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BRICS+ shifts geopolitics towards Global South

BRICS+5 could challenge the dominance of G7. It remains to be seen, however, how much the new members will be able to agree on.



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Associate Director, Treasury

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Treasury in the boardroom

Which treasury topics find their way into boardrooms, and how can treasurers communicate effectively with the board?

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Focusing on next-gen treasury

Corporate treasurers have plenty to do with managing their day-to-day responsibilities, but they also need to anticipate what the next generation and future of treasury looks like.

In this issue we cover a number of topics that show how major trends are unfolding. Payments innovation for years has been changing the way that people pay, but a dearth of venture capital (VC) funding has hit start-ups. We consider how this change will impact innovation in the future as payments companies are now focusing on growth over profitability.

The nature of digitalisation is always a hot topic, and treasury needs to constantly transform and improve. This is not just about technology and technical skills, however. As Pulat Yunusmetov, who has become an expert in leading digital transformation projects, explains, soft skills are just as important. In the Question Answered section, we look at the fundamentals of what corporates need to consider when they implement a treasury management system (TMS).

Meanwhile, the BRICS grouping of Brazil, Russia, India, China and South Africa has added five members – making it BRICS+ – and we consider how this will shift the geopolitical landscape of the future towards the Global South. Also, under the chairship of Russia this year, Vladimir Putin will use this opportunity to demonstrate that Russia is not a pariah and has friends among developing economies.

Without knowing what the future actually looks like, it is hard to manage risk. Yet treasurers still need to make important decisions about how to manage their risk. In this issue we cover how essential derivatives are to managing this risk effectively – and whether they need to be avoided altogether.

Also, sustainability is a major trend, and we investigate how companies are on their journey to addressing changes that need to be made for the environment and reduce carbon emissions.

Explaining the risks that are involved to the corporation are key skills of treasurers and a major trend is that treasurers will be increasingly called upon in the boardroom to provide input to strategic decision-making. We look at how treasurers can communicate effectively with the board when the need arises.



BRICS+ shifts geopolitics towards Global South

At the beginning of 2024, BRICS [Brazil, Russia, India, China and South Africa] added new countries to its group in what could be a challenge to the dominance of G7 and the developed Western world.

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Asia's MMF market awaits rate changes

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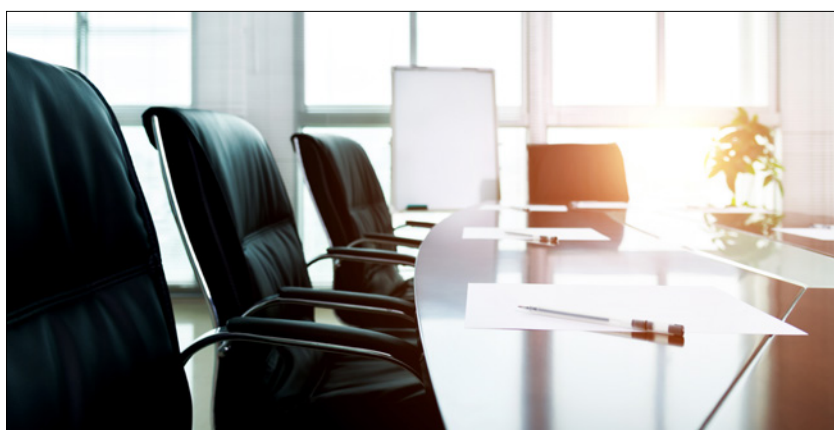
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Protecting the organisation from risk is a key concern for corporate treasurers. So how essential are derivatives when it comes to managing risk – and to what extent are treasurers concerned about their complexity?



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The Corporate View

Pulat Yunusmetov
Associate Director, Treasury

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BRICS+ shifts geopolitics towards Global South

At the beginning of 2024, BRICS [Brazil, Russia, India, China and South Africa] added new countries to its group in what could be a challenge to the dominance of G7 and the developed Western world. It remains to be seen, however, how much the new members will be able to agree on.

It started as BRIC, then BRICS and now the acronym could get longer and longer. As things stand, it could be called BRICSEIUS or some other variation of alphabet soup. BRICS+5 or simply BRICS+ seems to be the description that most people are using to describe the additional members to the original grouping of Brazil, Russia, India, China and South Africa (BRICS).

With the addition of the new members of Egypt, Ethiopia, Iran, the United Arab Emirates (UAE) and Saudi Arabia, BRICS+ is set to represent the Global South and could ultimately

challenge the dominance of G7 and the developed Western world. When South African President Cyril Ramaphosa announced that the new countries had been invited to join, he declared "The BRICS are starting a new chapter." For Dr Irene Mia, Senior Fellow for Latin America and Conflict, Security and Development at The International Institute for Strategic Studies (IISS), the expansion of BRICS marks a shift to "a new geopolitical order".

Four new members officially joined in early January 2024, and Saudi Arabia was confirmed a bit later. Argentina was

expected to sign up but after a general election in November 2023, the incoming president Javier Milei withdrew his country's application. Despite this hiccup to the expansion of BRICS, however, many other countries are lining up to join. It's likely the expansion won't stop with the five additional members. Under the BRICS chairship of South Africa, when the expansion was first announced, South African Foreign Minister Naledi Pandor told reporters in early 2024 that 34 countries had expressed an interest in joining BRICS+.

The bloc started out informally after 'BRIC' was first coined by Jim O'Neill, the Chair of Goldman Sachs Asset Management to describe emerging giants, ie economies that were growing in significance to the global economy. From 2006, the countries' foreign ministers started to meet informally on the sidelines of United Nations gatherings, and in 2009 BRICS had its first summit. In 2010, South Africa was brought into the fold, making BRIC into BRICS.

Given the assortment of countries that have now joined, there are varying views and perspectives on what the nature of BRICS+ will be, what kind of direction the grouping will take when dealing with the rest of the world, and who will be setting the agenda. For example, Colleen Cottle, the former director of Atlantic Council's China Hub, took the view in a recent article that China's vision is driving the expansion of BRICS+. It is noticeable, she points out, that there are no new members from Southeast Asia especially as Indonesia – given the size of its economy and diplomatic relations – would have been a prime candidate for membership. This exclusion could be explained by China's well-documented strained relations with the region.

Rather than adding countries from Asia Pacific, the weighting of this current expansion is in favour of the Middle East – with Egypt, Iran, UAE and Saudi Arabia joining – which is “a region into which Beijing has steadily expanded its economic, military and political ties in the past few years,” Cottle writes. Other observers also comment that China is growing its power and influence and BRICS+ offers it the means to become a leader of the emerging economies and represent the Global South in its dealings with the rest of the world.

With the inclusion of new members, however, there is plenty of potential for disagreements in how the grouping should be represented. Iran is a case in point. Ehsan Khandoozi, Iran's Minister of Finance and Economy, was reported as saying that his country's membership of BRICS is important for attracting foreign investment. However, its inclusion could spark diplomatic difficulties for many of the other members. Mia at IISS comments, “BRICS with Iran makes it more anti-West.” Also, other commentators point out there is the potential for disputes with the other countries when it comes to their stance on the conflict in Israel, for example.

It is difficult to define what the BRICS+ grouping now has in common with so many members, all with their own voices on the major issues. Even the original BRICS members had different foreign policies and where they stand geopolitically, points out Mia. Some original members, such as Russia and China, could be described as having an anti-Western approach and see BRICS as an opportunity to challenge the dominance of the developed world. Meanwhile, India, South Africa and Brazil could be described as approaching the grouping as a way to create institutions that are more representative of the various emerging powers than the incumbent multilateral organisations. As well as the thorny

issue of Iran and whether it is taking the group in a more anti-Western direction, the more moderate countries are also uneasy about the war in Ukraine; they still want to be doing business with the US and don't want to be seen as siding with Putin. Hung Tran, a Non-resident Senior Fellow with the Atlantic Council's GeoEconomics Centre, comments that India and Brazil are the more moderate BRICS members and are not comfortable with the inclusion of Iran and how it has strengthened the anti-US axis in the BRICS. With Russia and Iran now in BRICS+, the grouping now contains two members that are under US sanctions.

Meanwhile, China and India have strained relations and are each vying to be the voice that represents the community. Many observers comment that India won't want to be drawn into an anti-West agenda and will be opposed to BRICS+ being dominated by China or Russia. With China said to be driving the agenda and seeking to represent the emerging economies, its domestic economy has recently experienced a number of challenges and been plagued by problems in its property sector. As China's economic success story, and its trajectory to being the largest economy in the world is no longer being viewed as a sure thing, it does not hold the same esteem among the other member countries. Observers comment that India is also stepping in to vie for the position of representing the emerging countries. In fact, India's Prime Minister Narendra Modi has spoken publicly about his vision for India to be the 'voice of the Global South' and at a summit by the same name in late 2023, he said that developing nations should come together in the face of conflict in Israel: “This is the time when the countries of the Global South should unite for the greater good,” he reportedly said.

In addition to these voices that are clamouring to be representative in BRICS+, there is also a change in direction with the inclusion of Ethiopia. Russia is currently the chair of the grouping and may seek to add more African members. The inclusion of Ethiopia signifies Russia's interest in building relations with Africa, which is strategically important, comments IISS's Mia. She explains that Russia has strong ties with sub-Saharan Africa, and the inclusion of more countries from the continent in the future would add to the weighting of BRICS+ being a Global South body, and would also enhance Russia's geopolitical leverage.

The choice of new countries that could be added to the group are likely to reflect Russia's intentions as it is the Chair for 2024 and gets to set the BRICS+ agenda. Russian President Vladimir Putin did not attend the last summit in Johannesburg, reportedly because of an international arrest warrant that has been issued in relation to war crimes in Ukraine, and will instead play host in Kazan in late October. Russia's chairship carries the motto 'Strengthening Multilateralism for Just Global Development and Security' and Putin at the opening address for the chairship said, “In general, Russia will continue to promote all aspects of the BRICS partnership in three key areas: politics and security, economy and finance, and cultural and humanitarian contacts.” He later added: “Naturally, we will focus on enhancing foreign policy coordination among the member countries and on jointly seeking effective responses to the challenges and threats to international and regional security and stability.”

Tran comments on Russia's chairship: “Russia will make use of this opportunity so that it is not being isolated by the West, and sanctions, to show that it has friends among the Global South. Being chair of BRICS is a very useful vehicle to get

that message across,” he says. Mia at IISS agrees that being chair will be useful for Putin. “It is a good thing – you set the agenda and for Russia it gives a platform that shows it is not an international pariah.”

