more ways. The Chinese are sitting on a gigantic

mountain of US treasuries, which they could deploy as a weapon. Add to this that Trump is more beholden to his voters in the first instance – as he is operating within a democratic system and faces an election in 2020 – compared to Xi Jinping in China. On top of this, Xi acts as a strongman who can ill afford to lose face while it is easier for China to underpin its economy with monetary and fiscal stimulus.

The trade war is part of a power game between the US and China that could go on for years, with a real risk of the world again being divided into two blocks. To sum, global trade tensions will likely continue for a long time to come.

## New era

President Trump often appears to view the stock market as a success benchmark, yet he is now focusing on immigration and trade and is combining them regardless of the fact that markets have been protesting.

Some experts are saying that Trump heralds a new era as they refer to the past two centuries. Global exports increased fiftyfold in real terms between 1815 and 1913. Everything changed, however, in the aftermath of the First World War and during the Great Depression. Americans came up with the protectionist Smoot-Hawley Act; the British no longer did everything to promote free trade; and Germany set up the Reichsmark Block. We are seeing similar fragmentation now with a paralysed WTO, Trump's aversion to multilateral agreements, and China's eternal preference for bilateral negotiations. These developments create more uncertainty for businesses as enterprises lose their appetite for investment.

All of this implies that significant political risks are attached to the US and they could have a strong impact on the rest of the global economy. A government shutdown looms after the summer; not long afterwards politicians will have to take action to stop America from officially becoming a defaulter. Meanwhile, trade and geopolitical tensions are mounting while Trump is convinced that he can score at the upcoming elections with hard-line standpoints on immigration and trade. We do not think an infrastructural package will bring substantial relief.

### INTERESTED IN OTHER MARKETS?

Go to [www.ecrresearch.com](http://www.ecrresearch.com) and request access to 18 different reports & services. Clear views, concrete market predictions, based on the world's leading research.



MACRO & POLITICAL



FX & INTEREST



ASSET ALLOCATION



FUND SELECTION



MORNING BRIEFINGS

### ANDY LANGENKAMP

Political Analyst  
+31 (0)30 232 8000  
[a.langenkamp@ecrresearch.com](mailto:a.langenkamp@ecrresearch.com)



**ecr** research

*The clever research solution for time-pressed decision makers*

# Bringing together the greatest minds in treasury

International Treasury Management

16-18 October 2019 | Bella Center, Copenhagen

- Network with an unparalleled senior audience of 2100+ delegates from 50+ countries
- Discover not just current, but also future trends in international treasury
- Hear 50+ practical case studies from international treasury teams – not sales pitches
- Fit 6 months' worth of meetings with your banks, providers and clients into 3 days
- View the big picture and fresh perspectives from our headline speakers

Step away from the day to day. Be inspired.



Readers of TMI receive a 20% discount.

Use code: **MKTG/TT20**

[www.eurofinance.com/international](http://www.eurofinance.com/international)

The Economist Group

Official lead sponsors

Bank of America  
Merrill Lynch

HSBC

CITI<sup>®</sup>

Deutsche Bank

BNP PARIBAS

Standard  
Chartered



## STAY CONNECTED

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



Subscribe now:  
[insights@treasurytoday.com](mailto:insights@treasurytoday.com)

[treasurytoday.com](http://treasurytoday.com)