With the expansion of BRICS, the group now has a significant portion of Middle Eastern members. Jonathan Panikoff, also at the Atlantic Council, writes in a commentary piece that the inclusion of four Middle Eastern countries (Saudi Arabia, UAE, Egypt and Iran) represents a shift in geopolitics towards these countries and provides an opportunity for economic integration with them.

Tran points out that the original BRICS members are all large economies that are all influential in their own continent, and when combined they have a large GDP. With the addition of the new members, BRICS’ influence will increase. First the expansion means that BRICS+ will account for a larger portion of global GDP – approximately 29% – although this is still lower than the G7’s 43%, points out Tran.

Secondly, Tran tells Treasury Today Asia, the expansion increases the group’s share of global oil production, with seven of the ten BRICS+ members being oil producers. The inclusion of Iran, along with UAE and Saudi Arabia, means that the group contains several OPEC [Organisation of the Petroleum Exporting Countries] countries, and the BRICS+ now accounts for just under half the world’s oil production. Tran comments that although BRICS+ is significant for the global economy, it remains to be seen whether the members can agree on anything concrete. Is it possible that all the members won’t be able to agree on anything? IISS’s Mia says, “Yes!”

There are some commonalities, however, with what the member countries would like to see happen. One is regarding the infrastructure of the global financial system. When Putin opened Russia’s chairship, he commented on this year’s agenda and this included “enhancing the role of BRICS in the international monetary system, expanding interbank cooperation and expanding the use of national currencies in mutual trade.”

BRICS has already made moves toward improving its financial infrastructure, as Tran explains. “Many Western policymakers underestimated the importance of BRICS as nothing more than a talking shop. In my view the original BRICS established some important institutions,” Tran explains. These include the New Development Bank (NDB), a multilateral financial institution that provides local-currency development loans, which was founded in 2014. Now that the expansion of BRICS includes some richer countries, such as Saudi Arabia and UAE, they will likely make a bigger contribution to the NDB, thus increasing its impact.

Also, BRICS created a safety net for its members with a pool of reserves that can be drawn upon in times of crisis. The Contingent Reserve Arrangement (CRA) provides an alternative to the International Monetary Fund (IMF) which does not come with the same kind of conditionality with its assistance.

Tran comments that another step toward improving the financial infrastructure for the BRICS members has been the use of their own currencies for cross-border transactions instead of relying on the US dollar, for example. With a large portion of the world holding its reserves in US dollars, the monetary policy of the US ultimately impacts everyone else.

By settling trade, and holding reserves in local currencies, a move towards de-dollarisation means that the countries in BRICS+ are not beholden to the US, and also its sanctions; the Renminbi could be used to pay for Russian oil, for example.

Mia explains there has already been a move towards settling bilateral trade in local currencies. However, this isn’t always a practical move; while the US dollar is used everywhere and freely exchangeable, if India pays Russia in Indian Rupees, for example, Russia may not be able to spend those Rupees elsewhere.

By using alternatives to the global correspondent banking system – which is largely based in the US dollar and subject to various sanctions – other emerging countries have attempted to build their own alternatives to make it possible to pay internationally, such as China’s Cross-Border Interbank Payment System (CIPS) and Russia’s System for Transfer of Financial Messages (SFMS).

Aside from these alternatives to the incumbent global financial system, there have also been discussions about creating a common currency for BRICS+. This idea, however, has not been taken up widely, and Tran comments that the notion of a common currency for BRICS+ members is something of a ‘day dream’ and could be described merely as the political rhetoric of some of the leaders. Also, as the experience with the euro showed, if there isn’t a common fiscal policy among the countries, it becomes difficult to manage the currency in times of crisis.

There has also been mention of creating a digital currency for the BRICS members. For example, TASS, the Russian news agency reported that a blockchain-based system would be created and quoted Yury Ushakov, an advisor to Putin, as saying: “We believe that creating an independent BRICS payment system is an important goal for the future, which would be based on state-of-the-art tools such as digital technologies and blockchain. The main thing is to make sure it is convenient for governments, common people and businesses, as well as cost-effective and free of politics.”

So far, no concrete steps have been taken in that direction. An alternative for the member states, if they wished to move towards de-dollarisation would be to use another currency such as the RMB, which China has been actively pushing to internationalise in recent years. Mia points out, however, that even though the RMB could be used as a reserve currency, it is not fully internationalised – where it can be exchanged freely with another currency – because there are still many limitations and capital controls in place.

This could, however, create problems among the member countries; instead of relying on the US dollar and being subject to US monetary policy, they would instead be reliant on China which many countries may not want to choose. India, for example, may not want China to have even greater influence or economic power over the bloc. Such issues are likely to be discussed at the summit in October, and observers will keenly await what concrete decisions come out of the BRICS+ meeting. ■



TAYTAY GIVES AN INSIGHT INTO SINGAPORE'S EDGE

The recent furore over Taylor Swift's Eras Tour gives an insight into how Singapore has become the most competitive state – and attractive place to do business – in Southeast Asia.

Taylor Swift's six concerts in Singapore caused bad blood with the country's neighbours, which looked like it could spill over into a full-blown diplomatic spat. It seems, however, that Singapore has been able to shake it off.

A row developed over the Southeast Asian leg of Swift's Eras Tour over an exclusive deal with the Singaporean government for all six shows to be held in Singapore. The Thai prime minister said that Singapore had offered US\$2m to US\$3m per show. Meanwhile, a lawmaker in the Philippines viewed Singapore's move as a hostile act and said that good neighbours don't do that kind of thing. The actual figure has not been reported, but the Singaporean prime minister defended the decision on Tuesday and confirmed there was an agreement in place.

Singapore views such a deal as good business, rather than a hostile act. With fans flying to Singapore from all over the region, its local tourism industry got a boost. Maybank estimated the uplift to the Singaporean economy was approximately S\$350m in consumer spending. Even if Swift – or TayTay as she is affectionately known – wasn't a major direct contributor to Singapore's gross domestic product (GDP), the subtext was clear: Singapore is the place to be.

It is no accident that Singapore won the competition for hosting the music event of the decade. Singapore has long been luring companies to do business there with its incentives and tax breaks. This as well as other factors that make it easy to do business there, is one of the reasons many multinational corporations have established their regional – even global – treasury centres in the city state.

Chris Woo and Paul Lau, tax specialists at PwC Singapore note in an article that Singapore offers many incentives for businesses. These include tax exemptions for companies manufacturing high-tech products, and also development and expansion incentives for high-value projects. And Singapore also has a scheme specifically for corporate treasury. The income from a finance and treasury centre (FTC) – such as treasury management, fund management and advisory services – are taxed at a reduced rate of 8%.

This comes in the context of Singapore shifting its economy to a high-skills, high-value hub, rather than a manufacturing hub. For this reason, it has been seeking to boost the skills of its local workforce and tighten the number of foreign professionals working there. According to Reuters, since 2020, Singapore has raised the minimum salary required by foreigners three times. Most recently, this week, it was announced the minimum salary was being raised again. Now, from January 2025, foreign professionals and executives need to be earning at least S\$5,600 or more a month to get an employment pass. For the financial services industry, executives and professionals must be earning S\$6,200 a month.

While Singapore's success as a financial and tourism hub has been many years in the making, so too is Swift's success. Her current net worth has been estimated by Bloomberg to be in the region of US\$1.1bn, an extraordinary amount considering most of it comes from her recent record sales and performances – usually musicians make their fortune with a business side hustle.

Swift's success is also no accident. Aside from her talent, her success can be put down to the business acumen of the team around her and their ability to negotiate deals in her favour. Her parents, who have been managing her career, have a background in finance. Her father, for example, was previously a stockbroker for Merrill Lynch and her mother was a marketing manager for mutual funds. ■

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Asia's MMF market awaits rate changes

After a buoyant 2023 that saw strong inflows into Asian money market funds (MMFs), the market is awaiting the impact of expected interest rate changes. However, even as rates come down, MMFs remain an attractive option for investors.

In recent months money market funds (MMFs) in Asia have seen bumper inflows, boosted by central banks across the region – and beyond – deciding to keep their rates on hold, and driving investors to MMFs while rates remain relatively high. The current positive mood surrounding MMFs, however, is expected to subside as interest rates come down and observers are waiting to see the impact the expected rate cuts will have on inflows to the funds.

Back in February, Moody's had a stable outlook for MMFs on a global level, following a year of record-high inflows during 2023. The ratings agency expects rates to come down – in line with most industry observers – but this does not necessarily mean the funds will experience dramatic outflows. Given the geopolitical uncertainty in the current environment, such as the conflicts in Ukraine and the Middle East, MMFs still remain a viable option for investors that are seeking a safe place to park their cash.

In Asia, MMFs also experienced a strong year in 2023. Aidan Shevlin, Head of International Liquidity Fund Management, J.P. Morgan Asset Management tells Treasury Today Asia that, like global MMFs, Asian funds have also witnessed strong inflows over the past several months. This was supported, he explains, "by a combination of elevated short-term interest rates and the continued desire to diversify away from bank counterparty risk."

Inflows to Asian MMFs, says Shevlin, have been driven in part by volatile fixed income returns, which has come from central banks appearing comfortable keeping base rates higher for longer. He notes that these trends have been especially strong in Australian dollar, Singaporean dollar and Hong Kong dollar funds across both corporate and retail investors.

MMF trends in Asia

There are certain markets in Asia that have been performing particularly strongly and seen significant inflows. Cerulli Associates, in its Asian Monthly Product Trends notes that in October 2023, for example, the increased inflows were led by Taiwan, South Korea and India with respective inflows of US\$26.9bn, US\$16.8bn and US\$4.3bn.

Cerulli notes that the inflows in Taiwan were possibly driven by improvements in its technology exports and manufacturing. In terms of the figures for the whole year, Taiwan's inflows were significant and assets under management (AUM) rose

dramatically by 11% to TW\$864bn by the end of 2023, according to Fitch Ratings.

MMFs in China

In China, which takes up the lion's share of the MMF market in Asia, the picture is complex because of the state of the domestic economy as well as the impact of various regulatory reforms which have now taken hold. Cerulli Associates notes that the top ten MMF managers in Asia are all based in China, and two of the largest funds by AUM in Asia can also be found in the country. For this reason, whatever happens in China's MMF sector will likely have an impact and be felt around the region.

China has, however, mirrored the global and regional trend and has seen substantial inflows into its MMFs. Shevlin notes that despite lower interest rates in China, MMFs also recorded record high AUM because of weaker consumer confidence and negative returns on property and other asset classes.

China's domestic economy has been challenging, especially with the continued woes in its property sector. As well as this, Fitch Ratings also notes that there is a deteriorating outlook for China's banking sector, which is of concern because of the large portion of money funds that are exposed to the banking sector. For example, at the end of the third quarter of 2023, 70% of the money fund market was exposed to the banking sector. However, it's not all doom and gloom and Fitch Ratings notes that despite the challenging operating environment, MMFs are less affected because of the short duration of their funds and also their focus on large banks. It also expects assets under management to grow steadily in the coming months.

The concern with the banking sector is not limited to China and is a trend that has been seen at a global level. According to Moody's, prime MMFs, which mostly invest in bank securities, will be impacted by the outlook for the global banking sector, which is negative for 2024. It notes that the banking sector has been affected by relatively low economic growth and higher interest rates, which has limited the demand for lending.

MMF outlook in context

In context, the global MMF market doesn't look either good or bad for the months ahead. In giving its neutral outlook on a

global level for MMFs, Minyue Wang, Director at Fitch Ratings, states: “Fitch’s neutral sector outlook reflects generally neutral credit environment supported by outlooks in key banking sectors, as well as MMFs’ investable universe consisting of mostly high-quality banks which tend to have stronger rating headroom. We also expect overall balanced industry flows for most of 2024 across regions, and limited impact from regulatory changes subsequent to their 2023 finalisation.” She adds: “We will continue watching the impact from changes in market conditions under the backdrop of funds selectively extending maturity while maintaining high liquidity levels.”

In a report released in March, Fitch Ratings projected that MMF flows – on a global level – will stabilise in 2024 after the record inflows of 2023. The inflows in 2023 were dramatic. For example, at a global level AUM stood at US\$9.9trn at the end of 2023, which was a significant 17% increase from the year before. China also saw a large increase with the inflows, with MMF assets under management rising 8% over the course of 2023 to CNY11.3trn. There was a record high of CNY12.2trn of AUM in the middle of the year before they declined to the year-end figure. Fitch Ratings notes that it does not expect the recent regulatory reforms that have taken hold in China to have a significant impact on overall flows in the coming year. However, if central banks cut rates quicker than expected, this could drive a faster pace of outflows, the ratings agency noted.

Impact of regulation in China

China’s MMF market has been subject to a number of regulations, and industry observers have been watching keenly to assess their impact. Shevlin at J.P. Morgan Asset Management explains that Chinese regulators have steadily tightened MMF regulations because of the increasing importance of MMF and the systemic risk the large funds pose to the economy. For this reason, the regulations that have been introduced have focused on liquidity and security. “The latest rules focus on the largest MMFs, deemed systemically important, requiring even tighter investment and diversification rules, which would imply even lower yields, potentially reducing the attractiveness of MMFs,” Shevlin says. However, in line with the view of Fitch Ratings, this has not had a negative impact on the attractiveness of Chinese MMFs. “Weak consumer confidence and volatile returns of other investments have continued to support inflows,” explains Shevlin. He adds: “Meanwhile, the large e-wallet providers have increasingly diversified inflows across a pre-approved panel of smaller MMFs, with yield-based rankings designed to attract retail investors.”

A general trend has been observed whereby the largest MMF funds in China have been losing their dominance and the industry is seeing a diversification, and competition, enter the market. Fitch Ratings noted back in June 2023 that the Chinese market previously had more concentrated risk than other markets around the world, and the regulatory efforts to reduce this were expected to impact on profitability. The agency noted in a report that the shift away from concentrated risk could impact the fee revenue of the fund managers because they usually earn this based on the size of the assets under management.

Much attention was focused on Yu’e Bao, which was the largest fund and regulators sought to rein it in. The regulators moved in 2021 to limit the size of funds and the



In China, weak consumer confidence and volatile returns of other investments have continued to support inflows.

Aidan Shevlin, Head of International Liquidity Fund Management, J.P. Morgan Asset Management

rules they introduced came into effect in 2023. Funds that were deemed a ‘major’ are subject to additional scrutiny, and the rules apply to funds that have AUM of over CNY200bn or more than 50 million individual investors. As a result of the regulations coming into force, the market share of the largest funds has decreased and according to Fitch Ratings, Yu’e Bao shrunk in size. At the end of the first quarter of 2023, its market share stood at 6.2%, which was a decline from 7.7% the year before. Meanwhile the share of the top five MMFs declined to 13.7% from 15.4%. This compares to the heyday of the largest MMFs in China when Yu’e Bao had a market share of 30% and the top five took 60% of the market in 2014. Fitch Ratings notes that with the current trajectory, the concentration of the players in the markets is more similar to that found in other markets around the world. However, compared to other MMF markets, such as US and Europe, Fitch raises other issues with China. “We think liquidity and credit risks remain in China’s MMF sector on a relative basis, as regulations allow MMFs more leeway in their operations than in the US and Europe, including the ability to leverage up to 20%, which is not the case for US and European MMFs. We believe the majority of Chinese MMFs use leverage, although the amount for any particular fund is likely to be limited.”

Looking ahead

With MMFs benefitting from the inflows of the previous year, now attention is turning to what will likely happen as interest rates start to come down. Shevlin notes that with global inflation trending downwards, there is a broad consensus that central bank’s base rates have peaked, although it remains uncertain when rates will be cut. Nevertheless, he explains, investors are availing of the opportunity presented by the current elevated short-term interest rates to lock in attractive yields slightly further out the curve. “At present, the highest yields are available in securities with maturities between six to 18 months. These securities also offer minimal risk should interest rates remain volatile while also offering the potential for capital gains when central banks start to cut base rates. We have seen cash inflows into ultra-short duration strategies picking up in the past few months as total returns of these strategies started to out-pace money market funds,” Shevlin says.

In the coming months, the market will continue to assess how quickly central bank rate decreases will come, and what the impact on the MMF market will be, and whether – in the face of other factors – the fund will continue to be an attractive option for investors. ■



A focus on transformation

Pulat Yunusmetov

Associate Director, Treasury

Over the course of his treasury career Pulat Yunusmetov has developed a focus on treasury transformation and has learned that many ingredients are necessary for a successful project. Here he discusses how both hard and soft skills ensure that projects get off on the right foot – and stay on track.

There's a saying that if you want something done, ask the busy person to do it. And Pulat Yunusmetov, Associate Director, Treasury, is the kind of person you'd ask. He's often busy – sometimes too busy – but he will find a way to get it done. It's in his nature to go above and beyond in his day job, study in his

spare time, and then find himself being asked to do even more. You could describe it as the 'curse' of being competent – the busy person always seems to be doing a lot of the work – but that is how Yunusmetov has found himself at the forefront of a number of treasury transformation projects in his career.

While he worked at Danone, for example, he was working hard in his day job, took on extra responsibilities, was studying for his Chartered Financial Analyst (CFA) certification, and also embarked on a number of treasury transformation projects. “I had a lot of projects with transforming treasury and always going the extra mile – I was expected to do certain things and I was trying to do additional work for myself. It was quite tough and a challenge to manage both that and my education,” he says. He was very busy but managed to pull through. In fact, the fruits of his labour matured months later when the team was awarded nine industry awards (including Treasury Today’s Adam Smith **A Rising Star award**), the CFA letters after his name, and a reputation for treasury transformation that led to him being hired for his current role.

The CFA exams are notoriously gruelling. Many people comment on the volume of work in the first level, the difficulty in the second, and if you make it to the third level things get really tough. This is the stage that Yunusmetov found the hardest, and while he was undertaking the CFA Level 3 exams, he was also delivering a number of transformation projects. These included a Kyriba implementation that dramatically decreased operational workloads and increased visibility, transparency and security of his company’s treasury flows. Also, the execution of foreign exchange (FX) deals was automated via the TMS [treasury management system], FX operations were streamlined and standardised, deposit reporting was automated, and daily visibility over liquidity positions achieved. Meanwhile, Yunusmetov improved the management of the treasury’s banking relationships. Although automation was saving his treasury 50,000 minutes per year, Yunusmetov didn’t seem to gain any time for himself. Rather he was working on his own transformation to develop his skills so he could build his career.

Being busy and working hard are themes that run through Yunusmetov’s working life. Originally from Uzbekistan, he moved to Singapore in 2009 and was awarded first-class honours for a degree in Business, Management and Marketing from the University of Bradford, which he completed while in Singapore. Many of Treasury Today’s interviewees wander into other career paths before landing in treasury. Not Yunusmetov, who landed on his feet in treasury right after graduation. In fact, he was so busy pursuing his treasury career that he was unable to attend his formal graduation ceremony in the UK.

Building communication skills

His first role upon graduating was at an engineering firm that serves the oil and gas industry. He was a treasury analyst and was involved in cash forecasting, FX exposure reporting, hedging, financing banking control and the management of banking relationships. His focus was Eastern Europe and he later stepped up to become the treasurer for the whole region of Europe, Middle East and Africa. “It was not an easy scope,” he comments, explaining that with countries like Ukraine, Russia and Kazakhstan in his patch, he had a lot to keep on top of in terms of the various regulations of each of the markets. On top of understanding how treasury operations could be optimised, he also had a number of cultural differences that needed to be overcome.

Another key learning was keeping the funding and liquidity in line with the group expectations that were set by the head office in Switzerland. The company had strict targets on cash

management and cash flow, he explains, which had to be delivered by the month end. This sometimes meant that he had to work hard when the deadlines came around, juggling the time zones – with him in Singapore and overseeing markets in Europe. “Communication with the stakeholders was key in order to deliver the cash targets,” he says. This was his first taste of managing internal stakeholders and the soft skills that are necessary to effectively deliver on targets that have been set by group management.

After five years with the engineering company, he moved to a global role for a financial technology company, which had different demands when it came to managing the company’s liquidity. In this money and airtime transfer business, liquidity management was critical to the daily operations of the firm, and Yunusmetov set out to improve the treasury’s operational efficiencies. One of the highlights of his time there was increasing the importance and utilisation of the TMS, which was an implementation project that was achieved in a short space of time.

Working on transformation

Yunusmetov got a taste for transformation projects and took his learnings onto his next role, at Danone, the French food products multinational corporation. Here he focused on Asia and the Middle East, and his priorities were on digitalisation, automation and centralisation of key operations and tasks. “During the five years I was there, a lot of transformation was done in treasury,” he says. In companies where treasury is seen as a function and a cost centre, it can be difficult to get the buy-in – and investment – necessary to get major transformation projects off the ground. In such cases, Yunusmetov argues that it is important to be a visionary, to not give up and work hard to get the backing of the internal stakeholders to push ahead with treasury transformation.

Yunusmetov had already learned the importance of communication skills and building relationships with key stakeholders in his previous roles, and during his time at Danone he was able to hone his project management skills. These skills, however, are not solely about delivering a project on time. Before even undertaking a transformation, it is necessary to assess first what needs to be done, what can be done, and ensure that everyone involved has the same understanding of what the project’s objectives are.

Yunusmetov explains that one of the first steps in the transformation process is to benchmark against what other companies are doing in terms of their treasury set-ups. This benchmarking can be done with the help of banking partners, who are able to advise on the products and solutions that are available based on a company’s industry and business profile. Also, much can be learned by talking to other treasurers: “Participating in corporate treasury events is key – you can build your network, make contacts, and shed light on what others are doing,” he says.

Developing soft skills

When there is a vision for the treasury transformation, communication skills come into play and Yunusmetov is well aware of how important it is to develop soft skills. He points out that it is essential to get everyone on the same page so that everyone understands from the outset what the project is setting out to achieve and what its scope is.



Participating in corporate treasury events is key – you can build your network, make contacts, and shed light on what others are doing.

“Communicating with the stakeholders, especially when it is a regional or global role, is important. Often there is a mismatch of expectations with the local operations and group management,” he says. This can lead to a disconnect between the vision that is set by the stakeholders and what can actually be delivered by the local teams on the ground. This can also manifest itself in misaligned key performance indicators (KPIs) between the local staff and the group management. Often, he explains, there is a lack of communication between the two and this is where the project manager in charge of the transformation can step in and provide the bridge between what the project is aiming for, and what is actually possible to deliver. “A good treasurer will need to have an understanding of what group management wants and what local teams are able to deliver – clear communication is vital,” he says.

Also, change management is an important part of the process as there will always be resistance to new ways of working. “Communication has to be aligned well before any workflows or processes are changed,” he adds. Sometimes, there can be disagreements about what can be achieved, and the local operations teams may say certain things are not possible to deliver. “The first line of defence is often saying that it is against the local regulations,” Yunusmetov comments. That may be the case, but on closer inspection it may be this is simply a default response to being asked to do something different, and the regulations are being used as an excuse. A good treasurer, and project manager, will know the difference between this and whether group management is expecting something that isn’t possible to deliver. “There is no one size fits all,” explains Yunusmetov. “Some things might not work – it might not be applicable just because of a cultural difference or because of the geographical location.”

Gaining technical skills

In managing transformation projects, Yunusmetov has developed his communication skills well. He has also been working on his personal transformation and developing other skills that he believes have been necessary for him in his career. “I built my technical skills to gain trust,” he explains. These included various certifications such as the Certified Treasury Professional accreditation from the Association for Financial Professionals and also an International Treasury and Cash Management certification to improve his technical understanding of the industry. It has also improved his standing among his peers and stakeholders who recognise the importance of such knowledge. On top of that, he says his CFA certification has given him credibility among his stakeholders and helped when discussing risk management and hedging activities, for example. He has also improved his management skills with a course in leadership skills and also the Lean Six Sigma Green Belt qualification.

The Lean Six Sigma approach focuses on process improvement and removing operational waste – looking for inefficiencies and fixing them, and focusing on processes that are essential and add value. These are learnings that he has taken on to his current role, where he is continuing his career of focusing on treasury transformation, and looking for efficiencies and ways to add value.

Continuing the transformation

These days Yunusmetov is working in the financial services industry, for a firm that is a fund manager and provider of corporate services. Working in treasury for this kind of company differs from a fast-moving consumer goods company, where treasury is typically viewed as a cost centre. Now, in this financial services company, the efficiencies that can be gained in liquidity management or foreign exchange can be directly passed onto the end client, meaning that the treasury team is a key contributor to the business. His current remit is to transform various treasury processes and make more efficient use of the TMS. He was hired because of his expertise in transformation, and so his skills have already been recognised by his managers. However, he has been keen to demonstrate and build trust among his new colleagues. Yunusmetov explains that trust has to be earned, and this can be done through constant communication and expectation management. When he started on the transformation project there were ambitious timelines and expectations, he says, and it was critical for him to manage expectations to ensure that he can be effective. “Delivering a project with realistic expectations is very important.” He has also had additional challenges as the company recently merged with another and so there are different ways of working that need to be consolidated. “Getting everyone on the same workflow has been quite a challenge – it has been a big change in the company,” he says.

During this time, in the early days of his new role, Yunusmetov has been focusing on stakeholder management and leveraging his previous experience to sharpen his communication skills. Part of that is asking the internal stakeholders questions, ensuring that he understands the deliverables and expectations, as well as speaking to business leaders in other departments. And sometimes the easiest way to communicate is by picking up the phone rather than getting involved in a long email chain: “A five-minute phone call can clear up a lot – it is easy to get misaligned over email,” he says.

Looking to the future, Yunusmetov expects to see more professionals get involved in treasury. He comments that more finance directors and chief financial officers will be turning their attention to treasury roles and focusing on cash management and cash flow forecasting. With this will come more enablement and usage of systems, including the use of APIs [application programming interfaces] to provide instant visibility and automated processes, as well as cash forecasting that makes use of artificial intelligence. Many companies are still using Excel, Yunusmetov comments, and in the future, “people will be digitising and automating and will be doing more with less.” For this reason, he argues it is important for treasurers to keep their skills up and improve their qualifications – and get busy with transforming treasury. ■

Trade trends in Asia: seeking diversification and resiliency

From supplier diversification and 'China plus' strategies to unlocking liquidity from the balance sheet, Citi's Sumanta Panigrahi discusses the latest trade trends in Asia.



Sumanta Panigrahi

Head of Asia North & Australia, Trade and Working Capital Solutions, and Hong Kong, Treasury and Trade Solutions

According to Sumanta Panigrahi, Head of Asia North & Australia, Trade and Working Capital Solutions, and Hong Kong, Treasury and Trade Solutions at Citi, "Asia's trade flows and capital solutions are a tale of two parts."

For one thing, he notes, trade volumes coming out of China, Hong Kong, and to a lesser extent Taiwan, have been slowing down considerably since 2022. "But despite the challenges of the last few years, Asia still represents a very large portion of overall global trade volumes: in 2022, Asia's exports accounted for about 36%¹ of total volumes globally."

At the same time, says Panigrahi, companies in Asia are looking to reduce their dependence on China with the rise of a strategy known as 'China plus'. "It's not about looking to replace China, but a lot of corporates are now focusing on China plus one or more other jurisdictions," he notes.

Research² has shown that 28% of global manufacturing capacity is still located in China, compared to 3% in India and 5% in ASEAN as a whole. "So you can't wish away China as such a big global manufacturing hub. But there is certainly a shift away from China, and reshoring and the return of jobs and capacity is happening in a big way."

Diversification and resiliency

According to Panigrahi, this trend is being driven by a number of factors, including a focus on diversification in order to avoid dependency on particular suppliers – a risk that was highlighted during the pandemic. However, it is also important to note that diversification may come at a cost. "You can have a huge amount of diversification, which give you a just-in-case type of supply chain resiliency, but that redundancy has a cost associated with it," he reflects. "It's about balancing both of these things."

Against this backdrop, Panigrahi says Citi is "effectively mediating a lot of these trade and capital flows for our clients as they look to make their supply chains more resilient and dispersed, rather than being concentrated in one location."

Shifting trade flows and capacity

While trade volumes in China and north Asia may be slowing down, resulting in challenges for the trade and working capital solutions business, Panigrahi says that markets such as India,

south Asia, ASEAN and Singapore are effectively the beneficiaries of this trend, with trade flows growing rapidly in these markets.

Meanwhile, as companies look to diversify and make their supply chains more resilient against shocks and changes, they are focusing on emerging market countries with certain important characteristics. As Panigrahi points out, the markets that are attracting additional investment are the ones with reliable infrastructures and logistics, as well as an attractive regulatory climate and the availability of skilled labour. "The best example in Asia is Vietnam," he adds.

Unlocking liquidity from the balance sheet

As this shift continues, global trade and working capital banks like Citi are supporting corporates with short-term trade finance, as well as facilitating longer-term financing. At the same time, treasurers are increasingly seeking to release liquidity from the balance sheet by optimising working capital metrics such as days sales outstanding (DSO) and days payable outstanding (DPO).

During Covid-19-related lockdowns, which were still being imposed in Asia as recently as last year, many companies took steps to avoid over-dependency on particular suppliers and markets, as well as logistical challenges. In many cases, they achieved this by building up significant levels of inventory.

"That locked up inventory means locked up capital," says Panigrahi. "And with the cost of capital going up in an increasing interest rate environment, it becomes very important for clients to be able to manage that and preserve their margins."

As such, he says there is a growing need for structured solutions that can help companies reduce their inventory levels and release as much liquidity as possible from their balance sheets. "Banks like us have been on this journey with corporates, structuring solutions and helping them improve their working capital metrics," he adds. "And that has become very critical for them in this environment."

Financing industry trends and supporting ESG

On another note, Citi is playing a key role in financing industry-specific trends – such as the electronic vehicle (EV) transformation. "Our clients expect us to be in the middle of this transformation," says Panigrahi.

Likewise, the bank is helping to facilitate sustainable supply chain finance which offer suppliers incentives if they contribute towards the buyer's sustainability objectives. As Panigrahi concludes, "These types of solutions are still evolving, and we are right at the heart of these developments. At the same time, there are many more players along global supply chains, and being able to service as many of those as possible helps each and every element of the supply chain." ■

¹ <https://www.unescap.org/kp/2022/trade-trends-goods-and-services-asia-pacific-20222023>

² https://www.theglobaleconomy.com/China/Share_of_manufacturing

Commercial considerations make Asian sustainability problematic

Asian companies need to be strategic – and get more help domestically and internationally – if they are to make a meaningful dent in the region's greenhouse gas emissions while remaining viable.

The World Economic Forum's suggestion that the battle for net zero may be won or lost by corporate Asia emphasises the importance of helping companies reduce their environmental impact across a region that generates around half of the world's total carbon emissions.

According to PwC, developing Asia Pacific economies could lose 24% of GDP due to the effects of climate change by the end of this century in the absence of a significant reduction in emissions. Worryingly, the current rate of decarbonisation is nowhere near fast enough – the region reduced its carbon intensity by just 2.8% in 2022, a long way short of the 17.2% required to limit global warming to 1.5°C above pre-industrial levels.

A sustainability survey conducted by Schneider Electric in mid-2023 found that although 94% of companies in Asia had established sustainability goals or targets, less than half had implemented comprehensive sustainability strategies.

Lack of awareness and commitment to sustainable practices reverberates across the region, emphasising the need for accessible information and education on sustainability issues as many companies have yet to set their sights on net zero goals suggests Sandeep Chandna, Chief Sustainability Officer at Indian multinational information technology services and consulting company Tech Mahindra.

"We recognise our responsibility to drive positive change and are committed to leading this charge, with our top priorities being achieving net zero emissions by 2035 and increasing renewable energy sourcing to 90% by 2030," he says.

The company has already made strategic investments in power purchase agreements, energy efficient technologies, water conservation and biodiversity initiatives.

Irene Thng is Group Treasurer at Melbourne-based Toll Group, which provides shipping, transport and supply chain services across 450 sites in Asia Pacific. "More developed markets will continue to take the lead on sustainability," she says. "The main challenge is cost. Sustainability projects come with a price – electric trucks are more expensive than fossil fuel-powered vehicles and environmentally friendly packaging costs more than plastic bags. Consumers expect their suppliers to be in the sustainability game but do not wish to pay the additional costs involved." Thng refers to improving efficiency as an option for companies looking to offset additional costs and to this end recommends undertaking process reviews.

In a recent interview with corporate renewable energy initiative RE100, Taiwanese semiconductor manufacturer TSMC

explained that it was investing in long-term, diversified renewable energy, building solar power systems to generate zero carbon energy for use in its manufacturing facilities – taking advantage of renewable energy policies from the government.

However, Chairman Mark Liu told the company's 2023 shareholders meeting that Taiwan needed to look at opportunities to develop faster to benefit from what he described as the "enormous business potential" of renewable energy, including supporting the use of renewable electricity by corporates, implementing policies to reduce the cost of renewable energy development, and improving the investment environment.

The need for sustainability has to be balanced against immediate economic considerations to ensure companies in Asia are not disproportionately impacted by net zero targets.

A 2023 report from Deloitte acknowledged that most Asian SMEs are focused on survival and short-term profitability rather than long-term sustainability and opportunities in a green economy, citing a lack of strong leadership to drive the business case, expertise, resources and funding as the key barriers.

The report suggested businesses look at options such as environmental loans linked to sustainability targets and impact funds that invest capital in businesses or projects that generate positive social and/or environmental impacts.

An October 2023 report from the Asian Development Bank refers to an estimate that 43% of the workforce in Asia Pacific is employed in industries that are vulnerable to climate extremes or the transition to a low carbon economy.

PwC believes Asian corporates need to take double materiality considerations into account and mobilise every business function towards achieving net zero transformation from production, procurement and finance to marketing, technology and HR. The firm advocates prioritising progress over perfection, noting that sustainability and net zero are complex issues with constantly evolving standards, regulations, frameworks, expectations, technology and science and that thriving in this environment requires a shift in mindset towards a consistent, incremental and fluid approach.

According to PwC, viewing sustainability through the short-term lens of regulatory compliance underestimates the long-term financial benefits of integrating sustainability into company strategy, operating models and processes. It also states that micro, small and medium-sized businesses will require substantial support to effectively make the transition to net zero.

There is also some evidence of muddled thinking among Asian business leaders. The vast majority of respondents to the Schneider Electric survey believed that pivoting toward a more sustainable business strategy would lead to business growth, but only 37% had chosen to invest in sustainable business practices as a means of pursuing growth.

Businesses should set clear, ambitious climate goals – whether that is using renewable electricity across their operations, ensuring their corporate fleets are electrified, improving energy efficiency, or decarbonising industrial products like steel and concrete. These businesses then must push governments for more supportive policies that will help them meet their climate obligations as well as being a huge stimulus for a green economy and export growth.

That is the view of Mike Peirce, Executive Director of Systems Change at The Climate Group, who refers to a lack of political will in many countries across Asia to truly capitalise on the potential of net zero transition.

“Our latest RE100 annual report found that seven of the ten most challenging markets to source renewable electricity are in Asia,” he says. “South Korea and Japan are consistently rated as the most challenging, mainly because of a policy environment that is insufficiently supportive of renewables. You often hear that countries in Asia have challenges around their geography, meaning they can’t capitalise on renewables. But that simply isn’t true.”

Victor Tay, group CEO Global Catalyst Advisory says it is possible that Asian companies are disproportionately affected by net zero targets, referencing US and European corporations that have outsourced carbon intensive programmes such as manufacturing, logistics, chemical production or mining extraction to this part of the world.

“Moving towards net zero targets will increase costs to these Asian businesses unless their clients are open to share the cost of implementation,” he says. “We have seen customers abandon outsourced vendors because of escalating sustainability costs, which was cited by the Indian prime minister at COP26 as a climate justice issue. For global sustainability to succeed, the greening of the value chain needs to be an international initiative and not just the responsibility of a regional or outsourced vendor.”

He also notes that many companies that disclose their direct and indirect emissions do not report emissions that are a result of activities from assets not owned or controlled by the reporting organisation, but that the organisation indirectly affects in its value chain – which are usually by far the biggest part of a company’s climate footprint.

“We have seen Asian businesses adopting simple but pragmatic solutions like installation of alternative energy technologies such as solar panels for production facilities,” says Tay. “More advanced companies are greening their value chain by demanding that vendors adopt sustainable and low carbon intensive technologies.”

Another important factor is that across many emerging Asian economies, micro, small and medium-sized enterprises play a vital role in elevating a country’s employment and economic output. These enterprises often sit within the value chain of larger private sector companies and have limited resources and in-house expertise to pursue a green transition agrees Petra Christi, Senior Analyst at the Climateworks Centre.

“Inclusive and adequate knowledge transfer around climate change and sustainability remains a challenge in some countries in Asia,” she says. “As a jurisdiction moves forward in developing green policies, capacity building becomes necessary for providing an integrated understanding of sustainability, climate-related disclosure, and sustainable finance opportunities.”

To improve their emissions calculations and disclosures and build the technical knowledge needed to comply with international mandates, Christi recommends companies set a long-term net zero target or a near term science-based target in line with best practice standards.

“This undertaking is important, although it should be noted that it will take substantial work with suppliers in order for companies to incorporate sustainable practices and accurate measurement of emissions,” she says. “Asia’s importance to the global goal of limiting warming to 1.5 degrees Celsius cannot be overstated and while the region’s raised climate ambition has been partially translated into action, support is urgently required to keep Paris Agreement alignment within reach.”

Smaller businesses in Asia will find applying net zero commitments in their businesses more challenging than their counterparts in other parts of the world due to structural and systemic realities, as well as quality of energy infrastructure in the region suggests Melvie Espejo, Research Director Sustainable Strategies and Technologies at IDC Asia/Pacific.

IDC research on future trends in sustainability and the use of technology in Asia Pacific indicates that these structural and energy sector realities drag enterprise decarbonisation efforts in the region by at least one year compared to the rest of the world.

“But while meeting decarbonisation targets is disproportionately harder for companies in Asia, they also stand to gain the most from net zero,” she says. “They may choose not to commit to the world’s net zero goals but they will still be affected and will still have to pay for the climate change impact these commitments are trying to prevent.”

“Doing something now – such as investing in mitigation and prevention strategies and technologies to protect current and future margins – although hard is the better (and cheaper) option for business owners and leaders,” adds Espejo. She agrees that the main challenges facing Asian companies when it comes to sustainability are lack of support and information and recommends creating a roadmap that translates sustainability objectives and goals into actionable items segregated by people, process and technologies with timelines and measures of success. “Much like a company strategic plan, this roadmap should state which department(s) needs to be involved, delineation of responsibilities, and milestones and metrics of successful implementation,” says Espejo. “It should also be the basis for technology investments and aligned with existing digital transformation plans.”

Sustainability asks questions of how much treasurers know about their business from raw materials purchasing and what and how they sell to who is buying their product/service and how it is disposed of after consumption. “By having a firm grip on your company’s data you can commit to realistic sustainability goals, plan better and also identify the low hanging fruit that can give your company sustainability outcomes in the least possible time and for the least amount of investment as well as the projects you need to undertake now but will take a period of time to show outcomes,” concludes Espejo. ■

Treasury in the boardroom

Times of crisis tend to bring heightened board-level attention on treasury – and the last few years have brought more than their share of black swan events. So which treasury activities find their way into company boardrooms, and how can treasurers communicate effectively with the board when the need arises?

In recent years, the importance of the treasurer's role within the organisation has continued to grow. For example, the PwC 2023 Global Treasury Survey found that 24% of treasury functions consider themselves to be strategic partners, with 53% citing strategic thinking as a key competency for the treasurer of the future.

"In recent times, treasurers' roles have been well-recognised by the Executive and the Board, as treasurers provide vital strategic business and financial inputs, proactively manage liquidity and critical financial risks, including managing uncertainty, volatility, compliance, and stakeholders demands," observes Gopul Shah, Director, Corporate Treasury and Structured Trade Finance at Golden Agri-Resources (GAR), which is headquartered in Singapore. In many corporations, he notes, "treasurers' roles are also expanding to include risk management, insurance, structured finance and membership of the Executive Strategy and Risk Committee."

So to what extent are treasurers engaging with the highest level of leadership within their organisations? As Marianna Polykrati, Group Treasurer of Greek aquaculture company AVRAMAR, explains: "Collaboration between the board, executive management, and financial experts is essential to navigate complex financial landscapes and maintain the company's financial resilience and competitive edge."

According to Polykrati, the boardroom's involvement in treasury matters can be summarised in two key areas:

- **Treasury policies and procedures.** "Treasury policies are crafted to mitigate the financial risks and to maximise returns on investments," says Polykrati. "Board oversight ensures transparency and accountability in treasury operations, safeguarding shareholder interests."
- **Financial strategies, risk management and liquidity.** As Polykrati explains, "Board members deliberate on optimising cash flow, investments, and debt management to ensure the company's financial health and stability. They assess market conditions, interest rates, and regulatory compliance to make informed decisions."

But what this looks like in practice can vary significantly from company to company. "Most established companies have some form of delegated authority, whereby certain treasury matters are dealt with outside the boardroom," says David Stebbings, Head of Treasury Advisory at PwC. "There's a line of command whereby certain matters go up to the boardroom including the approval of policy, while others go to an audit committee or a finance committee. More routine aspects are delegated by the CFO to the treasurer."

Other matters which will be handled at the board level often include significant debt matters and financing exercises. In many cases, topics which are covered by a board-approved treasury policy don't need to be taken to the board, although treasurers will report regularly on compliance to the CFO and the audit committee.

"If you've got a FTSE 350 startup that's growing quickly, most treasury matters go to the board, because it's the only governance forum," says Stebbings. "In other cases, people make decisions without taking them to the board, because they're the owner of the business and there is really no board. There are many different models."

Heightened focus

During periods of heightened risk or market turbulence, however, the treasurer is more likely to be asked to present directly to the board. As Stebbings points out, it's a truism that treasurers often only need to go directly to the board if something has gone wrong, such as the loss of money due to a bank failure.

"During the LDI pensions turmoil in 2022, many businesses had to lend money to pension funds to meet short term margin requirements, meaning that the treasurer had to tell the board what was going on – either via the CFO, or with the CFO," he says. "Likewise, during the Covid crisis, treasury became high on a lot of board agendas owing to the effect on financial markets."

Anthony Buchanan, Group Treasurer of Asahi Europe & International, reports directly into the company's CFO, who also chairs the Risk Management Committee. Buchanan explains that treasury has had a strong link with the boardroom for many years, spanning Covid and working capital discussions, as well as commodity volatility and hedging. Looking further back, other events that have been discussed at the board level include the 2008 financial crisis and the 2012 euro credit crisis. As Buchanan remarks, "'Black swan' events are no longer something that happen once every ten years, but can now happen every two or three years."

Understanding exposures

Industry expert Jennifer Ceran agrees that the degree of interest in treasury at the board level tends to vary depending on the level of risk at a particular time. Ceran has a wealth of experience spanning treasury and finance: she has previously held a number of finance and treasury roles at eBay and PayPal, before becoming CFO of Smartsheet, a role that she

held until 2021. She is currently a board member for a number of technology firms.

"If a company is facing more risk in the form of large debt renewals, or is planning to invest large amounts of cash in the market, the board will want to really understand what's going on, and be there to help and support the company with those kinds of exposures," she comments.

During last year's banking turmoil around Silicon Valley Bank, for example, Ceran notes that many small and medium-sized companies were using SVB as their exclusive provider. "When that happens, the board obviously wants to understand the size of the exposure and the plan going forward to ensure that companies aren't reliant on just one bank."

In times of difficulty, boards also wanted frequent updates on what each company was doing to address that risk, Ceran adds. "First of all, it's about making sure the company is covered in terms of paying vendors and salaries. Secondly, they want to know where excess cash balances are being held, and whether they are all with one bank." While depositing \$300m with a single bank used to be unremarkable, she notes that last year's bank failures underlined the risk of "putting all of your eggs in one basket".

But while board level attention on treasury can vary depending on market conditions, the profile of treasury within the organisation has broadly increased in recent years. "Since the 2008 financial crisis, there has been a transformation where you're seeing more focus on treasury at the board level, and more requests for having treasury present to the board," comments Ceran. "It's becoming an increasingly important area for boards to understand, so that the company is able to control its own destiny."

Building a tight relationship

In some cases, treasurers may play a proactive role in engaging with the board about the implications of market conditions. Looking back to the 2008 financial crisis, Ceran said she spent a lot of time presenting to the audit committee, and ensuring that the board understood how the company was affected by dramatic changes in the global financial markets.

"As Lehman Brothers was failing, we had exposure, we were taking action, we were very proactive – and that's what the board wanted to see," she says. "But if we hadn't been doing those things, there were very experienced C-suite executives who were there to give us good advice about what more we could be doing, and what we needed to watch out for. So it was really important to have a tight relationship at that time."

Once the crisis had subsided, the level of involvement from the board reduced, "because they knew we had the right policies in place to manage these exposures, and they knew we had the finance audit committee watching over us still. So they step in and out – but a critical role of the board is to make sure that treasury is focused on the right thing at the right time."

Equally, Ceran notes the importance of making sure that treasury is equipped to handle any future crises that might occur. "As treasurer, I always lobbied for the appropriate amount of headcount," she says. "I never wanted to have more people than the average group, but I also didn't want to have too few. I felt that in a crisis, if you have too few people who aren't strategic in understanding risk, that's when you can find yourself in trouble."

Bridging the knowledge gap

Some treasurers are more equipped than others to present effectively to the board. "Writing board papers, and not making them too complex about certain technical banking and treasury topics, is an art," says Stebbings. "This doesn't just apply to treasury matters, but to any technical risk topic the board might need to discuss, such as cybersecurity or key operational risks – when you're talking to people who do not have a deep technical view, then it's important to communicate effectively and make it relevant to them."

Levels of treasury knowledge can also vary significantly between different boards. Stebbings notes that some treasurers have made their way onto the board via the CFO role, while many boards have members with banking experience "who have an understanding of treasury and financial instruments, but may look at it with a different lens."

In some cases, there may be an opportunity for treasury to help bridge any knowledge gap that might exist. When she joined eBay, Ceran set up a Capital Markets Review Committee to build a greater understanding of treasury and risk within the business. "In any case, part of presenting is to educate everyone on the board about what the risks are and how you can or can't manage them," she adds.

But as Ceran points out, "Board members are very experienced and savvy, and in the last 15 years they have become more informed. They may not technically have worked in treasury operations, but at a high level they are well educated and understand the impact of changing interest rates, bank failures and significant movements in foreign currency. I haven't seen a situation where these things are brought to the board, and somebody can't contribute." ■

Treasurer as board member

In some cases, treasurers are increasingly recognised as professional risk managers that can play a significant part in the overall corporate governance and strategy of the company. As such, Polykrati says that appointing the treasurer as a board member "is a trend that's just starting to pick up, depending on the industry and the company's activity."

"Treasurers bring deep expertise in financial management, risk assessment, and capital allocation to board discussions," she says. "Their presence enhances the board's understanding of complex financial matters, and ensures that treasury-related decisions align with broader corporate objectives."

Polykrati adds that having a treasurer on the board "can improve communication between the treasury department and the board, leading to more informed decision-making and better risk management."



Funding woes impact payments innovation

The buzz around fintech start-ups and new ways to pay has waned now that venture capital funding has dried up. Investors' pursuit of profitability over growth is having an impact on the type of innovation that will be pursued, but corporates can still expect to see new solutions come their way in the future.

The payments industry has long been working on solving customers' pain points and making transactions simpler, quicker and cheaper. One of the problems was that men were wearing ill-fitting suits because their wallets were stuffed with cash, jokes Lee Britton, Director of the Money Service Lab. Such problems have been fixed with the drive towards a cashless society, where digital payments have become the norm. Britton has worked in payments innovation for decades, bringing cashless solutions to transport networks, football stadiums, government benefits programmes, and more – as well as removing the need for a physical wallet.

Through those years Britton has seen many cycles of boom and bust – and hubris and humility. And now, after a golden period for fintech start-ups, where there was much buzz about the firms that were changing the way we pay, the industry is undergoing a correction. Many start-ups are now struggling to find funding, which is impacting the kind of innovation that will be pursued, and ultimately feed into the way that corporates manage their payments.

Venture capital (VC) funding has dropped off in recent months, and KPMG noted in its Pulse of Fintech survey how 2023 was a difficult year for all financial technology companies, not just those in payments. KPMG noted that Asia Pacific experienced the largest drop in investment from 2022's figure of US\$51.3bn to US\$10.8bn in 2023. Meanwhile Europe, the Middle East and Africa had a drop in investment from US\$49.6bn to US\$24.5bn for the same period. Although the fintech sector has been struggling, payments are still gaining a lot of attention, and attracting the lion's share of investment. Despite this, however, the payments sector still had a drop from US\$57.9bn to US\$20.7bn between 2022 and 2023.

The KPMG report highlights a number of difficulties last year: high interest rates, high inflation, geopolitical uncertainties with the conflict in Ukraine, and also concerns with company valuations. With these factors at play, a number of trends are emerging: investors are focusing on profitability rather than pursuing growth, and deals will be subject to greater scrutiny. Also, there is now a greater interest in business-to-business solutions rather than those that focus on consumers.

The gloomy environment has been having an impact on the state of innovation in the payments sector, and this is a topic the Payments Innovation Jury 2024 looked at in detail, the findings of which were published in a report entitled, 'Market Meltdown: Impacts on infrastructure, regulation and innovation'. The report notes that tumultuous changes in the payments sector began in 2022 and continued into 2023, which has been accompanied by a downward correction in the valuation of payments companies.

Although many start-ups previously raised funds in a low-interest rate environment where money was cheap, the Payments Innovation Jury found that the over-valuations of companies was driven more by investors bidding up deal prices and paying insufficient attention to profitability.

Those boom times are over, and the dearth of funding in recent years has been dubbed the 'fintech winter', or more broadly the 'VC winter'. John Chaplin, the Chairman of the Payments Innovation Jury, tells Treasury Today that the problems that payments companies are currently facing did not start with investment being restricted. "It's a bit like house prices," explains Chaplin. "Prices have started to move down and so the supply side has changed."

For a while in the industry, comments Chaplin, there was the belief that if start-ups kept growing it didn't matter if they weren't profitable; they believed if they kept spending money and growing fast they would eventually get profitable. That didn't prove to be the case. Faced with difficult times, many realised they were actually going out of business. Even if they cut costs, it meant they would go bankrupt at a slower pace, says Chaplin.

Commenting on the current state of the fintech industry, Anton Ruddenklau, Global Head of Fintech and Innovation at KPMG International, who authored the report stated: "Looking to 2024, it's going to be a buyer's market. There's going to be a fire sale. There has to be a fire sale because a lot of the incumbents can't afford to keep running anymore. They've run out of funding pathway and their investors have no stomach given how the environment has shifted. Fintechs that have been disrupted somewhat by new

technologies – particularly generative AI [artificial intelligence] – are definitely struggling.”

The Innovation Jury notes that investment levels in payments have now tumbled and there has been a diversion of investment into other sectors, such as AI. This ultimately will impact the kind of innovation that is likely to come in the future for the payments industry. Patricia Hines, Head of Banking, Wealth and Risk at Celent, comments, “In addition to a lack of early-stage funding, payment start-ups face rising concerns over perceived and real fraud.”

Hines explains that because companies are being required to shift focus, and resources, to developing robust fraud mitigation strategies, this exacerbates the already-limited budgets of start-ups. “At the same time, regulatory and compliance oversight is tightening, potentially stifling innovation efforts as a result of decreased focus. Although not necessarily a direct result of increased oversight, the rise of regulatory fines and actions makes start-ups less attractive to risk-averse financial professionals.”

For entrepreneurs building their payments companies, there are many costs that come with getting their idea to market – such as fraud mitigation and regulatory compliance. Chaplin comments that many companies were playing a scale game. They built platforms and assumed their costs would be fixed and would have to add payments volume to make their venture worthwhile. However, “fraud losses are real costs” Chaplin says. Also, these companies made the assumption that they would only need to invest once in the platform, and didn’t account for the fact they would have to keep investing to adapt to changing regulations, and also keep their position in the market.

Britton also comments on the fast-evolving nature of the technology: “Previously people would tell you that the technology was disposable, and you could write it off over ten or 20 years. Now it is becoming obsolete in three to five years. The return on investment has to be real,” he tells Treasury Today.

In the current environment, start-ups are being hit the hardest. Does the early focus on returns and profitability mean that the most innovative ideas may never see the light of day? Quite possibly. Britton comments that start-ups are “now not letting their minds wander and have to execute on a very specific business plan,” especially in an environment where the cost of capital is much higher because of higher interest rates. This specific plan, for example, may mean that a company “won’t be doing anything funky” and will delay its expansion to other regions, such as North America or Asia, until after the company is profitable.

Given the lack of funding available for start-ups, and the increasing burden of regulation, much payments innovation is occurring within financial institutions. There was a cycle of banks not building themselves – because of the rise of the likes of ApplePay, for example – but now things have gone full circle to banks building their own solutions, comments Britton. This is in line with what Hines at Celent is seeing: “In a bold move to stay competitive, many banks are rolling out their own cutting-edge payment solutions. They’re either fully harnessing their internal capabilities or forming strategic partnerships to introduce services like BNPL [Buy Now, Pay Later], pay-by-bank, instant payments, QR [quick response] code payments, digital wallets and marketplace payments.”

Much of these trends are relevant to corporate treasurers, because – as Hines explains – they are impacted directly by what happens in this space. “Many treasurers are in the thick of payment innovation, especially those in direct-to-consumer industries such as retail, hospitality, healthcare and insurance. In these industries, treasury and finance teams must handle increasing high-volume, low-value transactions, making reconciliation across the enterprise even more challenging,” Hines says. “Treasurers also understand the imperative to improve the shopping, patient or consumer experience. This starts with flexible payment options and payment choice, accessible through intuitive digital channels,” she adds.

How closely should treasurers follow the developments in payment innovation; do they need to, or could they let their banks do it for them? “Regarding whether treasurers should leave payments innovation up to their banking partners, the short answer is ‘yes’. Banks, especially the largest ones, have substantial technology budgets, risk frameworks, contract attorneys, product managers, and integration teams. Although leveraging bank payment solutions may offer less flexibility, the corporate avoids upfront licensing fees, implementation costs, and system integration challenges,” says Hines.

There are a number of innovation trends that are likely to impact corporate treasury. A report released by HSBC in January 2024 entitled ‘Global payments trends: Considerations for corporate treasurers’ noted how there is a broader shift to global cashless payments, with digital payment volumes projected to increase by more than 80% from 2020 to 2025 from one trillion transactions to 1.9 million. The HSBC report notes a number of future payments trends that are relevant to treasurers, including distributed ledger technology, generative AI, Web3 and the metaverse, embedded payments, cross-border instant payments and central bank digital currencies.

Hines comments on how treasurers need to keep an eye on how consumers are changing the way they pay at the point of sale, as well as the wholesale infrastructure that makes their liquidity and cash management more efficient. Hines says: “The shift to digital payments and payment choice, along with other impacts such as the ISO 20022 migration and payments fraud, necessitates improvements to the point-of-sale as well as payments back office infrastructure, both for banks and their corporate clients. These changes reflect a broader evolution in the payments industry driven by technological advancements, changing consumer preferences, and the need for more efficient and secure payment methods.”

Chaplin comments there is much interest in real-time payments as well as account to account payments, but he expects to see a difference in uptake according to the region. For example, in developing markets where payment cards did not gain a foothold, account to account and mobile money will build a major market position. Meanwhile, cards will be hard to dislodge from their incumbent position in developed markets. Chaplin points out that even where smartphones and digital solutions are used in developed markets by consumers, even though the physical card is no longer necessary, the payments are still being run along the traditional banking and payment network infrastructure.

For now, although payments start-ups are struggling, there is still a wider drive to digital payments and new ways to pay – and also a world where wallets aren’t stuffed with cash. ■

Derivatives demystified

Managing risk is a critical concern for treasurers. One way to manage exposures is through the use of derivatives instruments – so how essential are derivatives when it comes to managing risk? And to what extent are treasurers concerned about their complexity and possible risks?

Protecting the organisation from risk is a key concern for corporate treasurers. And when it comes to managing risk exposures, treasurers have several options available to them. They can choose to do nothing; they can hedge the exposure naturally – for example by offsetting a foreign exchange exposure against receivables in the same currency – or they can take action in order to manage the exposure.

In the latter case, one option is to use derivatives to hedge risk. In a nutshell, a derivative is a type of financial contract between two or more parties, which can be traded either on an exchange or over-the-counter. Common types of derivatives include forward contracts, futures, options and swaps:

- Forwards are contracts that are privately negotiated between two parties to buy or sell an asset on a future date, at a price agreed in the present (the strike rate). In the context of foreign exchange, this could mean agreeing the exchange rate today for a foreign exchange transaction in four months' time.
- Futures likewise allow two parties to buy and sell an asset on a specific future date for an agreed price.
- Options give buyers the right to buy or sell an asset on a future date at an agreed price – but unlike forwards, the buyer is not obliged to buy or sell the asset when the time comes. As such, a premium is paid.
- Swaps are derivative contracts in which two parties exchange the cash flows or values relating to specific assets for a period of time. For example, a company might use a swap to turn fixed payments on debt bonds into variable rate payments.

While derivatives can also be used for speculative purposes, in the context of treasury they are used to mitigate a variety of risks, such as foreign exchange risk, interest rate risk and commodity risk.

As Jason Teo, Head of Treasury, South East Asia at LOGOS Group, explains: “We have been adopting a prudent capital management approach, and risk management serves as a bedrock of treasury management in LOGOS. We tend to seek for natural hedge (onshore debts) and enter into interest rate derivatives (swaps, caps, collars) to mitigate FX and IR risks respectively.”

Teo explains that the company has policies in place to provide guidance and avoid “speculative and emotional play” when markets are unfavourable and uncertain. “As an advocate for risk management, hedges entered previously were all in-the-money during this high interest rate environment, resulting in lower interest expense for the company,” he adds.

Harnessing derivatives

While derivatives play a key role in financial risk management, it's important to understand how and when to use them – and equally, that derivatives are not always needed. As Agustin Mackinlay, Senior Financial Writer at currency management automation software provider Kantox, points out, “Risk management is also about delaying the need to use derivatives – and even avoiding them altogether.” If, for example, interest rate differentials between currencies are not favourable to the firm, “treasury teams can to some extent delay the execution of derivatives transactions.”

In other cases, companies may be able to net out mutually offsetting positions, thereby avoiding the need to carry out derivatives transactions. “This allows companies to save on trading costs, and possibly to reduce financial costs derived from having to set cash aside as collateral for derivatives transactions,” Mackinlay notes.

With a thorough understanding of all aspects of the business, he says the use of derivatives can be a great way of actively embracing different opportunities in what is an “incredibly dynamic world”. But on the flipside, he notes that the misuse of derivatives can wreak havoc on a firm's financial results and reputation.

“Derivatives should only be used in the context of hedging an underlying exposure that arises from a real commercial/financial transaction,” says Mackinlay. “With hedging, the value of a derivatives instrument changes in the opposite direction of the change in the underlying asset/liability. If one goes up (down) in value, the other must go down (up) in value, by exactly the same proportion. When that relationship is not clearly established, the firm may be engaging in potentially costly speculative activities.”

In recent years, technology has opened up new ways of using derivatives. “Financial derivatives instruments as we understand them have been in use for the better part of the last four decades now, although some versions are much older still,” says Mackinlay. “Perhaps the biggest change in their use is driven by technology. The same instruments – for example, currency forwards – can be used to implement programmes that would have been considered too resource-intensive just a few years ago.

“This is the case of a ‘layered’ FX programme involving many currency pairs, or a micro-hedging programme that can execute thousands of derivatives transactions in different currency pairs, with markups by client segment and currency pair, and automatic management of interest rate differentials.”

But while derivatives can be a valuable tool for managing risk, there are a number of reasons why companies may decide against using them.

Chris King is the former group treasurer of Drax Group and co-founder of corporate finance and risk management firm Dukes & King. He observes that while the use of derivatives can seem complicated, costly or even perceived as taking additional risk, “this usually stems from either a lack of understanding, and/or stakeholders coming across derivatives perhaps being used in suboptimal ways in their previous roles.”

As King explains, “Clear, upfront communication can usually help bring internal stakeholders on the journey of understanding earlier and bring out any potential headaches allowing time to address them.”

Derivatives in a low-volatility market

In practice, companies are not always proactive when it comes to making full use of derivatives. According to King, the last year has seen a theme of reduced volatility in most major markets, including equities, bonds/rates, credit and FX. That said, markets can shift quickly, with recent developments including a rapid increase in equity volatility pricing (VIX).

During a period when the price of derivatives has been at or close to historic lows, King says there has been a clear opportunity for companies to use options to protect their near-term cash flows or enable future strategy. “For example, a business exposed to GBPUSD weakening might be able to protect the medium or long-term at levels that had only been cheaper only 1% of the time, historically speaking,” he says.

But despite this opportunity, actual transactions or flows into risk protection have remained at all-time lows. King argues

that there are a number of possible explanations for this juxtaposition.

For one thing, many companies survived the pandemic despite a lack of planning for an event of this kind. “This possibly also gave a sense of futility in planning for future events, and a feeling that there is little point in doing so until an event materialises,” muses King. Meanwhile, muted volatility post-Covid means that many protection strategies will have likely expired worthless, causing stakeholders to question their value – although as King notes, people are not unhappy if an annual car insurance policy expires without an accident having taken place.

A further consideration is that trying to determine the most appropriate structure and risk approach can be daunting, given the large number of approaches available. “Even if the treasurer has the requisite skillset to come up with a narrower range of structures, the board or internal risk team may not have the capability to respond to them,” he adds.

In light of these stumbling blocks, King notes that treasurers should consider the following questions when looking at a protection strategy:

- What does the business plan sensitivity modelling indicate, and which derivatives could be undertaken to protect the firm and put it in a position of strength?
- How can you get engagement from stakeholders for any protection strategies?
- Where advisors are concerned, what resources do you have available to help consider the overall strategy, structuring or execution? This may include internal resources, external advisors or banking specialists. ■

Derivatives in practice

“All of Wolters Kluwer’s treasury activities, including the use of derivative financial instruments, are subject to a policy of risk minimisation,” says George Dessing, Executive Vice President, Treasury & Risk at Wolters Kluwer, which provides information services and solutions for professionals.

Dessing explains that the company uses derivatives to mitigate currency risks and interest rate risks, noting that “the group does not purchase or hold derivative financial instruments for speculative purposes” – rather, the purpose of these hedging activities is to reduce financial risks faced by the company. “Derivates are important in fulfilling our objective of risk minimisation, but Wolters Kluwer believes: ‘the simpler the better’,” he adds.

Where currency risks are concerned, Dessing notes that Wolters Kluwer identifies transaction and translation risks, with the transaction risk exposure within individual group entities seen as “relatively immaterial”.

“The transaction prices invoiced to customers for goods and/or services are mainly denominated in the customers’ local currencies,” says Dessing. “Given the nature of the business, almost all related costs are also incurred in those local currencies. Derivative financial instruments to hedge transaction risks are therefore rarely used by the company.”

While complex derivatives are sometimes needed to solve complex issues, Dessing notes that it is vital to fully understand the mechanisms of a derivative, given that the value of a derivative can fluctuate strongly over time. “You may need to modify or close a long-term derivative contract in the future, and you need to be aware of the variables that can influence the result,” he adds. “In some cases, it may even be very unfavourable to close the derivative contract.”

On another note, Dessing notes the importance of being able to communicate clearly about derivatives with internal and external stakeholders, such as the accounting department, tax, investor relations and auditors. “They may not have the same understanding of these products as you have, and entering into a derivative contract may have implications for their disciplines,” he observes. “As we say in Wolters Kluwer, ‘We are winning as a team, and we’re stronger together’, whereby we collaborate and share knowledge across disciplines.”

Setting up a TMS

“ What should treasury consider when implementing a TMS? ”



Shailesh Bettadapur
Treasurer & VP
Investor Relations
Mohawk Industries

Mohawk Industries installed a TMS (Kyriba) in 2012, and I am consistently surprised that treasurers are still talking about the pros and cons of this technology. I'd guess conservatively that around a third of my peers don't have a TMS. The company has a reputation for being lean and, for treasury, this would be impossible without a TMS. Our treasury team is only five to six people which is quite small for a US\$1bn company.

The main purpose of a TMS is to automate and, while at least in this still pre-AI environment it won't eliminate human tasks entirely, it does automate a number of non-value adding tasks that would otherwise require more people, resulting in both cost efficiencies and lower error rates.

For example, in our pre-Kyriba days, our treasury staff would have to use a few hours in the morning to download bank files to be used for positioning. Now, post-Kyriba, this is all done automatically prior to the start of the workday. We don't have to access multiple bank portals, we can see all of our cash and debt in one place, and it makes reconciliation much easier and faster. It also automatically posts transactions into our ERP system, getting rid of yet another manual process. We also manage our debt and investments through Kyriba, including both external and intercompany debt.

When we were searching for the appropriate TMS, we anticipated that the company would grow internationally, requiring us to buy for tomorrow rather than the status quo. At the time we thought we might go into China, so we also planned for the ability to see information in non-Roman letters. Also at that time, the cloud was a relatively recent concept, so we had to decide whether to store information on our own servers or put it in the cloud.

We ended up going with Kyriba which was a relatively young company at the time but, more importantly, a company for whom the TMS was the main product.

In the intervening years, we have had to update the system and add new capabilities. For example, none of us ever anticipated issuing debt at negative rates. And yet we did in our euro commercial paper programme, which became a problem for Kyriba – it would view it as a mistake and kick it out – requiring Kyriba to rewrite part of the code. We have also added in functionality around cash investments.

It doesn't have to be particularly costly to integrate or run a TMS, and in any event, the cost should be viewed in the context of the people you don't have to hire and the errors you don't have to fix. Our fee structure works whereby we pay a fee for the system and a fee for each module, as well as transactional costs. But that's pretty standard. One of the good things is that we can get help from Kyriba when we need to add on functionality. For example, we didn't have to rely on our own IT team to write the new code around negative rates, which was a great benefit to us. IT departments have other things to do and have their own resource issues.

My final piece of advice is to make sure that your internal treasury group is actively involved in the implementation. You don't want to put out the entire implementation to your provider because, while they know their system and how it connects to the ERP and banks, they cannot really understand your business. They'll need your guidance on that.



Alex Wong
Head of Product Management
for Corporates, GTS EMEA
Bank of America

The main reason treasury introduces a TMS is for efficiency and to reduce errors. There comes a point in corporate growth when treasury needs better control over cash management and liquidity beyond what they can maintain either via spreadsheets or manual processes. The ability to process and utilise data to influence decision making is also a driving factor.

A typical new client exploring a TMS for the first time is an MNC with a turnover north of a billion. They might run several platforms off their ERP system and are now considering a step up to a full blown TMS. Scalability is also important – it's important to choose a TMS that can accommodate future needs and an increased volume of transactions from new markets.

The costs can vary. At the top of the range, a TMS can be fully integrated with a suite of functionality, risk management and reporting capabilities that include connectivity to payment processing. Maintenance, licencing and professional services costs come on top. Some TMS systems may be cloud based, and SaaS will reduce hardware costs. A third, hybrid system, will comprise components in the cloud and on-premises, depending on what kind of infrastructure treasury needs.

Implementation is guided by clear business needs and objectives and what treasury is trying to achieve. We spend time with clients advising them on similar projects and discussing the

long-term strategy of the company itself. Choose a partner that has a track record and can provide references that check out.

TMS doesn't function in isolation; it needs to be integrated with the company's existing systems like the ERP, accounting software, and the processes around how the company communicates with its banks to manage liquidity, transaction processing and funding. Treasury teams should also consider the extent to which they want to customise their TMS. Many companies don't leave enough time for implementation. In our experience it can take a few months to several years. But even if it takes several years, treasury will start to feel the benefits within a few months. For example, some of the data aggregation capabilities bring efficiencies quickly. Treasury should factor in time for pre-implementation, vendor selection, contract negotiation and project planning.

Typically, TMS implementation is overseen by at least one person who can liaise with the vendor and the internal tech team. Treasury needs to be there in the initial phase of customisation and validation to check implementation is done correctly, and don't overlook implementation complexity. Governance is also important, because TMS implementation requires a secure budget and support around information security and fraud protection. Other important partners include accounting because they will provide the data off which the TMS runs. Some elements of implementation can be time consuming like importing historical data, testing and training. Ensuring user adoption, and that people feel confident using the platform and don't stick to old habits is also important; effectively using a TMS requires coaching.



Matt Hook
Systems & Process Manager
Group Treasury
IHG Hotels & Resorts

At IHG Hotels & Resorts, the current TMS was not implemented as a direct result of our growth but rather from a general business review and audit into the systems we were using. In 2020 we introduced the current TMS which took around 18 months of planning and RFP work before we signed the contract. There were two main reasons for introducing the new system. Changes were coming up in Libor rates which we knew our ERP system wouldn't be able to adapt to without significant modification. Additionally, the swift platform IHG used was reaching its end of life.

We're generally really pleased with the functionality around payments, controls and auditing is made a lot less complicated when there is one central place to audit and report on instead of pulling reports from 20 or so different banking platforms.

One point of access also gives us greater control and means better security when combined with a SSO system.

At IHG we have our own corporate swift code which means we receive bank statement messages directly into one central hub which helps with our cash visibility. Every day we receive a message from each bank account which gives us full visibility of our account balance which we can then pull into a report from the TMS. Another key functionality advantage is that TMS integrates very well with existing platforms that we already use, such as those for FX dealing, deal confirmations and money market transactions.

It's always a balance between costs versus benefits. Essentially, it's a case of evaluating whether the benefit of the system matches the cost of implementation. Our original expectation was that implementation would take around a year but with unique challenges posed by the pandemic this became nearer to two years. With offices closed, there was no physical collaboration meaning all demonstrations took place on video call which was a slight barrier to integration.

IHG has a very complicated business structure with hundreds of entities and so this will naturally incur a longer implementation time. Setting out a clear project plan from the offset of the process which is communicated across the business is important to ensure processes are followed and helps keep everyone on track.

Plan well and make sure you have the right people on board the project that fully understand the system and the ways to successfully implement it. A TMS can impact many parts of the business so having people with specific internal knowledge is incredibly helpful. As with any system change, there are some risks involved. For example, a worst-case scenario could mean the loss of vital functioning, data and a lack of understanding around the system.

The main risk is the loss of vital functions such as making payments but the way to mitigate this is parallel running. When we moved our payments, we did this in two stages, all of our payments were being made through the ERP and so we took the basic payment files initially and moved them to the TMS to make sure that the transmission and acceptance of the file was successful, all the time keeping the ERP available. Another major risk posed is if the brief and the system hasn't been fully understood. This issue is twofold – it may be that the provider hasn't fully understood what your needs are, or it could be that you haven't fully understood what the system can and can't do.

Involving subject matter experts is really important but striking a balance here is also crucial. The saying 'too many cooks in the kitchen' comes to mind – if there are too many people feeding back their opinions on the implementation of the process, it can become lengthy and there's a risk key information will be lost in translation. ■

Next question:

"How big a problem is trapped cash and what are the solutions?"

Please send your comments and responses to qa@treasurytoday.com by 20th May 2024.

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